

NAFTRACK ACCOUNTING PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE**

<https://nafttrackaccounting.examzify.com>



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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 the effect of treasury stock on equity?**
 - A. Increases total equity
 - B. Has no effect on equity
 - C. Reduces total stockholders' equity
 - D. Converts to debt
- 2. Which role is primarily responsible for internal controls and accurate financial reporting?**
 - A. Management Accounting
 - B. Budget Analysis
 - C. Financial Forms
 - D. Controller
- 3. Which accounting principle is associated with the phrase 'analysis of composition' in the source?**
 - A. Principle of Regularity
 - B. Principle of Conservatism
 - C. Principle of Permanence of Methods
 - D. Principle of Sincerity
- 4. What is the fourth step in the accounting cycle?**
 - A. Prepare a trial balance
 - B. Prepare post-closing trial balance
 - C. Close temporary accounts
 - D. Prepare financial statements
- 5. Which principle would most directly conflict with using different accounting methods from year to year without justification?**
 - A. Regularity
 - B. Permanence of Methods
 - C. Sincerity
 - D. Conservatism

- 6. How do purchase discounts and purchase returns affect the cost of inventory?**
- A. Discounts reduce cost if taken; returns reduce cost of purchases; both reduce inventory cost or COGS depending on method.
 - B. They never affect the cost; only affect revenue.
 - C. Discounts reduce revenue; returns increase inventory at cost.
 - D. Discounts increase COGS; returns have no effect.
- 7. A professional who verifies the accuracy and compliance of financial records.**
- A. Auditor
 - B. Budget Analysis
 - C. Controller
 - D. Management Accounting
- 8. Which description describes SCOE?**
- A. A cash flow statement
 - B. A summary of costs of sales
 - C. A balance sheet
 - D. Reports change in capital from beginning to end of period; new capital balance found in previous SCOE
- 9. An error where two adjacent digits are reversed.**
- A. Transposition error
 - B. Slide Error
 - C. Auditor
 - D. Management Accounting
- 10. Which description best defines Vertical Analysis on an income statement?**
- A. Identifying trends by comparing two periods
 - B. Assessing liquidity with the current ratio
 - C. Compares each line item on the income statement to total revenue
 - D. Evaluates asset turnover

Answers

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

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Explanations

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1. What is the effect of treasury stock on equity?

- A. Increases total equity
- B. Has no effect on equity
- C. Reduces total stockholders' equity**
- D. Converts to debt

When a company buys back its own shares, those shares become treasury stock. This is recorded as a deduction from shareholders' equity, a contra-equity account. The cash paid to repurchase reduces assets, and the corresponding deduction reduces total stockholders' equity by the same amount, so overall equity decreases. Treasury stock is not an asset, and it does not create debt, so it does not increase or leave equity unchanged or turn into debt. The key idea is that holding treasury stock lowers the total equity.

2. Which role is primarily responsible for internal controls and accurate financial reporting?

- A. Management Accounting
- B. Budget Analysis
- C. Financial Forms
- D. Controller**

The question checks who owns the reliability of financial reporting and the control framework inside a company. The controller is the senior accounting official responsible for running the accounting department, closing the books, and delivering the financial statements. This role designs and enforces internal controls—such as separation of duties, authorization and approval processes, reconciliations, and access controls—and ensures the financial statements accurately reflect the company's financial position in line with GAAP or IFRS. The controller also coordinates with external auditors and monitors the effectiveness of controls, addressing issues as they arise. While management accounting focuses on internal cost and performance data, and budget analysis centers on planning and variances, those areas do not own the formal financial reporting and control environment.

3. Which accounting principle is associated with the phrase 'analysis of composition' in the source?

- A. Principle of Regularity
- B. Principle of Conservatism
- C. Principle of Permanence of Methods**
- D. Principle of Sincerity

This question hinges on maintaining consistent accounting approaches over time so that financial results can be meaningfully compared. The phrase "analysis of composition" points to examining how items are broken down and valued across periods. To compare financial statements accurately, the methods used to classify and measure those components must stay the same from one period to the next. That is exactly what Permanence of Methods promotes: a stable, consistent approach to accounting procedures so that changes in financial figures reflect real changes rather than changes in measurement. The other principles focus on different ideas. Regularity is about adhering to rules and standards, conservatism is about prudent recognition of assets and revenues (and cautious understatement of gains), and sincerity concerns faithful representation. None of these directly address the requirement to keep methods constant to ensure comparability, which is the essence of the permanence of methods.

4. What is the fourth step in the accounting cycle?

- A. Prepare a trial balance**
- B. Prepare post-closing trial balance
- C. Close temporary accounts
- D. Prepare financial statements

The step being tested is the order of the accounting cycle and where the trial balance fits in. After recording transactions and posting them to the ledgers, you prepare a trial balance to verify that total debits equal total credits and to summarize the balances of all accounts. This check is essential before making any adjusting entries, so the trial balance is positioned as the fourth step in the cycle. By confirming the ledger is in balance, you have a solid starting point for adjustments, then for preparing financial statements, closing temporary accounts, and eventually generating a post-closing trial balance.

