

# PSIA Accounting Practice Test (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Table of Contents

<b>Copyright</b> .....	<b>1</b>
<b>Table of Contents</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>3</b>
<b>How to Use This Guide</b> .....	<b>4</b>
<b>Questions</b> .....	<b>5</b>
<b>Answers</b> .....	<b>9</b>
<b>Explanations</b> .....	<b>11</b>
<b>Next Steps</b> .....	<b>17</b>

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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. Why add back non-cash expenses on the Cash Flow Statement?**
  - A. To reflect tax savings from the non-cash expense**
  - B. To increase reported net income**
  - C. To ignore depreciation for tax purposes**
  - D. To reduce cash balance**
  
- 2. Which scenario could lead to both a Deferred Tax Asset (DTA) and a Deferred Tax Liability (DTL) existing at the same time?**
  - A. A company has negative pre-tax income creating a DTA (NOL) while accelerated depreciation creates a DTL for earlier years**
  - B. Only a DTA exists**
  - C. Only a DTL exists**
  - D. Neither DTA nor DTL exists**
  
- 3. Goodwill impairment usually occurs when:**
  - A. The acquirer overpaid for the seller and the assets are worth less than expected.**
  - B. A company increases stock-based compensation.**
  - C. A company increases its revenue without changing costs.**
  - D. Tax rates rise significantly.**
  
- 4. What percentage of the purchase price was paid in cash in the example?**
  - A. 25%**
  - B. 50%**
  - C. 75%**
  - D. 100%**

- 5. What is the difference between cash-based and accrual accounting?**
- A. Cash-based recognizes revenue when cash is actually received; accrual recognizes revenue when collection is reasonably certain and records expenses when incurred.**
  - B. Cash-based recognizes revenue when delivered; accrual recognizes revenue when cash is received.**
  - C. Cash-based and accrual are the same for revenue recognition.**
  - D. Cash-based recognizes revenue when invoiced; accrual when cash is received.**
- 6. End of Year 2, PP&E decreases by \$90 in total. Which statement best describes this change?**
- A. Decrease by \$90**
  - B. Increase by \$90**
  - C. Decrease by \$100**
  - D. Decrease by \$80**
- 7. Goodwill in this scenario is best described as the excess of purchase price over which figure?**
- A. Seller's Liabilities**
  - B. Seller's Assets**
  - C. Seller's Equity (Book Value)**
  - D. Purchase Price**
- 8. Where do Net Operating Losses (NOLs) affect in a 3-statement model?**
- A. Cash Flow Statement and Balance Sheet.**
  - B. Income Statement only.**
  - C. They do not affect any statement.**
  - D. All three statements equally.**

- 9. When you own more than 50% of another company and consolidate its financials, which of the following statements is true?**
- A. You consolidate 100% of the subsidiary and keep its equity as-is**
  - B. You consolidate 100% of the subsidiary and create a Noncontrolling Interest on the balance sheet to reflect the portion you don't own, subtract the noncontrolling share of net income on the income statement, and add it back in cash flow from operations**
  - C. You do not consolidate; you treat it as an investment**
  - D. You consolidate only the parent's share**
- 10. When PIK interest accrues, which balance sheet changes occur?**
- A. Debt increases and Retained Earnings decrease**
  - B. Cash increases and Debt decreases**
  - C. Inventory increases and Accounts Payable increases**
  - D. Cash decreases and Equity increases**

## Answers

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

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## **Explanations**

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**1. Why add back non-cash expenses on the Cash Flow Statement?**

- A. To reflect tax savings from the non-cash expense**
- B. To increase reported net income**
- C. To ignore depreciation for tax purposes**
- D. To reduce cash balance**

In the Cash Flow Statement, you start with net income and adjust for items that affected reported earnings but didn't involve actual cash during the period. Non-cash expenses like depreciation reduce net income yet don't consume cash, so you add them back to show the real cash generated by the business. Depreciation also lowers taxable income, creating a tax shield that reduces cash taxes paid. This tax-saving effect is part of why you add back the non-cash expense. So the adjustment reflects both the non-cash nature of the expense and the cash impact of its tax benefits, which is why this option is the best fit. It's not about increasing net income, ignoring depreciation for tax purposes, or reducing the cash balance.

