

# Leaving Certificate Accounting Theory Practice Test (Sample)

## Study Guide



**Everything you need from our exam experts!**

**Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.**

**ALL RIGHTS RESERVED.**

**No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.**

**Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.**

**SAMPLE**

# Table of Contents

<b>Copyright</b> .....	<b>1</b>
<b>Table of Contents</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>3</b>
<b>How to Use This Guide</b> .....	<b>4</b>
<b>Questions</b> .....	<b>5</b>
<b>Answers</b> .....	<b>9</b>
<b>Explanations</b> .....	<b>11</b>
<b>Next Steps</b> .....	<b>18</b>

SAMPLE

# 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

SAMPLE

- 1. Which ratio best indicates long-term financial risk from debt relative to owner's funds?**
  - A. Current ratio**
  - B. Debt to equity ratio**
  - C. Net profit margin**
  - D. Gross profit percentage**
  
- 2. Why is goodwill not amortised in financial statements?**
  - A. Because impairment testing compares recoverable amount to carrying amount**
  - B. Because it's a cash asset**
  - C. Because goodwill has an indefinite life**
  - D. Because it's not recognised in financial statements**
  
- 3. Discuss the limitations of financial statements for decision-making and how users should supplement them.**
  - A. They are always current; supplement with more historical data**
  - B. They include all future projections; supplement with tax records**
  - C. They rely on historical costs and estimates; supplement with cash flow analysis, budgets, notes, and non-financial information**
  - D. They reflect market values precisely; supplement with price quotes**
  
- 4. Explain what constitutes a material misstatement and how it is addressed in financial reporting and auditing.**
  - A. A misstatement significant enough to influence users' decisions; corrected through adjusting entries or disclosures; auditor's opinion addresses material misstatement in the FS.**
  - B. Any misstatement, regardless of size, is corrected only by management's oral statements.**
  - C. Material misstatements are ignored if immaterial.**
  - D. Only those found by internal audit are addressed.**

- 5. Name the three main responsibilities of the management accountant in relation to planning, controlling and decision making.**
- A. Preparing data for plans.**
  - B. Recording costs and providing details of product costs.**
  - C. Participation in the creation and execution of budgets.**
  - D. All of the above.**
- 6. What is meant by re-apportionment of overheads?**
- A. Service department costs are reallocated between production departments.**
  - B. Overheads are absorbed by selling departments.**
  - C. Overheads are charged to owners personally.**
  - D. Overheads are ignored in cost allocation.**
- 7. Which agency regulates the production, content and presentation of company financial statements through listing rules?**
- A. The Stock Exchange through listing rules**
  - B. The Government through legislation**
  - C. The EU through directives**
  - D. The Accounting profession through standards**
- 8. What is a bonus issue and how is it recorded?**
- A. It is issue of shares for cash; Dr Bank; Cr Share Capital**
  - B. It is issue of shares without cash to existing shareholders; Dr Reserves; Cr Share Capital**
  - C. It is reduction of share capital; Dr Share Capital; Cr Reserves**
  - D. It is issue of shares to new investors at a premium; Dr Bank; Cr Share Capital; Cr Share Premium**

- 9. What does IFRS 16 require for lessee accounting regarding lease liabilities and right-of-use assets on initial recognition?**
- A. Recognize a lease liability at present value of lease payments; recognize a right-of-use asset at cost equal to lease liability plus any initial direct costs and payments; subsequent depreciation and interest.**
  - B. Recognize only the lease payments as an expense; no asset**
  - C. Recognize a right-of-use asset separately from the lease liability**
  - D. Do nothing until lease payments are made in cash**
- 10. Which statement best distinguishes share capital and share premium?**
- A. Share capital represents the nominal value of issued shares; share premium is the amount received over nominal value; both form part of equity**
  - B. Share premium is a liability until profits are distributed**
  - C. Share capital is revenue; share premium is an expense**
  - D. Share premium is included within current assets**

## Answers

SAMPLE

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

SAMPLE

## **Explanations**

SAMPLE

**1. Which ratio best indicates long-term financial risk from debt relative to owner's funds?**

- A. Current ratio**
- B. Debt to equity ratio**
- C. Net profit margin**
- D. Gross profit percentage**

Understanding leverage: how much debt a business uses compared with the owners' funds. The debt-to-equity ratio directly compares what the company owes (liabilities) to what the owners have invested (owners' equity), so it shows financial leverage. A higher ratio signals more debt relative to equity, meaning greater long-term risk because debt service reduces cash flow and losses can erode equity faster. This makes it the best gauge of long-term risk from debt versus owner's funds. The current ratio measures short-term liquidity, not long-term solvency, while profit margins reflect profitability rather than leverage.

