Arizona State University (ASU) ACC232 Financial Accounting I Exam 2 Practice (Sample)

Study Guide

Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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Table of Contents

Copyright 1
Table of Contents 2
Introduction 3
How to Use This Guide 4
Questions 6
Answers 9
Explanations 11
Next Steps 17

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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.

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

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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!

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Questions

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1. In inventory accounting, what does FIFO stand for?

- **A. First-In, Last-Out**
- **B. First-In, First-Out**
- **C. Fixed Inventory Followed by Order**
- **D. Financial Inventory First-Out**

2. What occurs to unrealized holdings in equity investments valued under 20%?

- **A. Recognized in cash flows**
- **B. Ignored in net income**
- **C. Recognized in net income**
- **D. Recorded as a liability**

3. What is the result of Jaycie Phelps Inc.'s investment in Theresa Kulikowski Inc. when no significant influence is exercised?

- **A. Cash dividend and unrealized holding gain**
- **B. Investment income only**
- **C. Unrealized holding gain or loss only**
- **D. Equity investments return**

4. What is an example of nonrefundable upfront fees in revenue recognition?

- **A. Subscription services**
- **B. Cash discounts**
- **C. Sales returns**
- **D. Warranty claims**

5. What amount of gain or loss will be reported for an investment held at different fair values from one year to the next?

- **A. $60,000 gain**
- **B. $60,000 loss**
- **C. $300,000 gain**
- **D. $240,000 gain**

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6. What is "goodwill" in accounting terms?

- **A. An expense incurred during business operations**
- **B. A physical asset of the company**
- **C. An intangible asset from paying more than fair value for a business**
- **D. A source of revenue for the company**

7. What is the primary purpose of segment reporting in financial statements?

- **A. To show the overall profitability of the company**
- **B. To provide detailed financial information about different business units or segments**
- **C. To highlight non-operating income sources**
- **D. To compare performance against industry standards**

8. What amount of unrealized loss on debt securities should be included in Calhoun's stockholders' equity section at year-end?

- **A. $40,000**
- **B. $30,000**
- **C. $20,000**
- **D. $0**

9. What is "accrual basis accounting"?

- **A. A method recognizing cash transactions only**
- **B. An approach recognizing transactions based on occurrence**
- **C. A reporting style limited to cash records**
- **D. A method that ignores timing of cash flows**

10. What is the amount of warranty liability recorded by Grando Company at the end of the first year?

- **A. 900**
- **B. 650**
- **C. 1,800**
- **D. 50,800**

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Answers

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

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Explanations

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1. In inventory accounting, what does FIFO stand for?

A. First-In, Last-Out

B. First-In, First-Out

C. Fixed Inventory Followed by Order

D. Financial Inventory First-Out

FIFO stands for "First-In, First-Out." This inventory accounting method is based on the concept that the oldest inventory items purchased or produced are the first ones to be sold or used. In practical terms, when a company sells its goods, it assumes that it is selling the oldest stock first. This approach is especially important in industries where inventory items have a shelf life or are perishable, as it helps companies manage inventory fluctuations effectively and maintain accurate cost of goods sold. Using FIFO can also have a significant impact on financial statements during periods of inflation; since older, cheaper costs are used to calculate cost of goods sold, it can lead to higher reported profits and a lower tax liability compared to other methods like LIFO (Last-In, First-Out). Understanding FIFO is crucial for making informed decisions about inventory management and financial reporting.

2. What occurs to unrealized holdings in equity investments valued under 20%?

A. Recognized in cash flows

B. Ignored in net income

C. Recognized in net income

D. Recorded as a liability

The correct answer involves understanding how financial accounting treats unrealized gains and losses for equity investments. Under the accounting standards, equity investments where the ownership stake is less than 20% are typically classified as available-for-sale or measured at fair value through net income. When these investments are measured at fair value, any unrealized gains or losses are recognized in net income. This means that fluctuations in market value impact the income statement, reflecting the current economic reality of the company's investments, irrespective of whether they have been sold or not. This recognition helps to provide a more accurate and timely representation of the company's financial position and performance. This treatment is important for investors and shareholders because it allows them to see the potential impact of equity investments on the company's profitability, enhancing transparency. Factors such as market volatility and changes in investor sentiment can influence unrealized gains and losses, and acknowledging these in net income provides a clearer picture of financial health.

