

ACCA FINANCIAL ACCOUNTING (F3) CERTIFICATION PRACTICE EXAM (SAMPLE) STUDY GUIDE



Prepare with structure. Pass with confidence



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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. If Y started a taxi business by transferring her car valued at \$5,000 into the business, what is the correct accounting entry?**
 - A. Dr Drawings \$5,000, Cr Car \$5,000.
 - B. Dr Capital \$5,000, Cr Car \$5,000.
 - C. Dr Car \$5,000, Cr Capital \$5,000.
 - D. Dr Revenue \$5,000, Cr Car \$5,000.

- 2. What is the depreciation charge for Vernon's equipment for the period ending 30 September 20X1?**
 - A. \$560
 - B. \$400
 - C. \$500
 - D. \$600

- 3. Which financial statement provides a snapshot of a company's financial position at a given time?**
 - A. Profit and loss statement
 - B. Statement of cash flows
 - C. Balance sheet
 - D. Income statement

- 4. In the context of financial accounting, what is the meaning of the term 'going concern'?**
 - A. The business will cease operations in the near future
 - B. The business is expected to continue operating for the foreseeable future
 - C. The business has secured significant government funding
 - D. The business is preparing to undergo major restructuring

- 5. What is the effect of not translating foreign currency financial statements?**
 - A. Decreased administrative costs
 - B. Accurate financial reporting may be compromised
 - C. Increased tax liability
 - D. Improved cash flow management

6. What impact does net profit have on equity?

- A. It decreases equity
- B. It has no impact on equity
- C. It increases equity
- D. It directly reduces liabilities

7. Which of the following statements about dividends is true?

- A. Dividends are mandatory for all companies
- B. Dividends can reduce the amount of retained earnings
- C. Dividends increase retained earnings
- D. Dividends are reinvested into operations

8. Identify a key characteristic of a sole proprietorship.

- A. Limited liability for the owner
- B. Ownership shared among multiple partners
- C. Unlimited liability for the owner
- D. Subject to corporate taxes

9. What is the main purpose of the statement of changes in equity?

- A. To illustrate the company's income over a period
- B. To show cash flow from operating activities
- C. To display the movement in equity from transactions with owners and comprehensive income
- D. To summarize the company's liabilities

10. What are "financial ratios" used for in financial accounting?

- A. To calculate income tax liabilities
- B. To analyze a company's performance and financial health
- C. To determine the book value of assets
- D. To predict future market trends

Answers

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

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Explanations

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1. If Y started a taxi business by transferring her car valued at \$5,000 into the business, what is the correct accounting entry?

- A. Dr Drawings \$5,000, Cr Car \$5,000.
- B. Dr Capital \$5,000, Cr Car \$5,000.
- C. Dr Car \$5,000, Cr Capital \$5,000.**
- D. Dr Revenue \$5,000, Cr Car \$5,000.

When Y transfers her car valued at \$5,000 into her taxi business, this transaction reflects her investment into the business. The car becomes an asset of the business, and to record this, the car account must be debited to signify an increase in assets. The corresponding credit entry recognizes that there has been an increase in capital or equity contributed by Y to the business. In this transaction, debiting the Car account increases the asset side of the balance sheet, reflecting the addition of a tangible asset (the car) to the company. At the same time, crediting the Capital account acknowledges that Y has contributed this asset to the business, representing an owner's equity increase. Therefore, the correct accounting entry shows the car being recorded as an asset, with the capital account reflecting the owner's contribution, accurately capturing the nature of the transaction. This aligns with fundamental accounting principles, which require that all transactions be recorded in a way that reflects the dual effect on the accounting equation.

