

KOSSA Accounting 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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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- 1. The primary purpose of financial statements is to?**
 - A. Provide a summary of profits**
 - B. Attract new investors**
 - C. Provide inputs for decision making**
 - D. Calculate tax liabilities**

- 2. What is a trial balance?**
 - A. A financial statement summarizing revenues and expenses**
 - B. A list of accounts and their balances at a given time**
 - C. A report of a company's cash inflows and outflows**
 - D. An overview of assets and liabilities**

- 3. What is the Sarbanes-Oxley Act (SOX) primarily aimed at?**
 - A. Enhancing financial literacy among employees**
 - B. Reducing unethical corporate behavior**
 - C. Increasing competitive advantages for businesses**
 - D. Improving customer satisfaction in services**

- 4. What advantage do partnerships have over sole proprietorships in business operations?**
 - A. Shared control and decision-making**
 - B. Complete control by one owner**
 - C. Unlimited access to credits**
 - D. Tax responsibilities are minimized**

- 5. Which type of stock entry is characterized by a credit entry indicating an increase?**
 - A. Common stock**
 - B. Retained earnings**
 - C. Dividends**
 - D. Revenue**

- 6. What are the primary sources of financing activities for a corporation?**
- A. Retained earnings**
 - B. Tax refunds**
 - C. Borrowing money and issuing shares of stock**
 - D. Sales revenue**
- 7. Which of the following is the basic form of an account?**
- A. Balance Sheet**
 - B. Ledger**
 - C. T Account**
 - D. Income Statement**
- 8. What does the term "net working capital" refer to in accounting?**
- A. The total liabilities of a company**
 - B. The difference between a company's current assets and current liabilities**
 - C. The total assets a company has**
 - D. The total equity in a company**
- 9. What is the primary purpose of an accounting information system?**
- A. A system to track employee performance**
 - B. A method to record and communicate economic events**
 - C. A structure for setting budgets**
 - D. A tool for managing inventory**
- 10. What does the Statement of Cash Flows report include?**
- A. Assets and liabilities**
 - B. Revenue and expenses**
 - C. Cash inflows and outflows**
 - D. Owner's equity changes**

Answers

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

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Explanations

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1. The primary purpose of financial statements is to?

- A. Provide a summary of profits
- B. Attract new investors
- C. Provide inputs for decision making**
- D. Calculate tax liabilities

The primary purpose of financial statements is to provide inputs for decision making. Financial statements, which include the income statement, balance sheet, and cash flow statement, present an organized summary of a company's financial performance and position over a specific period. These documents offer essential information about revenues, expenses, assets, liabilities, and cash flows, which are critical for stakeholders such as management, investors, creditors, and regulators. Decision makers rely on this information to assess the company's profitability, liquidity, and overall financial health. For example, management uses financial statements to evaluate operational efficiency and to guide strategic planning. Investors examine these reports to determine the viability and risk of investing in the business. Additionally, creditors assess a company's financial stability before extending credit to ensure their loans are secure. While summarizing profits, attracting investors, and calculating tax liabilities are all important facets of a company's financial activities, these functions serve as secondary outcomes or applications of the comprehensive data provided in the financial statements. The core objective remains to offer useful financial insights that facilitate informed decision-making processes across various stakeholders.

2. What is a trial balance?

- A. A financial statement summarizing revenues and expenses
- B. A list of accounts and their balances at a given time**
- C. A report of a company's cash inflows and outflows
- D. An overview of assets and liabilities

A trial balance is a list of all the accounts in a company's general ledger along with their respective balances at a specific point in time. Its primary purpose is to ensure that the total of the debit balances equals the total of the credit balances, which is fundamental to the double-entry accounting system. This balance indicates that the accounts are mathematically correct and that there are no errors in recording transactions. The trial balance serves as a preliminary step in the accounting cycle, paving the way for the preparation of financial statements. It does not summarize revenues and expenses or provide a detailed report of cash inflows and outflows, nor does it give an overview of assets and liabilities in isolation. While these concepts are important in their own right, they represent different aspects of financial reporting and are not the primary focus of a trial balance.

