

ARIZONA STATE UNIVERSITY (ASU) ACC231 USES OF ACCOUNTING INFORMATION I EXAM 3 PRACTICE (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. When a bond is issued at a discount, what is true about the market rate?**
 - A. It is the same as the stated rate
 - B. It is lower than the stated rate
 - C. It is higher than the stated rate
 - D. It does not affect the bond
- 2. A company uses the direct method for recording bad debt expense. When is the expense recorded?**
 - A. At the end of the fiscal year
 - B. When a specific account is deemed uncollectible
 - C. Whenever credit sales exceed cash sales
 - D. At the time of each credit sale
- 3. What is the effect of capitalizing an expense?**
 - A. Immediate decrease in assets
 - B. Delays the recognition of expenses to future periods
 - C. Increases current year expenses
 - D. Reduces liability
- 4. In practice, how might a company utilize its contribution margin?**
 - A. To cover fixed costs and generate profit
 - B. To fund employee bonuses
 - C. To pay for variable costs only
 - D. To calculate sales tax
- 5. What is the effect on the cash account when paying off a loan at maturity?**
 - A. Cash increases
 - B. Cash decreases
 - C. Cash remains the same
 - D. Cash fluctuates based on interest
- 6. How is the adjustment for outstanding checks calculated?**
 - A. Bank's cash balance plus outstanding checks amount
 - B. Bank's cash balance minus outstanding checks amount
 - C. Company's cash balance minus outstanding checks amount
 - D. Company's cash balance plus outstanding checks amount

- 7. How does accrual accounting differ from cash accounting?**
- A. Accrual accounting records transactions only when cash is received
 - B. Accrual accounting recognizes revenues and expenses when they are earned or incurred
 - C. Accrual accounting is simpler than cash accounting
 - D. Accrual accounting ignores receivables and payables
- 8. What is the general journal entry to record the sale of a loan?**
- A. Debit Interest Receivable, Credit Interest Revenue
 - B. Debit Notes Receivable, Credit Cash
 - C. Debit Cash, Credit Interest Revenue
 - D. Debit Cash, Credit Notes Receivable
- 9. What is capitalization in the context of accounting?**
- A. Immediate recognition of all expenses as they arise
 - B. Recording expenses as long-term assets to delay recognition
 - C. Only recognizing revenue when cash is received
 - D. Exclusively used for tangible assets
- 10. 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

Answers

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

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Explanations

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1. When a bond is issued at a discount, what is true about the market rate?

- A. It is the same as the stated rate
- B. It is lower than the stated rate
- C. It is higher than the stated rate**
- D. It does not affect the bond

When a bond is issued at a discount, the market rate is higher than the stated rate. A bond's stated rate, also known as the coupon rate, is the interest rate that the bond issuer promises to pay bondholders. However, the market rate reflects the current interest rates available in the market for bonds of similar risk and duration. When the market interest rates rise above the coupon rate of a bond, investors will demand a higher return to compensate for the lower interest income associated with bonds that have a lower stated rate. As a result, the bond must be sold at a discount from its face value to entice investors, allowing them to achieve a higher yield that aligns with the current market rate. This discount compensates for the lower interest payments in relation to the prevailing market conditions. So, in summary, when a bond is issued at a discount, it indicates that the market rate is higher than the bond's stated rate, aligning investor expectations with current market conditions.

2. A company uses the direct method for recording bad debt expense. When is the expense recorded?

- A. At the end of the fiscal year
- B. When a specific account is deemed uncollectible**
- C. Whenever credit sales exceed cash sales
- D. At the time of each credit sale

The correct answer is that the bad debt expense is recorded when a specific account is deemed uncollectible. Under the direct write-off method, bad debt expenses are only recognized when a company determines that a specific customer's account cannot be collected and is therefore written off. This method is straightforward because it directly matches the expense with the loss from an uncollectible account. This timing is critical in financial reporting and helps ensure that the accounting records accurately reflect the actual realizable value of accounts receivable. The recognition of bad debt at the point a specific account is deemed uncollectible allows for an accurate representation of the company's financial position at that time. The other options do not reflect the principles of the direct method. For instance, recording the expense at the end of the fiscal year does not align with the event-driven nature of recognizing bad debts as they become evident. Recording an expense each time credit sales exceed cash sales is unrelated to the actual determination of collectibility. Lastly, recognizing an expense at the time of each credit sale would incorrectly accelerate the recognition of bad debts, which is not in line with the direct write-off approach.

