

BOOKKEEPING BASICS PRACTICE TEST (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. Which payment method was used to pay the subcontractor?**
 - A. Credit Card
 - B. Check
 - C. Cash
 - D. Electronic Funds Transfer

- 2. Which scenario would increase owner's equity?**
 - A. Net income is earned (revenue exceeds expenses).
 - B. The owner contributes additional capital.
 - C. Both of the above.
 - D. None of the above.

- 3. How is net income calculated?**
 - A. Revenue - Expenses = Income
 - B. Assets - Liabilities = Income
 - C. Liabilities + Equity = Income
 - D. Revenue + Expenses = Income

- 4. Why do chart of accounts use structured account numbers (such as leading digits)?**
 - A. To Indicate the Type or Category of the Account
 - B. To Randomly Assign Numbers with No Meaning
 - C. To Comply With Tax Reporting Only
 - D. To Determine the Company's Age

- 5. Under the Monetary Unit Assumption, how should gains or losses from changes in the value of inventory be reflected?**
 - A. Adjusted to current market value.
 - B. Not adjusted for changes in purchasing power; reported in monetary terms.
 - C. Recognized only when sold.
 - D. Reported as separate equity.

- 6. Accounts receivable would be an example of what kind of account?**
- A. An asset account.
 - B. A liability account.
 - C. A revenue account.
 - D. An equity account.
- 7. Which concept states that business transactions should be recorded separately from the owner's personal transactions?**
- A. Economic Entity
 - B. Going Concern
 - C. Monetary Unit
 - D. Conservatism
- 8. In a journal entry that increases the Equipment account and decreases the Cash account, which descriptions correctly reflect the changes?**
- A. decrease, increase
 - B. increase, increase
 - C. decrease, decrease
 - D. increase, decrease
- 9. What is the first step in the accounting cycle?**
- A. Reviewing source documents and analyzing transactions
 - B. Preparing financial statements
 - C. Making adjustments
 - D. Posting transactions to the general ledger
- 10. On which date did Lou rent equipment paid by credit card?**
- A. July 24
 - B. July 4
 - C. July 17
 - D. July 7

Answers

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

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Explanations

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1. Which payment method was used to pay the subcontractor?

- A. Credit Card
- B. Check**
- C. Cash
- D. Electronic Funds Transfer

When recording payments to subcontractors, you want a method that leaves a clear, auditable record and ties directly to your vendor's account and your bank reconciliation. A check provides that paper trail: it shows up as a issued instrument from the company's bank, reduces cash, and creates a tangible reference (the check number) that matches the subcontractor's invoice and your accounts payable records. This makes it easy to verify that the payment was sent, received, and cleared, and it simplifies tracking across the ledger. Cash is less favorable because it offers little documentation and is hard to trace. Electronic transfers are traceable too, but many practical scenarios still rely on checks for subcontractor payments due to established vendor setups and traditional processing flows. Credit card payments are possible but are often less common for subcontractors due to processing fees and acceptance by the vendor. So, the method that best supports traceability and reconciliation in most subcontractor payments is issuing a check.

2. Which scenario would increase owner's equity?

- A. Net income is earned (revenue exceeds expenses).
- B. The owner contributes additional capital.
- C. Both of the above.**
- D. None of the above.

Owner's equity grows when the business earns profits or when the owner adds more capital. Earning net income increases equity because profits lift retained earnings, which are part of owner's equity. At the same time, when the owner contributes additional capital, assets rise and the owner's stake in the business grows, increasing equity directly. Since either event boosts owner's equity, the scenario that includes both events correctly indicates an increase in owner's equity.

3. How is net income calculated?

- A. Revenue - Expenses = Income**
- B. Assets - Liabilities = Income
- C. Liabilities + Equity = Income
- D. Revenue + Expenses = Income

Net income shows how profitable the business was over a period, and it's found by subtracting expenses from revenues. In other words, $\text{Net income} = \text{Revenues} - \text{Expenses}$. This reflects what's left after the costs of doing business are paid. If revenues exceed expenses, you have a positive net income; if expenses exceed revenues, you have a net loss. The other formulas don't measure profit: $\text{assets} - \text{liabilities}$ equals owner's equity, not income; $\text{liabilities} + \text{equity}$ equals assets, not income; and simply adding revenues and expenses isn't a valid way to determine profitability.

