

Domain 1 of 4

F

Overview

FAR is widely considered the most difficult CPA exam section, covering the broadest range of content. It tests financial accounting and reporting for business entities, governmental entities, and not-for-profit organizations.

The exam consists of 66 multiple-choice questions (50% of score) and 8 task-based simulations (50% of score), completed in 4 hours. The passing score is 75 on a scale of 0-99.

Financial Statements

- Balance Sheet: Assets = Liabilities + Equity; current vs. non-current classification
- Income Statement: revenues, expenses, gains, losses; single-step vs. multi-step
- Statement of Cash Flows: operating (direct/indirect), investing, financing activities
- Statement of Stockholders' Equity: changes in paid-in capital, retained earnings, AOCI
- Notes to Financial Statements: significant accounting policies, contingencies, subsequent events

■ **Exam Tip:** The indirect method for the Statement of Cash Flows starts with net income and adjusts for non-cash items and working capital changes. Know the formula: Operating CF = Net Income + Depreciation ± Working Capital Changes.

Revenue Recognition (ASC 606)

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to performance obligations
- Step 5: Recognize revenue when (or as) performance obligations are satisfied
- Variable consideration: constrained to the amount that is "probable" not to reverse

Leases (ASC 842)

- Finance lease criteria: transfer of ownership, purchase option, lease term $\geq 75\%$ of useful life, PV $\geq 90\%$ of fair value, specialized asset
- Finance lease (lessee): record ROU asset and lease liability; amortize separately
- Operating lease (lessee): record ROU asset and lease liability; single lease cost (straight-line)
- Lessor accounting: sales-type, direct financing, and operating leases
- Short-term lease exemption: lease term ≤ 12 months, no recognition required

■ **Exam Tip:** For lease classification, remember the "bright line" tests: 75% of useful life and 90% of fair value. If either is met, it's a finance lease (formerly capital lease under ASC 840).