

NCEA LEVEL 1 ACCOUNTING PRACTICE EXAM (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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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 'retained earnings'?**
 - A. Dividends paid to shareholders over time
 - B. The net income reinvested in the business
 - C. The total amount of liabilities
 - D. Cash reserves for future use
- 2. What is the classification of 'Petrol' expense in accounting?**
 - A. Direct Costs
 - B. Operating Income
 - C. Advertising Expense
 - D. Non-Operating Income
- 3. What distinguishes the accrual basis of accounting from cash basis accounting?**
 - A. Accrual basis records cash only
 - B. Accrual basis records transactions when incurred or earned
 - C. Accrual basis is only used for expenses
 - D. Accrual basis ignores revenue
- 4. What type of account is classified as "Accounts receivable"?**
 - A. Asset
 - B. Liability
 - C. Equity
 - D. Revenue
- 5. How is gross profit defined?**
 - A. The difference between sales revenue and total expenses
 - B. The difference between sales revenue and the cost of goods sold (COGS)
 - C. The total amount of profits before tax liabilities
 - D. The revenue generated from services only
- 6. 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

7. Which financial statement provides details about a company's revenues and expenses?

- A. Balance sheet
- B. Income statement
- C. Cash flow statement
- D. Shareholder equity statement

8. What is typically considered a Non-Current Liability?

- A. Accounts Payable
- B. GST Payable
- C. Loan
- D. Sales

9. Which of the following is NOT a section of a cash flow statement?

- A. Operating Activities
- B. Investing Activities
- C. Financing Activities
- D. Administrative Activities

10. What do you call the total costs incurred to acquire goods for resale?

- A. Purchases
- B. Expenses
- C. Assets
- D. Cost deductions

Answers

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

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Explanations

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1. What is 'retained earnings'?

- A. Dividends paid to shareholders over time
- B. The net income reinvested in the business**
- C. The total amount of liabilities
- D. Cash reserves for future use

Retained earnings refer to the portion of net income that is kept within a company rather than distributed to shareholders in the form of dividends. When a company generates profit, it can either distribute these earnings to shareholders or reinvest them back into the business for growth, expansion, or other operational needs. The retained earnings account reflects the cumulative total of these reinvested earnings over time, contributing to the company's equity. This option highlights the fundamental concept of how companies utilize profit to support ongoing operations and strategic initiatives, thereby enhancing financial stability and potential for future profitability. This practice is crucial for long-term growth and is a key indicator of how efficiently a company is managing its resources. The other options do not accurately represent the concept of retained earnings. While dividends pertain to distributions made to shareholders, liabilities relate to what a company owes, and cash reserves denote liquid assets set aside for specific uses. Each of these elements plays a role in a company's financial operations, but they do not capture the essence of retained earnings.

2. What is the classification of 'Petrol' expense in accounting?

- A. Direct Costs**
- B. Operating Income
- C. Advertising Expense
- D. Non-Operating Income

Petrol expense is classified as a direct cost in accounting because it is directly associated with the production of goods or services. Direct costs are expenses that can be traced directly to the manufacturing of products or the provision of services. For a business involved in transportation, logistics, or any operation that requires fuel, petrol is a key component of the cost structure necessary to generate revenue. This means that when calculating the total cost of goods sold (COGS) or determining operating expenses, petrol expenses play a significant role since they are essential for the daily functioning of the business operations that relate directly to the sale of products or services. The direct relationship of petrol to the core activities of the business justifies its classification as a direct cost. Other classifications such as operating income, advertising expense, and non-operating income do not properly align with the nature of the petrol expense. Operating income is derived from the primary activities of the business, while advertising expense is specifically for promoting products rather than for operational needs like fuel. Non-operating income refers to earnings unrelated to the main business activities, which again does not apply to petrol expenses.

3. What distinguishes the accrual basis of accounting from cash basis accounting?

- A. Accrual basis records cash only
- B. Accrual basis records transactions when incurred or earned**
- C. Accrual basis is only used for expenses
- D. Accrual basis ignores revenue

The accrual basis of accounting is distinguished from cash basis accounting primarily by its treatment of revenues and expenses. Under the accrual basis, transactions are recorded when they are incurred or earned, regardless of when cash is actually received or paid. This means that a company will recognize revenue when it has completed its obligations under a contract or provided a service, not necessarily when the cash is received. Similarly, expenses are recognized when they are incurred, which might be before the actual cash payment is made. This approach provides a more accurate representation of a company's financial position and performance during a particular accounting period, as it aligns income and expenses to the period in which they occur rather than just when cash flows happen. As a result, businesses can better assess their financial health and operating results, leading to more informed decision-making.

