

NCEA Level 1 Accounting 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

- 1. What is a common use of financial ratios?**
 - A. To forecast future sales growth**
 - B. To compare different companies in the same industry**
 - C. To determine stock price volatility**
 - D. To analyze customer satisfaction**
- 2. Which of the following is an expense related to business communication devices?**
 - A. Insurance**
 - B. Telephone Expenses**
 - C. Postage**
 - D. Rates**
- 3. Which classification does "Accrued Income" belong to?**
 - A. Asset**
 - B. Liability**
 - C. Expense**
 - D. Equity**
- 4. Which of the following expense categories typically relates to local government services?**
 - A. Rates**
 - B. Utilities**
 - C. Insurance**
 - D. Supplies**
- 5. Which of the following is generally categorized as an administrative expense in accounting?**
 - A. Doubtful debts rates**
 - B. Accountant fees**
 - C. Donations**
 - D. Bad debt**

- 6. What type of account is "Supplies on hand"?**
- A. Asset**
 - B. Expense**
 - C. Liability**
 - D. Revenue**
- 7. What type of expense is related to the usage of a retail location over a specific period?**
- A. Delivery van repairs**
 - B. Shop rent/electricity**
 - C. Accountant fees**
 - D. Depreciation on shop fittings**
- 8. Which group is primarily interested in the details provided by the 'Notes to the Financial Statements'?**
- A. Only the auditors**
 - B. Only management**
 - C. Investors and stakeholders**
 - D. The general public only**
- 9. For which aspect do the 'Notes to the Financial Statements' NOT provide assistance?**
- A. Understanding the financial position of a business**
 - B. Analyzing revenue trends over years**
 - C. Identifying managerial practices within an organization**
 - D. Clarifying accounting estimates and judgments made in reporting**
- 10. What characterizes a 'fiscal year' in accounting?**
- A. A one-year period used for financial reporting, which may or may not align with the calendar year**
 - B. A quarter of the year used for budgeting purposes**
 - C. A period used solely for tax calculations**
 - D. A time frame where businesses cannot report any earnings**

Answers

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

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Explanations

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1. What is a common use of financial ratios?

- A. To forecast future sales growth
- B. To compare different companies in the same industry**
- C. To determine stock price volatility
- D. To analyze customer satisfaction

A common use of financial ratios is to compare different companies within the same industry. This practice allows investors and analysts to evaluate companies' financial health and operational efficiency relative to their peers. By analyzing ratios such as profitability, liquidity, and leverage, stakeholders can gain insights into how well a company performs compared to others in its sector. This benchmarking is critical because it helps assess competitive advantage, operational practices, and overall market positioning. For instance, comparing the current ratio of two companies in the same industry can reveal which company is better positioned to meet its short-term liabilities. These comparisons provide a clearer picture than looking at absolute numbers alone, as the financial landscape can vary significantly across industries, making direct comparisons misleading.

2. Which of the following is an expense related to business communication devices?

- A. Insurance
- B. Telephone Expenses**
- C. Postage
- D. Rates

Telephone expenses are directly related to business communication devices as they encompass the costs associated with using telephones for business purposes. This includes the monthly service charges, call costs, and any additional fees that might be incurred from using landlines or mobile phones. In the context of accounting, expenses are recorded to reflect the costs incurred by a business in the operation of its activities, and telephone expenses clearly fall into this category as they are necessary for conducting business communication. In comparison, insurance refers to the protection of company assets and does not specifically pertain to communication; postage involves costs related to mailing items rather than electronic communication; while rates usually refer to property-related expenses, such as local taxes, which are not directly linked to communication devices. Therefore, telephone expenses are the most appropriate choice as an expense explicitly associated with business communication devices.