4. Why do chart of accounts use structured account numbers (such as leading digits)?

A. To Indicate the Type or Category of the Account

B. To Randomly Assign Numbers with No Meaning

C. To Comply With Tax Reporting Only

D. To Determine the Company's Age

Structured account numbers organize the chart of accounts so the system can group and summarize financial data quickly. The leading digits act as a built-in classification scheme, signaling the broad category of each account (such as assets, liabilities, equity, revenues, and expenses) and often subgroups within those categories. This setup makes posting and reporting more efficient: you can roll up totals for entire groups, drill down to specific subaccounts, and maintain consistency when new accounts are added within the same category. It also supports validation and automation in accounting software, since transactions can be routed, balanced, and formatted according to the account's place in the structure. If numbers were meaningless or assigned for other reasons (like tax-only purposes or age), you'd lose the ability to automatically group and analyze data, leading to more manual work and less reliable reports.

5. Under the Monetary Unit Assumption, how should gains or losses from changes in the value of inventory be reflected?

A. Adjusted to current market value.

B. Not adjusted for changes in purchasing power; reported in monetary terms.

C. Recognized only when sold.

D. Reported as separate equity.

The idea being tested is that financial statements use a stable unit of measure and ignore changes in the purchasing power of that unit. Under this assumption, inventory isn't revalued for inflation or price-level shifts. Instead, it's carried at its historical cost in monetary terms, and any inflation-driven changes in value aren't adjusted as separate entries. The effect of price-level changes isn't reflected as an inflation adjustment in the statements; gains or losses would only appear in monetary terms when the inventory is eventually sold. That's why the correct approach is to not adjust for changes in purchasing power and to report the value in monetary terms.

6. Accounts receivable would be an example of what kind of account?

A. An asset account.

B. A liability account.

C. A revenue account.

D. An equity account.

Accounts receivable represents money customers owe to the company for goods or services already provided, so it is classified as an asset. It reflects future economic benefits—the cash the company expects to receive. On the balance sheet, it sits among current assets and changes when credit sales are made (you debit accounts receivable and credit revenue) or when cash is collected (you debit cash and credit accounts receivable). It isn't a liability, because liabilities are what the company owes to others; it isn't revenue, since revenue is income earned from operations, not amounts owed by customers. It also isn't equity, which represents the owners' claim on assets.

7. Which concept states that business transactions should be recorded separately from the owner's personal transactions?

- A. Economic Entity**
- B. Going Concern
- C. Monetary Unit
- D. Conservatism

The key idea is the Economic Entity Concept, which says business transactions must be kept separate from the owner's personal transactions. This separation keeps the financial records focused on what the business itself has earned and spent, so net income, assets, and liabilities reflect only business activity. For example, if the owner uses personal money to pay for a business expense, that payment should be recorded as a business expense only if it truly belongs to the business; otherwise, it should be treated as an owner's withdrawal, not a business expense. This clarity prevents personal spending from inflating or distorting the business's financial results. Other concepts don't address this separation. The Going Concern assumption is about the business continuing to operate in the foreseeable future. The Monetary Unit assumption uses a stable currency to measure transactions. Conservatism is about recognizing potential losses sooner rather than gains, not about separating personal and business finances.

8. In a journal entry that increases the Equipment account and decreases the Cash account, which descriptions correctly reflect the changes?

- A. decrease, increase
- B. increase, increase
- C. decrease, decrease
- D. increase, decrease**

When you acquire equipment using cash, one asset goes up and another goes down. Equipment is increasing, while Cash is decreasing because you're paying out cash to obtain the equipment. So the correct description is that Equipment increases and Cash decreases. This reflects the swap of one asset for another, and in double-entry terms you'd debit Equipment (increase) and credit Cash (decrease). The other descriptions would imply the assets are both rising or both falling, which doesn't match paying cash for equipment.

9. What is the first step in the accounting cycle?

- A. Reviewing source documents and analyzing transactions**
- B. Preparing financial statements
- C. Making adjustments
- D. Posting transactions to the general ledger

Starting with reviewing source documents and analyzing transactions is essential because it captures what actually happened and determines how it should be recorded. Source documents like invoices, receipts, and bills provide evidence of events, and analyzing them tells you which accounts are affected and whether to debit or credit each account. This analysis yields the journal entries that will be posted to the general ledger, and only after this recording can you move on to adjustments and financial statements. The other steps come after this initial recording: posting to the general ledger follows the journal entries, making adjustments occurs to reflect accruals and deferrals, and preparing financial statements happens after the accounts are adjusted and balanced.

10. On which date did Lou rent equipment paid by credit card?

- A. July 24
- B. July 4
- C. July 17
- D. July 7**

When you use a credit card for a rental, the expense is recognized on the date the rental occurs, not on the date the card bill is paid. Recording the transaction then creates a liability to the credit card issuer for that amount. So the correct date is the day Lou rented the equipment—the moment the obligation arose. The later date would only reflect payment timing, not when the rental was incurred. If the rental happened on July 7, that is the date the expense should be recorded.

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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://bookkeepingbasics.examzify.com>

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

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