

ACA PRINCIPLES OF TAX PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Which of the following is a fundamental principle of the ICAEW Code of Ethics?**
 - A. Publicism
 - B. Competitiveness
 - C. Professional behaviour
 - D. Entrepreneurship

- 2. What is meant by a self-review threat?**
 - A. Promoting a biased opinion
 - B. Reviewing a judgement made by another member
 - C. Assessing a previous judgement made by oneself
 - D. Being too sympathetic to a client's needs

- 3. When a business owner has an overlap profit while using the current year basis, what happens to these profits?**
 - A. They are taxed separately
 - B. They are deducted from future assessments
 - C. They must be reported for the last tax year only
 - D. They are lost when the business ceases trading

- 4. What type of vehicle purchases cannot have VAT claimed on them?**
 - A. Company vans
 - B. Second-hand vehicles
 - C. Cars used privately
 - D. Bicycles

- 5. Under which condition can ICAEW members disclose information to third parties?**
 - A. If they have proper and specific authority
 - B. Only if it benefits their reputation
 - C. When requested by a fellow member
 - D. Upon verbal agreement from the client

- 6. When calculating indexation allowance, which RPI value do you use if the asset was acquired before January 1, 2018?**
- A. RPI from December 2018
 - B. RPI from the month of acquisition
 - C. RPI from December 2017
 - D. RPI from January 2018
- 7. What typically constitutes the disposal consideration for capital gains tax?**
- A. Only cash paid for the item
 - B. Proceeds received or market value if not at arm's length
 - C. The initial cost of the asset
 - D. Any profits made from the sale
- 8. What does tax liability imply?**
- A. The total amount of taxes owed to the government
 - B. The penalties for late tax payment
 - C. The exemptions applicable to an individual
 - D. The benefits received from government programs
- 9. What are the potential consequences of filing taxes late?**
- A. Increased refunds
 - B. Penalties, interest charges, and potential audits
 - C. Immediate tax credits
 - D. Automatic extensions
- 10. Which of the following interest expenses is taxable as a trading expense?**
- A. Overdraft interest
 - B. Interest paid on personal loans
 - C. Interest on overdue taxes
 - D. Interest paid on bonds

Answers

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1. C
2. C
3. B
4. C
5. A
6. C
7. B
8. A
9. B
10. A

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Explanations

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1. Which of the following is a fundamental principle of the ICAEW Code of Ethics?

- A. Publicism
- B. Competitiveness
- C. Professional behaviour**
- D. Entrepreneurship

The correct answer, which is professional behaviour, emphasizes the importance of integrity and professionalism in the conduct of individuals in the accounting and finance profession. This principle requires professionals to act in a manner that upholds the reputation of the profession, ensuring that their actions contribute to public trust in their services. Professional behaviour encompasses various responsibilities, including complying with relevant laws and regulations, avoiding any conduct that discredits the profession, and striving to maintain a standard of conduct that aligns with the expectations and obligations of ethical practice. In doing so, it supports the overall ethos of accountability and responsibility within the industry. The other options, while they may reflect certain attributes or approaches in business and professional conduct, do not align with the core principles established by the ICAEW Code of Ethics. Publicism, competitiveness, and entrepreneurship are not recognized as fundamental ethical obligations within the framework, which focuses specifically on integrity, objectivity, professional competence, confidentiality, and professional behaviour. This distinction highlights why professional behaviour stands out as the correct choice in this context.

2. What is meant by a self-review threat?

- A. Promoting a biased opinion
- B. Reviewing a judgement made by another member
- C. Assessing a previous judgement made by oneself**
- D. Being too sympathetic to a client's needs

A self-review threat arises when a professional is in a position of having to evaluate their own previous work or judgments. This situation can create a conflict of interest because the individual may be biased in their assessment, potentially leading to a lack of objectivity. The risk is that the evaluation may not be as rigorous or impartial as it would be if conducted by someone independent. In the context of tax practice, a self-review threat could occur when, for example, a tax professional prepares a tax return and is later responsible for reviewing the same return for compliance or accuracy. The concern is that the professional might overlook errors or fail to question their own judgments, which could result in misleading conclusions or findings. Other options pertain to different types of threats or influences that do not specifically involve assessing one's own past judgments. For instance, promoting a biased opinion is more related to engaging in advocacy for a position that might not be objective. Similarly, reviewing a judgment made by another member pertains to the review of external work, which does not carry the same bias as self-review. Lastly, being too sympathetic to a client's needs reflects a different ethical consideration, showing potential undue influence rather than a self-review scenario.