3. Which classification does "Accrued Income" belong to?

- A. Asset**
- B. Liability**
- C. Expense**
- D. Equity**

Accrued income refers to income that has been earned but not yet received in cash. It represents a future economic benefit that the business expects to realize, as it reflects work that has been completed or services provided for which payment is still outstanding. Classifying accrued income as an asset makes sense because it represents a resource controlled by the business that is expected to generate cash inflow in the future. In the accounting equation ($\text{Assets} = \text{Liabilities} + \text{Equity}$), it is essential for businesses to recognize accrued income as part of their assets to accurately represent their financial position. This classification underscores the importance of recognizing earned income at the point it is accrued, rather than waiting until cash is received. Properly identifying accrued income as an asset enables stakeholders to see a more accurate picture of the company's financial health and expected future cash flows.

4. Which of the following expense categories typically relates to local government services?

- A. Rates**
- B. Utilities**
- C. Insurance**
- D. Supplies**

The choice of rates as the correct answer reflects the common funding mechanism for local government services. Rates are taxes levied on property owners within a local government jurisdiction and are primarily used to finance public services such as road maintenance, waste collection, public parks, and community facilities. This means that rates are directly tied to the funding and provision of essential services that local governments manage for the benefit of their communities. On the other hand, while utilities, insurance, and supplies could also relate to expenses incurred by local government organizations, they do not specifically characterize the overarching revenue source intended for public service delivery as rates do. Utilities refer to services such as water and electricity, which can be billed separately to residents. Insurance costs are related to protecting assets or liabilities but do not represent a funding mechanism for local government services. Supplies encompass general materials and goods required by local government departments but do not encapsulate the financial structure underlying local governance.

5. Which of the following is generally categorized as an administrative expense in accounting?

A. Doubtful debts rates

B. Accountant fees

C. Donations

D. Bad debt

Administrative expenses refer to the costs associated with the general operation of a business that are not directly tied to a specific function such as production or sales. These expenses often include costs incurred in administration, management, and office functions. Accountant fees fall into this category because they are costs associated with obtaining professional services for financial reporting, tax preparation, and compliance, which are essential for the administrative functions of a business. The expenses incurred in hiring accountants are necessary for maintaining proper financial records and ensuring the company adheres to legal requirements. In contrast, doubtful debts rates, donations, and bad debts typically represent different types of expenses. Doubtful debts involve estimations related to uncollectible accounts and are not purely administrative but linked to credit-related decisions. Donations are considered charitable contributions and often do not directly relate to administrative operations. Bad debt is an expense that arises from accounts receivable that are deemed uncollectible and is more closely associated with credit risk and collections rather than the general administration of the business.

6. What type of account is "Supplies on hand"?

A. Asset

B. Expense

C. Liability

D. Revenue

The appropriate classification for "Supplies on hand" is an asset. Assets are resources owned by a business that are expected to provide future economic benefits. In this case, supplies on hand represent tangible items that a business has available for use in its operations, such as office supplies or materials needed for production. These items can be utilized in the current period or held for future use, making them valuable resources. Regarding the other classifications, expenses pertain to the costs incurred by a business in the process of earning revenue, such as rent or utilities, which do not align with the nature of supplies on hand. Liabilities represent obligations that the business owes to others, such as loans or accounts payable, which again do not apply to supplies that the business retains. Revenue refers to income generated from the sale of goods and services, which is also unrelated to the concept of supplies on hand. Therefore, understanding that supplies on hand are assets reflects a key aspect of accounting, as it helps in accurately representing a company's financial position on the balance sheet.

7. What type of expense is related to the usage of a retail location over a specific period?

- A. Delivery van repairs**
- B. Shop rent/electricity**
- C. Accountant fees**
- D. Depreciation on shop fittings**

The correct answer pertains to expenses that are incurred due to the operation and maintenance of a retail location, typically characterized as overhead or operating expenses. Shop rent and electricity costs are directly associated with occupying and utilizing the physical retail space. Rent is the amount paid for leasing the property, while electricity bills cover the utility costs for lighting, heating, and powering the shop. Both of these expenses are considered fixed or variable overhead costs that are necessary for maintaining the retail location and cannot be avoided if the store operates. They directly reflect the cost of using the space for business purposes over a specified period, which is essential for budgeting and financial planning in a retail environment. The other types of expenses listed do not pertain specifically to the primary costs of maintaining and operating a retail location. Delivery van repairs fall under vehicle maintenance, accountant fees are professional service costs, and depreciation on shop fittings relates to the reduction in value of physical assets over time due to usage, rather than the direct operating costs of the location itself.