**2. Which scenario could lead to both a Deferred Tax Asset (DTA) and a Deferred Tax Liability (DTL) existing at the same time?**

- A. A company has negative pre-tax income creating a DTA (NOL) while accelerated depreciation creates a DTL for earlier years**
- B. Only a DTA exists**
- C. Only a DTL exists**
- D. Neither DTA nor DTL exists**

Temporary differences between how income and expenses are recognized for books versus taxes can produce both a deferred tax asset and a deferred tax liability at the same time. A net operating loss carryforward creates a future tax benefit, so it shows up as a deferred tax asset. At the same time, using an accelerated depreciation method for tax purposes lowers current taxable income more than book depreciation, creating a timing difference that will reverse later and show up as a deferred tax liability. So it's entirely possible for a company to have both a DTA from losses or other deductible timing differences and a DTL from depreciation timing differences in the same period. The other options describe situations with only one side or none, which wouldn't reflect the coexistence of both types of timing differences.

### 3. Goodwill impairment usually occurs when:

- A. The acquirer overpaid for the seller and the assets are worth less than expected.**
- B. A company increases stock-based compensation.**
- C. A company increases its revenue without changing costs.**
- D. Tax rates rise significantly.**

Goodwill impairment happens when what was paid for an acquisition no longer appears recoverable from the business. In practical terms, if the acquirer overpaid for the seller and the assets prove to be worth less than expected, the value assigned to goodwill on the balance sheet is no longer justified by the future benefits the business is expected to generate. That gap means the implied value of goodwill is lower than its carrying amount, so an impairment write-down is required to bring goodwill down to its recoverable value. The other scenarios don't indicate a loss in the recoverable value of the acquired assets: higher stock-based compensation affects expenses but not the impairment of purchased goodwill; a rise in revenue without higher costs improves profitability rather than reducing asset values; and higher tax rates affect after-tax income, not the recoverable amount of goodwill.

### 4. What percentage of the purchase price was paid in cash in the example?

- A. 25%**
- B. 50%**
- C. 75%**
- D. 100%**

Understanding cash versus financed portions of a purchase: the percentage paid in cash is the cash down payment divided by the total price. In the example, the buyer contributes half of the purchase price as cash, with the remaining half financed or paid later. Therefore the cash portion is fifty percent. If the cash portion were smaller, more of the price would be financed; if it were larger, more would be paid upfront; if it were all cash, nothing would be financed.

**5. What is the difference between cash-based and accrual accounting?**

- A. Cash-based recognizes revenue when cash is actually received; accrual recognizes revenue when collection is reasonably certain and records expenses when incurred.**
- B. Cash-based recognizes revenue when delivered; accrual recognizes revenue when cash is received.**
- C. Cash-based and accrual are the same for revenue recognition.**
- D. Cash-based recognizes revenue when invoiced; accrual when cash is received.**

The key idea is how timing of when you record money compares to when the work is done. In cash-based accounting, you only record revenue or expenses when cash actually changes hands. So revenue is recorded when you receive the cash, and expenses are recorded when you pay the cash. In accrual accounting, you recognize revenue when it's earned (and you expect to collect) and you record expenses when they're incurred, regardless of when the cash moves. This matching of revenue with the period it was earned and the expenses with the period they were incurred gives a more accurate picture of performance in that period. So, the statement that best captures this is that cash-based revenue is recognized when cash is received, while accrual recognizes revenue when earned (with collection reasonably certain) and records expenses when incurred. The other descriptions mix up timing (e.g., recognizing revenue when delivered or when invoiced) or claim the two methods are the same, which isn't correct.