3. What is the effect of capitalizing an expense?

- A. Immediate decrease in assets
- B. Delays the recognition of expenses to future periods**
- C. Increases current year expenses
- D. Reduces liability

Capitalizing an expense means that rather than recognizing the cost as an immediate expense on the income statement, the cost is recorded as an asset. This process essentially delays the recognition of the expense to future periods through depreciation or amortization, depending on the nature of the asset. When an expense is capitalized, it's treated as an investment in an asset that will provide benefits over multiple periods; for example, equipment purchased for business operations. The associated costs are then expensed over the useful life of that asset rather than all at once. This practice aligns with the matching principle in accounting, which aims to match expenses with the revenues they help to generate, providing a more accurate reflection of a company's financial performance over time. Consequently, the immediate financial impact is that expenses appear lower in the current period, and income can be artificially inflated. However, the effect on cash flow remains unaffected since it is a reclassification rather than a cash transaction.

4. In practice, how might a company utilize its contribution margin?

- A. To cover fixed costs and generate profit**
- B. To fund employee bonuses
- C. To pay for variable costs only
- D. To calculate sales tax

A company can utilize its contribution margin primarily to cover fixed costs and generate profit because the contribution margin is the amount remaining from sales revenue after variable costs have been subtracted. This remaining amount is critical for covering fixed costs, which do not change with the level of production or sales volume, and any excess after covering these fixed costs contributes to profit. Understanding the contribution margin is essential for assessing the financial performance of the business because it helps determine how much revenue is available to contribute toward covering those fixed costs. Once fixed costs are covered, any remaining contribution margin can be considered profit. This concept is fundamental in cost-volume-profit analysis, which enables companies to make informed decisions about pricing, production levels, and overall financial strategy. While utilizing the contribution margin for funding employee bonuses might occur in practice, it is not the primary purpose or focus—it fundamentally serves as a tool to manage costs and profitability. Paying for variable costs only does not capture the complete picture, as the contribution margin is calculated after variable costs are deducted. As for calculating sales tax, that does not relate to the notion of contribution margin or its utilization in operational strategy. Thus, the relevance and primary utilization of the contribution margin lies squarely in addressing fixed costs and contributing to overall profitability.

5. What is the effect on the cash account when paying off a loan at maturity?

- A. Cash increases
- B. Cash decreases**
- C. Cash remains the same
- D. Cash fluctuates based on interest

When paying off a loan at maturity, the cash account decreases. This is because the payment made to settle the loan obligation involves using cash from the company's resources. When the loan is paid off, the cash outflow reflects the amount paid to the lender, thereby reducing the cash balance in the company's accounts. The focus here is on the transaction's impact on cash flow; as assets, cash decreases when it is used to fulfill a liability, like a loan. This transaction reflects a decrease in corporate liquidity since a portion of cash is utilized to eliminate a debt, effectively lowering the available cash that the company can use for other purposes. Options suggesting that cash increases, remains the same, or fluctuates do not accurately represent the immediate and direct effect of paying off a loan, which consistently leads to a reduction in cash due to the outflow needed to satisfy the loan's repayment terms.

6. How is the adjustment for outstanding checks calculated?

- A. Bank's cash balance plus outstanding checks amount
- B. Bank's cash balance minus outstanding checks amount**
- C. Company's cash balance minus outstanding checks amount
- D. Company's cash balance plus outstanding checks amount

The adjustment for outstanding checks is based on reconciling the bank's cash balance to reflect the true amount available for withdrawal as well as to ensure that the company's records accurately reflect bank transactions. Outstanding checks are checks that have been issued by the company but have not yet cleared the bank. Because these checks have not cleared, they need to be deducted from the bank's reported cash balance to accurately depict the cash that the company has available. When calculating the adjustment, you take the bank's cash balance and subtract the total amount of the outstanding checks. This provides a clearer picture of the actual funds available to the company since these checks are effectively obligations that have not yet been settled in the bank. By performing this subtraction, the reconciliation ensures that both the bank's and the company's records align correctly, reflecting a more accurate financial position for the company. Thus, the correct method for adjusting the bank's cash balance is to subtract the outstanding checks amount from it.

