

# AIPB Mastering Adjusting Entries Practice Test (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 the result of failing to make necessary adjusting entries?**
  - A. Inaccurate financial statements**
  - B. Improper cash flow management**
  - C. Increased profits**
  - D. No impact on financial reporting**
- 2. Generally, what is the primary impact of an adjusting journal entry?**
  - A. Affects both the income statement and the balance sheet**
  - B. Affects only the income statement**
  - C. Affects only the balance sheet**
  - D. Is used in cash basis accounting only**
- 3. What does an adjusting entry typically recognize?**
  - A. Cash transactions only**
  - B. Revenue and expenses that have accrued**
  - C. Only future income**
  - D. Liabilities from creditor agreements**
- 4. What is an adjusting entry?**
  - A. An entry to allocate income and expenses to the correct period**
  - B. An entry made to close out accounts**
  - C. An entry used to record cash transactions**
  - D. An entry that transfers funds between accounts**
- 5. What is a consequence of not recording accrued expenses?**
  - A. Assets are overstated**
  - B. Liabilities are overstated**
  - C. Net income is understated**
  - D. Net income is overstated**

**6. What will generally happen if a company's adjusting entries are not complete?**

- A. Accounts will self-adjust accurately**
- B. Financial reports will be prepared accurately**
- C. Account balances will likely be misrepresented**
- D. The next accounting period will resolve discrepancies**

**7. Which of the following is an example of an accrual adjusting entry?**

- A. Recording prepaid rent**
- B. Recording accrued wages payable**
- C. Recording a sale made on credit**
- D. Recording depreciation expense**

**8. What happens to net income if expenses are incorrectly recorded as assets?**

- A. Net income increases**
- B. Net income decreases**
- C. Net income remains the same**
- D. Net income cannot be determined**

**9. What should be done if an adjusting entry contains an error?**

- A. Nothing, it will self-correct**
- B. Review all entries made that month**
- C. Make a correcting entry**
- D. Delete the original entry without making a correction**

**10. What is the direct impact of adjusting entries on cash flow?**

- A. They have a direct positive impact**
- B. They do not affect cash flow directly**
- C. They result in an immediate cash inflow**
- D. They decrease cash flow instantly**

## **Answers**

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

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## **Explanations**

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## 1. What is the result of failing to make necessary adjusting entries?

- A. Inaccurate financial statements**
- B. Improper cash flow management**
- C. Increased profits**
- D. No impact on financial reporting**

Failing to make necessary adjusting entries leads to inaccurate financial statements. Adjusting entries are crucial because they ensure that revenues and expenses are recognized in the period they occur, reflecting the true financial position and performance of the business. Without these adjustments, financial statements may overstate or understate income, assets, or liabilities, which can mislead stakeholders about the company's actual financial health. Inaccurate financial statements can also have broader implications, such as affecting managerial decisions, investor perceptions, and compliance with regulatory requirements. Therefore, ensuring that all necessary adjusting entries are made is vital for maintaining the integrity and reliability of financial reporting. This context underlines the importance of proper accounting practices and highlights the potential consequences of neglecting adjustments.

## 2. Generally, what is the primary impact of an adjusting journal entry?

- A. Affects both the income statement and the balance sheet**
- B. Affects only the income statement**
- C. Affects only the balance sheet**
- D. Is used in cash basis accounting only**

The primary impact of an adjusting journal entry is that it affects both the income statement and the balance sheet. Adjusting entries are made at the end of an accounting period to ensure that revenues and expenses are recognized in the period in which they occur, in accordance with the accrual basis of accounting. When an adjusting entry is made, it typically involves either recognizing accrued revenues or expenses that have not yet been recorded or deferring revenues or expenses that have already been received or paid, affecting the current period's income statement. For instance, when an expense is accrued, it increases the expense on the income statement while also creating a liability on the balance sheet. Conversely, when revenue is accrued, it increases income on the income statement while adding to assets on the balance sheet. This dual impact ensures that financial statements accurately reflect the company's financial position and performance for that period, which is essential for stakeholders needing reliable information for decision-making.