3. What is the Sarbanes-Oxley Act (SOX) primarily aimed at?

- A. Enhancing financial literacy among employees**
- B. Reducing unethical corporate behavior**
- C. Increasing competitive advantages for businesses**
- D. Improving customer satisfaction in services**

The Sarbanes-Oxley Act (SOX) is primarily aimed at reducing unethical corporate behavior. Enacted in response to several major corporate and accounting scandals, such as Enron and WorldCom, its primary focus is to improve the accuracy and reliability of financial reporting for publicly traded companies. The law mandates stricter regulations on financial practices and corporate governance, including requirements for internal controls, financial disclosures, and penalties for non-compliance. By implementing these regulations, SOX seeks to restore public confidence in the integrity of financial markets and corporate America, thereby addressing unethical behaviors that compromise accountability and transparency. This includes provisions that protect whistleblowers and hold executives accountable for financial misreporting, further reinforcing the act's aim to deter fraudulent activities and ensure ethical compliance within organizations. The act's emphasis on ethical standards and enforcement plays a critical role in fostering more responsible corporate conduct overall.

4. What advantage do partnerships have over sole proprietorships in business operations?

- A. Shared control and decision-making**
- B. Complete control by one owner**
- C. Unlimited access to credits**
- D. Tax responsibilities are minimized**

Partnerships offer the advantage of shared control and decision-making, which can lead to more effective management and diverse perspectives in business operations. Unlike sole proprietorships where one individual is responsible for all decisions and operational control, partnerships allow multiple individuals to contribute their unique skills, experiences, and ideas. This collaboration can enhance problem-solving capabilities, encourage creativity, and distribute responsibilities, reducing the burden on any single partner. Additionally, partnerships often benefit from shared financial resources, which can make it easier to secure funding and invest in the business. The combination of diverse insights and shared responsibilities can ultimately lead to better strategic decision-making and a more resilient business structure compared to a sole proprietorship, where one person's vision and ability to execute it entirely govern the operation.

5. Which type of stock entry is characterized by a credit entry indicating an increase?

A. Common stock

B. Retained earnings

C. Dividends

D. Revenue

The correct choice is that common stock is characterized by a credit entry indicating an increase. In accounting, when a company issues common stock, it increases its equity. This is recorded in the equity section of the balance sheet. The credit entry reflects an increase in ownership interest in the company, representing the funds raised from shareholders in exchange for shares. This increase in equity is essential for business operations and is fundamental to financial reporting. Retained earnings is also involved in equity but is typically adjusted by debits and credits based on profits or losses and dividends declared. Dividends, on the other hand, represent a distribution of profits to shareholders and result in a reduction of retained earnings with a debit entry when declared. Revenue contributes to retained earnings as well but is not directly an equity account, while common stock directly impacts the capital contributions from shareholders. Thus, the nature of common stock as an account that increases with a credit makes it the correct choice.

6. What are the primary sources of financing activities for a corporation?

A. Retained earnings

B. Tax refunds

C. Borrowing money and issuing shares of stock

D. Sales revenue

The primary sources of financing activities for a corporation are indeed borrowing money and issuing shares of stock. These activities are essential for providing the capital necessary for a corporation to operate and expand. When a corporation borrows money, it typically takes out loans or issues bonds, which creates a liability that needs to be paid back over time. This borrowing allows the company to fund projects, invest in new ventures, or cover operational costs without requiring the immediate cash outlay that would be necessary if they were to rely solely on existing cash reserves. Issuing shares of stock is another core financing activity. When a corporation sells shares to investors, it raises equity capital. This capital can be utilized for various purposes, such as research and development, purchasing equipment, or other investments that can help propel growth. Equity financing also has the advantage of not needing to be repaid, unlike debt financing. Together, these two methods are fundamental for a corporation's financing strategies, allowing them to fuel growth while managing liabilities effectively. The other options do not directly represent primary financing activities. Retained earnings, while significant, are the profits retained in the business and not a source of financing in the same way that borrowing or issuing stock is. Tax refunds and sales revenue are part of operations and