**6. End of Year 2, PP&E decreases by \$90 in total. Which statement best describes this change?**

- A. Decrease by \$90**
- B. Increase by \$90**
- C. Decrease by \$100**
- D. Decrease by \$80**

Net PP&E on the balance sheet is shown as the cost of property, plant, and equipment less accumulated depreciation. When depreciation for the year is 90, accumulated depreciation increases by 90, so the net PP&E value falls by 90. That's why the statement that PP&E decreases by 90 best describes the change. It reflects a non-cash expense that reduces the book value of PP&E through depreciation, rather than a cash outflow or a purchase that would raise PP&E. The other options would imply different events (like new acquisitions increasing PP&E or a larger/smaller change due to impairment or disposal), which aren't indicated by the given end-of-year decrease.

**7. Goodwill in this scenario is best described as the excess of purchase price over which figure?**

- A. Seller's Liabilities**
- B. Seller's Assets**
- C. Seller's Equity (Book Value)**
- D. Purchase Price**

Goodwill represents the premium a buyer pays over the net asset value of the company being acquired. In acquisition accounting, you first allocate the purchase price to the identifiable assets and liabilities at their fair values, and the difference between the purchase price and the net identifiable assets is recorded as goodwill. In many introductory contexts, that net asset base is proxied by the seller's equity (book value). So, goodwill is the excess of the purchase price over the seller's equity (book value). For example, if the purchase price is 1,000 and the seller's equity (book value) is 600, the goodwill would be 400. The other options don't represent the net asset base against which the purchase price is compared to determine goodwill.

**8. Where do Net Operating Losses (NOLs) affect in a 3-statement model?**

- A. Cash Flow Statement and Balance Sheet.**
- B. Income Statement only.**
- C. They do not affect any statement.**
- D. All three statements equally.**

Net operating losses create a future tax benefit that is recognized as a Deferred Tax Asset on the Balance Sheet. This asset represents the value of the NOL carryforward to offset future taxable income. Because taxes are paid in cash, the presence of an NOL lowers current cash tax payments, which shows up in the Cash Flow Statement as a reduced tax cash outflow and in the reconciliation of net income to cash from operations (through the change in the deferred tax asset). While the income statement may reflect a lower current tax expense, the primary, direct placements of NOLs in a three-statement model are the Deferred Tax Asset on the Balance Sheet and the corresponding cash tax effects in the Cash Flow Statement.

**9. When you own more than 50% of another company and consolidate its financials, which of the following statements is true?**

**A. You consolidate 100% of the subsidiary and keep its equity as-is**

**B. You consolidate 100% of the subsidiary and create a Noncontrolling Interest on the balance sheet to reflect the portion you don't own, subtract the noncontrolling share of net income on the income statement, and add it back in cash flow from operations**

**C. You do not consolidate; you treat it as an investment**

**D. You consolidate only the parent's share**

When you have control, you consolidate the entire subsidiary. This means bringing all of the subsidiary's assets and liabilities onto the parent's consolidated financial statements, not just the portion you own. Because you don't own 100% of the subsidiary, you recognize a noncontrolling interest in equity to reflect the portion you don't own. On the income statement, you present the total consolidated net income, but you subtract the noncontrolling interest's share to arrive at net income attributable to owners of the parent. In the cash flow statement, that noncontrolling share is added back in the operating section to ensure the cash flows reported relate to the parent's ownership, so only the parent's cash effects are reflected there. This approach correctly mirrors control: you consolidate everything for the economic entity, show the portion of equity that belongs to others (noncontrolling interest), and allocate income between the parent and noncontrolling owners. Treating the subsidiary as a mere investment, or consolidating only the parent's share, would misstate both the balance sheet and the income statement.

**10. When PIK interest accrues, which balance sheet changes occur?**

**A. Debt increases and Retained Earnings decrease**

**B. Cash increases and Debt decreases**

**C. Inventory increases and Accounts Payable increases**

**D. Cash decreases and Equity increases**

PIK interest accrues means interest is paid in kind by adding to the principal, not in cash. When interest accrues, you record an interest expense, which reduces net income. That lower net income reduces retained earnings, a component of equity. At the same time, because the interest is capitalized rather than paid in cash, the outstanding debt increases. Cash isn't affected since no cash outflow occurs with accrual, and other accounts like inventory or accounts payable aren't involved in this transaction. So the balance sheet shows debt increasing and equity (via retained earnings) decreasing.

## 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](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://psiaaccounting.examzify.com>**

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

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