

Cengage Accounting Exam 1 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. Which financial statements are prepared from the adjusted trial balance?**
 - A. Income Statement, Balance Sheet, and Statement of Cash Flows**
 - B. Income Statement, Statement of Changes in Equity, and Balance Sheet**
 - C. Cash Flow Statement, Income Tax Return, and Balance Sheet**
 - D. Statement of Comprehensive Income, Balance Sheet, and Retained Earnings**

- 2. Paid premium on a one-year insurance policy is classified as which of the following?**
 - A. Accrued expense**
 - B. Unearned revenue**
 - C. Accrued revenue**
 - D. Prepaid expense**

- 3. What is a contra asset account and provide an example?**
 - A. An asset account that increases the related asset; example: Inventory**
 - B. An asset account that increases the related asset; example: Accumulated Depreciation increasing assets**
 - C. An asset account that reduces the related asset balance; example: Allowance for Doubtful Accounts reducing Accounts Receivable**
 - D. An asset account that has no effect on other assets; example: Prepaid Insurance**

- 4. All of the following are general-purpose financial statements except Cash budget.**
 - A. Cash budget**
 - B. Income statement**
 - C. Balance sheet**
 - D. Statement of cash flows**

- 5. When a company borrows cash by signing a note payable, what is the effect on the accounting equation?**
- A. Assets increase; Liabilities increase**
 - B. Assets increase; Equity increases**
 - C. Assets decrease; Liabilities increase**
 - D. Assets increase; Liabilities decrease**
- 6. Why might an inventory write-down to NRV be necessary, and what is its effect on financial statements?**
- A. If market value falls below cost, NRV write-down reduces assets and increases expenses, lowering net income.**
 - B. If market value rises above cost, NRV write-down increases assets and increases revenue.**
 - C. NRV write-down increases assets and increases equity.**
 - D. NRV write-down has no effect on net income.**
- 7. Which statement describes the effect of withdrawals on owner's equity?**
- A. Drawing increases owner's equity.**
 - B. Drawing has no effect on equity.**
 - C. Drawing increases revenues.**
 - D. Drawing reduces owner's equity.**
- 8. Which step in the accounting cycle is optional?**
- A. An optional end-of-period spreadsheet is prepared.**
 - B. An unadjusted trial balance is prepared.**
 - C. Financial statements are prepared.**
 - D. Closing entries are journalized and posted.**
- 9. What is the adjusting entry for accrued salaries of \$1,200?**
- A. Debit Cash; Credit Salaries Payable \$1,200**
 - B. Debit Salaries Payable \$1,200; Credit Salaries Expense \$1,200**
 - C. Debit Salaries Expense \$1,200; Credit Salaries Payable \$1,200**
 - D. Debit Salaries Expense \$1,200; Credit Cash \$1,200**

10. In a T account, the left-hand side is the debit side.

- A. True**
- B. False**
- C. It depends on the account**
- D. Not specified**

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Answers

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

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Explanations

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1. Which financial statements are prepared from the adjusted trial balance?

- A. Income Statement, Balance Sheet, and Statement of Cash Flows**
- B. Income Statement, Statement of Changes in Equity, and Balance Sheet**
- C. Cash Flow Statement, Income Tax Return, and Balance Sheet**
- D. Statement of Comprehensive Income, Balance Sheet, and Retained Earnings**

The adjusted trial balance lists all accounts with their balances after adjusting entries, and serves as the source for the main financial statements. From it you pull revenues and expenses to determine net income for the Income Statement. You use asset, liability, and equity balances to prepare the Balance Sheet. The changes in equity during the period, including the impact of net income and any distributions, are shown on the Statement of Changes in Equity. The cash flow statement isn't produced directly from the adjusted trial balance; it's derived from cash-related data across the statements and additional disclosures. So, the three statements prepared from the adjusted trial balance are the Income Statement, the Balance Sheet, and the Statement of Changes in Equity.

2. Paid premium on a one-year insurance policy is classified as which of the following?

- A. Accrued expense**
- B. Unearned revenue**
- C. Accrued revenue**
- D. Prepaid expense**

Paying for a one-year insurance policy in advance is a prepayment for services you will receive in the future. In accrual accounting, prepayments are assets because they represent a benefit to be used later. The amount is recorded as Prepaid Insurance (an asset) when paid, and over the policy period this asset is gradually expensed as the insurance coverage is consumed. That's why this is classified as a prepaid expense. The other concepts describe different situations: accrued expense is a liability for costs incurred but not yet paid; unearned revenue is a liability for money received before the service or goods are delivered; accrued revenue is revenue earned but not yet collected.

- 3. What is a contra asset account and provide an example?**
- A. An asset account that increases the related asset; example: Inventory**
 - B. An asset account that increases the related asset; example: Accumulated Depreciation increasing assets**
 - C. An asset account that reduces the related asset balance; example: Allowance for Doubtful Accounts reducing Accounts Receivable**
 - D. An asset account that has no effect on other assets; example: Prepaid Insurance**

Contra asset accounts offset the balance of a related asset on the balance sheet. They carry a credit balance and reduce the net book value of the asset. A common example is Allowance for Doubtful Accounts, which reduces Accounts Receivable to reflect expected uncollectible amounts. In contrast, regular asset accounts (like Inventory) increase the asset, and other options that don't offset the asset (such as Prepaid Insurance) aren't contra assets. Accumulated Depreciation is another typical contra asset, reducing the carrying value of fixed assets like Equipment.

