

ACCA Financial Accounting (F3) Certification Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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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. What is indicated when sales tax is recorded on business entertaining?

- A. It is recoverable.**
- B. It is not recoverable.**
- C. It depends on the transaction type.**
- D. It must be paid in full.**

2. Define "accounting cycle."

- A. A method for recording financial ratios**
- B. A series of steps followed in the accounting process to identify, analyze, and record financial transactions**
- C. A financial statement used to summarize a company's activities**
- D. A cycle to determine a company's overall expenses**

3. Which of the following best describes retained earnings?

- A. Total liabilities of a company**
- B. Amount of net income not distributed to shareholders**
- C. Cash available for operating expenses**
- D. Revenue generated within a fiscal quarter**

4. What is the definition of materiality in accounting?

- A. The importance of accurate cash flow reporting**
- B. The principle that all items influencing user decisions should be disclosed**
- C. The necessity of minimizing expenses on the balance sheet**
- D. The relevance of maintaining a balanced equity**

5. What distinguishes cash basis from accrual basis accounting?

- A. Cash basis tracks cash flow, accrual basis records when earned or incurred**
- B. Accrual basis is simpler than cash basis**
- C. Accrual basis ignores cash transactions**
- D. Cash basis does not require financial statements**

6. Which term describes costs that can be directly traced to a specific product?

- A. Overhead costs**
- B. Variable costs**
- C. Direct costs**
- D. Fixed costs**

7. Which of these statements does NOT capture a difference between financial accounts and management accounts?

- A. Financial accounts aim at external users while management accounts cater to internal users**
- B. Financial accounts are generally produced annually whereas management accounts are produced more frequently**
- C. Management accounts are audited by external auditors**
- D. Financial accounts are usually accompanied by audits, while management accounts typically are not**

8. How is a capital expenditure defined?

- A. Expenses for temporary supplies**
- B. Funds for acquiring or upgrading physical assets**
- C. Costs associated with employee salaries**
- D. Investments in stocks and bonds**

9. What was the total of the outstanding lodgements in the bank reconciliation statement?

- A. \$16,690**
- B. \$9,160**
- C. \$5,300**
- D. \$3,670**

10. Which statement is most accurate about the historical cost concept?

- A. Records transactions from past years**
- B. Fails to take account of changing price levels over time**
- C. Values assets at their cost to the business, irrespective of any depreciation**
- D. Is no longer used in modern accounting systems**

Answers

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

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Explanations

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1. What is indicated when sales tax is recorded on business entertaining?

- A. It is recoverable.
- B. It is not recoverable.**
- C. It depends on the transaction type.
- D. It must be paid in full.

When sales tax is recorded on business entertaining expenses, it is indicated that the tax is not recoverable. This is due to specific tax regulations that generally dictate that input tax, which includes sales tax, cannot be reclaimed for expenses related to business entertainment. In most jurisdictions, expenses related to entertaining clients or staff are not considered a legitimate business expense eligible for sales tax recovery. This means that while the business may incur these expenses, the sales tax on these expenditures typically cannot be offset or claimed back. This treatment reflects the policy that discourages excessive entertainment spending using public funds or shared resources, ensuring that sales tax is effectively a cost borne by the business. The other options do not accurately represent the treatment of sales tax in this scenario. For example, despite varying circumstances or assumptions about transaction types, the underlying tax principle surrounding business entertainment remains consistent across the board, establishing the cost of entertainment and the associated sales tax as non-recoverable.

2. Define "accounting cycle."

- A. A method for recording financial ratios
- B. A series of steps followed in the accounting process to identify, analyze, and record financial transactions**
- C. A financial statement used to summarize a company's activities
- D. A cycle to determine a company's overall expenses

The accounting cycle refers to the systematic series of steps that accountants follow to ensure that all financial transactions are properly identified, analyzed, recorded, and summarized into financial statements. This process typically begins with the initial recognition of transactions and continues through to their summarization in financial statements, allowing for an organized approach to managing a company's financial data. The correct answer highlights the comprehensive nature of the accounting cycle, which includes critical tasks such as journalizing transactions, posting them to the ledger, preparing trial balances, and ultimately generating financial statements. This structured process ensures accuracy and consistency in financial reporting, which is essential for decision-making by management and stakeholders. The other options do not encapsulate the full scope of the accounting cycle. While one option mentions financial ratios, it fails to represent the detailed process involved in financial transaction management. Another option refers to financial statements, which are an outcome of the accounting cycle rather than a definition of it. Lastly, the option concerning a cycle to determine a company's expenses overlooks the broader perspective of the various transactions that comprise the entire accounting process. Understanding the accounting cycle is fundamental for anyone involved in financial accounting, as it lays the groundwork for effective financial management and reporting.

