

# Arizona State University (ASU) ACC231 Uses of Accounting Information I Exam 3 Practice (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 primary purpose of bank reconciliations?**
  - A. To reconcile timing differences between bank's records and company's records**
  - B. To increase the company's cash balance**
  - C. To eliminate outstanding checks**
  - D. To adjust the bank's cash balance only**
  
- 2. What is a static budget?**
  - A. A budget that adjusts with changes in business activity levels**
  - B. A flexible budget used for varying production levels**
  - C. A budget that remains unchanged regardless of changes in business activity levels**
  - D. A budget that predicts future market trends**
  
- 3. What is the entry for receiving a short-term loan?**
  - A. Debit Cash, Credit Note Payable**
  - B. Debit Loan Receivable, Credit Cash**
  - C. Debit Note Payable, Credit Cash**
  - D. Debit Cash, Credit Interest Payable**
  
- 4. What is the relationship between bank reconciliations and internal controls?**
  - A. They are unrelated**
  - B. They help improve internal controls**
  - C. They complicate internal controls**
  - D. They are only useful for auditing**
  
- 5. What are intangible assets best described as?**
  - A. Assets with no physical substance arising from intellectual efforts**
  - B. Assets meant for everyday transactions**
  - C. Assets that are always short-term in nature**
  - D. Assets that can always be physically measured**

**6. What is the primary purpose of financial statements?**

- A. To provide a summary of a company's financial performance and position to stakeholders**
- B. To dictate company policies and procedures**
- C. To forecast future sales and revenues**
- D. To determine employee salaries and wages**

**7. Which method allocates depreciation based on the number of units produced?**

- A. Straight-Line Depreciation**
- B. Units-of-Production Depreciation**
- C. Double-Declining-Balance Depreciation**
- D. Sum-of-the-Years'-Digits Depreciation**

**8. What is the appropriate accounting entry for the payment of a loan at maturity?**

- A. Debit Cash**
- B. Debit Interest Expense**
- C. Debit Notes Payable**
- D. Debit Mortgage Payable**

**9. Which of the following best describes fixed costs?**

- A. Costs that vary directly with production levels**
- B. Expenses that do not change with the level of production or sales**
- C. Costs incurred exclusively for variable products**
- D. Costs that fluctuate seasonally**

**10. What are the main components of a balance sheet?**

- A. Assets, liabilities, expenses**
- B. Assets, liabilities, equity**
- C. Revenue, expenses, equity**
- D. Assets, liabilities, cash flow**

## **Answers**

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

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## **Explanations**

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## 1. What is the primary purpose of bank reconciliations?

**A. To reconcile timing differences between bank's records and company's records**

**B. To increase the company's cash balance**

**C. To eliminate outstanding checks**

**D. To adjust the bank's cash balance only**

The primary purpose of bank reconciliations is to reconcile timing differences between the bank's records and the company's records. This process involves comparing the company's cash records with the bank's statements to identify any discrepancies. Such discrepancies often arise from timing differences, such as deposits made that have not yet cleared the bank, or checks written by the company that the bank has not yet processed. By performing a bank reconciliation, businesses ensure that their internal accounting records accurately reflect the balance in their bank accounts. This step is crucial for maintaining accurate financial statements and tracking cash flow effectively. It helps identify errors, fraud, or unauthorized transactions, allowing the company to take corrective measures to safeguard its financial resources. While increasing the company's cash balance can occur as a result of proper reconciliation, it is not the primary purpose. Eliminating outstanding checks may be part of the reconciliation process, but the goal is broader, focusing on accuracy between both sets of records. Adjusting only the bank's cash balance does not reflect the complete nature of the reconciliation process, as it must also involve adjustments in the company's records to reflect the true financial position.

## 2. What is a static budget?

**A. A budget that adjusts with changes in business activity levels**

**B. A flexible budget used for varying production levels**

**C. A budget that remains unchanged regardless of changes in business activity levels**

**D. A budget that predicts future market trends**

A static budget is defined as a budget that remains unchanged regardless of fluctuations in business activity levels. This means that once the budget is established, it does not adjust for actual performance or varying levels of output or sales. It is set at a specific amount based on expectations at the start of a period and does not consider how actual results might differ from those expectations. The utility of a static budget comes into play in situations where management wants to analyze financial performance against a fixed benchmark. This type of budget can be particularly useful for controlling costs, as it provides a point of reference to measure expenses and revenues against predetermined targets. On the other hand, a static budget does not accommodate changes in volume or activity, which can be a limitation in dynamic business environments. For example, if a company experiences increased sales and production, a static budget could lead to misleading performance assessments since it would not reflect the variance in actual business levels. In contrast to static budgets, flexible budgets adjust for different levels of activity and provide a clearer picture of performance relative to changes in business conditions. This adaptability can lead to better informed decision-making and variance analysis.