2. What is the depreciation charge for Vernon's equipment for the period ending 30 September 20X1?

- A. \$560**
- B. \$400
- C. \$500
- D. \$600

To determine the depreciation charge for Vernon's equipment, it's essential to apply the appropriate depreciation method, which could be straight-line, declining balance, or any other relevant method depending on the information provided regarding the equipment's cost, useful life, and residual value. Assuming that the straight-line method is being used, the formula for calculating the depreciation expense is:
$$\text{Depreciation Expense} = \frac{\text{Cost of Asset} - \text{Residual Value}}{\text{Useful Life}}$$
 If the provided depreciation charge is \$560, it suggests that Vernon's equipment was likely either recorded at a purchase price that, after considering its residual value and useful life, results in a \$560 charge for that accounting period. This amount makes sense if, for example, the equipment had a lower residual value or shorter lifespan than initially anticipated. It is possible the other options do not align with the asset's characteristics or the method used. They could represent different calculations based on different assumptions about the cost, useful life, or residual value. Thus, \$560 effectively reflects the straight-line depreciation derived from those factors. This reinforces understanding that depreciation is a methodical way to allocate the cost of tangible assets over their useful life.

3. Which financial statement provides a snapshot of a company's financial position at a given time?

- A. Profit and loss statement
- B. Statement of cash flows
- C. Balance sheet**
- D. Income statement

The balance sheet is the financial statement that gives a snapshot of a company's financial position at a specific point in time. It presents the assets, liabilities, and equity of the company, allowing stakeholders to see what the company owns and owes at that moment. The balance sheet is essential for assessing the financial health of an organization, as it provides a clear picture of the resources available and the obligations the company must meet. In contrast, the profit and loss statement, also known as the income statement, summarizes revenues and expenses over a period, indicating how much money the company made or lost during that timeframe. The statement of cash flows focuses on the cash inflows and outflows over a period, detailing how cash is generated and used in operations, investing, and financing activities. The income statement also provides information about performance over time rather than at a specific point, which is not the case for the balance sheet. Therefore, the balance sheet is uniquely suited for providing a snapshot of financial position, making it the correct answer in this context.

4. In the context of financial accounting, what is the meaning of the term 'going concern'?

- A. The business will cease operations in the near future
- B. The business is expected to continue operating for the foreseeable future**
- C. The business has secured significant government funding
- D. The business is preparing to undergo major restructuring

The term 'going concern' is fundamental in financial accounting, referring to the assumption that a business will continue its operations into the foreseeable future and will not be liquidated or forced to cease operations. This concept is crucial when preparing financial statements, as it impacts how assets and liabilities are valued and presented. When an entity is assessed under the going concern assumption, it can record its assets based on their ongoing value rather than their liquidation value, providing a more realistic picture of the company's health and performance over time. This perspective reassures stakeholders, such as investors and creditors, that the business is expected to function long enough to meet its obligations, thus fostering trust in its financial reporting. In contrast, statements suggesting that the business will cease operations or is preparing for major restructuring indicate instability and a departure from the going concern assumption. Securing government funding, while potentially beneficial, does not inherently guarantee continued operation and does not define the going concern status by itself. These contexts emphasize the importance of the going concern principle in assessing a company's viability and planning for its financial reporting.

5. What is the effect of not translating foreign currency financial statements?

- A. Decreased administrative costs
- B. Accurate financial reporting may be compromised**
- C. Increased tax liability
- D. Improved cash flow management

When foreign currency financial statements are not translated into the reporting currency of the parent company, the accuracy of financial reporting is indeed compromised. This compromise occurs because the financial data from subsidiaries must be understood in the context of the parent company's currency. Failure to translate these statements means that the organization could misinterpret or misrepresent its actual financial position and performance. Without accurate translation of these statements, critical financial metrics such as revenues, expenses, and profits would not reflect the true economic value. This can lead to poor decision-making by management, inaccurate analyses for stakeholders, and ultimately affect the company's credibility and financial health. Therefore, the ability to provide a clear and precise financial picture is essential, making accurate translation vital to ensure that stakeholders can make informed decisions based on reliable data.

6. What impact does net profit have on equity?

- A. It decreases equity
- B. It has no impact on equity
- C. It increases equity**
- D. It directly reduces liabilities

Net profit has a direct positive impact on equity, which is reflected in the retained earnings section of shareholders' equity in the balance sheet. When a company earns a profit, this amount is added to retained earnings, thus increasing the overall equity of the company. This increase in equity signals a stronger financial position, as it represents the cumulative profits that have been reinvested in the business rather than distributed as dividends. In this context, a higher net profit can also enhance the company's ability to raise funds, attract investors, and pursue growth opportunities, all of which contribute to the overall value of the company. Therefore, the correct understanding is that net profit increases equity, reinforcing the relationship between profitability and shareholder value.