3. Which of the following best describes retained earnings?

- A. Total liabilities of a company
- B. Amount of net income not distributed to shareholders**
- C. Cash available for operating expenses
- D. Revenue generated within a fiscal quarter

Retained earnings represent the cumulative amount of net income that a company has retained, rather than distributed as dividends to its shareholders. This figure reflects the portion of profits that the company has decided to reinvest in the business or utilize for other purposes, such as paying off debts or funding new projects. By retaining earnings, a company can bolster its equity base, which can be crucial for funding growth and expansion. Options that relate to liabilities, cash availability, or revenue generation do not capture the intent or nature of retained earnings. Retained earnings are not about the total liabilities a company has; they focus exclusively on the profits retained from total net income. Similarly, while cash available for operating expenses is an important aspect of a company's liquidity, it is not synonymous with retained earnings, as those may not be immediately available as cash. Lastly, revenue generated within a fiscal quarter does not correlate to retained earnings, which account for accumulated profits over time, rather than just the income from a specific period.

4. What is the definition of materiality in accounting?

- A. The importance of accurate cash flow reporting
- B. The principle that all items influencing user decisions should be disclosed**
- C. The necessity of minimizing expenses on the balance sheet
- D. The relevance of maintaining a balanced equity

Materiality in accounting is fundamentally concerned with the principle that any information or items that could influence the decisions of users of financial statements should be disclosed. This means that financial statements must include all relevant information to provide a true and fair view of the company's financial position, performance, and cash flow. The significance of this principle lies in the fact that it helps ensure that stakeholders, such as investors, creditors, and analysts, have all the necessary data to make informed decisions. Assessing whether an item is material typically involves considering its size, nature, and the context in which it occurs; an item may be considered material if omitting or misstating it could affect the judgments of those relying on the financial statements. In contrast, the other choices focus on more specific aspects of financial reporting or do not fully capture the broad nature of materiality. The focus on cash flow reporting, minimizing expenses, or maintaining balanced equity does not encompass the full scope of materiality and its role in ensuring comprehensive communication of financial information to users.

5. What distinguishes cash basis from accrual basis accounting?

- A. Cash basis tracks cash flow, accrual basis records when earned or incurred**
- B. Accrual basis is simpler than cash basis**
- C. Accrual basis ignores cash transactions**
- D. Cash basis does not require financial statements**

The distinction between cash basis and accrual basis accounting fundamentally lies in the timing of when revenues and expenses are recognized. Cash basis accounting records revenues and expenses when cash is actually received or paid. This method focuses on real-time cash flow, providing insights into the immediate cash position of a business. On the other hand, accrual basis accounting recognizes revenues when they are earned and expenses when they are incurred, regardless of when cash transactions occur. This approach provides a more complete picture of a company's financial health by accounting for all economic events, not just cash flow. This recognition method is crucial for adhering to generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS), as it matches revenues with the expenses incurred to generate those revenues within the same accounting period, offering better insight into the company's financial performance. The choice correctly highlights that cash basis accounting tracks cash inflows and outflows, while accrual basis accounting emphasizes the timing of income and expenses based on when they occur, thus providing a more comprehensive view of a business's financial situation over time.

6. Which term describes costs that can be directly traced to a specific product?

- A. Overhead costs**
- B. Variable costs**
- C. Direct costs**
- D. Fixed costs**

The term that describes costs that can be directly traced to a specific product is "direct costs." These costs are directly associated with the production of a particular item or service, meaning they can be attributed specifically to that product without any allocation or estimation. Examples of direct costs include raw materials, labor directly involved in production, and manufacturing supplies that are used to create the product. Understanding direct costs is crucial for businesses as they help in determining the actual cost of manufacturing a product, which directly impacts pricing and profitability analysis. In contrast, overhead costs refer to indirect expenses that cannot be directly linked to a single product, variable costs change with production levels, and fixed costs remain constant regardless of the level of production. These distinctions underscore the importance of recognizing direct costs for accurate financial reporting and decision-making in business operations.