**2. Why is goodwill not amortised in financial statements?**

- A. Because impairment testing compares recoverable amount to carrying amount**
- B. Because it's a cash asset**
- C. Because goodwill has an indefinite life**
- D. Because it's not recognised in financial statements**

Goodwill is not amortised because it's treated as having an indefinite useful life and is therefore carried at cost and tested for impairment rather than allocated over time. Under IAS 36, an annual impairment test is performed to compare the recoverable amount of the cash-generating unit to its carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use; if this is less than the carrying amount, an impairment loss is recognised against goodwill. This method prevents overstatement of goodwill and reflects that its value depends on future performance, which can change.

- 3. Discuss the limitations of financial statements for decision-making and how users should supplement them.**
- A. They are always current; supplement with more historical data**
  - B. They include all future projections; supplement with tax records**
  - C. They rely on historical costs and estimates; supplement with cash flow analysis, budgets, notes, and non-financial information**
  - D. They reflect market values precisely; supplement with price quotes**

Financial statements provide useful information about past events and current financial position, but they are based on historical costs and many estimates. Because of that, they don't always reflect current values, future cash flows, or the full range of risks and opportunities a decision requires. That's why users should supplement them with additional analysis and information. Cash flow analysis is essential because it focuses on actual cash movements, showing when cash is likely to come in or go out. This helps assess liquidity, solvency, and the ability to fund day-to-day operations and planned investments, which numbers on the income statement or balance sheet alone can obscure. Budgets offer forward-looking perspectives by outlining expected revenues, expenses, and capital needs. They provide a benchmark for judging actual performance and highlight variances that signal where plans may need adjustment. Notes to the financial statements are key for understanding how numbers were derived. They disclose accounting policies, estimation methods, and contingencies, clarifying why figures look the way they do and drawing attention to uncertainties that could affect future results. Non-financial information—such as market position, competitive dynamics, management quality, regulatory environment, sustainability, and technological change—often has a material effect on future performance but isn't captured in the core financial statements. Including these factors gives a more complete view of risk and potential. By combining financial statements with cash flow analysis, budgets, notes, and non-financial information, users gain a more robust, decision-useful picture that supports more informed choices.

**4. Explain what constitutes a material misstatement and how it is addressed in financial reporting and auditing.**

**A. A misstatement significant enough to influence users' decisions; corrected through adjusting entries or disclosures; auditor's opinion addresses material misstatement in the FS.**

**B. Any misstatement, regardless of size, is corrected only by management's oral statements.**

**C. Material misstatements are ignored if immaterial.**

**D. Only those found by internal audit are addressed.**

Material misstatement means a misstatement that could influence the economic decisions of users of the financial statements. It can arise from errors or fraud and may involve amounts or disclosures. Whether a misstatement is material depends on its size, nature, and the context of the statement as a whole. If a misstatement is material, management should correct it through adjusting entries in the books or by adding or revising disclosures in the notes. If the financial statements have already been issued, material misstatements may require restating prior periods or providing additional disclosures to inform users accurately. In auditing, the goal is to determine whether any material misstatements exist and, if they do, whether they have been corrected. When material misstatements remain, the auditor's opinion on the financial statements is modified (for example, a qualified or adverse opinion) depending on the extent and pervasiveness. If misstatements are material but not pervasive and are corrected, the auditor can issue a clean opinion. The auditor's opinion explicitly addresses whether the financial statements present a true and fair view free of material misstatements.

**5. Name the three main responsibilities of the management accountant in relation to planning, controlling and decision making.**

**A. Preparing data for plans.**

**B. Recording costs and providing details of product costs.**

**C. Participation in the creation and execution of budgets.**

**D. All of the above.**

In management accounting, supporting planning, controlling, and decision making relies on three practical activities. First, preparing data for plans means gathering and presenting the information that underpins forecasts and plans—things like cost estimates, standard costs, and profitability analyses that feed into budgets and strategic decisions. This data foundation helps management form realistic directions and targets. Second, recording costs and providing details of product costs ensures that managers can see exactly where money is spent and how much each product costs to produce. This supports control by enabling variance analysis, cost control, and accurate product pricing, which are essential for monitoring performance and making informed choices. Third, participating in the creation and execution of budgets puts managers into the budgeting process itself, from setting targets to compiling budgets and monitoring actual performance against them. This aligns expectations with resources and informs corrective actions when things deviate from the plan. All of these activities together cover planning, controlling, and decision making, so they represent the full set of responsibilities.

