

# Fundamentals of Accountancy, Business, and Management (FABM) 2 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. What are adjusting entries and why are they necessary?**
  - A. Entries made at period end to record accrued and deferred items to reflect accurate revenues and expenses in the period.**
  - B. Entries to record new stock issues.**
  - C. Entries to record only cash transactions.**
  - D. Entries to adjust for non-cash gains.**
  
- 2. Quick assets are defined as which of the following?**
  - A. Non-current assets**
  - B. Long-term investments**
  - C. Current assets that can be converted to cash within 90 days or in the short-term**
  - D. Inventory**
  
- 3. Which statement correctly defines a stale check?**
  - A. A check with an incorrect payee**
  - B. A check not encashed on time or more than six months old**
  - C. A check that has sufficient funds**
  - D. A check that is electronically processed**
  
- 4. Which term describes a check that has been issued but cannot be cashed yet because the date on the check is in the future?**
  - A. Cancelled check**
  - B. Bank Reconciliation**
  - C. Post dated check**
  - D. Deposits in transit**
  
- 5. Time deposit account is characterized by what?**
  - A. No fixed term**
  - B. Automatic withdrawal anytime**
  - C. No interest**
  - D. Fixed term or maturity period**

- 6. Which tax is a levy on documents and papers evidencing an obligation transfer?**
- A. Documentary Stamp Tax**
  - B. VAT**
  - C. Other percentage Tax**
  - D. Excise tax**
- 7. Which term best describes the income earned by professionals who run their own practices, such as accountants or doctors, as a business activity?**
- A. Self-Employed**
  - B. Business Income and Professional Income**
  - C. Gross Receipts**
  - D. Compensation income**
- 8. When a corporation issues common stock for cash, which accounts are affected?**
- A. Debit Cash; Credit Common Stock and, if applicable, Additional Paid-In Capital**
  - B. Debit Cash; Credit Revenue**
  - C. Debit Cash; Credit Retained Earnings**
  - D. Debit Cash; Credit Dividends Payable**
- 9. Maslow's hierarchy of needs is described as which model?**
- A. A four-level model: physiological, safety, love, esteem.**
  - B. A five-level model: physiological, safety, belongingness, esteem, self-actualization.**
  - C. A five-level model with cognitive and aesthetic needs included.**
  - D. A three-level model: basic needs, growth, self-actualization.**
- 10. BIR Form No. 1700 is used for which taxpayer category?**
- A. Individuals earning purely compensation income**
  - B. Corporations**
  - C. Trusts and estates**
  - D. Non-resident aliens**

## Answers

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

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## **Explanations**

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## 1. What are adjusting entries and why are they necessary?

- A. Entries made at period end to record accrued and deferred items to reflect accurate revenues and expenses in the period.**
- B. Entries to record new stock issues.**
- C. Entries to record only cash transactions.**
- D. Entries to adjust for non-cash gains.**

Adjusting entries are end-of-period journal entries used to record revenues earned and expenses incurred in the period, even if cash hasn't yet moved. They align with accrual accounting, ensuring the revenue recognition and matching principles are satisfied so the income statement and balance sheet show the true economic activity for that period. In practice, adjusting entries handle items that are not captured by the day-to-day cash transactions: accrued revenues (cash coming later for services already performed), accrued expenses (expenses incurred but not yet paid), deferred (prepaid) revenues or expenses (money received or paid before the earning or usage occurs), and depreciation of fixed assets. For example, interest earned but not yet billed, wages earned by employees but not yet paid, or prepaid insurance that has now expired all require adjustments. These entries update assets, liabilities, revenues, and expenses to reflect the period they relate to, rather than when cash actually changes hands. That description matches the idea of making entries at period end to record accrued and deferred items to reflect accurate revenues and expenses in the period. The other options describe activities outside this purpose: issuing new stock changes financing rather than adjusting operating accounts; recording only cash transactions ignores non-cash accruals; and adjusting for non-cash gains is too narrow and misses the broader aim of aligning all accruals and deferrals.

## 2. Quick assets are defined as which of the following?

- A. Non-current assets**
- B. Long-term investments**
- C. Current assets that can be converted to cash within 90 days or in the short-term**
- D. Inventory**

This question tests liquidity and what counts as quick assets. Quick assets are the most liquid current assets—those that can be readily turned into cash to meet short-term obligations. They typically include cash, marketable securities, and accounts receivable, while inventory is excluded because it may not be converted to cash quickly or reliably. The option describing current assets that can be converted to cash within 90 days or in the short term aligns with this idea, since it focuses on assets that can be converted to cash in a short horizon. Non-current assets aren't part of this liquidity measure, long-term investments aren't readily convertible in the near term, and inventory is excluded from quick assets due to potential delays in sale.

### 3. Which statement correctly defines a stale check?

- A. A check with an incorrect payee
- B. A check not encashed on time or more than six months old**
- C. A check that has sufficient funds
- D. A check that is electronically processed

A stale check is a check that has not been presented for payment within the usual time window, typically six months from the date on the check. This is why the statement not encashed on time or more than six months old best defines a stale check—it captures the idea that the check has aged beyond the typical presentation period. A check with an incorrect payee isn't about age, a check with sufficient funds concerns availability of funds rather than timing, and a check that is electronically processed relates to the method of clearing, not whether the check is stale.

