

PSIA Accounting Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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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. After a stock-based compensation expense of \$100, Retained Earnings changes by what amount?**
 - A. Decreases by \$60.**
 - B. Increases by \$60.**
 - C. Decreases by \$100.**
 - D. No change.**

- 2. Which method uses a traditional overhead rate based on a single driver (for example, direct labor hours) to allocate overhead?**
 - A. Traditional Overhead Rate Based on Direct Labor Hours**
 - B. Activity-Based Costing**
 - C. Standard Overhead Allocation**
 - D. Variable Costing**

- 3. Net Income from the Income Statement becomes the top line of which statement?**
 - A. Cash Flow Statement**
 - B. Balance Sheet**
 - C. Income Statement**
 - D. Statement of Changes in Equity**

- 4. Distinguish between accrued expenses and prepaid expenses: which statement is true?**
 - A. Accrued expenses are obligations recognized before payment; prepaid expenses are payments made before benefit is received.**
 - B. Accrued expenses are payments made before benefit is received.**
 - C. Prepaid expenses are obligations recognized before payment.**
 - D. Accrued expenses are revenue items.**

- 5. Under percentage-of-completion, revenue can be recognized over time based on which criterion?**
 - A. The proportion of costs incurred to total estimated costs**
 - B. The amount billed to customers**
 - C. Cash collected to date**
 - D. The completion milestone achieved**

- 6. Under the equity method, what does the investor record?**
- A. The investor records only dividends received**
 - B. The investor records fully consolidated revenues**
 - C. The investor records share of investee's earnings and adjusts carrying amount**
 - D. The investor records no income until disposal**
- 7. Which of the following is an example of segregation of duties?**
- A. One employee handles recording and custody of assets.**
 - B. Management approves and records transactions.**
 - C. Separate authorization of transactions from recording and custody of assets.**
 - D. All employees have access to the accounting system.**
- 8. Which of the following statements about contingent liabilities is correct?**
- A. A potential obligation depending on uncertain events; disclose if probable and estimable; if possible, provide disclosure; if not estimable, provide a note.**
 - B. A liability that is certain to occur and must be recorded regardless of estimation.**
 - C. Only disclose liabilities that are currently probable and estimable.**
 - D. Contingent liabilities should never be disclosed in notes.**
- 9. From the lessee's perspective, a capital lease results in recognizing which on the balance sheet?**
- A. Only a right-of-use asset**
 - B. An asset and a liability**
 - C. Only lease expense**
 - D. No balance sheet impact**
- 10. Which category does paying dividends belong to in the cash flow statement?**
- A. Financing activity.**
 - B. Operating activity.**
 - C. Investing activity.**
 - D. Non-cash activity.**

Answers

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

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Explanations

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1. After a stock-based compensation expense of \$100, Retained Earnings changes by what amount?

A. Decreases by \$60.

B. Increases by \$60.

C. Decreases by \$100.

D. No change.

Stock-based compensation expense reduces reported earnings by the amount of the expense. Retained earnings track net income after taxes, so the effect is the after-tax portion of the expense. Here, a \$100 expense lowers pretax income by \$100; the tax deduction reduces income tax expense, and with a 40% tax rate the after-tax impact on net income is $100 \times (1 - 0.40) = 60$. Therefore, retained earnings decrease by \$60. (Cash impact isn't from recognizing the expense itself, since it's noncash, though taxes payable would reflect the deduction.)

2. Which method uses a traditional overhead rate based on a single driver (for example, direct labor hours) to allocate overhead?

A. Traditional Overhead Rate Based on Direct Labor Hours

B. Activity-Based Costing

C. Standard Overhead Allocation

D. Variable Costing

The main idea here is allocating overhead with a single, plant-wide rate tied to one activity driver, commonly direct labor hours. You estimate total overhead and the total amount of the driver (like direct labor hours), compute an overhead rate = total overhead / total driver units, and then apply that rate to products by multiplying it by each product's driver usage (e.g., its direct labor hours). This simple, traditional approach assumes overhead costs correlate with that single driver across all products, which is why it's called the traditional overhead-rate method based on a single driver. Activity-Based Costing differs by using multiple cost pools and drivers to better reflect how different products consume overhead. Standard overhead allocation is a related concept but can involve predetermined rates using standard costs rather than actuals, and Variable costing isn't about the allocation method at all but about classifying fixed vs variable costs for external reporting.

3. Net Income from the Income Statement becomes the top line of which statement?

- A. Cash Flow Statement**
- B. Balance Sheet**
- C. Income Statement**
- D. Statement of Changes in Equity**

Net income from the income statement becomes the top line of the cash flow statement because, in the indirect method, the cash flow statement starts with net income and then adjusts it to arrive at cash from operating activities. This shows how accrual-based profitability (net income) translates into actual cash by adding back non-cash expenses (like depreciation) and adjusting for changes in working capital. The income statement reports net income as the bottom line, not cash, while the balance sheet and the statement of changes in equity serve different purposes and do not start with net income in the same way.