**6. What is meant by re-apportionment of overheads?**

- A. Service department costs are reallocated between production departments.**
- B. Overheads are absorbed by selling departments.**
- C. Overheads are charged to owners personally.**
- D. Overheads are ignored in cost allocation.**

Re-apportionment of overheads means reallocating the costs from service departments to the production departments that actually use their services. In many cost systems, overheads are first assigned to service departments (like maintenance, canteen, or IT), and then those costs are spread out to the production departments based on usage measures (such as hours worked, floor area, or headcount). This step ensures each production department bears a fair share of the overheads that it consumes, giving a more accurate view of the cost of producing each product or department. The other options don't describe this process: absorbing overheads by selling departments, charging to owners personally, or ignoring overheads altogether don't reflect reallocating service-department costs to where they are used.

**7. Which agency regulates the production, content and presentation of company financial statements through listing rules?**

- A. The Stock Exchange through listing rules**
- B. The Government through legislation**
- C. The EU through directives**
- D. The Accounting profession through standards**

The key idea is that the body responsible for regulating how a company's financial statements are produced, presented, and disclosed for listed companies is the stock exchange through its listing rules. When a company is listed, the exchange imposes requirements about the preparation and presentation of financial statements—audited accounts, alignment with recognized accounting standards, proper disclosures, and timely publication. These listing-rule obligations are designed to ensure investors receive reliable, comparable information, which supports fair trading and market confidence. While government legislation, EU directives, and accounting standards all shape financial reporting, the specific mechanism described—regulation via listing rules—points to the stock exchange. The accounting standards dictate the content and format of the statements, but the enforcement and dissemination requirements in the listing context come from the exchange's listing rules.

## 8. What is a bonus issue and how is it recorded?

- A. It is issue of shares for cash; Dr Bank; Cr Share Capital
- B. It is issue of shares without cash to existing shareholders; Dr Reserves; Cr Share Capital**
- C. It is reduction of share capital; Dr Share Capital; Cr Reserves
- D. It is issue of shares to new investors at a premium; Dr Bank; Cr Share Capital; Cr Share Premium

A bonus issue is when a company issues additional shares to existing shareholders at no cash cost, by capitalizing reserves to increase share capital. The recording reflects that no cash has moved in or out; instead, the company moves funds from reserves into share capital. The appropriate journal entry is a debit to reserves (the source of the capitalization) and a credit to share capital, increasing the number of shares outstanding while reducing reserves. This keeps the overall value of equity the same, just rebalances it from reserves to share capital. It's different from a cash issue to new investors or a premium issue, which involve cash or premium accounts.

## 9. What does IFRS 16 require for lessee accounting regarding lease liabilities and right-of-use assets on initial recognition?

- A. Recognize a lease liability at present value of lease payments; recognize a right-of-use asset at cost equal to lease liability plus any initial direct costs and payments; subsequent depreciation and interest.**
- B. Recognize only the lease payments as an expense; no asset
- C. Recognize a right-of-use asset separately from the lease liability
- D. Do nothing until lease payments are made in cash

Under IFRS 16, at the start of a lease the lessee must recognise both a lease liability and a right-of-use asset. The lease liability is measured as the present value of the lease payments due over the lease term, discounted using the rate implicit in the lease if readily available, or the lessee's incremental borrowing rate. The right-of-use asset is recognised at an amount equal to the lease liability, plus any payments made to the lessor before commencement, plus any initial direct costs, minus any lease incentives received. This pairing creates both an asset (the right to use the underlying asset) and a corresponding liability. After recognition, the asset is depreciated (or impairment considered) and the liability accrues interest, with lease payments reducing the liability. The other options either omit recognizing the asset and liability, treat the arrangement as an immediate expense, or postpone recognition until cash is paid.

**10. Which statement best distinguishes share capital and share premium?**

- A. Share capital represents the nominal value of issued shares; share premium is the amount received over nominal value; both form part of equity**
- B. Share premium is a liability until profits are distributed**
- C. Share capital is revenue; share premium is an expense**
- D. Share premium is included within current assets**

Share capital and share premium are two components of equity. Share capital represents the nominal value of shares that have been issued. The amount shareholders pay above that nominal value is recorded as share premium. Because both of these sit in the equity section, they are not liabilities and they are not revenues or expenses. That's why the statement that correctly describes them—sharing the same status in equity while distinguishing nominal value from the extra amount paid—is the best choice. The other ideas conflict with how equity works: share premium isn't a liability until profits are distributed, it isn't revenue or an expense, and it isn't a current asset.

## 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://leavingcertaccountingtheory.examzify.com>**

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

SAMPLE