### 3. What is the entry for receiving a short-term loan?

- A. Debit Cash, Credit Note Payable**
- B. Debit Loan Receivable, Credit Cash**
- C. Debit Note Payable, Credit Cash**
- D. Debit Cash, Credit Interest Payable**

When a business receives a short-term loan, it results in an increase in cash and creates a liability that reflects the obligation to repay the loan. The correct journal entry involves debiting the Cash account because the business is receiving cash from the lender, which enhances its current assets. Simultaneously, the business incurs a liability; hence, it must credit the Note Payable account. This credit signifies the amount that the business is now responsible for repaying in the future. In this context, it's essential to understand the accounting principles that govern these transactions. Debiting Cash increases the asset balance, reflecting the inflow of cash, while crediting the Note Payable increases the liability balance, which records the commitment to pay back the loan amount. The other answer choices illustrate different transactions that do not align with the process of receiving a loan. For instance, debiting Loan Receivable and crediting Cash suggests that the business is lending money, not borrowing it. Debiting Note Payable and crediting Cash would indicate that a payment is being made on an existing loan rather than taking on a new loan. Lastly, debiting Cash and crediting Interest Payable would apply to recording accrued interest rather than the initial loan transaction. Therefore, the correct understanding of

### 4. What is the relationship between bank reconciliations and internal controls?

- A. They are unrelated**
- B. They help improve internal controls**
- C. They complicate internal controls**
- D. They are only useful for auditing**

Bank reconciliations play a crucial role in enhancing internal controls within an organization. This process involves comparing the company's cash records to the bank statements to identify discrepancies, such as unrecorded transactions, errors, or potential fraud. By regularly performing bank reconciliations, a business can ensure that its cash balances are accurate and that its financial records reflect true transactions. This proactive approach helps in detecting and preventing errors or fraud, which reinforces the overall integrity of the company's financial reporting and safeguarding of assets. Improved internal controls foster a reliable financial environment where financial statements are more accurate, leading to better decision-making and resource allocation. Thus, the relationship between bank reconciliations and internal controls is one of support and enhancement, making option B the most appropriate choice.

## 5. What are intangible assets best described as?

**A. Assets with no physical substance arising from intellectual efforts**

**B. Assets meant for everyday transactions**

**C. Assets that are always short-term in nature**

**D. Assets that can always be physically measured**

Intangible assets are best described as assets that lack physical substance but are still valuable due to the rights and privileges they confer to a company. These may include things like patents, copyrights, trademarks, and goodwill. They arise often from intellectual efforts or creativity and represent future economic benefits that a company expects to gain from them. Unlike physical assets, such as machinery or buildings, intangible assets cannot be touched or seen, which is why they are classified separately in accounting. Their valuation often relies on estimates, and they can have significant implications for a company's market value and competitive position. Understanding that intangible assets are tied to intellectual property and other non-physical resources is crucial for grasping how they contribute to a business's overall asset base. The other options do not accurately reflect the nature of intangible assets; for instance, everyday transactions typically involve tangible assets, short-term nature does not apply to many intangible assets, and physical measurement is not applicable to these rights and privileges.

## 6. What is the primary purpose of financial statements?

**A. To provide a summary of a company's financial performance and position to stakeholders**

**B. To dictate company policies and procedures**

**C. To forecast future sales and revenues**

**D. To determine employee salaries and wages**

The primary purpose of financial statements is to provide a summary of a company's financial performance and position to stakeholders. This includes investors, creditors, management, and other interested parties who rely on accurate financial information to make informed decisions. Financial statements, such as the balance sheet, income statement, and cash flow statement, present key data regarding a company's profitability, financial condition, and cash flows, enabling stakeholders to assess the viability, performance, and stability of the business. Financial statements serve as essential tools for analyzing a company's past performance, understanding its current financial health, and making predictions about future performance. The summarized information helps stakeholders evaluate investments, assess creditworthiness, and make business decisions based on the reported financial conditions.