7. Which of the following is the basic form of an account?

- A. Balance Sheet
- B. Ledger
- C. T Account**
- D. Income Statement

The basic form of an account is typically represented by a T Account. A T Account visually displays how transactions affect a specific account in the general ledger. The structure consists of a "T" shape where the left side records debits and the right side records credits. This format helps accountants organize and summarize financial transactions related to that account, making it easier to see the overall effect on the account balance. In accounting, the T Account is foundational because it illustrates how different types of transactions will influence the account's balance over time, which is crucial for maintaining accurate financial records. Other options like the Balance Sheet and Income Statement represent financial statements that summarize a company's financial position or performance but do not constitute a basic form of an individual account. The Ledger is a collection of all T Accounts for a business, further detailing the transactions that occur but does not serve as an account itself. Therefore, the T Account is the most straightforward representation of a basic account in accounting.

8. What does the term "net working capital" refer to in accounting?

- A. The total liabilities of a company
- B. The difference between a company's current assets and current liabilities**
- C. The total assets a company has
- D. The total equity in a company

Net working capital is a key financial metric that measures a company's short-term financial health and efficiency. It is calculated as the difference between current assets and current liabilities. Current assets include cash, inventory, and accounts receivable, which are expected to be converted into cash or used within a year. Current liabilities, on the other hand, consist of obligations that the company must settle within the same timeframe, such as accounts payable and short-term debt. When net working capital is positive, it indicates that a company has sufficient short-term assets to cover its short-term liabilities, suggesting good financial health and liquidity. Conversely, a negative net working capital indicates potential liquidity issues, as the company may struggle to meet its short-term obligations. This concept is crucial for assessing a company's operational efficiency, as it reflects the ability to manage ongoing expenses and invest in growth opportunities. Thus, the definition that states net working capital is the difference between a company's current assets and current liabilities is correct. The other options do not accurately represent what net working capital is. Total liabilities pertain to all debts a company owes, total assets encompass everything the company owns, and total equity refers to the net assets available to shareholders after liabilities are deducted.

9. What is the primary purpose of an accounting information system?

- A. A system to track employee performance**
- B. A method to record and communicate economic events**
- C. A structure for setting budgets**
- D. A tool for managing inventory**

The primary purpose of an accounting information system (AIS) is to record and communicate economic events. This system integrates various data related to financial transactions and economic activities, ensuring that accurate and timely financial information is available for decision-making. It facilitates the collection, storage, and processing of data, allowing businesses to report their financial performance effectively and comply with regulations. By efficiently organizing financial data, an AIS supports activities such as preparing financial statements, conducting audits, and providing insights to management for strategic planning. The AIS plays a crucial role in monitoring the organization's financial health and helps in making informed decisions based on reliable data. In contrast to other options, tracking employee performance, setting budgets, and managing inventory are functions that may utilize the data provided by an accounting information system but do not capture its core purpose. While these functions are important in a business context, they are more specific applications of the broader capabilities of an AIS. Thus, the focus on recording and communicating economic events is what fundamentally defines the importance and function of an accounting information system.

10. What does the Statement of Cash Flows report include?

- A. Assets and liabilities**
- B. Revenue and expenses**
- C. Cash inflows and outflows**
- D. Owner's equity changes**

The Statement of Cash Flows specifically focuses on cash inflows and outflows during a certain period. It provides valuable information about how an organization generates and uses cash, categorizing the cash transactions into three main sections: operating activities, investing activities, and financing activities. This statement helps stakeholders assess the company's liquidity, flexibility, and overall financial health. It is essential for understanding the actual cash generated from operations, as opposed to net income, which can include non-cash items. By analyzing cash flows, investors and creditors can evaluate a company's ability to meet its obligations, reinvest in its operations, and return capital to shareholders. In contrast, other options, such as assets and liabilities, revenue and expenses, and owner's equity changes, pertain to different financial statements, like the Balance Sheet and the Income Statement. Each of these financial concepts provides important insights but does not focus specifically on cash movements like the Statement of Cash Flows does.

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://kossaaccounting.examzify.com>

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