FUNDAMENTALS OF ACCOUNTANCY, BUSINESS, AND MANAGEMENT (FABM) 1 PRACTICE EXAM (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. **What is the primary purpose of source documents in recording transactions?**
    A. They provide evidence of a transaction and support the amounts recorded.
    B. They are optional in the accounting process.
    C. They replace journal entries.
    D. They are used only for external reporting.

2. **The preparation of monthly value-added tax, percentage tax, expanded withholding tax returns quarterly and annual tax returns, and any other taxes applicable to business is part of:**
    A. Auditing
    B. Cost Accounting
    C. Accounting Education
    D. Tax Accounting

3. **Which statement best describes accounting?**
    A. A Science
    B. An Art
    C. A Craft
    D. A Practice

4. **Which option lists all internal users?**
    A. External Users
    B. Investors/Owners/Stockholders, Management, Employees
    C. Government
    D. Financial Institutions/Creditors

5. **Which writing material developed by ancient Egyptians around 4000 BCE enabled recording of commercial transactions as well as religious texts and other literature?**
    A. Papyrus
    B. Parchment
    C. Clay Tablets
    D. Stone

6. How is gross profit calculated?

A. Net Sales plus Cost of Goods Sold

B. Net Sales minus Cost of Goods Sold

C. Gross Profit equals Total Revenue minus Operating Expenses

D. Gross Profit equals Net Income minus Taxes

7. Which type of business operation is focused on providing services and relies on the skill and quality of service?

A. Cooperative

B. Service

C. Trading/Merchandising

D. Manufacturing

8. Which accounting concept requires assets and services acquired by the business to be recorded at their original acquisition cost?

A. Historical Cost

B. Fair Value

C. Replacement Cost

D. Net Realizable Value

9. Potential investors or creditors are interested in which aspects?

A. Current financial position and history

B. Future product lines

C. Employee morale

D. Marketing strategy

10. In a perpetual inventory system, which entry is recorded to recognize the sale of inventory for cash, where cost of goods sold is $50 and the sale price is $150?

A. Debit Cash 150; Credit Sales Revenue 150. Debit Cost of Goods Sold 50; Credit Inventory 50

B. Debit Cash 150; Debit Inventory 50; Credit Sales Revenue 150; Credit COGS 50

C. Debit Sales Revenue 150; Credit Cash 150

D. Debit Cash 150; Credit Inventory 150

Answers

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

Explanations

1. **What is the primary purpose of source documents in recording transactions?**

   A. They provide evidence of a transaction and support the amounts recorded.

   B. They are optional in the accounting process.

   C. They replace journal entries.

   D. They are used only for external reporting.

Source documents are the original records that document a business transaction. Their main purpose is to provide evidence of what happened and to support the amounts recorded in the books. They capture essential details such as date, parties involved, amounts, and the nature of the transaction, and they feed into the journal entries that ultimately flow into the ledger. This creates an audit trail that can be traced from financial statements back to the underlying documents, helping ensure accuracy, prevent errors, and detect potential fraud. They are not optional; without them entries would lack verifiable support. They do not replace journal entries—journal entries are the formal recording in the books, while source documents supply the information used to make those entries. They are not used only for external reporting; they underpin day-to-day recording and internal controls as well.

2. **The preparation of monthly value-added tax, percentage tax, expanded withholding tax returns quarterly and annual tax returns, and any other taxes applicable to business is part of:**

   A. Auditing

   B. Cost Accounting

   C. Accounting Education

   D. Tax Accounting

Tax compliance and reporting fall under tax accounting. Preparing monthly value-added tax, monthly percentage tax, quarterly and annual expanded withholding tax returns, and other business taxes involves calculating tax obligations, maintaining tax records, and filing returns with the tax authority in accordance with tax laws. Tax accounting focuses on these activities to ensure accurate computations and timely submissions. Auditing is about examining financial statements and controls, cost accounting deals with measuring and analyzing costs for internal decisions, and accounting education covers teaching accounting concepts. So these tax-related tasks are best classified as tax accounting.

3. **Which statement best describes accounting?**

   A. A Science

   B. An Art

   C. A Craft

   D. A Practice

Accounting is best described as an art because it blends systematic rules with professional judgment to present financial information in a meaningful, decision-useful way. While standards like GAAP or IFRS provide structure, many areas require estimation and interpretation—such as determining the allowance for doubtful accounts, choosing depreciation methods and useful lives, or recognizing revenue. The art lies in how these judgments are made, disclosed, and communicated to users, shaping a clear picture of performance and financial reality. So, although there are scientific elements in applying rules, the interpretive and communicative aspects of accounting give it its artistic character.

4. Which option lists all internal users?

A. External Users

B. Investors/Owners/Stockholders, Management, Employees

C. Government

D. Financial Institutions/Creditors

Internal users are people inside the organization who rely on accounting information to plan, control, and operate the business. This includes management, who use data to make decisions and steer the company; employees, who need information about the firm's stability and performance; and investors/owners/stockholders, who have ownership and rely on financial results to assess and monitor their investment. Since these groups operate within the organization, they are considered internal users. External groups like government or creditors use financial information for regulatory, lending, or external analysis, not for running the daily affairs of the business. So the option that lists all internal users is the one that includes management, employees, and investors/owners/stockholders.

