

PSIA ACCOUNTING PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

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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. Which statement represents the basic accounting equation?

- A. Assets = Liabilities + Equity
- B. Revenues - Expenses = Net Income
- C. Assets = Liabilities - Equity
- D. Equity = Liabilities + Revenue

2. What is the effect on the three statements when a company pays \$100 in dividends?

- A. Income Statement: No changes. Cash Flow Statement: Cash Flow from Financing down by \$100. Balance Sheet: Cash down \$100; Shareholders' Equity (Retained Earnings) down \$100.
- B. Income Statement: Net income decreases by \$100. Cash Flow Statement: Cash Flow from Financing down by \$100. Balance Sheet: Cash down \$100; Equity down \$100.
- C. Income Statement: No changes. Cash Flow Statement: Cash Flow from Financing up by \$100. Balance Sheet: Cash up \$100; Equity up \$100.
- D. Income Statement: Revenue increases by \$100. Cash Flow Statement: Cash Flow from Financing down by \$100. Balance Sheet: Cash down \$100; Equity up \$100.

3. If a purchase corresponds to an Asset with a useful life over 1 year, what happens?

- A. Expense immediately
- B. Capitalize on the Balance Sheet
- C. Record as current liability
- D. Treat as revenue

4. 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.

- 5. Straight-line depreciation vs double-declining-balance: which statement is true?**
- A. Straight-line accelerates expense early; DDB spreads it evenly.
 - B. Straight-line allocates equal expense; DDB accelerates early.
 - C. DDB results in higher book value earlier.
 - D. Both methods have identical expense patterns.
- 6. Which classification does not report gains or losses on the income statement but instead reports them in Accumulated Other Comprehensive Income (AOCI)?**
- A. Trading
 - B. Available for Sale (AFS)
 - C. Held-to-Maturity (HTM)
 - D. None of the above
- 7. A sale of \$10,000 is made on account with a 2% discount if paid within 10 days. Provide the journal entry when the customer pays within the discount period using the gross method.**
- A. Debit Cash 10,000; Debit Sales Discounts 0; Credit Accounts Receivable 10,000.
 - B. Debit Cash 9,800; Debit Sales Discounts 200; Credit Accounts Receivable 10,000.
 - C. Debit Cash 9,800; Credit Accounts Receivable 9,800; Credit Sales Discounts 200.
 - D. Debit Cash 9,800; Debit Sales Discounts 200; Credit Accounts Receivable 10,000.
- 8. What is the key difference between operating leases and capital leases?**
- A. Operating leases do not involve ownership and are expensed; capital leases are depreciated and counted as debt.
 - B. Operating leases create an asset and liability on the balance sheet; capital leases do not.
 - C. They are treated identically on financial statements.
 - D. Only operating leases require payments.

- 9. How is stock-based compensation accounted for in financial statements?**
- A. Recognized as a cash outflow when options are granted
 - B. Recognized as an expense over the vesting period based on fair value, with a credit to additional paid-in capital; expense reduces net income
 - C. Not recognized until options are exercised
 - D. Recognized as revenue
- 10. When a company pays 20 in interest consisting of 10 cash and 10 PIK, what is the effect on Net Income and Cash Flow from Operations?**
- A. Net income declines by 12; CFO declines by 2.
 - B. Net income declines by 20; CFO declines by 20.
 - C. Net income declines by 8; CFO declines by 8.
 - D. Net income declines by 12; CFO increases by 2.

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Answers

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

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Explanations

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1. Which statement represents the basic accounting equation?

- A. Assets = Liabilities + Equity**
- B. Revenues - Expenses = Net Income
- C. Assets = Liabilities - Equity
- D. Equity = Liabilities + Revenue

Assets must equal liabilities plus equity because every resource a business owns is funded either by amounts owed to others (liabilities) or by the owners' claims (equity). This balance is at the heart of double-entry bookkeeping: every time something of value is acquired, there's a corresponding change in either what is owed or in the owners' stake, so the total assets always reflect both sources of financing. For example, if you purchase equipment with cash financed by a loan, assets rise (equipment) and liabilities rise (loan), keeping the equation in balance. If the purchase is financed by the owner's investment, assets rise (cash or equipment) and equity rises correspondingly, again maintaining balance. Revenue affects equity through retained earnings, so it can indirectly influence the equation as assets increase and equity increases, preserving the balance. The other statements don't represent the fundamental funding relationship. Revenue minus expenses is a measure of net income, which is an income statement concept, not the balance of what the assets are funded by. An equation that subtracts equity from liabilities misstates the relationship, since equity is a funding source alongside liabilities, not something to be subtracted from them. Saying equity equals liabilities plus revenue mixes components in a way that doesn't reflect how assets are financed and how accounting is structured.

2. What is the effect on the three statements when a company pays \$100 in dividends?

- A. Income Statement: No changes. Cash Flow Statement: Cash Flow from Financing down by \$100. Balance Sheet: Cash down \$100; Shareholders' Equity (Retained Earnings) down \$100.**
- B. Income Statement: Net income decreases by \$100. Cash Flow Statement: Cash Flow from Financing down by \$100. Balance Sheet: Cash down \$100; Equity down \$100.
- C. Income Statement: No changes. Cash Flow Statement: Cash Flow from Financing up by \$100. Balance Sheet: Cash up \$100; Equity up \$100.
- D. Income Statement: Revenue increases by \$100. Cash Flow Statement: Cash Flow from Financing down by \$100. Balance Sheet: Cash down \$100; Equity up \$100.