7. Which of these statements does NOT capture a difference between financial accounts and management accounts?

- A. Financial accounts aim at external users while management accounts cater to internal users**
- B. Financial accounts are generally produced annually whereas management accounts are produced more frequently**
- C. Management accounts are audited by external auditors**
- D. Financial accounts are usually accompanied by audits, while management accounts typically are not**

The choice indicating that management accounts are audited by external auditors does not reflect a key difference between financial accounts and management accounts.

Typically, management accounts are prepared for internal decision-making purposes and do not undergo external auditing. These accounts are primarily used by the management of the organization to assess operational performance and make strategic decisions, thus they are not subjected to the same level of scrutiny as financial accounts. In contrast, financial accounts, meant for external users like investors, creditors, and regulators, are usually subject to external audits to ensure accuracy and compliance with accounting standards. This helps maintain transparency and reliability in the financial reporting process. The other statements effectively highlight distinguishing characteristics of financial and management accounts. Financial accounts are aimed at external stakeholders, are typically released annually, and are audited to enhance their credibility. Management accounts, however, are tailored for internal users and are produced more frequently, often on a monthly or quarterly basis. They serve immediate managerial needs without requiring external validation.

8. How is a capital expenditure defined?

- A. Expenses for temporary supplies**
- B. Funds for acquiring or upgrading physical assets**
- C. Costs associated with employee salaries**
- D. Investments in stocks and bonds**

A capital expenditure is defined as funds that are used to acquire, upgrade, or improve physical assets such as property, buildings, machinery, and equipment. This type of expenditure is significant because it is intended to provide benefits to the business over a long period, often extending beyond one accounting period. By investing in these physical assets, a company can expand its ability to generate revenue and improve its operational efficiency. In contrast, the other choices relate to different types of expenses or investments. Temporary supplies and employee salaries represent operational expenditures, which are costs that a business incurs in its day-to-day functioning. Investments in stocks and bonds pertain to financial investments rather than capital expenditures aimed at enhancing the company's physical or operational capacity. Understanding the distinction between capital expenditures and other expenditures is crucial for accurate financial reporting and analysis in financial accounting.

9. What was the total of the outstanding lodgements in the bank reconciliation statement?

- A. \$16,690**
- B. \$9,160**
- C. \$5,300**
- D. \$3,670**

To determine the total of the outstanding lodgements in a bank reconciliation statement, one must understand that outstanding lodgements refer to amounts that have been recorded in the company's cash account but have not yet been reflected in the bank's records. These usually consist of deposits made by the company that the bank has not yet processed. In a typical bank reconciliation, outstanding lodgements are added to the balance shown in the bank statement to arrive at the true cash balance as per the company's records. When calculating the total of outstanding lodgements, one considers each of the individual lodgements listed in the reconciliation process, summing them up to arrive at the total amount. If the answer of \$16,690 reflects this sum accurately, it indicates a comprehensive assessment of all outstanding transactions that have yet to be recognized by the bank. In contrast, the other options likely represent either incorrect sums of outstanding lodgements or do not include all relevant lodgements that contribute to the final total. This highlights the importance of carefully reviewing all transactions recorded and ensuring that the reconciliatory practices align with the bank's statements for accuracy. The answer reflects an understanding of the bank reconciliation statement concept, emphasizing the significance of keeping track of both company records and bank statements in the reconciliation process.

10. Which statement is most accurate about the historical cost concept?

- A. Records transactions from past years**
- B. Fails to take account of changing price levels over time**
- C. Values assets at their cost to the business, irrespective of any depreciation**
- D. Is no longer used in modern accounting systems**

The historical cost concept is centered around the principle that assets should be recorded and maintained on the balance sheet at their purchase price, or cost, at the time of acquisition. This provides a reliable measure of value based on actual transactions, which can be verified and documented. The statement highlighting that the historical cost concept fails to take account of changing price levels over time accurately reflects one of its limitations. As prices change due to inflation or market shifts, the historical cost does not adjust to reflect the current value of assets. This means that while an asset may be recorded at its initial cost, its market value may have significantly changed, potentially misrepresenting the financial position of the business. The other statements, though related to aspects of accounting, do not specifically encapsulate the essence of the historical cost concept as effectively. For example, recording past transactions does occur, but that is not the unique characteristic of historical cost; rather, it is about how assets are valued and recorded. Similarly, while assets are valued based on their purchase price, it is indeed affected by depreciation over time, and historical cost is still prevalent in many modern accounting systems despite the rise of alternative valuation methods like fair value accounting.

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://accafinancialaccountingcertification-f3.examzify.com>

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

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