3. When a business owner has an overlap profit while using the current year basis, what happens to these profits?

- A. They are taxed separately
- B. They are deducted from future assessments**
- C. They must be reported for the last tax year only
- D. They are lost when the business ceases trading

When a business owner experiences an overlap profit while using the current year basis of accounting, these profits are typically deducted from future assessments. Overlap profits arise when a business transitions between accounting periods, particularly when the taxable profit calculated for a current year includes profits from a previous period because of timing differences in revenue recognition or expense matching. When evaluating tax liabilities, allowing overlap profits to be deducted in subsequent years helps to avoid double taxation. This deduction ensures that business owners are not unfairly taxed on profits that have already been accounted for in earlier assessments. By carrying the overlap forward, the tax system maintains fairness and consistency in how businesses are taxed across different accounting periods. The other choices reflect misunderstandings of how today's current year basis operates in the context of tax reporting and liabilities.

4. What type of vehicle purchases cannot have VAT claimed on them?

- A. Company vans
- B. Second-hand vehicles
- C. Cars used privately**
- D. Bicycles

Claiming VAT on vehicle purchases is subject to specific regulations, particularly concerning how the vehicles are used. The reason why cars used privately cannot have VAT claimed on them is primarily due to the nature of their use. If a car is used for both business and personal purposes, the tax authorities stipulate that VAT cannot be reclaimed because the vehicle is not employed exclusively for business activities. In the case of company vans, these are typically categorized as vehicles used for business purposes, allowing VAT to be reclaimed. Second-hand vehicles also have provisions regarding VAT reclaim based on their purchase circumstances and intended use. Bicycles can generally be claimed for VAT if they are primarily used for business purposes. Hence, the restriction on reclaiming VAT primarily focuses on vehicles that are used privately, ensuring that allowed claims align with the business use standard set by tax regulations.

5. Under which condition can ICAEW members disclose information to third parties?

- A. If they have proper and specific authority**
- B. Only if it benefits their reputation
- C. When requested by a fellow member
- D. Upon verbal agreement from the client

ICAEW members are bound by strict confidentiality rules regarding the information they handle. The principle underlying these rules is that members should not disclose any information about their clients or employers unless they have proper and specific authority to do so. This authority might come from a formal agreement, legislation, or a consent agreement where the client has given explicit permission to share designated information. This ensures that the trust inherent in the client-member relationship is maintained while also complying with legal and ethical standards. The notion of "proper and specific authority" ensures that any disclosure is done legally, respecting the context and boundaries set by the client or other governing bodies. In contrast, other options do not align with established confidentiality practices. Disclosing information solely to benefit one's reputation circumvents ethical responsibility and the privacy of the concerned parties. Disclosure upon mere request from a fellow member, without consent, disregards confidentiality protocols. Additionally, a verbal agreement from the client may not provide sufficient evidence of authority, as formal documentation is usually preferred to uphold the integrity of the information shared.

6. When calculating indexation allowance, which RPI value do you use if the asset was acquired before January 1, 2018?

- A. RPI from December 2018
- B. RPI from the month of acquisition
- C. RPI from December 2017**
- D. RPI from January 2018

The correct choice involves using the Retail Price Index (RPI) from December 2017 when calculating the indexation allowance for assets acquired before January 1, 2018. This is because the indexation allowance is designed to account for the inflationary increase in the cost of an asset over the time it has been held. For assets acquired prior to this date, the RPI in December 2017 serves as a benchmark for the value of the asset at the point of acquisition, allowing for a precise calculation of how inflation has affected the asset's value since then. By using the RPI from December 2017, taxpayers can ensure that they are accurately reflecting the economic conditions at the time of acquisition, thus maintaining a fair method of calculating allowances due to inflation. Using the RPI from December 2018 or January 2018 would not correctly reflect the values pertinent to the acquisition date, as these reflect periods post-acquisition. Similarly, the RPI from the month of acquisition does not apply when considering the indexation allowance after the significant change in rules that occurred at the beginning of 2018. Therefore, the indexation allowance correctly aligns with the RPI from December 2017 for assets acquired before January 1,