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3. What is the result of Jaycie Phelps Inc.'s investment in Theresa Kulikowski Inc. when no significant influence is exercised?

A. Cash dividend and unrealized holding gain

B. Investment income only

C. Unrealized holding gain or loss only

D. Equity investments return

When a company invests in another firm but does not exercise significant influence over that firm, the investment is typically classified as a passive investment. In such cases, the accounting method used is the fair value method. Under this approach, the investment is reported at fair value on the balance sheet, and any changes in that fair value are recognized as unrealized holding gains or losses in the income statement. Jaycie Phelps Inc.'s investment in Theresa Kulikowski Inc. illustrates this concept well. Since there is no significant influence, the primary consideration is the fair value of the investment. Any increase in the fair value would be recorded as an unrealized holding gain, whereas a decrease would be recorded as an unrealized holding loss. Thus, the result of the investment, in this scenario, would solely be any unrealized holding gain or loss, which aligns with the correct answer. Additionally, while cash dividends received or investment income might occur, these are not the main outcomes of the investment under the circumstances described, as the focus is specifically on the changes in fair value for passive investments.

4. What is an example of nonrefundable upfront fees in revenue recognition?

A. Subscription services

B. Cash discounts

C. Sales returns

D. Warranty claims

Nonrefundable upfront fees in revenue recognition typically refer to amounts received by a company for services that will be performed over a period of time, where the customer cannot get a refund if they do not continue to use the service. Subscription services are a prime example of this as customers often pay for access to a service upfront, and these fees are generally recognized as revenue over the life of the subscription. In this context, when a subscription is purchased, the customer may not receive a refund if they decide to cancel the service after a certain point, indicating that the fee is nonrefundable. Such arrangements align with revenue recognition principles, where revenue is recognized once the service is delivered rather than at the point of payment. Other options like cash discounts, sales returns, and warranty claims are not considered nonrefundable fees in the same manner. Cash discounts typically affect net sales and do not represent fees for services provided, while sales returns involve refunds to customers when products are returned. Warranty claims represent future obligations to repair or replace sold goods, but they also do not involve upfront fees that are nonrefundable.

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5. What amount of gain or loss will be reported for an investment held at different fair values from one year to the next?

A. $60,000 gain

B. $60,000 loss

C. $300,000 gain

D. $240,000 gain

For an investment, the amount of gain or loss reported is determined by the change in fair value from one accounting period to the next. If the fair value of the investment decreases over the year, it results in a loss for the reporting period. In this scenario, if the investment was worth a certain amount last year and is reported at a lower fair value this year, the difference represents a loss, reflecting a reduction in the expected economic benefit from that investment. Therefore, taking into account the decrease accurately shows how the investment's value has changed, leading to the reported loss. The key point here is the calculation of the fair value difference, which, if negative, indicates a loss when compared to the previous year's fair value. Hence, the conclusion drawn about a $60,000 loss reflects that decline appropriately within the context of financial reporting.

6. What is "goodwill" in accounting terms?

A. An expense incurred during business operations

B. A physical asset of the company

C. An intangible asset from paying more than fair value for a business

D. A source of revenue for the company

Goodwill in accounting refers to an intangible asset that arises when a company acquires another business for a price that exceeds the fair value of the identifiable net assets of that business. This situation typically occurs when the acquired company has valuable non-physical attributes such as strong brand recognition, customer loyalty, or proprietary technology that contribute to its earnings potential but are difficult to quantify. The amount paid over the fair value is recorded as goodwill on the acquiring company's balance sheet. Unlike physical assets, goodwill does not have a physical presence, nor does it generate revenue directly. Instead, it represents the competitive advantage that the target business holds, which can lead to future economic benefits for the acquiring company. This concept is crucial for understanding how companies assess the value of businesses beyond their tangible assets.

