

NAFTrack 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. 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 is a trade receivable aging schedule used for?**
 - A. A schedule grouping receivables by age; used to estimate uncollectible amounts and adjust allowances accordingly.**
 - B. Schedule of bad debt write-offs.**
 - C. Schedule of inventory aging.**
 - D. Profit and loss schedule.**

- 2. Which organization is a private, nonprofit entity that develops standards for GAAP?**
 - A. SEC**
 - B. AICPA**
 - C. FASB**
 - D. PCAOB**

- 3. Which item would not typically be part of an audit trail?**
 - A. Source documents**
 - B. Journals**
 - C. Ledgers**
 - D. Marketing brochures**

- 4. Bank reconciliations help detect irregularities by comparing bank statements with which records?**
 - A. The general ledger**
 - B. Budgets with actuals**
 - C. Invoices with receipts**
 - D. Cash on hand with petty cash**

- 5. Which of the following entities enforces financial laws and standards to protect the public and markets?**
 - A. Financial Analysts**
 - B. Regulatory Agencies**
 - C. Correcting Entries**
 - D. Resume Writers**

- 6. Which statement correctly describes accrual accounting?**
- A. Records transactions when the transaction occurs**
 - B. Based on cash receipts**
 - C. Used for accounts payable/receivable; Records transactions when the transaction occurs**
 - D. Only for cash basis reporting**
- 7. Which professional analyzes financial data to spot trends and guide investment decisions?**
- A. Financial Analysts**
 - B. Regulatory Agencies**
 - C. Financial Advisors**
 - D. Correcting Entries**
- 8. Which bad debt method is generally more GAAP-compliant?**
- A. Neither is GAAP-compliant.**
 - B. Direct write-off only.**
 - C. Both are equally GAAP-compliant.**
 - D. The allowance method.**
- 9. Which documents constitute an effective audit trail in financial records?**
- A. Source documents (invoices, receipts), journals, ledgers, and supporting schedules**
 - B. Bank statements only**
 - C. Emails from management**
 - D. Payroll summaries only**
- 10. How is net working capital calculated and what does it indicate?**
- A. Net working capital equals total assets minus total liabilities; indicates overall solvency.**
 - B. Net working capital equals cash balance minus debt; indicates liquidity.**
 - C. Net working capital equals current liabilities minus current assets; indicates working capital risk.**
 - D. Net working capital equals current assets minus current liabilities; indicates short-term liquidity and operational cushion.**

Answers

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

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Explanations

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1. What is a trade receivable aging schedule used for?

- A. A schedule grouping receivables by age; used to estimate uncollectible amounts and adjust allowances accordingly.**
- B. Schedule of bad debt write-offs.**
- C. Schedule of inventory aging.**
- D. Profit and loss schedule.**

An aging schedule for receivables groups amounts by how long they've been outstanding, which helps you assess collectibility and set the allowance for doubtful accounts. By binning receivables into age bands (for example, current, 1-30 days, 31-60 days, 61-90 days, over 90 days), you apply historical default rates to each band to estimate how much may be uncollectible. This estimate directly informs the bad debt expense and the allowance on the balance sheet, and it also helps identify overdue accounts that may need more aggressive collection efforts. It isn't a list of actual write-offs, nor is it about inventory aging or a general profit-and-loss schedule; those serve different purposes.

2. Which organization is a private, nonprofit entity that develops standards for GAAP?

- A. SEC**
- B. AICPA**
- C. FASB**
- D. PCAOB**

The main idea is recognizing who actually develops the GAAP standards in the United States. That role is filled by a private, nonprofit organization called the Financial Accounting Standards Board. FASB operates independently under the oversight of the Financial Accounting Foundation and is responsible for creating and updating GAAP through a formal due-process process, including public comment periods and formal issuances called Accounting Standards Updates. The SEC relies on FASB for GAAP but does not set the standards itself. The other entities have different functions. The SEC is a federal government agency that oversees securities markets and enforces laws, but it does not determine GAAP. The AICPA is a professional association of CPAs and historically contributed to standard-setting, but GAAP currently comes from FASB. The PCAOB focuses on auditing standards for public companies, not GAAP for financial reporting.

3. Which item would not typically be part of an audit trail?

- A. Source documents
- B. Journals
- C. Ledgers
- D. Marketing brochures**

An audit trail is the documented path showing how a financial transaction is recorded and flows from the original evidence to the financial statements. It relies on source documents that prove what happened (invoices, receipts), journals where the entry is initially recorded, and ledgers that accumulate and summarize those postings by account. These elements provide a verifiable chain that auditors can follow to verify amounts, dates, and classifications. Marketing brochures, while useful for understanding a company's marketing activities, do not contain the transactional data or the evidence of amounts and accounts involved in financial transactions. They don't show when a sale occurred, how much it was for, or how it was recorded in the books, so they wouldn't be part of the formal audit trail.

4. Bank reconciliations help detect irregularities by comparing bank statements with which records?

- A. The general ledger**
- B. Budgets with actuals
- C. Invoices with receipts
- D. Cash on hand with petty cash

Bank reconciliations focus on aligning the cash balance shown by the bank with the cash balance recorded in the company's books. The best match for detecting irregularities is the general ledger, specifically the cash account, because it tracks every cash transaction from the company's perspective. By comparing the bank statement to the general ledger, you can spot items the bank has recorded that the company hasn't (or vice versa), such as deposits in transit, outstanding checks, bank fees, interest, or posting errors. Budgets with actuals relate to planned versus actual performance, not the real-time movement of cash. Invoices with receipts pertain to revenue and payables documentation, not the bank's cash activity. Cash on hand with petty cash covers internal cash handling rather than reconciling bank statements.

