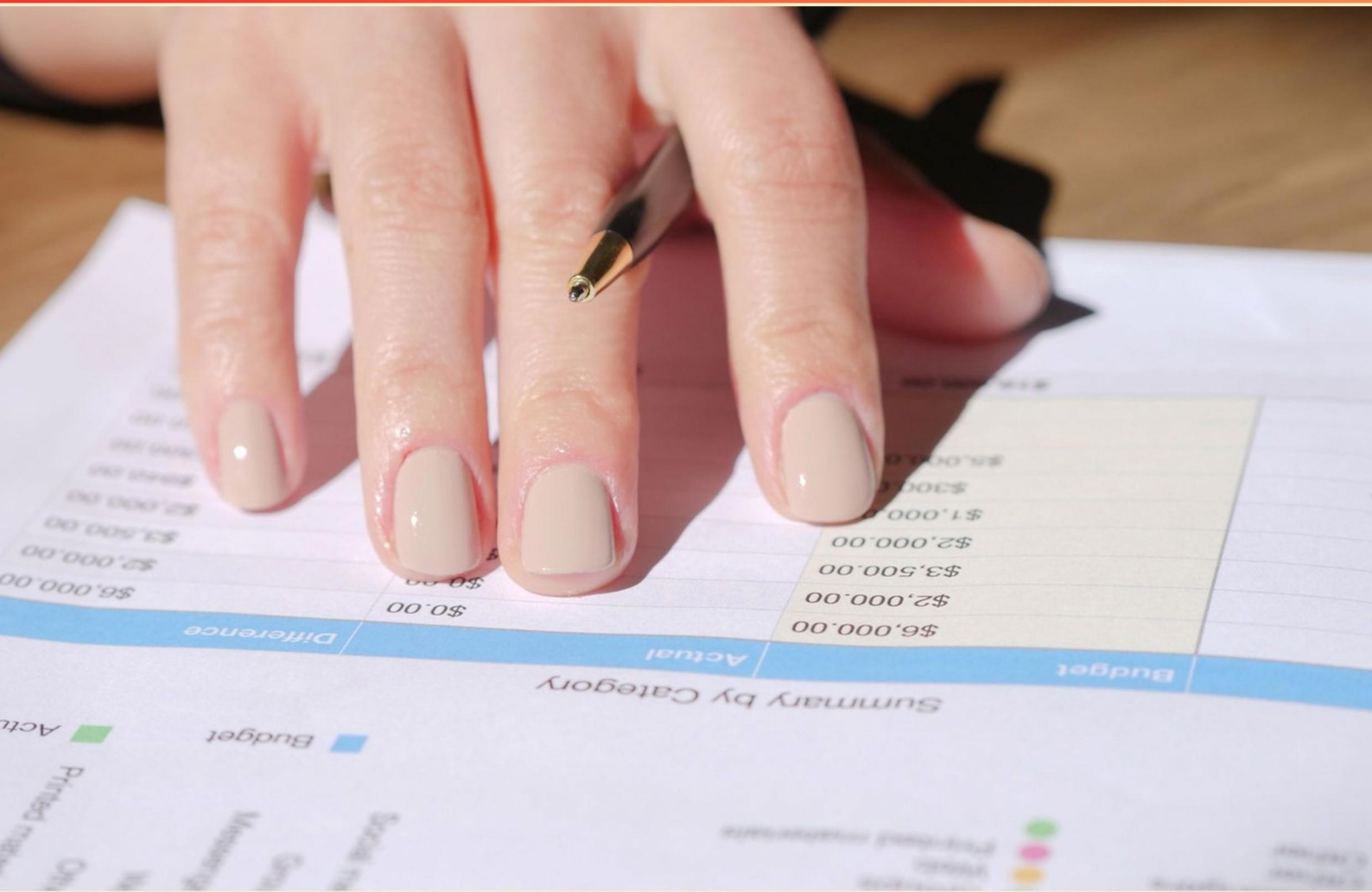


ACFE ACCOUNTING TERMS PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

<https://acfeaccountingterms.examzify.com>



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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 the purpose of a trial balance in the accounting cycle?**
 - A. To list all accounts and their balances in order.
 - B. To verify that total debits equal total credits after posting and to help detect posting errors before preparing financial statements.
 - C. To determine net income for the period.
 - D. To adjust accounts for accruals and deferrals.
- 2. Define materiality and its impact on accounting estimates.**
 - A. Materiality applies only to audit reports.
 - B. Materiality means always restate financial statements for small errors.
 - C. Materiality is a tax concept unrelated to estimates.
 - D. An item is material if omission or misstatement could influence decisions; materiality guides whether estimates need refinement or restatements.
- 3. Which statement about non-controlling interest (NCI) is accurate in consolidated statements?**
 - A. A liability to be paid to other owners.
 - B. Part of the parent's equity.
 - C. A deduction from total assets.
 - D. A separate line item within equity representing the non-controlling portion.
- 4. Which statement best differentiates deferred tax assets (DTA) and deferred tax liabilities (DTL)?**
 - A. A deferred tax asset arises when taxable income exceeds accounting income.
 - B. A deferred tax liability arises from deductible amounts.
 - C. Temporary differences between accounting and tax bases can create either a DTA or a DTL, depending on future deductible or taxable amounts.
 - D. Deferred taxes are recognized only when tax is paid.
- 5. Which statement about inventory turnover ratio is true?**
 - A. A higher turnover indicates slower movement of inventory.
 - B. A higher turnover indicates more efficient management and faster sales relative to inventory.
 - C. Turnover is calculated as Average Inventory divided by COGS.
 - D. Turnover measures days sales outstanding.

