GENERAL

intermediate accounting 2 exam questions and answers

Published: September 3, 2026 | Index ID: #-

Mastering the Intermediate Accounting 2 Exam: Questions, Answers, and Proven Strategies

For many accounting professionals, the **Intermediate Accounting 2 exam** represents a pivotal milestone on the path to Certified Public Accountant (CPA) certification. While the exam covers complex topics such as consolidated financial statements, foreign currency accounting, and the accounting for leases, it is also a test of analytical thinking, precision, and time management. This article offers a comprehensive guide to *intermediate accounting 2 exam questions and answers*, complete with sample problems, detailed solutions, and practical study tips that will help you approach the exam with confidence.

Why the Intermediate Accounting 2 Exam Matters

The Intermediate Accounting 2 exam is one of the four sections that make up the CPA exam. It evaluates a candidate's mastery of advanced accounting concepts that are essential for preparing financial statements for large, complex entities. A strong performance on this exam demonstrates your ability to:

- Apply GAAP to multi-entity and international situations.
- Interpret and reconcile financial data across different reporting periods.
- Analyze and disclose accounting policies that impact financial statements.
- Use professional judgment in complex valuation and disclosure scenarios.

Because the exam is both comprehensive and rigorous, a solid understanding of **intermediate accounting 2 exam questions and answers** is indispensable for any CPA aspirant.

Exam Structure and Key Topics

The **Intermediate Accounting 2**exam is structured around four primary content areas, each with a weighted percentage of the overall score. Understanding the distribution of topics helps you allocate study time effectively.

1. Consolidated Financial Statements – 21%
2. Foreign Currency Accounting – 21%
3. Accounting for Leases – 20%
4. Accounting for Equity and Debt Instruments – 20%
5. Other Topics (e.g., revenue recognition, business combinations) – 18%

Below, we dive deeper into each content area, providing sample questions and step-by-step solutions.

1. Consolidated Financial Statements

Consolidated financial statements aggregate the financial activities of a parent company and its subsidiaries into a single set of statements. Mastery of consolidation requires proficiency in the following concepts:

- Acquisition method accounting
- Intercompany elimination
- Minority interest measurement
- Fair value allocation
- Subsequent measurement of goodwill and intangible assets

A parent company, Alpha Corp., acquires 80% of the voting shares of Beta Inc. on January 1, 2023. The purchase price is $4,000,000. The fair value of Beta's identifiable net assets on the acquisition date is $3,200,000, and the fair value of the remaining 20% minority interest is $800,000.

Calculate the goodwill attributable to Alpha Corp. and the fair value of the minority interest.

Step 1: Determine the purchase consideration. The purchase price is $4,000,000.

Step 2: Compute the fair value of the identifiable net assets. The net assets are valued at $3,200,000.

Step 3: Calculate the fair value of the minority interest. The minority interest is 20% of the fair value of the identifiable net assets: 0.20 × $3,200,000 = $640,000.

Step 4: Compute goodwill.

Goodwill = Purchase consideration – (Fair value of identifiable net assets + Fair value of minority interest)

Goodwill = $4,000,000 – ($3,200,000 + $640,000) = $160,000.

Thus, Alpha Corp. records $160,000 of goodwill and $640,000 of minority interest.

During the year, Alpha Corp. sold inventory worth $500,000 to Beta Inc. at a 20% gross profit margin. At year-end, Beta had $200,000 of the inventory in its ending inventory. What is the amount of intercompany profit that must be eliminated?

Step 1: Calculate the cost of the inventory sold. Gross profit margin = 20% !Ò Cost = 80% of sales = 0.80 × $500,000 = $400,000.

Step 2: Determine the unrealized profit in ending inventory. The inventory remaining is $200,000. The gross profit on that portion is 20% of $200,000 = $40,000.

Therefore, $40,000 of intercompany profit must be eliminated.

2. Foreign Currency Accounting

Foreign currency accounting deals with translating foreign operations into the functional currency of the parent company. Key concepts include:

- Functional currency determination
- Translation of foreign currency balances using the closing rate
- Translation differences and their impact on equity and income
- Currency hedging and its accounting implications

Beta Inc., a subsidiary of Alpha Corp., reports its financial statements in euros. As of December 31, 2023, Beta's assets are €2,000,000, and the closing exchange rate is 1.10 USD/EUR. What is the translated value of Beta's assets in USD?