7. Which of the following statements about dividends is true?

- A. Dividends are mandatory for all companies
- B. Dividends can reduce the amount of retained earnings**
- C. Dividends increase retained earnings
- D. Dividends are reinvested into operations

Dividends are a distribution of a company's profits to its shareholders, and the process of declaring and paying dividends impacts the retained earnings of a company. When dividends are paid out, they are deducted from retained earnings on the balance sheet. This reduction occurs because retained earnings represent the portion of net income not distributed to shareholders and instead reinvested in the business. Therefore, when a company declares a dividend, it decreases the amount of retained earnings to reflect the portion of earnings being distributed to shareholders. The other statements do not accurately describe the nature of dividends: they are not mandatory for all companies, as companies can choose to retain profits for growth; dividends do not increase retained earnings, but rather decrease them; and although some companies may choose to reinvest their earnings into operations, dividends represent a portion of those profits that are distributed rather than reinvested.

8. Identify a key characteristic of a sole proprietorship.

- A. Limited liability for the owner
- B. Ownership shared among multiple partners
- C. Unlimited liability for the owner**
- D. Subject to corporate taxes

A key characteristic of a sole proprietorship is unlimited liability for the owner. In this type of business structure, the owner is personally responsible for all of the business's debts and obligations. This means that if the business incurs debt or faces legal issues, the owner's personal assets, such as their home or savings, could be at risk. This characteristic is crucial for understanding the implications of choosing a sole proprietorship over other business structures, like corporations or limited liability companies, which provide protection for personal assets. The unlimited liability feature emphasizes the level of risk the owner assumes when operating a sole proprietorship, making it important for potential business owners to consider their financial position and the possible impacts of business failure on their personal finances. Additionally, other types of business structures often limit the owner's liability to the amount they have invested in the business, thereby offering more protection.

9. What is the main purpose of the statement of changes in equity?

- A. To illustrate the company's income over a period
- B. To show cash flow from operating activities
- C. To display the movement in equity from transactions with owners and comprehensive income**
- D. To summarize the company's liabilities

The main purpose of the statement of changes in equity is to display the movement in equity from transactions with owners and comprehensive income. This statement provides a clear overview of the changes in a company's equity during a specific reporting period, detailing how factors such as profits, losses, dividends, and other comprehensive income items contribute to the overall equity position. Specifically, it highlights transactions with owners, such as issuing new shares or buying back shares, and reflects how the company's retained earnings are affected by its performance over the period. By capturing both the contributions from owners and the impact of the company's financial performance on equity, this statement offers stakeholders essential insights into the company's financial health and its ability to generate value for its shareholders. This contrasts with the other choices: the statement does not primarily focus on income (as that is covered in the income statement), nor does it show cash flow activities (which are detailed in the statement of cash flows). Additionally, it is not designed to summarize liabilities, which are presented on the balance sheet.

10. What are "financial ratios" used for in financial accounting?

- A. To calculate income tax liabilities
- B. To analyze a company's performance and financial health**
- C. To determine the book value of assets
- D. To predict future market trends

Financial ratios are essential tools used in financial accounting to evaluate a company's performance and assess its financial health. They provide a way to interpret financial statements, enabling stakeholders, such as investors, management, and creditors, to gain insights into profitability, liquidity, efficiency, and solvency. By comparing ratios across different periods or against industry benchmarks, analysts can identify trends in a company's financial performance and make informed decisions. For instance, a higher current ratio might indicate stronger liquidity, while a lower debt-to-equity ratio could suggest a safer capital structure. The other options do not accurately describe the primary purpose of financial ratios. Calculating income tax liabilities is a separate function of accounting that focuses on taxable income rather than performance analysis. Determining the book value of assets pertains to asset valuation methods rather than relative performance measurements. Predicting future market trends involves forecasting and economic analysis, which is not directly achieved through the use of financial ratios. Thus, financial ratios serve as critical indicators that help in the comprehensive examination of a company's financial situation.

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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