### 3. What does an adjusting entry typically recognize?

- A. Cash transactions only
- B. Revenue and expenses that have accrued**
- C. Only future income
- D. Liabilities from creditor agreements

An adjusting entry typically recognizes revenue and expenses that have accrued. This is essential for adhering to the accrual basis of accounting, which dictates that revenue should be recognized when earned and expenses when incurred, regardless of when cash is exchanged. This ensures that the financial statements accurately reflect the company's financial performance during the accounting period. Adjusting entries are made at the end of an accounting period to account for income and expenses that haven't yet been recorded in the accounting system, which might involve accrued revenues, such as services rendered but not yet billed, and accrued expenses, such as utilities consumed but not yet paid for. By making these adjustments, companies ensure that their income statements and balance sheets provide a true picture of profit-making and liabilities pertaining to the period. The other choices do not align with the purpose of adjusting entries. For example, cash transactions are recorded during the regular course of business and do not require adjustments. Future income is not applicable, as adjusting entries deal with already incurred revenues or expenses. Lastly, while liabilities from creditor agreements are important, they are typically recognized at the time of the agreement and do not encompass the broader scope of accrued revenues and expenses that adjusting entries aim to address.

### 4. What is an adjusting entry?

- A. An entry to allocate income and expenses to the correct period**
- B. An entry made to close out accounts
- C. An entry used to record cash transactions
- D. An entry that transfers funds between accounts

An adjusting entry is a crucial aspect of the accounting process that ensures the financial statements reflect the accurate financial position of a business for a specific accounting period. It serves to allocate income and expenses to their appropriate periods according to the accrual accounting principle, which dictates that revenues and expenses should be recognized when they are earned or incurred rather than when cash is exchanged. By making adjusting entries, businesses can align their financial records with the actual performance and condition of the entity over time. This typically involves adjusting entries for accrued items, such as unrecorded revenues earned that have not yet been received in cash or expenses incurred that have not been paid in cash. As a result, selecting the first option captures the essence of what adjusting entries accomplish in the accounting cycle, emphasizing their vital role in ensuring that financial statements provide a true and fair view of a company's financial activity for each reporting period.

## 5. What is a consequence of not recording accrued expenses?

- A. Assets are overstated
- B. Liabilities are overstated
- C. Net income is understated
- D. Net income is overstated**

When accrued expenses are not recorded, it leads to an overstatement of net income. Accrued expenses represent costs that a company has incurred but has not yet paid or recorded in the accounts. By failing to recognize these expenses, the company's financial statements reflect higher profits than they should, as the expenses that would normally reduce net income are missing from the records. This situation indicates that expenses are understated, leading to an inflated profit figure. Overstated net income can mislead stakeholders, such as investors or management, about the company's financial health, resulting in poor decision-making based on erroneous financial data. Properly recording accrued expenses ensures that financial statements accurately depict the company's performance and compliance with accounting principles.

## 6. What will generally happen if a company's adjusting entries are not complete?

- A. Accounts will self-adjust accurately
- B. Financial reports will be prepared accurately
- C. Account balances will likely be misrepresented**
- D. The next accounting period will resolve discrepancies

When adjusting entries are not complete, it is highly likely that account balances will be misrepresented. Adjusting entries are crucial for accurately aligning revenues and expenses with the appropriate accounting period, following the accrual basis of accounting. If these entries are overlooked or improperly performed, the financial statements may not reflect the true financial position and results of operations of the company. For instance, if expenses incurred during an accounting period are not recognized, the financial statements will show inflated profits since the expenses that should be deducted from revenues will be absent. Similarly, if revenues earned but not recorded are omitted, this will understate the company's financial performance for that period. Therefore, without proper adjusting entries, misleading or inaccurate financial information will be presented, affecting decision-making by management, investors, and other stakeholders. This underscores the importance of completing adjusting entries to ensure that the financial reports accurately reflect the company's financial status.