5. Which of the following entities enforces financial laws and standards to protect the public and markets?

- A. Financial Analysts
- B. Regulatory Agencies**
- C. Correcting Entries
- D. Resume Writers

Regulatory agencies are the ones tasked with enforcing financial laws and standards to protect the public and ensure fair, orderly markets. They establish rules, supervise financial firms and activities, monitor for fraud or market manipulation, and impose penalties or corrective actions when rules are violated. This enforcement helps maintain investor confidence and the reliability of financial reporting, which is essential for healthy capital markets. Financial analysts focus on interpreting data and advising decisions, but they do not enforce laws. Correcting entries fix bookkeeping errors, not regulatory compliance. Resume writers help with job applications, not market regulation.

6. Which statement correctly describes accrual accounting?

- A. Records transactions when the transaction occurs**
- B. Based on cash receipts**
- C. Used for accounts payable/receivable; Records transactions when the transaction occurs**
- D. Only for cash basis reporting**

Accrual accounting recognizes economic events when they occur and records revenues when earned and expenses when incurred, regardless of when cash actually changes hands. This timing is essential for matching revenues with the expenses that generated them and for reflecting obligations and rights through accounts payable and accounts receivable. That's why the best description is that accrual accounting is used for accounts payable/receivable and records transactions when the event occurs. It captures both the existence of obligations and the timing of recognition, not just cash movements. The alternative describing cash receipts points to cash-basis reporting, which ignores the revenue/expense timing and is not how accrual accounting works. The notion of simply recording transactions when they occur is incomplete without tying the timing to earnings and incurred expenses, and it isn't limited to cash-basis reporting, which makes it less accurate as a description.

7. Which professional analyzes financial data to spot trends and guide investment decisions?

- A. Financial Analysts**
- B. Regulatory Agencies**
- C. Financial Advisors**
- D. Correcting Entries**

This question focuses on identifying the professional who analyzes financial data to spot trends and guide investment decisions. Financial analysts study company financial statements, earnings, cash flow, market data, and economic indicators to identify patterns, forecast performance, and make investment recommendations. They build financial models, compare potential investments, assess risk, and translate data into actionable guidance for portfolio managers or clients. Regulatory agencies set rules and oversee markets rather than perform investment analysis. Financial advisors provide client-focused planning and investment guidance based on goals and risk tolerance, often using analysts' research as input. Correcting entries are routine accounting adjustments, not roles tied to analyzing financial data for investment decisions.

8. Which bad debt method is generally more GAAP-compliant?

- A. Neither is GAAP-compliant.**
- B. Direct write-off only.**
- C. Both are equally GAAP-compliant.**
- D. The allowance method.**

Under GAAP, the goal is to match expenses with the revenues they help generate and to report receivables at their net realizable value. The allowance method achieves this by estimating uncollectible accounts and recording an allowance for doubtful accounts, with bad debt expense recognized in the same period as the related sales. This approach reduces accounts receivable to what management expects to collect and provides a more accurate picture of financial position. Direct write-off, on the other hand, records bad debt only when a specific account is deemed uncollectible. This can happen in a different period from when the sale occurred, causing a mismatch between revenues and expenses and leaving receivables overstated for longer. While it may be permissible for immaterial amounts, it is not the GAAP-preferred approach for financial reporting. So, the method that is generally more GAAP-compliant is the allowance method.

9. Which documents constitute an effective audit trail in financial records?

- A. Source documents (invoices, receipts), journals, ledgers, and supporting schedules**
- B. Bank statements only**
- C. Emails from management**
- D. Payroll summaries only**

An effective audit trail is a traceable path from the original, supporting documents to the final financial statements, so every transaction can be verified. The best answer bundles source documents (invoices, receipts), journals, ledgers, and supporting schedules because this sequence captures the entire lifecycle of a transaction: the event and amount come from the source document, are recorded in a journal, posted to the appropriate ledger accounts, and reconciled or detailed in schedules that support the figures in the statements. This complete chain lets an auditor follow a transaction from its origin through to its impact on financial statements, ensuring accuracy and proper authorization. Bank statements alone don't provide the full evidence trail—they show cash activity but not the original event, calculation, or posting path. Emails from management may explain decisions but don't constitute the formal, verifiable records that link a transaction to its source and postings. Payroll summaries cover payroll data but omit the broader set of transactions and the linked documentation that tie everything back to the ledgers and financial statements.

10. How is net working capital calculated and what does it indicate?

- A. Net working capital equals total assets minus total liabilities; indicates overall solvency.**
- B. Net working capital equals cash balance minus debt; indicates liquidity.**
- C. Net working capital equals current liabilities minus current assets; indicates working capital risk.**
- D. Net working capital equals current assets minus current liabilities; indicates short-term liquidity and operational cushion.**

Net working capital shows how much cushion a company has to fund its day-to-day operations in the near term. It is calculated by subtracting current liabilities from current assets. A positive result means there are enough short-term assets (like cash, accounts receivable, and inventory that can be turned into cash) to cover short-term obligations (like supplier payments and upcoming debts), providing flexibility in daily operations. A larger positive figure generally signals stronger short-term liquidity and a buffer for unexpected expenses, while a negative figure suggests potential liquidity stress and a need for financing or tighter working capital management. The other ideas mix up what net working capital represents. Using total assets minus total liabilities measures overall solvency and equity, not the near-term liquidity picture. Using cash minus debt focuses on cash holdings versus borrowings rather than all current assets and current liabilities. Reversing the order to liabilities minus assets would imply the opposite sign and a different interpretation, not the standard measure of working capital.

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://naftackaccounting.examzify.com>

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

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