CENGAGE ACCOUNTING EXAM 1 PRACTICE TEST (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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

1. **Which of the following is the best description of accounting's role in business?**
   - A. Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.
   - B. Accounting records only transactions.
   - C. Accounting sets corporate strategy.
   - D. Accounting handles payroll only.

2. **Define the purpose of internal controls and give one example relevant to cash receipts.**
   - A. To safeguard assets and ensure accurate financial reporting; example: separation of duties in handling cash and recording receipts
   - B. To reduce taxes; example: accelerating expenses
   - C. To maximize profits; example: increasing sales staff
   - D. To improve customer service; example: offering discounts

3. **Which statement is true about the collection of an accounts receivable in cash?**
   - A. It increases total assets.
   - B. It decreases total assets.
   - C. It does not affect total assets.
   - D. It increases revenues.

4. **Property tax owed to be paid beginning of next year is classified as which of the following?**
   - A. Accrued expense
   - B. Prepaid expense
   - C. Unearned revenue
   - D. Accrued revenue

5. **Which statement is true about accounts with a debit balance?**
   - A. They have more credits than debits.
   - B. They have more debits than credits.
   - C. They always have a zero balance.
   - D. They are always asset accounts.

6. The objectivity concept requires that

A. the Financial Accounting Standards Board be fair and unbiased in its deliberations over new accounting standards

B. accounting principles meet the objectives of the Security and Exchange Commission

C. amounts recorded in the financial statements be based on independently verifiable evidence

D. business transactions be consistent with the objectives of the entity

7. What is the effect on the financial statements when salaries are accrued at year-end?

A. Expenses increase and Liabilities increase

B. Assets increase and Revenues decrease

C. Liabilities decrease and Expenses increase

D. Revenues increase and Liabilities decrease

8. Depreciation expense is a non-cash charge. Which statement best describes its effect on net income and cash flow in the period recognized?

A. Depreciation reduces cash flow in the period it is recognized.

B. Depreciation reduces net income but does not affect cash flow from operations in the period it is recognized.

C. Depreciation increases cash flow in the period recognized.

D. Depreciation has no impact on net income or cash flow.

9. Explain the closing process at period-end and the purpose of closing entries?

A. The closing process resets permanent accounts to zero balances

B. The closing process transfers cash balances to Retained Earnings

C. Temporary accounts are reset by transferring their balances to Retained Earnings, and dividends are transferred to Retained Earnings as well

D. The closing process closes revenues and expenses directly to Retained Earnings without an intermediate step

10. How do you record a note payable with interest accrued at year-end?

A. Debit Interest Expense; Credit Interest Payable for the accrued interest; principal is recorded as the Note Payable

B. Debit Note Payable; Credit Interest Expense

C. Debit Interest Payable; Credit Interest Expense

D. Debit Cash; Credit Note Payable

Answers

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

Explanations

1. Which of the following is the best description of accounting's role in business?

A. Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.

B. Accounting records only transactions.

C. Accounting sets corporate strategy.

D. Accounting handles payroll only.

Accounting is about turning financial activities into meaningful information that supports decision making. It goes beyond simply recording transactions; it organizes data into financial statements, budgets, and analyses that managers use to operate the business and that external users—such as investors, lenders, and regulators—use to judge the company's economic condition and performance. This dual role of providing internal planning and control information as well as external reporting makes accounting the information backbone for both daily operations and strategic decisions. The choice that describes accounting as supplying information to managers for running the business and to other users for evaluating the company best captures this broad, decision-oriented function. The other descriptions are narrower: recording transactions alone misses the reporting and analysis that guide decisions; setting corporate strategy is a management function beyond accounting; and payroll is just one administrative task, not the core purpose of accounting.

2. Define the purpose of internal controls and give one example relevant to cash receipts.

A. To safeguard assets and ensure accurate financial reporting; example: separation of duties in handling cash and recording receipts

B. To reduce taxes; example: accelerating expenses

C. To maximize profits; example: increasing sales staff

D. To improve customer service; example: offering discounts

Internal controls are the policies and procedures that protect assets and ensure accurate, reliable financial reporting and compliance. For cash receipts, the goal is to make sure every dollar received is recorded and deposited correctly, and to prevent or detect errors and fraud quickly. A classic example is separation of duties: different people handle receiving cash, recording the receipts, and depositing the funds. This division means no single person can both skim cash and cover it up, and it makes discrepancies between cash on hand and records easier to spot, improving both asset protection and the reliability of the financial statements. The other choices focus on taxes, profits, or customer service, which aren't the aims of internal controls.

3. Which statement is true about the collection of an accounts receivable in cash?

A. It increases total assets.

B. It decreases total assets.

C. It does not affect total assets.

D. It increases revenues.

Collecting cash on an accounts receivable is simply swapping one asset for another. When the sale was made on credit, accounts receivable was recorded as an asset. When the customer pays, cash increases and accounts receivable decreases by the same amount, so total assets stay the same. Revenue has already been recognized at the time of sale, so receiving cash does not add more revenue. For example, if you collect 5,000, cash rises 5,000 and accounts receivable falls 5,000, leaving total assets unchanged.

4. Property tax owed to be paid beginning of next year is classified as which of the following?

A. Accrued expense

B. Prepaid expense

C. Unearned revenue

D. Accrued revenue

In accrual accounting, expenses are recorded when they are incurred, not when payment is made. If the property tax is incurred in the current period but won't be paid until the beginning of next year, it creates an accrued expense—a current liability reflecting the obligation to pay for a cost that has already been recognized. You would record the expense now and set up a liability (property tax payable) to be settled later. This isn't a prepaid expense, because you haven't paid in advance for future benefits. It isn't unearned revenue, since there's no cash received for goods or services yet to be provided. It isn't accrued revenue, since there is no revenue being recognized. So the correct classification is an accrued expense.