5. Which writing material developed by ancient Egyptians around 4000 BCE enabled recording of commercial transactions as well as religious texts and other literature?

A. Papyrus

B. Parchment

C. Clay Tablets

D. Stone

Papyrus is the writing material developed by ancient Egyptians that made recording commercial transactions and religious texts possible. It was made from the pith of the papyrus plant, with thin strips laid in one direction and pressed with another to form sheets that could be dried and rolled. This created a light, portable surface ideal for scribes to keep ledgers, contracts, prayers, and literary works. Unlike clay tablets, which are heavy and less practical for daily administration, or stone, which is meant for monumental inscriptions, papyrus offered a practical medium for everyday writing and record-keeping. Parchment, made from animal skins, came later and was used in different regions, but papyrus was the main Egyptian writing surface for commerce and literature.

6. How is gross profit calculated?

A. Net Sales plus Cost of Goods Sold

B. Net Sales minus Cost of Goods Sold

C. Gross Profit equals Total Revenue minus Operating Expenses

D. Gross Profit equals Net Income minus Taxes

Gross profit shows how much money remains from selling goods after covering the direct costs of those goods. It is calculated by subtracting the cost of goods sold from net sales. Net sales are the revenue from sales after accounting for returns, allowances, and discounts, while cost of goods sold includes the direct costs tied to producing or purchasing the goods that were sold (materials, direct labor, and allocated overhead). So, gross profit = net sales minus cost of goods sold. For example, if net sales are $500,000 and COGS is $300,000, gross profit is $200,000. This figure reflects the margin available to cover other expenses like operating costs, taxes, and interest. The other options don't fit because one adds COGS to net sales which overstates revenue, another subtracts operating expenses from total revenue which yields operating income, and another subtracts taxes from net income which yields net income.

7. Which type of business operation is focused on providing services and relies on the skill and quality of service?

A. Cooperative

B. Service

C. Trading/Merchandising

D. Manufacturing

In operations, the type of value a business offers depends on what it delivers to customers. When the focus is on providing services, the product is the service itself—the performance, care, and experience delivered by skilled personnel. The quality of that service drives customer satisfaction, trust, and repeat business, so success hinges on the expertise of the staff, the effectiveness of the service process, and consistently high standards of interaction with customers. That's why this is the best fit: service operations rely on skill and the quality of service as the primary value driver. In contrast, manufacturing centers on turning inputs into tangible goods, where the end product is a physical item. Trading or merchandising involves buying and selling goods rather than performing a service. A cooperative is a type of business ownership and structure that can operate in various sectors, but it doesn't define the nature of the operation as service-oriented.

8. Which accounting concept requires assets and services acquired by the business to be recorded at their original acquisition cost?

A. Historical Cost

B. Fair Value

C. Replacement Cost

D. Net Realizable Value

The main concept tested is the historical cost principle: assets and services acquired by a business are recorded at their original acquisition cost—the amount paid to obtain them, plus any directly attributable costs to bring the asset to its present location and condition. This measurement provides objective, verifiable figures and a stable basis for depreciation and impairment over time, even as market values move. Other methods measure at current market value (fair value), the cost to replace the asset, or the net amount expected to be realized from sale, but they are not the default basis for recording assets.

9. Potential investors or creditors are interested in which aspects?

A. Current financial position and history

B. Future product lines

C. Employee morale

D. Marketing strategy

External stakeholders evaluate a firm mainly on its current financial position and its track record because this information shows whether the business can generate enough cash to pay debts and fund operations now and in the near term. The current financial position points to liquidity and solvency—cash on hand, working capital, debt levels, and asset quality—while the history reveals trends in profitability and cash generation over time. Together, they help assess risk and potential return for investors and the likelihood a creditor will be repaid. Future product lines, employee morale, and marketing strategy matter for long-term prospects, but they don't directly demonstrate the firm's ability to meet obligations and deliver consistent financial performance based on established financial data.

10. In a perpetual inventory system, which entry is recorded to recognize the sale of inventory for cash, where cost of goods sold is $50 and the sale price is $150?

A. Debit Cash 150; Credit Sales Revenue 150. Debit Cost of Goods Sold 50; Credit Inventory 50

B. Debit Cash 150; Debit Inventory 50; Credit Sales Revenue 150; Credit COGS 50

C. Debit Sales Revenue 150; Credit Cash 150

D. Debit Cash 150; Credit Inventory 150

In a perpetual inventory system, a cash sale affects both revenue and the inventory account. You must record the sale price as revenue and cash, and also recognize the cost of the inventory sold by reducing inventory and recording cost of goods sold. So you would debit Cash for 150 and credit Sales Revenue for 150 to reflect the cash received and the revenue earned. At the same time, you debit Cost of Goods Sold for 50 and credit Inventory for 50 to show the expense of the goods sold and to decrease the inventory on hand. This approach matches the financial effects: cash inflow and revenue on the one hand, and the expense of the goods sold plus a reduced inventory on the other. The other options either misstate the direction of the debits/credits, omit one of the required entries, or apply the wrong amounts to the wrong 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!