Translated value = €2,000,000 × 1.10 USD/EUR = $2,200,000.

During 2023, the average exchange rate for the year was 1.12 USD/EUR, while the closing rate was 1.10 USD/EUR. Beta's net assets were €1,500,000. Calculate the translation difference and classify it under the appropriate equity account.

Step 1: Compute the average translated net assets. €1,500,000 × 1.12 = $1,680,000.

Step 2: Compute the closing translated net assets. €1,500,000 × 1.10 = $1,650,000.

Step 3: Determine the translation difference. Difference = $1,650,000 – $1,680,000 = –$30,000.

Since the difference is negative, it is recorded as a **foreign currency translation loss** in the equity section, typically under the *foreign currency translation reserve*.

3. Accounting for Leases

Under ASC 842, leases are classified as either finance leases or operating leases. Understanding lease classification and the associated measurement rules is vital for the exam.

- Lease classification criteria
- Initial measurement of lease liability and right-of-use asset
- Lease payments, discount rates, and amortization
- Lease modifications and re-lease agreements

Alpha Corp. enters into a lease for office space with a 5-year term. The lease payments are $120,000 per year, payable at the beginning of each year. The present value of the lease payments is $500,000. The lease does not transfer ownership, nor does it provide a purchase option. Is this a finance lease or an operating lease?

Under ASC 842, a lease is classified as a finance lease if it meets any of the following criteria:

1. The lease transfers ownership of the asset to the lessee by the end of the lease term.
2. The lease contains a purchase option that the lessee is reasonably certain to exercise.
3. The lease term is for the major part of the remaining economic life of the asset.
4. The present value of lease payments equals or exceeds 90% of the fair value of the leased asset.

In this case, none of the criteria are satisfied. The lease term is only 5 years, and the present value of lease payments is less than 90% of the asset's fair value (assuming the fair value is >$555,555). Therefore, the lease is classified as an **operating lease**.

Using the same lease terms as in Question 5, calculate the initial right-of-use asset and lease liability amounts.

The initial measurement equals the present value of lease payments, which is $500,000. Thus, the right-of-use asset and lease liability are both recorded at $500,000.

4. Accounting for Equity and Debt Instruments

Equity and debt instruments present unique accounting challenges, especially when dealing with convertible securities, preferred stock, and debt covenants. Key areas include:

- Issuance and redemption of bonds
- Convertible securities and their valuation
- Debt covenants and financial statement disclosures
- Equity method of investment accounting

Alpha Corp. issues convertible bonds with a face value of $1,000,000, a coupon rate of 5%, and a conversion price of $50 per share. The bonds have a maturity of 10 years. What is the initial measurement of the liability and the equity component?

Initial measurement involves separating the liability (bond) component from the equity (conversion option) component. The liability is measured at fair value using a discount rate that reflects the market interest rate for similar non-convertible debt. For this example, assume the market rate is 6%.

Step 1: Compute the present value of the bond cash flows (principal + coupons) at 6%.

PV = $1,000,000 × (PV factor of 6% for 10 years) + $50,000 × (PV factor of 6% for 10 years).

Assuming a PV factor of 7.360 (10-year, 6% rate), PV = $1,000,000 × 7.360 + $50,000 × 7.360 = $7,360,000 + $368,000 = $7,728,000. Since this exceeds the face value, we need to adjust for the conversion feature.

In practice, the liability is typically lower than the face value. For illustrative purposes, let's assume the liability portion is $950,000. The equity component is then the difference between the issue price and the liability: $1,000,000 – $950,000 = $50,000.

Thus, the initial measurement is a $950,000 liability and a $50,000 equity component.

Alpha Corp. invests $500,000 in Beta Inc., acquiring 30% of its voting shares. Beta reports net income of $200,000 for the year. What is Alpha's share of net income under the equity method?

Alpha's share of net income = 30% × $200,000 = $60,000.

Alpha records an increase of $60,000 to its investment account and recognizes $60,000 in income.

5. Other Topics: Revenue Recognition, Business Combinations, and More

While the above topics dominate the exam, other areas also require attention:

- Revenue recognition under ASC 606
- Business combinations and goodwill impairment

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