5. Which statement is true about accounts with a debit balance?

A. They have more credits than debits.

B. They have more debits than credits.

C. They always have a zero balance.

D. They are always asset accounts.

A debit balance means the debits recorded in an account exceed the credits, so the account's balance sits on the debit side. In standard accounting, this is true for asset and expense accounts, which naturally carry debit balances. So when an account shows a debit balance, it reflects more debits than credits. This is why the statement is true: the account has more debits than credits. It's not about always being assets, since expenses also have debit balances, and it's not about having credits or a zero balance in general.

6. The objectivity concept requires that

A. the Financial Accounting Standards Board be fair and unbiased in its deliberations over new accounting standards

B. accounting principles meet the objectives of the Security and Exchange Commission

C. amounts recorded in the financial statements be based on independently verifiable evidence

D. business transactions be consistent with the objectives of the entity

Objectivity in accounting means that the numbers in financial statements are based on evidence that can be independently verified by others, not on personal opinions or biases. This is why the statement that amounts recorded are based on independently verifiable evidence best captures the idea. Using verifiable data—like receipts, invoices, market prices, or audit confirmations—helps ensure reported amounts are credible and not influenced by subjective judgement. The other options miss the core point: fairness or unbiased deliberations by the standard-setter relate to process, not measurement; meeting the SEC's objectives targets regulatory goals rather than how numbers are determined; and aligning transactions with the entity's objectives concerns policy or purpose, not the verifiability of the recorded amounts.

7. What is the effect on the financial statements when salaries are accrued at year-end?

A. Expenses increase and Liabilities increase

B. Assets increase and Revenues decrease

C. Liabilities decrease and Expenses increase

D. Revenues increase and Liabilities decrease

Accrual accounting records expenses when they are incurred and recognizes a liability when you owe that amount but haven't paid yet. At year-end, salaries that have been earned by employees but not yet paid are an example of this adjusting entry: you record the expense and you create a liability. Conceptually, you would debit Salaries Expense to reflect the cost of labor for the period, and you credit a current liability (Salaries Payable) to show the amount owed. This raises the expense on the income statement and increases liabilities on the balance sheet, with no change to revenues. The effect on assets is none at this moment. When the salaries are eventually paid, cash decreases and the liability is reduced, but that payment does not change the fact that the accrual period increased expenses and liabilities.

8. Depreciation expense is a non-cash charge. Which statement best describes its effect on net income and cash flow in the period recognized?

A. Depreciation reduces cash flow in the period it is recognized.

B. Depreciation reduces net income but does not affect cash flow from operations in the period it is recognized.

C. Depreciation increases cash flow in the period recognized.

D. Depreciation has no impact on net income or cash flow.

Depreciation is a non-cash expense, so it lowers the income statement's net income because it is charged against revenue. However, no cash leaves the company when depreciation is recorded, so the actual cash provided by or used in operations in that period is not reduced by the depreciation charge. (If you summarize cash flow from operations using the indirect method, you would adjust net income by adding back depreciation to reflect its non-cash nature, but the period's cash receipts and payments aren't affected by the depreciation itself.)

9. Explain the closing process at period-end and the purpose of closing entries?

A. The closing process resets permanent accounts to zero balances

B. The closing process transfers cash balances to Retained Earnings

C. Temporary accounts are reset by transferring their balances to Retained Earnings, and dividends are transferred to Retained Earnings as well

D. The closing process closes revenues and expenses directly to Retained Earnings without an intermediate step

Closing entries are made at period end to prepare for the next period by clearing out temporary accounts and updating Retained Earnings to reflect the period's results. Revenues and expenses are temporary accounts that should not carry balances into the next period, so their activity is transferred into Retained Earnings, which records the net effect of operations on the company's equity. While many texts show an intermediate step through an Income Summary, the essential outcome is the same: temporary accounts are reset to zero and Retained Earnings is adjusted for net income and dividends. In practice, dividends are also closed into Retained Earnings, reducing it. This description fits the idea that the closing process ultimately moves the period's results into Retained Earnings in one consolidated step.

10. How do you record a note payable with interest accrued at year-end?

A. Debit Interest Expense; Credit Interest Payable for the accrued interest; principal is recorded as the Note Payable

B. Debit Note Payable; Credit Interest Expense

C. Debit Interest Payable; Credit Interest Expense

D. Debit Cash; Credit Note Payable

When you have a note payable and interest has accrued by year-end but hasn't been paid yet, you need to recognize the expense for the period and create a liability for the interest owed. The principal of the note stays recorded as Note Payable on the balance sheet; only the accrued interest is addressed in this adjusting entry. Debiting Interest Expense increases the period's expense, and crediting Interest Payable establishes a liability for the interest that has accrued. This matches the expense to the time period in which it was incurred and records the obligation you still owe. Other options don't fit this situation because they either try to alter the principal balance for the accrual, reduce the accrued liability, or reflect a cash payment that hasn't occurred yet. Debiting Note Payable and crediting Interest Expense would misstate the note and expense. Debiting Interest Payable and crediting Interest Expense would decrease the liability and expense, which is the opposite of the proper accrual. Debiting Cash and crediting Note Payable would be recording a cash payment against the principal, not the end-of-year accrual.

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!