7. What typically constitutes the disposal consideration for capital gains tax?

- A. Only cash paid for the item
- B. Proceeds received or market value if not at arm's length**
- C. The initial cost of the asset
- D. Any profits made from the sale

The disposal consideration for capital gains tax is generally defined as the total amount received from the sale of an asset or its market value in scenarios where the sale is not conducted at arm's length, such as transactions between related parties. This means that when determining the taxable gain, one looks at what was actually received, whether in cash or other forms of compensation, and adjusts it to reflect fair market value in non-standard transactions to ensure a fair assessment of tax liability. In certain transactions, relying solely on cash or profits made from the sale does not capture the complete picture necessary for calculating capital gains tax. The initial cost of the asset is relevant for determining the gain when compared against this disposal consideration, but it does not represent the receipt from the transaction itself. Thus, the most comprehensive view of disposal consideration is that which includes all forms of proceeds or fair market value as appropriate.

8. What does tax liability imply?

- A. The total amount of taxes owed to the government**
- B. The penalties for late tax payment
- C. The exemptions applicable to an individual
- D. The benefits received from government programs

Tax liability refers to the total amount of taxes that an individual or entity is required to pay to the government based on their taxable income or activities. It encompasses all the taxes owed, including income taxes, property taxes, and any other taxes applicable under the law. Understanding tax liability is essential for individuals and businesses as it indicates the financial obligation they have to meet. The other options focus on different aspects related to taxation. Penalties for late tax payment pertain to additional charges that arise when a taxpayer fails to pay their taxes on time, which does not define the total tax obligation itself. Exemptions apply to specific situations or individuals where certain income or assets may not be subject to tax, but they do not represent the total amount owed. Benefits from government programs refer to the assistance provided to individuals, which is unrelated to the concept of tax liability. Therefore, the definition of tax liability is accurately captured by the total amount of taxes owed to the government.

9. What are the potential consequences of filing taxes late?

- A. Increased refunds
- B. Penalties, interest charges, and potential audits**
- C. Immediate tax credits
- D. Automatic extensions

Filing taxes late can lead to several significant consequences, primarily in the form of penalties, interest charges, and the possibility of an audit. When a taxpayer does not file their return by the due date, they may incur a failure-to-file penalty, which is a percentage of the unpaid taxes that increases over time. Additionally, if taxes owed are not paid by the original due date, interest will accrue on the outstanding balance from that date until it is paid in full. These financial repercussions aren't just limited to the penalties and interest; filing late might also draw the attention of the Internal Revenue Service (IRS), potentially leading to an audit. Audits occur more frequently when there are discrepancies or when there's a pattern of non-compliance, which can be heightened by late filings. While other options might seem appealing, they do not apply in the context of filing taxes late. Increased refunds are generally associated with timely filings and qualifying deductions or credits. Immediate tax credits may only be received if the appropriate forms are submitted on time, which late filing disrupts. Automatic extensions allow for more time to file but do not extend the deadline for payment, and even if a taxpayer files for an extension, failing to pay any owed taxes by the original deadline can still lead

10. Which of the following interest expenses is taxable as a trading expense?

- A. Overdraft interest**
- B. Interest paid on personal loans
- C. Interest on overdue taxes
- D. Interest paid on bonds

Overdraft interest is considered a taxable trading expense because it is incurred in the course of conducting business activities. When a business goes into overdraft, it usually indicates that it requires additional funds to manage cash flow and continue its operations. This type of interest expense is linked directly to the business's trading activities, which makes it deductible for tax purposes. In contrast, personal loan interest is not deductible against business income because it does not relate to the production of income from trading activities. Interest on overdue taxes can also be non-deductible since it doesn't typically qualify as a business expense, and interest paid on bonds may not always meet the criteria for a trading expense depending on the context of the investment and its purpose within a business. Hence, the unique nature of overdraft interest as a necessary expense for managing business operations establishes it as a taxable trading expense.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://acapprinciplesoftax.examzify.com>

We wish you the very best on your exam journey. You've got this!

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