NCEA LEVEL 1 ACCOUNTING PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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

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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. Ending inventory is subtracted from which total in the calculation of COGS?

A. Net Income

B. Beginning Inventory

C. Total Purchases

D. Sales Revenue

2. 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

3. Which of the following represents a non-current asset?

A. Bank Overdraft

B. Goodwill

C. Furniture

D. Accumulated Depreciation

4. Which of the following best describes 'fixed costs'?

A. Costs that vary directly with production levels

B. Costs that fluctuate with market conditions

C. Costs that remain constant regardless of output levels

D. Costs that include both variable and fixed components

5. What does 'cash flow' refer to?

A. The total amount of money invested in a business

B. The total amount of money being transferred in and out of a business

C. The total profit a business generates

D. The total amount of money owed by a business

6. Which of the following are the three main financial statements?

A. Balance Sheet, Cash Flow Statement, Profit Margin Statement

B. Income Statement, Balance Sheet, Cash Flow Statement

C. Income Statement, Statement of Shareholders' Equity, Cash Flow Statement

D. Balance Sheet, Income Statement, Retained Earnings Statement

7. What is the primary purpose of the 'Notes to the Financial Statements'?

A. To summarize financial transactions

B. To provide supplementary information and context for understanding the financial statements

C. To prepare tax returns for the organization

D. To present the income statement alone

8. What does a 'general ledger' contain?

A. A summary of the financial statements

B. A complete record of all account information needed for financial reporting

C. Only the revenue accounts of a business

D. The estimated expenses for the next period

9. What is a 'chart of accounts'?

A. A detailed financial report of a company

B. A list of all accounts used by a business in its accounting system

C. A summary of income and expenses for a fiscal period

D. A record of bank transactions

10. Which account is an example of Equity?

A. Drawings

B. Accounts Payable

C. Capital

D. Fees Received

Answers

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

Explanations

1. Ending inventory is subtracted from which total in the calculation of COGS?

A. Net Income

B. Beginning Inventory

C. Total Purchases

D. Sales Revenue

Ending inventory is subtracted from the total of beginning inventory and total purchases to calculate the Cost of Goods Sold (COGS). The formula for COGS is as follows: COGS = Beginning Inventory + Purchases - Ending Inventory. By subtracting the ending inventory, we account for the unsold goods at the end of the accounting period, only including the cost of goods that have been sold during that period. This approach ensures that the expenses recognized (COGS) accurately reflect the cost of inventory that was actually transferred to sales, thereby providing a clearer picture of the profitability of the business. In this context, beginning inventory refers to the inventory on hand at the start of the period, while total purchases are the additional inventory acquired during that period. Since COGS measures the cost of goods that have been sold, understanding how ending inventory reduces the total inventory available for sale is essential in determining true sales costs.

2. 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.

3. Which of the following represents a non-current asset?

A. Bank Overdraft

B. Goodwill

C. Furniture

D. Accumulated Depreciation

Goodwill is indeed classified as a non-current asset because it represents an intangible asset that arises when a company acquires another business for more than the fair value of its net identifiable assets. Goodwill reflects the value of the acquired firm's brand reputation, customer relationships, employee relations, and other factors that contribute to future earning potential. As a non-current asset, it is not expected to be converted into cash within a year and remains on the balance sheet until it is deemed impaired or the related business is sold. In contrast, other options pertain to different accounting classifications. A bank overdraft is a liability since it indicates money that a business owes to the bank, typically due to borrowing. Furniture, while it is a tangible asset, is generally reported as a current asset if it is expected to be sold or utilized within a year; however, it can also be classified as a non-current asset if it is used in operations beyond that timeframe. Accumulated depreciation is a contra asset account, which reduces the value of tangible assets over time but does not necessarily classify it as a non-current asset itself. Therefore, Goodwill correctly fits the definition of a non-current asset in this context.

4. Which of the following best describes 'fixed costs'?

A. Costs that vary directly with production levels

B. Costs that fluctuate with market conditions

C. Costs that remain constant regardless of output levels

D. Costs that include both variable and fixed components

Fixed costs are expenses that do not change with the level of production or output. This means that regardless of how much a company produces, these costs remain unchanged over a certain range of activity. Examples of fixed costs include rent, salaries of permanent staff, insurance, and depreciation on equipment. Since these costs do not fluctuate with production levels, they play a crucial role in understanding a company's financial stability and planning. The other descriptions do not accurately reflect fixed costs. Costs that vary directly with production levels are known as variable costs, while costs that fluctuate with market conditions would be more related to market-driven expenses. Lastly, the option that includes both variable and fixed components refers to a mixed cost, which combines characteristics of both fixed and variable costs. Therefore, the description of fixed costs as something that remains constant regardless of output levels is the most accurate.

5. What does 'cash flow' refer to?

A. The total amount of money invested in a business

B. The total amount of money being transferred in and out of a business

C. The total profit a business generates

D. The total amount of money owed by a business

Cash flow refers to the total amount of money being transferred in and out of a business during a specific period. This concept is crucial for understanding how well a business can meet its financial obligations and manage its day-to-day operations. Positive cash flow indicates that more money is coming into the business than is going out, allowing for investments, payments of debts, and operational expenses. Conversely, negative cash flow suggests that a business may struggle to cover its expenses and might face financial difficulties if the trend persists. In contrast, the total amount of money invested in a business focuses on the initial capital contributions, while total profit reflects the difference between total revenues and total expenses in a given period, which does not necessarily show the liquidity position of the business. Additionally, the total amount of money owed by a business pertains to liabilities, not the cash movement that is essential to the operational aspect of the business. Understanding cash flow is vital for effective financial management and decision-making.