4. What type of account is classified as "Accounts receivable"?

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

An account classified as "Accounts receivable" is categorized as an asset because it represents money owed to a business by its customers for products or services that have been delivered but not yet paid for. This classification is crucial in accounting as it reflects an expected cash inflow in the future, thereby increasing the company's resources. Assets are resources that have economic value and can be converted into cash, and accounts receivable fit this definition perfectly, as they are essentially promises from customers to pay for goods or services provided on credit. Recognizing accounts receivable correctly ensures that the financial statements accurately reflect the company's financial position and liquidity. The other classifications, such as liability, equity, and revenue, serve different purposes in the accounting framework and do not apply to accounts receivable, as they represent obligations, ownership interest, and earnings, respectively. Therefore, understanding why accounts receivable is an asset is fundamental to grasping the basics of financial reporting and the overall accounting process.

5. How is gross profit defined?

- A. The difference between sales revenue and total expenses
- B. The difference between sales revenue and the cost of goods sold (COGS)**
- C. The total amount of profits before tax liabilities
- D. The revenue generated from services only

Gross profit is defined as the difference between sales revenue and the cost of goods sold (COGS). This figure represents the amount of money a company makes from its sales after accounting for the direct costs associated with producing the goods sold. It is a key indicator of a company's financial health and operational efficiency, as it measures how well a company can produce and sell its products for more than the costs incurred in creating them. Understanding gross profit is essential for analyzing a company's profitability, as it reveals how much money is left over to cover operating expenses, taxes, interest, and to generate net profit. It provides insights into pricing strategies, production efficiency, and overall business performance. By calculating gross profit, businesses can determine how scalable their operations are and how effectively they manage production costs relative to their sales. The other choices do not accurately describe gross profit. One refers to net income figures inclusive of all expenses, another discusses revenue from services, and the last option includes a broader financial perspective that does not focus specifically on the direct costs associated with goods sold.

6. 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.

7. Which financial statement provides details about a company's revenues and expenses?

- A. Balance sheet
- B. Income statement**
- C. Cash flow statement
- D. Shareholder equity statement

The income statement is the financial statement that specifically provides detailed information regarding a company's revenues and expenses over a particular period. This document summarizes how much money a company has earned (revenues) and how much it has spent (expenses), ultimately showing the net profit or loss for that period. It allows stakeholders to assess the company's operational performance and profitability, making it a crucial tool for decision-making. In contrast, the balance sheet provides a snapshot of a company's assets, liabilities, and equity at a specific point in time, giving insight into its financial position rather than its performance over a period. The cash flow statement tracks the flow of cash in and out of the business, detailing how cash is generated and used in operating, investing, and financing activities. The shareholder equity statement outlines changes in equity accounts, showing how profits are retained or distributed to shareholders but does not cover the details of revenues and expenses directly.

8. What is typically considered a Non-Current Liability?

- A. Accounts Payable
- B. GST Payable
- C. Loan**
- D. Sales

A non-current liability refers to obligations that are not expected to be settled within one year, meaning they are long-term in nature. A loan fits this definition as it is often a financial obligation that a business takes on and typically requires repayment over a period longer than one year. Loans usually involve a principal amount and interest, and the repayment terms reflect the long-term nature of the liability. In contrast, accounts payable and GST payable are examples of current liabilities since they are obligations that are expected to be paid off within the short term, usually within a year. Sales, on the other hand, represent revenue generated by a business and are not classified as liabilities at all. Thus, the identification of a loan as a non-current liability is aligned with the typical classification of liabilities in accounting.

9. Which of the following is NOT a section of a cash flow statement?

- A. Operating Activities
- B. Investing Activities
- C. Financing Activities
- D. Administrative Activities**

The cash flow statement is structured into three primary sections: Operating Activities, Investing Activities, and Financing Activities. Each of these sections serves a specific purpose in detailing the cash inflows and outflows associated with different aspects of a company's operations. Operating Activities include the cash transactions related to the core business operations, such as receipts from sales and payments to suppliers and employees. Investing Activities cover cash transactions for the acquisition and disposal of long-term assets, like property, plant, equipment, and investments in other companies. Financing Activities pertain to cash movements related to borrowing and repaying debt, issuing stock, and paying dividends. Administrative Activities, however, is not recognized as a standalone section within the cash flow statement. While administrative expenses are a part of the Operating Activities section, the term "Administrative Activities" itself is not defined as an independent category in accounting standards for cash flow statements. Thus, this choice does not accurately reflect a component of the cash flow statement format.

10. What do you call the total costs incurred to acquire goods for resale?

A. Purchases

B. Expenses

C. Assets

D. Cost deductions

The total costs incurred to acquire goods for resale are referred to as purchases. This term specifically relates to the direct costs associated with obtaining inventory that a business will sell to its customers. It includes the price of the goods, any additional shipping or handling charges, and any taxes incurred during the acquisition process. Purchases form a crucial component of the cost of goods sold (COGS) calculation, which helps determine the gross profit for a business. Understanding this concept is essential for tracking inventory and managing financial health. Other terms may refer to different aspects of accounting. For instance, expenses are broader and include all costs incurred by a business to operate, not just those related to acquiring goods for resale. Assets relate to any resources owned by the business that have economic value, which can include inventory but also includes cash, buildings, and equipment. Cost deductions typically refer to reducing taxable income rather than the costs of acquiring goods directly.

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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://ncealvl1accounting.examzify.com>

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

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