5. Which principle would most directly conflict with using different accounting methods from year to year without justification?

- A. Regularity
- B. Permanence of Methods**
- C. Sincerity
- D. Conservatism

Consistency in applying accounting methods across periods is the central idea here. If you change the method from year to year without a justified reason, financial statements lose comparability, making it hard to tell whether changes in income or asset values reflect actual performance or just a different method. Permanence of Methods (consistency) requires sticking with the same method from period to period unless there's a valid, disclosed reason to switch, and the impact should be shown in the notes so users can compare apples to apples over time. Regularity means following applicable rules and procedures; sincerity is about faithful representation of the financial position and results; conservatism guides cautious estimation to avoid overstating assets or income. None of these directly impose the same cross-year consistency requirement that changing methods without justification would violate, which is why the principle of Permanence of Methods best fits the scenario.

6. How do purchase discounts and purchase returns affect the cost of inventory?

- A. Discounts reduce cost if taken; returns reduce cost of purchases; both reduce inventory cost or COGS depending on method.**
- B. They never affect the cost; only affect revenue.
- C. Discounts reduce revenue; returns increase inventory at cost.
- D. Discounts increase COGS; returns have no effect.

Purchase discounts and returns change the cost basis of inventory. When you take a purchase discount, you pay less for the goods, so the cost recorded for the inventory is reduced by that discount. When you return goods, the purchase cost is reduced by the value of the returns. In either case, these reductions lower the amount tied up in inventory and, when the inventory is sold, lower the cost of goods sold. Whether the reduction appears in the Inventory account or in Purchases (and ultimately COGS) depends on whether you're using a perpetual or periodic system and whether you apply the gross or net method, but the outcome is the same: these items reduce the recorded cost of inventory and, thus, COGS when the goods are sold.

7. A professional who verifies the accuracy and compliance of financial records.

- A. Auditor**
- B. Budget Analysis
- C. Controller
- D. Management Accounting

Auditing is about providing independent verification and assurance that financial records are accurate and comply with applicable accounting standards and regulations. An auditor gathers evidence, tests transactions, reviews internal controls, and then offers an opinion on whether the financial statements present a true and fair view. This directly matches the idea of verifying accuracy and compliance of financial records. The other roles focus on planning, managing, or analyzing finances—budget analysis handles planning and variances, the controller oversees day-to-day accounting and reporting, and management accounting supports internal decision-making with cost and performance analysis. So, the responsible professional described is the auditor.

8. Which description describes SCOPE?

- A. A cash flow statement
- B. A summary of costs of sales
- C. A balance sheet
- D. Reports change in capital from beginning to end of period; new capital balance found in previous SCOPE**

The main idea is that the SCOPE shows how the owner's capital changes over a period. It starts with the opening capital, adds or subtracts items like owner contributions, withdrawals, and net income or loss, and ends with the closing capital. The description that says it reports the change in capital from beginning to end of the period and that the new capital balance is found in the previous SCOPE captures this flow: the ending balance from the prior period becomes the starting point for the next SCOPE. This distinguishes it from a cash flow statement (which tracks cash movements), a summary of costs of sales (COGS), or a balance sheet (a snapshot of assets, liabilities, and equity at a single point in time).

9. An error where two adjacent digits are reversed.

- A. Transposition error**
- B. Slide Error
- C. Auditor
- D. Management Accounting

Transposition error. It happens when two adjacent digits swap places in a number, so the digits are reversed in position while the rest of the number stays the same. This exactly matches "two adjacent digits are reversed." In practice, this can occur during manual data entry, for example entering 58 as 85. The other terms aren't types of data-entry errors: a slide error involves digits moving to a neighboring position, while auditor and management accounting refer to a person/role and a field, not an entry mistake.

10. Which description best defines Vertical Analysis on an income statement?

- A. Identifying trends by comparing two periods
- B. Assessing liquidity with the current ratio
- C. Compares each line item on the income statement to total revenue**
- D. Evaluates asset turnover

Vertical analysis on an income statement presents each line item as a percentage of total revenue, so you can see how much of revenue is consumed by costs and how much income remains at each level. This approach highlights the relative size of expenses, margins, and profits, making it easy to compare performance across periods or between different companies regardless of scale. In essence, you're expressing every item relative to revenue, which is what defines vertical analysis for the income statement. Other methods describe different ideas: tracking changes over time across periods is horizontal (trend) analysis; assessing liquidity with a ratio like current ratio focuses on short-term solvency; and evaluating asset turnover is about how efficiently assets generate sales.

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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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