- 6. In the indirect method, how is net income converted to net cash provided by operating activities?**
- A. Start with net income, add back non-cash expenses (such as depreciation and amortization), and adjust for changes in working capital.
 - B. Start with cash flow from operating activities.
 - C. Subtract all non-cash expenses.
 - D. Ignore non-cash items.
- 7. Which term describes the submission of medical codes that define diagnoses and procedures?**
- A. Penetration Test
 - B. Accounting Equation
 - C. How are medical procedures billed?
 - D. Contract
- 8. Which account type is increased by credits and decreased by debits?**
- A. ASSETS
 - B. EXPENSES
 - C. LIABILITIES
 - D. REVENUE
- 9. What is the deliberate scrambling of a message so that it is unreadable without a key?**
- A. Encryption
 - B. Draw Request
 - C. Piggybacking to Get Access to an Area
 - D. Current Ratio Calculation
- 10. What type of insurance indemnifies against economic loss caused by dishonest acts of its employees?**
- A. Liability Insurance
 - B. Fidelity Insurance
 - C. Property Insurance
 - D. Health Insurance

Answers

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

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Explanations

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1. What is the purpose of a trial balance in the accounting cycle?

- A. To list all accounts and their balances in order.
- B. To verify that total debits equal total credits after posting and to help detect posting errors before preparing financial statements.**
- C. To determine net income for the period.
- D. To adjust accounts for accruals and deferrals.

The main idea here is that a trial balance serves as a checkpoint in the accounting cycle. It gathers every general ledger account with its ending balance and totals the debits and credits to see if they are equal. When the double-entry system is correctly recorded, these totals match, which helps confirm that posting is technically correct and that no simple errors slipped in. This makes the trial balance a useful early tool for detecting posting mistakes before financial statements are prepared. It also provides a starting point for identifying which accounts may need adjusting, but it does not itself determine net income. Net income comes from revenues minus expenses after adjustments, not from the trial balance alone.

2. Define materiality and its impact on accounting estimates.

- A. Materiality applies only to audit reports.
- B. Materiality means always restate financial statements for small errors.
- C. Materiality is a tax concept unrelated to estimates.
- D. An item is material if omission or misstatement could influence decisions; materiality guides whether estimates need refinement or restatements.**

Materiality is about whether something matters to users relying on the financial statements. If omitting or misreporting an item could influence decisions, it is material. When it comes to accounting estimates, this means you look at whether the uncertainty or the size of the estimate could affect decision-making. If the estimation issue is material, you should refine the estimate or disclose more information, and in some cases adjust prior periods. If the issue is immaterial, you may leave the estimate as is and disclose only if helpful. The other options aren't correct because materiality isn't limited to audits, isn't about always restating for small errors, and isn't a tax concept unrelated to estimates.

3. Which statement about non-controlling interest (NCI) is accurate in consolidated statements?

- A. A liability to be paid to other owners.
- B. Part of the parent's equity.
- C. A deduction from total assets.
- D. A separate line item within equity representing the non-controlling portion.**

Non-controlling interest represents the portion of a subsidiary's equity that is owned by shareholders other than the parent. In consolidated statements, it is shown as a separate line item within equity on the consolidated balance sheet, not as a liability and not as part of the parent's equity. This placement reflects that control of the subsidiary is consolidated, while recognizing the claims of the other owners on the subsidiary's net assets. It is also not a deduction from total assets. (If discussing the income statement, the NCI's share of the subsidiary's net income is shown separately, reducing consolidated net income.) Therefore, the best description is a separate line item within equity representing the non-controlling portion.

4. Which statement best differentiates deferred tax assets (DTA) and deferred tax liabilities (DTL)?

- A. A deferred tax asset arises when taxable income exceeds accounting income.
- B. A deferred tax liability arises from deductible amounts.
- C. Temporary differences between accounting and tax bases can create either a DTA or a DTL, depending on future deductible or taxable amounts.**
- D. Deferred taxes are recognized only when tax is paid.

Deferred taxes come from timing differences between how assets and liabilities are reported for accounting purposes and for tax purposes. These differences don't disappear when the numbers are first recorded—they will reverse in future periods, creating a tax effect then. If the future effect of a timing difference is to reduce future taxes (for example, deductible temporary differences or loss carryforwards that will lower taxable income later), a deferred tax asset is created. If the future effect is to increase future taxes (taxable temporary differences that will raise taxable income later), a deferred tax liability is created. That idea is captured by saying a temporary difference can lead to either a DTA or a DTL, depending on whether the expected future tax outcome is deductible (reducing future taxes) or taxable (increasing future taxes). Why the other statements don't fit: a DTA doesn't arise simply because taxable income exceeds accounting income; it arises from deductible differences or loss carryforwards. A DTL is not from deductible amounts but from taxable differences that will cause higher taxes in the future. Deferred taxes are not recognized only when tax is paid; they're recognized to reflect future tax consequences of current timing differences.