4. Distinguish between accrued expenses and prepaid expenses: which statement is true?

- A. Accrued expenses are obligations recognized before payment; prepaid expenses are payments made before benefit is received.**
- B. Accrued expenses are payments made before benefit is received.**
- C. Prepaid expenses are obligations recognized before payment.**
- D. Accrued expenses are revenue items.**

The key idea is how timing affects recognition of expenses. Accrued expenses are obligations that a company has incurred for goods or services already received but not yet paid for, so they show up as a liability before cash changes hands. Prepaid expenses happen when a payment is made in advance for goods or services that will be received later; they are recorded as an asset (a prepaid expense) and expensed over time as the benefit is realized. So the true description is that accrued expenses are obligations recognized before payment, while prepaid expenses are payments made before the benefit is received.

5. Under percentage-of-completion, revenue can be recognized over time based on which criterion?

- A. The proportion of costs incurred to total estimated costs**
- B. The amount billed to customers**
- C. Cash collected to date**
- D. The completion milestone achieved**

Under percentage-of-completion, revenue is recognized as work progresses, based on the extent of completion. The standard measure is the costs incurred to date divided by the total estimated costs. This ratio shows how much of the contract has been completed and is used to recognize the corresponding portion of revenue. So, revenue recognized to date equals total expected revenue multiplied by that percentage, aligning revenue with the costs incurred to earn it. The amount billed to customers or cash collected to date does not determine revenue under this method, and waiting for a completion milestone would not capture ongoing progress as accurately as the cost-to-cost measure.

6. Under the equity method, what does the investor record?
- A. The investor records only dividends received
 - B. The investor records fully consolidated revenues
 - C. The investor records share of investee's earnings and adjusts carrying amount**
 - D. The investor records no income until disposal

Under the equity method, the investor accounts for its stake as a reflection of ongoing influence on the investee. The investment is initially recorded at cost, and thereafter the investor recognizes its share of the investee's earnings as income and increases the carrying amount of the investment by that share. If the investee pays dividends, those dividends reduce the carrying amount of the investment rather than being recorded as dividend income. This approach shows the investor's ongoing economic interest and updates the investment balance to reflect changes in the investee's equity.

7. Which of the following is an example of segregation of duties?
- A. One employee handles recording and custody of assets.
 - B. Management approves and records transactions.
 - C. Separate authorization of transactions from recording and custody of assets.**
 - D. All employees have access to the accounting system.

Segregation of duties means dividing responsibilities so that no single person has control over all parts of a transaction, creating a system of checks and balances that helps prevent errors and fraud. The best example is separating the authorization of transactions from the recording and from the custody of assets. When the person who approves a transaction is different from the person who records it and from the person who holds the assets, there's a built-in review step and reduced opportunity for misstatement or theft. In practice, one person would authorize, another would input or record the transaction, and a third would handle the assets, creating independent cross-checks. The other scenarios mix duties in ways that undermine this control: having one employee both record and custody assets, having management both approve and record transactions, or giving all employees access to the accounting system all enable concealment or manipulation without independent verification. The separation described in the favorable option is the core approach to enforcing segregation of duties.

8. Which of the following statements about contingent liabilities is correct?

- A. A potential obligation depending on uncertain events; disclose if probable and estimable; if possible, provide disclosure; if not estimable, provide a note.**
- B. A liability that is certain to occur and must be recorded regardless of estimation.**
- C. Only disclose liabilities that are currently probable and estimable.**
- D. Contingent liabilities should never be disclosed in notes.**

Contingent liabilities are potential obligations that depend on uncertain future events. Because the outcome isn't certain, they aren't always recorded as liabilities. The proper treatment focuses on disclosure based on probability and measurability: if a loss is probable and the amount can be reasonably estimated, provide disclosure; if the amount isn't estimable, note the contingent liability to inform users; if the event is only possible or remote, disclosure may still be appropriate in notes but not recognition. The statement captures this approach by describing a contingent liability as a potential obligation, and outlining when to disclose or note the amount based on probability and estimability. The other options misstate the treatment—for example, treating contingent liabilities as certain and always recorded, or claiming no disclosure is ever needed.

9. From the lessee's perspective, a capital lease results in recognizing which on the balance sheet?

- A. Only a right-of-use asset**
- B. An asset and a liability**
- C. Only lease expense**
- D. No balance sheet impact**

When a lease is classified as capital (finance) from the lessee's perspective, the lessee records both an asset and a liability on the balance sheet. The asset represents the right to use the leased asset over the term (often called a right-of-use asset), while the liability reflects the obligation to make lease payments, measured at the present value of those payments. Over time, the asset is depreciated and the liability accrues interest with payments reducing it. Recognizing only the asset or only a lease expense would fail to reflect the lessee's financial obligations and ownership-like control of the asset.

10. Which category does paying dividends belong to in the cash flow statement?

- A. Financing activity.**
- B. Operating activity.**
- C. Investing activity.**
- D. Non-cash activity.**

Paying dividends is a financing activity because it relates to how the company funds and returns capital to its owners, altering the equity and cash balance but not reflecting day-to-day operations or the purchase/sale of long-term assets. The financing section of the cash flow statement captures cash inflows and outflows related to equity and debt transactions, including issuing stock, repurchasing stock, borrowing, repaying debt, and distributing profits to shareholders. Dividends paid reduce cash and retained earnings, which fits this financing category. It wouldn't be classified as operating—since it doesn't stem from operating the core business—or investing, which covers purchases or sales of long-term assets. Non-cash activities involve no cash movement, so they're not relevant here.

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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://psiaaccounting.examzify.com>

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

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