- 4. All of the following are general-purpose financial statements except Cash budget.**

- A. Cash budget**
- B. Income statement**
- C. Balance sheet**
- D. Statement of cash flows**

General-purpose financial statements are reports prepared for external users to assess a company's performance and financial position. The main ones are the income statement, which shows revenues and expenses over a period; the balance sheet, which captures assets, liabilities, and equity at a point in time; and the statement of cash flows, which details cash inflows and outflows during the period. The cash budget, however, is an internal planning tool used to forecast future cash receipts and disbursements, ensuring liquidity and helping with financing decisions. It isn't part of external financial reporting and isn't a GAAP financial statement, which is why it's the exception.

- 5. When a company borrows cash by signing a note payable, what is the effect on the accounting equation?**

- A. Assets increase; Liabilities increase**
- B. Assets increase; Equity increases**
- C. Assets decrease; Liabilities increase**
- D. Assets increase; Liabilities decrease**

When you borrow cash by signing a note payable, you receive cash, which increases assets. At the same time, you incur a promissory note (a liability) that you must repay, so liabilities increase as well. Since one asset and one liability rise by the same amount, the accounting equation stays balanced, and equity remains unchanged because no owner investment or earnings occurred yet. For example, borrowing \$10,000 would increase cash by \$10,000 and increase notes payable by \$10,000.

6. Why might an inventory write-down to NRV be necessary, and what is its effect on financial statements?

- A. If market value falls below cost, NRV write-down reduces assets and increases expenses, lowering net income.**
- B. If market value rises above cost, NRV write-down increases assets and increases revenue.**
- C. NRV write-down increases assets and increases equity.**
- D. NRV write-down has no effect on net income.**

When inventory's net realizable value (NRV) is less than its cost, you must write it down to NRV. NRV is the expected selling price minus costs to complete and sell. Carrying inventory at a higher cost than NRV inflates assets in error and ignores the loss you'll incur to convert those goods into cash. The write-down records a loss on the income statement, so it increases expenses in the period and reduces net income. Because that expense lowers earnings, retained earnings (a component of equity) also fall, so equity declines. It's a non-cash adjustment—the effect shows up as a lower asset value on the balance sheet and a lower net income on the income statement, not as an immediate cash outlay. This aligns with choosing the option that describes a write-down when market value falls below cost: assets are reduced and expenses rise, leading to lower net income. The other scenarios describe situations that don't reflect how NRV write-downs work (no write-down when NRV is higher than cost; assets increasing or no net income effect).

7. Which statement describes the effect of withdrawals on owner's equity?

- A. Drawing increases owner's equity.**
- B. Drawing has no effect on equity.**
- C. Drawing increases revenues.**
- D. Drawing reduces owner's equity.**

Withdrawals reduce owner's equity because they are distributions of assets taken out of the business for the owner's personal use. When the owner takes cash or other assets out, the assets drop and the owner's claim on the business (owner's equity) also drops by the same amount, keeping the accounting equation balanced (Assets = Liabilities + Owner's Equity). Drawings are not expenses or revenues; they do not affect the income statement. So the correct idea is that drawing reduces owner's equity.

8. Which step in the accounting cycle is optional?

- A. An optional end-of-period spreadsheet is prepared.**
- B. An unadjusted trial balance is prepared.**
- C. Financial statements are prepared.**
- D. Closing entries are journalized and posted.**

The key idea here is that some steps in the accounting cycle are formal outputs, while others are optional tools to help organize work. The end-of-period spreadsheet (often called a work sheet) is an optional tool. It provides a convenient way to summarize balances, plan and test adjusting entries, and verify that debits equal credits before producing financial statements. You can still complete the cycle by going directly from the unadjusted trial balance to making adjustments, then to the adjusted trial balance and financial statements, without using that worksheet. The other steps are not optional in standard practice: an unadjusted trial balance is prepared to check that total debits equal total credits before adjustments; financial statements are the formal reports of the period's results and position; closing entries finalize temporary accounts and transfer net income or loss to retained earnings. The worksheet simply helps organize and preview these steps, but it is not required.

9. What is the adjusting entry for accrued salaries of \$1,200?

- A. Debit Cash; Credit Salaries Payable \$1,200**
- B. Debit Salaries Payable \$1,200; Credit Salaries Expense \$1,200**
- C. Debit Salaries Expense \$1,200; Credit Salaries Payable \$1,200**
- D. Debit Salaries Expense \$1,200; Credit Cash \$1,200**

Accrual accounting requires recording expenses when they are incurred, even if cash isn't paid yet. When employees have earned salaries but haven't been paid, you recognize the expense and set up a liability called Salaries Payable. The adjusting entry for this \$1,200 is to debit Salaries Expense for 1,200 and credit Salaries Payable for 1,200, increasing both the expense for the period and the liability to be paid later. Debiting Cash or crediting Cash would imply cash has already moved, which isn't the case; debiting Salaries Payable would reduce the liability, and crediting Salaries Expense would incorrectly decrease the expense.

10. In a T account, the left-hand side is the debit side.

- A. True**
- B. False**
- C. It depends on the account**
- D. Not specified**

In double-entry bookkeeping, a T account is drawn with debits on the left and credits on the right. The left-hand side is the debit side, which is the standard convention used when recording increases in assets and expenses or decreases in liabilities, equity, and revenue. For example, when you receive cash, you debit the Cash account (left side), reflecting an asset increase. This basic layout is what the statement is testing, so the correct understanding is that the left side is indeed the debit side.

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://cengageaccounting1.examzify.com>

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

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