### 4. Which term describes a check that has been issued but cannot be cashed yet because the date on the check is in the future?

- A. Cancelled check
- B. Bank Reconciliation
- C. Post dated check**
- D. Deposits in transit

A postdated check is a check that has a future date, so it cannot be cashed or processed by the bank until that date arrives. The bank won't honor the check today because the date on it hasn't occurred yet, which is why it's not treated as cash or as having cleared on the bank statement now. In bank accounting and reconciliation, this kind of item is noted because its funds will be drawn later, not at the present time. By contrast, a cancelled check is one that has already been paid and returned, so it represents completed cash activity. Bank reconciliation is the process of aligning the company's records with the bank's records, not a type of check. Deposits in transit are cash receipts that have been recorded by the company but not yet processed by the bank.

### 5. Time deposit account is characterized by what?

- A. No fixed term
- B. Automatic withdrawal anytime
- C. No interest
- D. Fixed term or maturity period**

Time deposit accounts are defined by a fixed term or maturity period. You place money in the account for a set duration, and the interest rate is tied to that term. Because of the commitment to a specific period, withdrawals before maturity usually incur a penalty, and interest is earned for the term and paid at or after it ends. This fixed-term nature is what sets a time deposit apart from accounts you can withdraw from anytime and from accounts that offer no interest.

**6. Which tax is a levy on documents and papers evidencing an obligation transfer?**

- A. Documentary Stamp Tax**
- B. VAT**
- C. Other percentage Tax**
- D. Excise tax**

Documentary Stamp Tax is the levy on documents and papers evidencing an obligation to transfer or to perform an obligation. It applies whenever a document is executed that creates, transfers, or extinguishes rights or obligations—such as promissory notes, deeds of sale, mortgages, leases, receipts, and other listed instruments. The tax is collected by stamping the document, with the amount depending on the type of instrument. This differs from VAT, which is charged on sales of goods and services; from the other percentage tax, which is a gross receipts tax; and from excise tax, which is imposed on specific goods. So, the levy on documents evidencing an obligation transfer is Documentary Stamp Tax.

**7. Which term best describes the income earned by professionals who run their own practices, such as accountants or doctors, as a business activity?**

- A. Self-Employed**
- B. Business Income and Professional Income**
- C. Gross Receipts**
- D. Compensation income**

The main idea here is how income is classified for individuals who earn money from their own professional practice. When a doctor, accountant, or other professional runs a private practice, their earnings come from providing services as part of a business activity, not from being paid as an employee. That makes their income fall under the category of business income and professional income, which covers money earned from self-employment in professional services. This differs from compensation income, which is wages or salaries from employment; gross receipts, which is just the total money received (not the categorized income type); and self-employed, which is a status describing the person, not the specific income type. So the best fit is business income and professional income because it explicitly includes earnings from professional services conducted as a business.

**8. When a corporation issues common stock for cash, which accounts are affected?**

- A. Debit Cash; Credit Common Stock and, if applicable, Additional Paid-In Capital**
- B. Debit Cash; Credit Revenue**
- C. Debit Cash; Credit Retained Earnings**
- D. Debit Cash; Credit Dividends Payable**

When a corporation issues common stock for cash, the transaction increases both assets and equity. Record the cash received with a debit to Cash. Then reflect the equity increase with a credit to Common Stock for the par value of the shares issued, and if the issue price is above par, credit Additional Paid-In Capital for the excess over par. If there is no par value, the credit generally goes to Common Stock for the total proceeds (and APIC may be zero). This explains why the best choice is to debit Cash and credit Common Stock and, if applicable, Additional Paid-In Capital. The other options don't fit because issuing stock for cash does not affect Revenue, Retained Earnings, or Dividends Payable directly.

**9. Maslow's hierarchy of needs is described as which model?**

- A. A four-level model: physiological, safety, love, esteem.**
- B. A five-level model: physiological, safety, belongingness, esteem, self-actualization.**
- C. A five-level model with cognitive and aesthetic needs included.**
- D. A three-level model: basic needs, growth, self-actualization.**

Maslow's model organizes human needs in a hierarchy from basic to higher-order: physiological needs at the base, then safety, then social belongingness, then esteem, and finally self-actualization at the top. The five-level version with physiological, safety, belongingness, esteem, and self-actualization matches this classic structure exactly, making it the best choice. The four-level option omits one level and uses "love" instead of the more accurate "belongingness," which shifts the emphasis. The three-level option reduces the framework to basic versus growth needs, which isn't how Maslow described the progression. The version that adds cognitive and aesthetic needs reflects later extensions beyond the original five-level hierarchy, but the standard description taught is the five-level model listed above.

**10. BIR Form No. 1700 is used for which taxpayer category?**

- A. Individuals earning purely compensation income**
- B. Corporations**
- C. Trusts and estates**
- D. Non-resident aliens**

BIR Form No. 1700 is designed for individual taxpayers whose income comes purely from compensation. It's the annual income tax return used by employees whose pay is subject to withholding tax at source, so their tax filing is straightforward and largely reconciles withholding already done by the employer. It isn't used by corporations, trusts or estates, or non-resident aliens, who file different forms tailored to their income types and tax positions. So the best category for this form is individuals earning purely compensation income.

## 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](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://fabm2.examzify.com>**

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

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