ACFE Accounting Terms Practice Test (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

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Table of Contents

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

1. **Which ratio directly measures the proportion of financing that comes from creditors compared to owners?**
   - A. DEBT-TO-EQUITY RATIO CALCULATION
   - B. CURRENT RATIO
   - C. LIQUIDITY RATIO
   - D. RETURN ON EQUITY

2. **Which phase follows Solicitation in the 4 Phases of Contracting?**
   - A. Bid evaluation and award
   - B. Solicitation
   - C. Pre-Solicitation
   - D. Post-Award and administration

3. **Which of the following are elements of a legal contract between two entities?**
   - A. Competent Parties; Lawful Subject; Mutual Consent; Legal Consideration; Form Permitted by Law
   - B. Offer; Acceptance; Consideration; Legality
   - C. Mutual Consent; Agreement; Performance
   - D. Offer; Acceptance; Discretion

4. **Which term is used for the security testing approach that simulates an attack by attempting to breach a network?**
   - A. Collusion
   - B. Contract
   - C. Penetration Test
   - D. Going Concern Principle

5. **The release of retainage is usually accompanied by which document?**
   - A. Building permit
   - B. Lien waiver
   - C. Certificate of occupancy
   - D. Warranty agreement

6. **What procurement method involves sealed bids and awarding the contract to the bidder with the best price and terms?**

   A. OPEN COMPETITION

   B. DIRECT PURCHASE

   C. NEGOTIATED CONTRACT

   D. COMPETITIVE BIDDING/SEALED BIDS

7. **Which item is NOT one of the four phases of contracting?**

   A. Negotiation and closeout

   B. Post-Award and administration

   C. Solicitation

   D. Pre-Solicitation

8. **Which measure assesses the company's ability to meet sudden cash requirements?**

   A. Quick ratio

   B. Current ratio

   C. Debt ratio

   D. Asset turnover

9. **Which option lists the four phases of contracting in the correct order?**

   A. Pre-Solicitation; Solicitation; Bid evaluation and award; Post-Award and administration

   B. Pre-Solicitation; Bid evaluation and award; Solicitation; Post-Award and administration

   C. Solicitation; Pre-Solicitation; Post-Award and administration; Bid evaluation and award

   D. Post-Award and administration; Pre-Solicitation; Solicitation; Bid evaluation and award

10. **An agreement between two or more people to commit an act designed to deceive or gain an unfair advantage is called what?**

   A. Collusion

   B. Contract

   C. Principal

   D. Post-Award/Administration phase

Answers

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

Explanations

1. Which ratio directly measures the proportion of financing that comes from creditors compared to owners?

A. DEBT-TO-EQUITY RATIO CALCULATION

B. CURRENT RATIO

C. LIQUIDITY RATIO

D. RETURN ON EQUITY

Understanding how a company is financed—how much comes from creditors versus owners—is measured by the debt-to-equity ratio. This ratio compares total liabilities (what the company owes) to shareholders' equity (the owners' investment). It shows how heavily financed the business is with debt relative to owner funding. A higher ratio means more debt financing compared with equity, highlighting leverage and potential risk. For example, if a company has $600,000 in liabilities and $400,000 in equity, the debt-to-equity ratio is 1.5, meaning there is $1.50 of debt for every $1 of equity. This directly reflects the financing mix: more from creditors than from owners. The other options don't capture the financing mix. The current ratio and other liquidity ratios assess short-term ability to meet obligations, not where the funds come from. Return on equity measures profitability generated from equity, not how the business is financed.

2. Which phase follows Solicitation in the 4 Phases of Contracting?

A. Bid evaluation and award

B. Solicitation

C. Pre-Solicitation

D. Post-Award and administration

The sequence being tested is the progression from requesting bids to selecting a winner and awarding the contract. After solicitation, the next step is to evaluate the bids or proposals and make the award. In this phase, responses are reviewed against the established criteria, any clarifications or negotiations may occur, and the contract is awarded to the bidder that best meets the requirements, often based on value and compliance with terms. Pre-Solicitation happens before solicitation, since it involves planning and preparation. Post-Award and administration comes after the contract has been awarded, handling implementation and oversight. Solicitation is the step of inviting bids, which is why the following phase is the bid evaluation and award.