8. Which group is primarily interested in the details provided by the 'Notes to the Financial Statements'?

- A. Only the auditors**
- B. Only management**
- C. Investors and stakeholders**
- D. The general public only**

The 'Notes to the Financial Statements' are an essential part of financial reporting, providing additional context and detailed explanations of the figures presented in the main financial statements. These notes enhance the understanding of the financial position, performance, and cash flows of an organization. Investors and stakeholders primarily seek this detailed information to make informed decisions regarding their investments or involvement in the business. They are interested in aspects such as accounting policies, risk factors, contingent liabilities, and other relevant disclosures that might not be immediately evident in the financial statements themselves. Management may also find value in the notes, but their primary interest typically focuses on operational aspects rather than financial disclosures. Auditors are concerned with ensuring that all financial reports comply with relevant accounting standards and laws, but they do not exclusively represent the main audience for the notes. The general public may access financial statements, but they do not have the same level of interest as investors and stakeholders in the detailed notes provided. Thus, the focus on investors and stakeholders emphasizes their need for comprehensive information that goes beyond mere numbers, aiding them in evaluating the potential risks and rewards associated with a company's financial health.

9. For which aspect do the 'Notes to the Financial Statements' NOT provide assistance?

- A. Understanding the financial position of a business**
- B. Analyzing revenue trends over years**
- C. Identifying managerial practices within an organization**
- D. Clarifying accounting estimates and judgments made in reporting**

The 'Notes to the Financial Statements' serve a crucial role in enhancing the transparency and comprehensibility of financial reports. They provide vital details that help users, such as investors and stakeholders, gain insight into the financial position of a business, including specifics on accounting policies, financial estimates, and other essential disclosures. When it comes to the identification of managerial practices, while the notes may touch on some aspects of management's decision-making, they primarily focus on presenting the financial realities and accounting standards adhered to by the organization rather than explicitly outlining or analyzing managerial practices or strategies. Therefore, this aspect of managerial practices is not typically covered in the notes, making it the best answer to the question at hand. On the other hand, the notes effectively clarify accounting estimates and judgments made in reporting, thereby enhancing the understanding of the financial position of a business and aiding in the analysis of revenue trends over multiple years. Such information is valuable for stakeholders who are interested in how financial results are influenced by management's accounting choices and the historical performance of the company.

10. What characterizes a 'fiscal year' in accounting?

- A. A one-year period used for financial reporting, which may or may not align with the calendar year**
- B. A quarter of the year used for budgeting purposes**
- C. A period used solely for tax calculations**
- D. A time frame where businesses cannot report any earnings**

A fiscal year is characterized as a one-year period used for financial reporting, and it can begin and end on any dates that a business chooses. This means it does not have to align with the traditional calendar year, which runs from January to December. Businesses often select a fiscal year that aligns better with their operational cycles, allowing for more meaningful financial analysis and reporting based on the specific timing of their revenue and expenses. While other options mention timeframes or purposes related to financial accounting, they do not capture the broader definition of a fiscal year effectively. For instance, a fiscal year is distinct from a quarterly budget, which divides the year into four segments for short-term financial planning. Additionally, a fiscal year is not solely for tax calculations, as it encompasses comprehensive financial reporting beyond just taxes. Lastly, suggesting that a fiscal year is a time frame where businesses cannot report earnings is misleading; businesses regularly report earnings and other financial activities throughout the fiscal year as part of their financial statements.

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://ncealvl1accounting.examzify.com>

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