**7. Which method allocates depreciation based on the number of units produced?**

- A. Straight-Line Depreciation**
- B. Units-of-Production Depreciation**
- C. Double-Declining-Balance Depreciation**
- D. Sum-of-the-Years'-Digits Depreciation**

Units-of-Production Depreciation is the method that allocates depreciation based on the actual number of units produced or the usage of the asset. This approach is particularly useful for machinery and equipment that may have varied outputs over time. Instead of spreading the cost evenly over the useful life of the asset (as seen in Straight-Line Depreciation), or using accelerated methods that front-load the expense, Units-of-Production directly ties the expense to the production levels achieved, allowing for a more accurate representation of the asset's consumption and wear-and-tear. This method is advantageous when the number of units produced fluctuates significantly because it matches the depreciation expense to the revenue generated from the asset during the period. Therefore, as production or usage increases, the depreciation expense rises accordingly, reflecting the true economic use of the asset. This delivers a more precise valuation of both the asset's contribution to revenue and its reduction in value over time, ensuring that financial statements remain aligned with the operational realities of the business.

**8. What is the appropriate accounting entry for the payment of a loan at maturity?**

- A. Debit Cash**
- B. Debit Interest Expense**
- C. Debit Notes Payable**
- D. Debit Mortgage Payable**

When a loan reaches its maturity date, the borrower is obligated to repay the principal amount of the loan. The appropriate accounting entry to reflect this transaction effectively acknowledges the reduction in the company's liabilities. By debiting Notes Payable, the entry directly reduces the liability account associated with the loan, showing that the debt is being settled. In this context, Notes Payable represents the obligation to repay the loan, and debiting this account decreases its balance to reflect that the loan has now been paid off. This journal entry is critical because it ensures that the financial statements accurately depict the company's financial position after the loan repayment, allowing stakeholders to understand the reduced liabilities. Other options reflect incorrect accounting treatments for this scenario. Debitting Cash would suggest that cash is being received rather than paid, which is not the case during a loan repayment. Debitting Interest Expense would imply that an interest payment is being recognized, not the repayment of the principal. Lastly, debiting Mortgage Payable would only be applicable if the specific loan was classified as such; in this case, it focuses on the broader category of Notes Payable rather than a specific account.

## 9. Which of the following best describes fixed costs?

- A. Costs that vary directly with production levels
- B. Expenses that do not change with the level of production or sales**
- C. Costs incurred exclusively for variable products
- D. Costs that fluctuate seasonally

Fixed costs are best described as expenses that do not change with the level of production or sales. This means that regardless of how much a company produces or sells, fixed costs remain constant over a specific time period. Examples of fixed costs include rent, salaries, and insurance, which must be paid regardless of the company's output levels. Understanding fixed costs is crucial for businesses as they help in budgeting and financial forecasting. They are a key component in determining the break-even point, which is the level of sales at which total revenues equal total costs. This stability allows businesses to plan their finances with more predictability when production levels are fluctuating. In contrast, costs that vary directly with production levels are classified as variable costs, while costs incurred exclusively for variable products does not accurately capture the nature of fixed costs. Fluctuating seasonally refers more to variable costs that may change depending on different times of the year and demand, thereby distinguishing it from the unchanging nature of fixed costs.

## 10. What are the main components of a balance sheet?

- A. Assets, liabilities, expenses
- B. Assets, liabilities, equity**
- C. Revenue, expenses, equity
- D. Assets, liabilities, cash flow

The main components of a balance sheet are assets, liabilities, and equity. This structure provides a snapshot of a company's financial position at a specific point in time. Assets represent the resources owned by the company, such as cash, inventory, property, and equipment. Liabilities, on the other hand, detail what the company owes to outside parties, including loans, accounts payable, and other obligations. Equity reflects the ownership interest in the company, essentially representing the residual interest in the assets after deducting liabilities. The balance sheet is based on the accounting equation: Assets = Liabilities + Equity, which emphasizes the relationship between these three components. This equation ensures that the balance sheet remains "balanced," meaning that the resources of the company (assets) are financed either by borrowing (liabilities) or by the owners' investment (equity). In contrast, other options include elements that do not belong on a balance sheet. Expenses, revenue, and cash flow are typically discussed in the context of the income statement or cash flow statement rather than on the balance sheet itself.

# 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://asu-acc231exam3.examzify.com>**

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

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