6. Which of the following are the three main financial statements?

A. Balance Sheet, Cash Flow Statement, Profit Margin Statement

B. Income Statement, Balance Sheet, Cash Flow Statement

C. Income Statement, Statement of Shareholders' Equity, Cash Flow Statement

D. Balance Sheet, Income Statement, Retained Earnings Statement

The correct answer includes the Income Statement, Balance Sheet, and Cash Flow Statement as the three main financial statements. Each of these plays a crucial role in providing a comprehensive overview of a company's financial health. The Income Statement, also known as the Profit and Loss Statement, summarizes the revenues and expenses over a specific period, showing the company's profitability. It provides essential insights into how well the company generates income relative to its costs. The Balance Sheet presents a snapshot of a company's assets, liabilities, and equity at a specific point in time. It demonstrates the financial position of the company, illustrating what it owns (assets) and what it owes (liabilities), along with the residual interest of the shareholders (equity). The Cash Flow Statement outlines the cash inflows and outflows over a period. It is vital for assessing the company's liquidity and cash management, showing how cash is generated and used in operations, investing, and financing. Together, these three statements provide a comprehensive view of a company's financial performance, position, and cash flow, enabling stakeholders to make informed decisions. Other choices include variations of these statements, but they do not contain all three main financial statements that are collectively essential for a clear understanding of a business's financial standing.

7. What is the primary purpose of the 'Notes to the Financial Statements'?

A. To summarize financial transactions

B. To provide supplementary information and context for understanding the financial statements

C. To prepare tax returns for the organization

D. To present the income statement alone

The primary purpose of the 'Notes to the Financial Statements' is to provide supplementary information and context for understanding the financial statements. This additional information helps users, such as investors, creditors, and analysts, interpret the figures presented in the financial statements more accurately. The notes may include explanations of accounting policies, details about specific financial statement items, contingencies, and other contextual information that is crucial for making informed decisions. Understanding financial statements in isolation may not provide a complete picture of an organization's financial health. Therefore, the notes are critical as they help clarify the assumptions made during the reporting process, the rationale for specific accounting methods, and any additional details that affect the overall financial position. While summarizing financial transactions or focusing solely on the income statement might provide certain information, it would not offer the comprehensive context necessary for complete analysis. Preparing tax returns is related to tax accounting and not directly linked to the primary function of the notes, which is to enhance the transparency and understanding of the financial statements.

8. What does a 'general ledger' contain?

A. A summary of the financial statements

B. A complete record of all account information needed for financial reporting

C. Only the revenue accounts of a business

D. The estimated expenses for the next period

The general ledger serves as the central repository for all financial data related to a business's accounts. Specifically, it contains a complete record of all account information necessary for financial reporting. This encompasses various accounts, including assets, liabilities, equity, revenues, and expenses, thus providing a comprehensive view of the company's financial position and performance. Each account in the general ledger provides detailed transactions that contribute to the totals found in the financial statements. By maintaining accurate records in the general ledger, businesses ensure that they can produce reliable financial statements in compliance with accounting standards. This level of detail allows for better financial analysis, tracking of financial performance over time, and informed decision-making for management. In contrast, the other options focus on narrower or incomplete aspects of financial reporting. Summaries of financial statements do not provide the detailed transaction data found in the general ledger. Limiting the ledger to only revenue accounts would exclude essential information about expenses and other key accounts, failing to give a complete financial picture. Additionally, estimated expenses for the next period would not fall under the general ledger criteria, since the ledger typically records past and present transactions rather than future projections.

9. What is a 'chart of accounts'?

A. A detailed financial report of a company

B. A list of all accounts used by a business in its accounting system

C. A summary of income and expenses for a fiscal period

D. A record of bank transactions

A 'chart of accounts' serves as a foundational tool in the accounting system of a business. It is essentially a comprehensive list of all accounts that the business uses to categorize its financial transactions. This includes accounts related to assets, liabilities, equity, revenue, and expenses. Each account is typically assigned a unique identification number or code, making it easier for businesses to organize, track, and report their financial data accurately. By maintaining a well-structured chart of accounts, a business can streamline its accounting processes, enhance the clarity of reports, and facilitate easier financial analysis. This tool is essential not only for bookkeeping but also for ensuring compliance with accounting standards and providing stakeholders with a clear view of the business's financial health. The other options you considered, such as a detailed financial report or a summary of income and expenses, refer to specific types of financial documentation that utilize the accounts defined within the chart of accounts but do not represent the chart itself. Similarly, a record of bank transactions pertains to specific financial activities, rather than the system of categorizing all accounts used for broader financial management within the business.

10. Which account is an example of Equity?

A. Drawings

B. Accounts Payable

C. Capital

D. Fees Received

Equity represents the owner's interest in the assets of a business after deducting liabilities. It reflects the net worth of the business and is fundamentally composed of the owner's contributions, retained earnings, and other elements affecting ownership interest. The capital account specifically represents the amount invested by the owner(s) in the business. This includes initial investments and any additional funds contributed over time. When an owner's investment grows through profits retained in the business, this is also reflected in the capital account, contributing to overall equity. In contrast, the other choices do not represent equity. Drawings refer to the amounts the owner withdraws from the business for personal use, which reduces equity. Accounts Payable are liabilities indicating amounts owed to creditors, not a part of ownership interest. Fees Received represent income generated from services rendered, impacting revenue and assets but not directly classified under equity. Thus, capital is the correct example of an equity account.

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!