3. Which of the following are elements of a legal contract between two entities?

A. Competent Parties; Lawful Subject; Mutual Consent; Legal Consideration; Form Permitted by Law

B. Offer; Acceptance; Consideration; Legality

C. Mutual Consent; Agreement; Performance

D. Offer; Acceptance; Discretion

A legal contract between two entities rests on five essential elements: capacity, legality, mutual assent, consideration, and proper form. Capacity means both parties have the legal ability to enter into a contract; this covers being of sufficient age and having the mental competence to understand the agreement, as well as corporate entities having the authority to contract. Legality requires the contract's subject matter to be lawful and not against public policy. Mutual assent is the true meeting of minds, typically shown by an offer and an acceptance that agree to the same terms. Consideration is something of value exchanged between the parties—a promise, an act, or forbearance that motivates the agreement. Proper form means compliance with any statutory or regulatory requirements about how the contract must be executed, such as writing requirements or other formalities. Together, these elements ensure the contract is enforceable. Without capacity or legality, the agreement may be void. Without mutual assent, there is no genuine agreement. Without consideration, there is no bargained-for exchange. And without the required form, the contract may be unenforceable under law. The other options leave out or misplace essential aspects: one omits capacity and form, another treats performance as a contract element (performance comes after formation, not a prerequisite), and yet another introduces discretion, which isn't a standard contract requirement.

4. Which term is used for the security testing approach that simulates an attack by attempting to breach a network?

A. Collusion

B. Contract

C. Penetration Test

D. Going Concern Principle

The best term is penetration testing. This describes a security testing approach where authorized testers actively try to breach a network, using techniques and tools similar to those of real attackers to see if access, data, or services can be compromised. The goal is to identify exploitable weaknesses and verify the effectiveness of defenses, detection, and response in a controlled setting. Collusion is about secret cooperation to commit fraud, not a testing method. A contract is a legal agreement between parties, not a security testing approach. The going concern principle is an accounting assumption about a business continuing to operate, unrelated to how security testing is performed.

5. The release of retainage is usually accompanied by which document?

A. Building permit

B. Lien waiver

C. Certificate of occupancy

D. Warranty agreement

When a portion of a payment is held back as retainage, releasing that amount is paired with a lien waiver. A lien waiver is a document in which the party who received payment agrees not to file or enforce a mechanic's lien for the portion released. This protects the project owner from future claims tied to that money and helps finalize the project financially. In practice, you'll often see a conditional or unconditional lien waiver tied to the release of retainage, ensuring that once the funds are paid, lien rights are relinquished (subject to the type of waiver). The other options—building permits, certificates of occupancy, and warranty agreements—serve unrelated purposes (permissions to build, rights to occupy, and post-construction coverage), so they don't address the lien protection needed when retainage is released.

6. What procurement method involves sealed bids and awarding the contract to the bidder with the best price and terms?

A. OPEN COMPETITION

B. DIRECT PURCHASE

C. NEGOTIATED CONTRACT

D. COMPETITIVE BIDDING/SEALED BIDS

The concept here is a procurement method that uses a sealed-bid process to ensure fair competition and then awards the contract to the bidder offering the best price and terms that meet the requirements. In competitive bidding, all bidders submit their bids in sealed envelopes or secure digital formats, which are only opened at a specified time, preventing any last-minute influence. The awarding decision focuses on price plus the terms and compliance with the contract requirements, so the seller with the most favorable overall offer wins. This approach promotes transparency, fairness, and competitive pricing for well-defined purchases. Other options don't fit because they don't emphasize sealed bids and a competition based on price and terms: open competition implies broad competition but not necessarily the sealed-bid process; direct purchase is typically a noncompetitive, often informal buying method; negotiated contract relies on bargaining with one or more suppliers rather than awarding strictly on sealed bids to the best price and terms.