**7. Which of the following is an example of an accrual adjusting entry?**

- A. Recording prepaid rent**
- B. Recording accrued wages payable**
- C. Recording a sale made on credit**
- D. Recording depreciation expense**

An accrual adjusting entry involves recording revenues and expenses that have been incurred but not yet recognized in the financial statements. This typically happens when cash has not yet been exchanged but the economic event has already occurred. In the case of accrued wages payable, this entry reflects the wages that employees have earned for work performed but have not yet been paid by the end of the accounting period. This means that the expense needs to be accrued to accurately represent the company's liabilities and expenses within that period, ensuring that the financial statements present a true and fair view of the company's financial position. While prepaid rent involves payments made in advance and is thus a deferral entry rather than an accrual, a sale made on credit does not qualify as an accrual entry since revenue is recognized at the time of the sale. Depreciation expense, while it involves an allocation of an asset's cost over time, is not classified as an accrual entry for the purposes of recognizing expenses incurred but not yet paid. The key point is that an accrual entry like accrued wages reflects obligations that arise from the operations of the business within the specified period, aligning revenue and expenses with the period they pertain to.

**8. What happens to net income if expenses are incorrectly recorded as assets?**

- A. Net income increases**
- B. Net income decreases**
- C. Net income remains the same**
- D. Net income cannot be determined**

When expenses are incorrectly recorded as assets, it leads to a situation where the expenses are not being recognized in the income statement. Since expenses reduce net income, failing to record them properly results in net income appearing higher than it actually is. For instance, if a business incurs a cost that should have decreased profits, such as a repair expense, but instead categorizes it as an asset, this expense will not be reflected in the income statement. Consequently, because the expense is not deducted from revenue, net income will increase. This misrepresentation can create a misleading view of the company's profitability and financial health. Therefore, understanding that expenses lower net income is crucial, and when they are misclassified as assets, it artificially inflates the net income figure.

## 9. What should be done if an adjusting entry contains an error?

- A. Nothing, it will self-correct
- B. Review all entries made that month
- C. Make a correcting entry**
- D. Delete the original entry without making a correction

When an adjusting entry contains an error, the appropriate course of action is to make a correcting entry. This is essential because proper financial reporting relies on accurate and truthful representation of a company's financial position. A correcting entry is used to adjust the records to reflect the accurate amounts and to ensure that the financial statements are correct. This method is both straightforward and maintains the integrity of the accounting records, as it provides a clear audit trail. By making a correcting entry, you acknowledge the mistake and rectify it without erasing the original entry, which could lead to confusion and a lack of transparency in the financial records. Other possibilities, such as reviewing all entries made that month or deleting the original entry, might seem practical, but they do not effectively resolve the issue. Reviewing entries can help identify the error, but it does not fix it. Deleting the original entry would create gaps in the accounting records and can lead to further discrepancies, undermining the accuracy of financial reporting. Thus, making a correcting entry is the most reliable and proper response to an error in an adjusting entry.

## 10. What is the direct impact of adjusting entries on cash flow?

- A. They have a direct positive impact
- B. They do not affect cash flow directly**
- C. They result in an immediate cash inflow
- D. They decrease cash flow instantly

Adjusting entries are essential in the accrual basis of accounting, where the focus is on recognizing revenues and expenses in the period they are earned or incurred, rather than when cash transactions occur. Therefore, adjusting entries do not have a direct impact on cash flow because they primarily involve the allocation of revenues and expenses to the appropriate accounting periods to ensure that financial statements reflect true financial performance. For instance, adjusting entries can include accrued revenues, accrued expenses, prepaid expenses, and other adjustments that affect accounts such as accounts receivable and accounts payable. While these entries ensure the accuracy of the financial statements, they do not result in immediate cash inflows or outflows. Instead, the cash flow effects will occur in future periods when the actual cash transaction takes place. Thus, understanding this aspect of adjusting entries is crucial for recognizing that while they play an important role in the accurate reporting of a company's financial status, their immediate effect on cash flow is nonexistent.

# 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](mailto:hello@examzify.com).**

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

**<https://aipbmasteradjustingentries.examzify.com>**

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

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