

Fundamentals of Accountancy, Business, and Management (FABM) 1 Practice Exam (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 term represents the qualitative and quantitative financial information about the business transactions in a language comprehensible to the users of financial statements?**
 - A. Interpreting**
 - B. Recording**
 - C. Service**
 - D. History of Accounting**

- 2. Which concept means assets are reported at their original cost rather than current market value?**
 - A. Historical Cost**
 - B. Net Realizable Value**
 - C. Replacement Cost**
 - D. Fair Value**

- 3. Which of the following is a typical purpose of adjusting entries related to revenue?**
 - A. To reduce expenses in the current period.**
 - B. To defer all revenue to later periods.**
 - C. To delay recognition of revenue indefinitely.**
 - D. To ensure revenues are recognized in the period earned, whether cash has been received or not.**

- 4. Which term refers to writing down of business transactions chronologically in the books of account as they transpire?**
 - A. Recording**
 - B. Classifying**
 - C. Summarizing**
 - D. Interpreting**

- 5. Which equation correctly states the fundamental accounting equation?**
 - A. Assets = Liabilities + Owner's Equity**
 - B. Liabilities = Assets + Owner's Equity**
 - C. Assets + Liabilities = Owner's Equity**
 - D. Owner's Equity = Assets + Liabilities**

- 6. External users may be interested in which of these?**
- A. Potential Investors/Creditors**
 - B. Management**
 - C. Employees**
 - D. Investors/Owners/Stockholders**
- 7. The discipline that focuses on a careful study of cost data to support production planning is:**
- A. Cost Accounting**
 - B. Cost of Production**
 - C. Accounting Education**
 - D. Auditing**
- 8. Record a cash sale of \$750 when cash is received.**
- A. Debit Sales Revenue 750; Credit Cash 750**
 - B. Debit Revenue 750; Credit Cash 750**
 - C. Debit Cash 750; Credit Sales Revenue 750**
 - D. Debit Cash 750; Credit Accounts Receivable 750**
- 9. An adjusting entry for accrued service revenue of \$900 at year-end should record**
- A. Debit Service Revenue 900; Credit Accounts Receivable 900**
 - B. Debit Cash 900; Credit Service Revenue 900**
 - C. Debit Accounts Receivable 900; Credit Service Revenue 900**
 - D. Debit Service Revenue 900; Credit Accounts Receivable 900**
- 10. What is a chart of accounts?**
- A. A list of employees.**
 - B. A structured list of all accounts used by an organization, grouped by categories such as assets, liabilities, equity, revenues, and expenses.**
 - C. A summary of revenues and expenses.**
 - D. A schedule of assets only.**

Answers

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

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Explanations

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1. Which term represents the qualitative and quantitative financial information about the business transactions in a language comprehensible to the users of financial statements?

- A. Interpreting**
- B. Recording**
- C. Service**
- D. History of Accounting**

Interpreting is the process of presenting and explaining the financial information in a way users can understand. The description refers to turning both qualitative and quantitative data from business transactions into meaningful insights that the users of financial statements can grasp and use for decisions. This is exactly what interpreting accomplishes—how to read the numbers, what they imply, and why they matter to stakeholders. Recording, by contrast, is about capturing transactions as they occur, not about explaining or communicating their meaning. History of Accounting points to how the field developed, not to how information is conveyed to users. Service isn't relevant to how financial information is represented.

2. Which concept means assets are reported at their original cost rather than current market value?

- A. Historical Cost**
- B. Net Realizable Value**
- C. Replacement Cost**
- D. Fair Value**

Historical cost is the measurement basis used when reporting assets. It means assets are recorded at the amount paid to acquire them, plus any costs to get the asset ready for use, and this amount remains the basis for the asset on the books (subject to depreciation or impairment). This contrasts with other bases that reflect what the asset is worth in current conditions: net realizable value looks at the proceeds from selling the asset minus costs to complete and sell it; replacement cost is how much it would cost to replace the asset with a similar one; fair value represents the asset's current market value. So reporting assets at their original cost aligns with the historical cost principle. For example, a machine bought for 100,000 and shipped for 5,000 is recorded at 105,000, and then depreciated over its useful life rather than being marked to current market value.

3. Which of the following is a typical purpose of adjusting entries related to revenue?

- A. To reduce expenses in the current period.**
- B. To defer all revenue to later periods.**
- C. To delay recognition of revenue indefinitely.**
- D. To ensure revenues are recognized in the period earned, whether cash has been received or not.**

Revenue recognition on an accrual basis means revenue is recorded when the service is performed or the goods are delivered, not when cash is received. Adjusting entries at period end align revenues with the period in which they are earned. They handle revenues that have been earned but not yet recorded (accruals) and revenues that have been collected before earning (deferrals) so the books reflect the correct period. For example, if services were performed but not billed, you would record revenue in the period earned by increasing accounts receivable and revenue. If cash was received in advance, you would later recognize the revenue as it's earned by reducing the liability (unearned revenue) and increasing revenue. The goal is to match revenue to the period of earning, regardless of cash timing. So, the typical purpose is to ensure revenues are recognized in the period earned, whether cash has been received or not.