7. Which item is NOT one of the four phases of contracting?

A. Negotiation and closeout

B. Post-Award and administration

C. Solicitation

D. Pre-Solicitation

Contracting follows a lifecycle with distinct phases that move from planning to execution and then to final closeout. In this framework, the phases are typically Pre-Solicitation (planning and market research), Solicitation (issuing and receiving proposals), Post-Award and Administration (managing performance, amendments, and payments), and the phase that covers evaluating proposals and finalizing terms leading to award. The item that pairs negotiation with closeout isn't a separate phase because negotiation occurs during the evaluation/award process, while closeout is part of contract administration after performance. Since these activities belong to other phases rather than forming their own, this item does not fit as one of the four phases.

8. Which measure assesses the company's ability to meet sudden cash requirements?

A. Quick ratio

B. Current ratio

C. Debt ratio

D. Asset turnover

Liquidity and the ability to meet sudden cash obligations are evaluated by the quick ratio. This measure uses only assets that can be quickly converted to cash—cash, marketable securities, and accounts receivable—to compare against current liabilities. Inventory is excluded because it isn't reliably liquid in a pinch, so it can't assure immediate payment of obligations. The result gives a stricter view of short-term liquidity than the current ratio, which includes all current assets and can overstate how ready the company is to cover debts without tapping inventory. So, if the quick ratio is around 1 or higher, the company has enough near-term liquid assets to meet current obligations without selling inventory. By contrast, debt ratio looks at leverage (liabilities relative to assets) and asset turnover measures efficiency in using assets to generate sales, not immediate cash readiness.

9. Which option lists the four phases of contracting in the correct order?

A. Pre-Solicitation; Solicitation; Bid evaluation and award; Post-Award and administration

B. Pre-Solicitation; Bid evaluation and award; Solicitation; Post-Award and administration

C. Solicitation; Pre-Solicitation; Post-Award and administration; Bid evaluation and award

D. Post-Award and administration; Pre-Solicitation; Solicitation; Bid evaluation and award

Understanding contracting as a lifecycle helps ensure planning informs the request, the request guides the market response, bids are fairly evaluated, and contract management follows after award. The first phase is about planning and defining what's needed, setting scope, budget, and strategy. Next comes solicitation, where the defined needs are made public and suppliers are invited to respond with bids or proposals using clear criteria. After responses are received, the bids or proposals are evaluated against those criteria, the winning offer is selected, and the contract is awarded. The final phase covers post-award activities: managing performance, monitoring compliance, handling changes, and closing out the contract. This order makes sense because each step depends on the previous one: you can't solicit meaningful proposals without good planning, you can't evaluate bids without a solid set of criteria from the solicitation, and you can't administer a contract that hasn't been awarded. Sequences that place evaluation before solicitation or administration before award disrupt this logical flow and wouldn't work in practice.

10. An agreement between two or more people to commit an act designed to deceive or gain an unfair advantage is called what?

A. Collusion

B. Contract

C. Principal

D. Post-Award/Administration phase

Collusion is the act of two or more people secretly planning and working together to deceive or gain an unfair advantage. This kind of collaboration is dangerous because it can bypass normal controls and create results that appear legitimate while concealing fraudulent intent. In practice, you might see collusion in procurement, bidding, invoicing, or financial reporting, where participants coordinate to fix prices, award work to friends, or create fake vendors, making fraud harder to detect. A contract is simply a binding agreement between parties and doesn't imply deceit or unfair advantage. A principal refers to someone who authorizes another to act on their behalf, not to a fraudulent act. The post-award/administration phase describes a stage in a process, not the act of cheating together.

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://acfeaccountingterms.examzify.com

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