7. How does accrual accounting differ from cash accounting?

- A. Accrual accounting records transactions only when cash is received
- B. Accrual accounting recognizes revenues and expenses when they are earned or incurred**
- C. Accrual accounting is simpler than cash accounting
- D. Accrual accounting ignores receivables and payables

Accrual accounting is fundamentally distinct from cash accounting in that it recognizes revenues and expenses at the time they are earned or incurred, rather than when cash is exchanged. This principle means that in accrual accounting, a company will record revenue when it has fulfilled its obligation to deliver goods or services, regardless of whether it has actually received the cash payment. Similarly, expenses are recorded when they are incurred, even if the cash payment has not yet been made. This method provides a more accurate picture of a company's financial position and performance during a specific period, as it aligns income and related expenses to the same timeframe, allowing for better analysis of profitability and financial health. Accrual accounting also adheres to the matching principle, which is a fundamental concept in accounting that requires expenses to be matched with the revenues they generate in the same period, further enhancing the quality of financial reporting. The other options do not accurately reflect the principles of accrual accounting and can lead to misunderstandings in financial reporting. Accrual accounting is not merely concerned with cash transactions, and it does not ignore receivables and payables, which are critical components of a business's financial management.

8. What is the general journal entry to record the sale of a loan?

- A. Debit Interest Receivable, Credit Interest Revenue
- B. Debit Notes Receivable, Credit Cash**
- C. Debit Cash, Credit Interest Revenue
- D. Debit Cash, Credit Notes Receivable

The sale of a loan typically involves transitioning the rights associated with the loan to another party, which often entails receiving cash in exchange. In this context, when a loan is sold, the cash received represents the consideration for relinquishing the rights to collect the loan's principal amount. In the correct entry, the cash account is debited to reflect the increase in cash the company receives from the sale. The corresponding entry is a credit to the notes receivable account, indicating a decrease in the company's receivables as they no longer have the right to collect on the loan. This entry accurately depicts the accounting principle of matching debits and credits, ensuring that the company's financial statements remain balanced and true to the transactions it engages in. The other entries presented do not appropriately reflect the components involved in a loan sale. For instance, entries involving interest revenue or interest receivable are typically used in situations dealing with interest accruals rather than the sale of the underlying loan itself. The essence of this transaction is the direct exchange of cash for the loan notes, which is why the correct entry focuses on cash and notes receivable.

9. What is capitalization in the context of accounting?

- A. Immediate recognition of all expenses as they arise
- B. Recording expenses as long-term assets to delay recognition**
- C. Only recognizing revenue when cash is received
- D. Exclusively used for tangible assets

In accounting, capitalization refers to the process of recording a cost as a long-term asset on the balance sheet rather than recognizing it as an expense on the income statement immediately. This practice allows a company to spread the cost of the asset over its useful life through depreciation or amortization, aligning the expense recognition with the revenue generated from the asset over time. By capitalizing certain costs, businesses can delay their impact on profitability, which can provide a clearer view of financial performance and a better match between revenues and expenses. This approach is essential for large purchases or investments that will benefit the company for several years, such as property, plant, and equipment. In contrast, recognizing all expenses immediately or only recognizing revenue upon cash receipt does not capture the long-term benefits associated with certain expenditures. Additionally, the practice of capitalization is relevant to both tangible and intangible assets, so it is not exclusively used for tangible assets. Therefore, the option that correctly defines capitalization in accounting as recording expenses as long-term assets to delay recognition is indeed appropriate.

10. 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. Debiting Cash would suggest that cash is being received rather than paid, which is not the case during a loan repayment. Debiting 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.

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:

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

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