4. Which term refers to writing down of business transactions chronologically in the books of account as they transpire?

- A. Recording**
- B. Classifying**
- C. Summarizing**
- D. Interpreting**

Recording is the process of writing down business transactions in the books as they transpire, in chronological order. This creates an exact, time-stamped trail of every financial event, typically logged as journal entries with the date, the accounts affected, and the amounts. It's the first step in the accounting cycle, establishing the factual basis for all later work. After recording, transactions are classified by posting to the appropriate accounts in the ledger, then summarized into financial statements, and finally interpreted for decision-making. For example, when you pay cash for supplies, you make a journal entry dated today that debits supplies and credits cash, preserving the order and details of the event. Classifying groups these entries by account, summarizing aggregates them into statements, and interpreting analyzes the results.

5. Which equation correctly states the fundamental accounting equation?

- A. Assets = Liabilities + Owner's Equity**
- B. Liabilities = Assets + Owner's Equity**
- C. Assets + Liabilities = Owner's Equity**
- D. Owner's Equity = Assets + Liabilities**

Assets must equal Liabilities plus Owner's Equity. This relationship shows that everything the business owns is financed either by what it owes to others (liabilities) or by the owner's stake in the business (owner's equity). In double-entry bookkeeping, every transaction keeps this balance intact: increase an asset by borrowing (increase liabilities) or by owner investment/retained earnings (increase owner's equity). For example, buying equipment with cash shifts within assets but keeps the total assets equal to the sum of liabilities and equity; buying on credit increases both an asset and a liability, leaving the equation balanced. The other formulations mix up the relationships or sum the terms incorrectly, which would misstate who finances the assets.

6. External users may be interested in which of these?

- A. Potential Investors/Creditors**
- B. Management**
- C. Employees**
- D. Investors/Owners/Stockholders**

External users are people outside the organization who use financial statements to decide whether to provide resources, such as money or credit, to the business. The best choice names the groups that most commonly rely on financial reports to make those decisions: potential investors who might buy shares and creditors who might lend money. They examine profitability, solvency, and cash flows to judge risk and return before committing capital. Internal groups like management or employees aren't external, and while investors/owners/stockholders are external, the standard external-user need highlighted here is specifically about those who are considering investing or lending, which is captured by potential investors and creditors.

7. The discipline that focuses on a careful study of cost data to support production planning is:

- A. Cost Accounting**
- B. Cost of Production**
- C. Accounting Education**
- D. Auditing**

Cost accounting is the discipline that focuses on a careful study of cost data to support production planning. It involves collecting and analyzing information about direct materials, direct labor, and overhead, then turning that data into reports that aid budgeting, pricing, and decision-making about how to use resources efficiently. This field helps managers forecast production needs, control costs, set standard costs, and perform variance analysis to see how actual costs compare with planned costs. The other options describe different ideas: Cost of Production is a cost concept that sums up the expenses to manufacture goods, not a discipline; Accounting Education refers to teaching the subject, not the analysis of cost data for planning; Auditing deals with examining records for accuracy and assurance rather than guiding production decisions.

8. Record a cash sale of \$750 when cash is received.

A. Debit Sales Revenue 750; Credit Cash 750

B. Debit Revenue 750; Credit Cash 750

C. Debit Cash 750; Credit Sales Revenue 750

D. Debit Cash 750; Credit Accounts Receivable 750

When a cash sale is made, you increase the cash you receive and recognize the revenue earned at the point of sale. Cash is an asset and goes up with a debit, while Revenue (Sales Revenue) increases with a credit. Therefore, the correct entry is to Debit Cash 750 and Credit Sales Revenue 750. This shows you received cash and earned revenue right away. The other possibilities don't fit because they either reverse the direction of the asset and revenue effects or treat the transaction as a collection on a prior receivable rather than a new cash sale. Debiting revenue or crediting cash would misstate the inflow and the earned revenue, and crediting Accounts Receivable would imply there was an outstanding bill being paid, not a cash sale.

9. An adjusting entry for accrued service revenue of \$900 at year-end should record

A. Debit Service Revenue 900; Credit Accounts Receivable 900

B. Debit Cash 900; Credit Service Revenue 900

C. Debit Accounts Receivable 900; Credit Service Revenue 900

D. Debit Service Revenue 900; Credit Accounts Receivable 900

Accrued revenue occurs when the service has been performed and revenue is earned, but cash hasn't been received and the customer hasn't been billed yet. The adjusting entry needs to reflect both the asset that represents what customers owe and the revenue earned in the period. Debiting Accounts Receivable increases that asset, and crediting Service Revenue increases the revenue recognized for that period. So, for 900, you would debit Accounts Receivable and credit Service Revenue. This aligns with the accrual basis and the matching principle. Debiting Service Revenue would incorrectly decrease revenue and would not create a receivable; debiting Cash would imply cash was received; and reversing the accounts would misstate both assets and revenue.

10. What is a chart of accounts?

A. A list of employees.

B. A structured list of all accounts used by an organization, grouped by categories such as assets, liabilities, equity, revenues, and expenses.

C. A summary of revenues and expenses.

D. A schedule of assets only.

A chart of accounts is the backbone of the accounting system: a structured list of every account the organization uses, organized into categories like assets, liabilities, equity, revenues, and expenses. This setup lets every transaction be categorized consistently, posted to the correct account in the general ledger, and used to generate financial reports such as the balance sheet and income statement. Accounts are often numbered and arranged hierarchically to show relationships and support detailed reporting. The other options don't fit because a list of employees isn't a set of accounts, a summary of revenues and expenses is a financial report rather than the account structure, and a schedule of assets only covers one category instead of the full range of accounts.

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://fabm1.examzify.com>

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

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