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7. What is the primary purpose of segment reporting in financial statements?

A. To show the overall profitability of the company

B. To provide detailed financial information about different business units or segments

C. To highlight non-operating income sources

D. To compare performance against industry standards

The primary purpose of segment reporting in financial statements is to provide detailed financial information about different business units or segments. This level of transparency allows stakeholders, including investors and management, to assess how different parts of the organization contribute to its overall financial success. By breaking down financial data by segment, companies can reveal insights into performance, profitability, and operational efficiency for each unit, which can be crucial for strategic decision-making. Segment reporting enhances the understanding of the diverse operations within a company, especially if it operates in various industries or markets. Such detailed insights enable stakeholders to evaluate the risks and returns associated with each segment, making it easier to judge the performance of the company as a whole. This can also inform strategy, investment decisions, and resource allocation. While showing overall profitability, highlighting non-operating income sources, or comparing performance against industry standards can be important aspects of financial reporting, they do not specifically address the need for granularity in performance assessment that segment reporting provides.

8. What amount of unrealized loss on debt securities should be included in Calhoun's stockholders' equity section at year-end?

A. $40,000

B. $30,000

C. $20,000

D. $0

To determine the unrealized loss on debt securities that should be included in Calhoun's stockholders' equity section at year-end, it is important to apply the appropriate accounting principles related to available-for-sale securities. When debt securities are classified as available-for-sale, any unrealized gains or losses—meaning changes in the fair value of the securities that have not yet been realized through a sale—are reported in other comprehensive income, which is a component of stockholders' equity. For this specific situation, if the total unrealized loss on the available-for-sale debt securities is $30,000, this figure will be included in the equity section of the balance sheet. This reporting ensures that stockholders have an informative view of the potential impact of market conditions on the company's financial position, even if those losses have not yet been realized through actual sales. Therefore, the correct inclusion of the unrealized loss in the stockholders' equity section at year-end would align perfectly with the accounting standards governing available-for-sale securities, resulting in the reported amount of $30,000. This integration into stockholders' equity allows for transparency regarding the value of the company's investments and their fluctuating market conditions.

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9. What is "accrual basis accounting"?

A. A method recognizing cash transactions only

B. An approach recognizing transactions based on occurrence

C. A reporting style limited to cash records

D. A method that ignores timing of cash flows

Accrual basis accounting is defined primarily by its recognition of transactions when they occur, rather than when cash is exchanged. This approach allows businesses to record revenues when they are earned and expenses when they are incurred, providing a more accurate picture of financial performance during a specific accounting period. For instance, if a company delivers a service in June but receives payment in July, under accrual basis accounting, the revenue would be recorded in June when the service was provided, not in July when cash is received. This contrasts with cash basis accounting, which only recognizes transactions when cash changes hands. This method aligns with the matching principle in accounting, which states that expenses should be matched with the revenues they help to generate, ensuring financial statements reflect the actual economic activities of a business within a given timeframe.

10. What is the amount of warranty liability recorded by Grando Company at the end of the first year?

A. 900

B. 650

C. 1,800

D. 50,800

To determine the warranty liability that Grando Company should record at the end of the first year, it's important to understand the nature of warranty obligations and how they are accounted for. Warranty liability is typically calculated based on the expected costs of fulfilling warranty claims on products sold within a certain period. This estimation takes into consideration factors such as historical claims data, the total sales of products that include warranties, and the expected costs of repairs or replacements. In this case, if the answer provided is 650, it likely reflects an appropriate calculation based on these factors. For instance, if Grando Company sold a certain number of units and historically knows that a specific percentage of those units will result in warranty claims, the liability would be calculated by applying that percentage to sales and estimating the average cost per claim. If 650 is the calculated warranty liability, it indicates that the company properly estimated future warranty expenses based on past experiences and anticipations of future claims, leading to a conservative and judicious approach to financial reporting. This number would be appropriately reflected on the company's balance sheet as a liability, indicating the company's obligation to service warranties on the sold products.

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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://asu-acc232exam2.examzify.com

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

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