5. Which statement about inventory turnover ratio is true?

- A. A higher turnover indicates slower movement of inventory.
- B. A higher turnover indicates more efficient management and faster sales relative to inventory.**
- C. Turnover is calculated as Average Inventory divided by COGS.
- D. Turnover measures days sales outstanding.

The main idea here is how often a company sells and replaces its inventory over a period. Inventory turnover shows how quickly inventory is turned into sales, so a higher turnover means inventory is selling faster relative to how much inventory you keep on hand. Why this statement is best: when turnover is higher, you're converting inventory to sales more rapidly, which typically signals efficient inventory management and strong demand in relation to the stock you hold. This helps reduce carrying costs and the risk of obsolescence. For context, turnover is usually calculated as Cost of Goods Sold divided by Average Inventory (typically average of beginning and ending inventory for the period). A higher result means faster movement of goods. Be aware that extremely high turnover can also indicate stockouts, while low turnover suggests overstock or weak sales. The other ideas mix up the concept: suggesting higher turnover means slower movement is opposite of what turnover measures; using the inverse of the correct formula is incorrect; and describing days sales outstanding points to receivables collection, not inventory turnover.

6. In the indirect method, how is net income converted to net cash provided by operating activities?

A. Start with net income, add back non-cash expenses (such as depreciation and amortization), and adjust for changes in working capital.

B. Start with cash flow from operating activities.

C. Subtract all non-cash expenses.

D. Ignore non-cash items.

In the indirect method, you start with net income and adjust for items that affected net income but not cash, to arrive at net cash provided by operating activities. The key is to reverse non-cash effects and reflect changes in working capital. Non-cash expenses like depreciation and amortization reduce net income without using cash, so you add them back. Then you examine how operating assets and liabilities changed during the period—such as accounts receivable, inventory, and accounts payable—and adjust for those changes since they tie directly to cash flows. When receivables rise, cash collected is lower than revenue and you subtract the increase; when payables rise, cash outlays are deferred and you add. Collectively, starting with net income, adding back non-cash expenses, and adjusting for working capital changes converts accrual earnings into cash from operating activities.

7. Which term describes the submission of medical codes that define diagnoses and procedures?

A. Penetration Test

B. Accounting Equation

C. How are medical procedures billed?

D. Contract

The idea being tested is how medical codes for diagnoses and procedures are used in the billing process. Medical coding translates patient information into standardized codes, and those codes are then submitted to payers to request payment. Among the options, the one that mentions billing aligns with this purpose, since billing is the step that uses those codes to obtain reimbursement for services rendered. The other choices relate to unrelated fields: cybersecurity testing, basic accounting, and a legal document, none of which describe the submission of medical codes for billing.

8. Which account type is increased by credits and decreased by debits?

A. ASSETS

B. EXPENSES

C. LIABILITIES

D. REVENUE

With double-entry accounting, each account type has a normal balance, and credits or debits move that balance in specific directions. Liabilities have a normal credit balance, so applying a credit increases the liability and applying a debit decreases it. Think of it as taking on more obligation when you credit the liability, and reducing that obligation when you debit it. For example, when a company borrows money, the liability is credited; when it pays down the loan, the liability is debited. This pattern—credit increases, debit decreases—is what makes this account type the one that fits the description.

9. What is the deliberate scrambling of a message so that it is unreadable without a key?

- A. Encryption**
- B. Draw Request
- C. Piggybacking to Get Access to an Area
- D. Current Ratio Calculation

Encryption is the deliberate scrambling of a message so that it is unreadable without a key. By applying an algorithm to the plaintext with a key, the information becomes ciphertext, which conceals its contents from anyone who doesn't have the key to reverse the process. Only the intended recipient, who possesses the correct key, can decrypt and read the original message. The other terms refer to different concepts not involving hiding information behind a key: a draw request is unrelated to scrambling messages, piggybacking to gain access describes an unauthorized entry tactic, and current ratio calculation is a financial metric.

10. What type of insurance indemnifies against economic loss caused by dishonest acts of its employees?

- A. Liability Insurance
- B. Fidelity Insurance**
- C. Property Insurance
- D. Health Insurance

Fidelity insurance protects a business from financial losses caused by dishonest acts of its employees, such as theft, embezzlement, or forgery. It is designed to cover the economic harm that can occur when trusted staff misuse assets or funds, reimbursing the employer up to the policy limits. This focus on internal fraud distinguishes it from other types of coverage: liability insurance covers damages or injuries to others; property insurance protects physical assets from events like fire or theft; and health insurance covers medical costs for individuals. So, when the risk is internal dishonesty by employees causing financial loss, fidelity insurance is the appropriate protection.

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!

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