Dividends are distributions to owners and are not expenses, so the income statement isn't affected. When a company pays a dividend, cash decreases and shareholders' equity falls by the same amount because retained earnings (a part of equity) are reduced. On the cash flow statement, dividends paid are a financing activity outflow, so cash flow from financing decreases by the dividend amount. Put together, paying 100 in dividends leaves the income statement unchanged, cash flow from financing down by 100, and on the balance sheet cash down 100 with equity down 100.

3. If a purchase corresponds to an Asset with a useful life over 1 year, what happens?

- A. Expense immediately
- B. Capitalize on the Balance Sheet**
- C. Record as current liability
- D. Treat as revenue

When you buy something that will be useful for more than a year, you capitalize it on the balance sheet. Instead of recording the entire cost as an expense in the period of purchase, you record the item as a long-term asset and then allocate its cost over its useful life through depreciation. This follows the idea that the benefit of the asset extends over multiple periods, so the expense should be spread out to match the periods that benefit from it. Expensing it immediately would distort both current and future period financials, since the asset provides value over many years. Recording as a current liability isn't appropriate for a straightforward asset purchase, and treating it as revenue misclassifies the transaction entirely. If financing is involved, you'd still capitalize the asset and record a corresponding liability, then depreciate the asset over time.

4. 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.

5. Straight-line depreciation vs double-declining-balance: which statement is true?

- A. Straight-line accelerates expense early; DDB spreads it evenly.
- B. Straight-line allocates equal expense; DDB accelerates early.**
- C. DDB results in higher book value earlier.
- D. Both methods have identical expense patterns.

Depreciation methods allocate asset cost over time in different ways. Straight-line depreciation spreads the same amount of expense each period, so the book value falls by a constant amount every year. Double-declining-balance is an accelerated method: you apply a rate that's double the straight-line rate to the beginning-of-period book value, producing a larger depreciation expense in the early years and smaller expenses later. Because of this, the early years see a faster drop in book value under DDB compared with straight-line. So the true statement is that straight-line allocates equal expense across periods while DDB accelerates depreciation to earlier periods. The other options describe the opposite or claim identical patterns, which isn't correct.

6. Which classification does not report gains or losses on the income statement but instead reports them in Accumulated Other Comprehensive Income (AOCI)?

- A. Trading
- B. Available for Sale (AFS)**
- C. Held-to-Maturity (HTM)
- D. None of the above

Available-for-sale investments are carried at fair value, but the changes in fair value are recorded in Other Comprehensive Income, not in net income. This means unrealized gains and losses don't affect current earnings, reducing volatility in reported profits while still showing the asset at fair value on the balance sheet. When the security is sold, those accumulated OCI amounts are reclassified into earnings as part of the sale's gain or loss. In contrast, trading securities' unrealized changes hit net income immediately, and held-to-maturity securities are usually measured at amortized cost with earnings affected only by impairment. Therefore, the classification that reports gains and losses in AOCI rather than on the income statement is the available-for-sale category.

7. A sale of \$10,000 is made on account with a 2% discount if paid within 10 days. Provide the journal entry when the customer pays within the discount period using the gross method.

- A. Debit Cash 10,000; Debit Sales Discounts 0; Credit Accounts Receivable 10,000.
- B. Debit Cash 9,800; Debit Sales Discounts 200; Credit Accounts Receivable 10,000.
- C. Debit Cash 9,800; Credit Accounts Receivable 9,800; Credit Sales Discounts 200.
- D. Debit Cash 9,800; Debit Sales Discounts 200; Credit Accounts Receivable 10,000.**

Under the gross method, you record the sale at its full amount and use a contra-revenue account to capture any discount taken. Here, the customer pays within 10 days, so the cash received is 9,800 (10,000 less 2% discount of 200). The proper journal entry debits Cash for 9,800, debits Sales Discounts for 200 (the discount as a reduction of revenue), and credits Accounts Receivable for 10,000 to remove the receivable from the books. The result reflects net sales of 9,800 and cash collection of 9,800, with the 200 discount shown as Sales Discounts. This is the correct treatment for the gross method.

8. What is the key difference between operating leases and capital leases?

- A. Operating leases do not involve ownership and are expensed; capital leases are depreciated and counted as debt.**
- B. Operating leases create an asset and liability on the balance sheet; capital leases do not.
- C. They are treated identically on financial statements.
- D. Only operating leases require payments.

The key difference is whether the lease effectively transfers ownership risks and rewards to the lessee. A capital (finance) lease is treated like a financed purchase: the lessee records both an asset and a liability on the balance sheet, depreciates the asset, and recognizes interest on the liability as payments are made. An operating lease is treated like a rental: lease payments are expensed as they are incurred, and historically no asset or liability is recorded on the balance sheet. So the statement that operating leases are expensed and do not involve ownership, while capital leases involve depreciation and a debt-like liability, best captures this distinction. The other options either reverse the balance-sheet effects, claim identical treatment, or ignore the payment aspect.

9. How is stock-based compensation accounted for in financial statements?

- A. Recognized as a cash outflow when options are granted
- B. Recognized as an expense over the vesting period based on fair value, with a credit to additional paid-in capital; expense reduces net income**
- C. Not recognized until options are exercised
- D. Recognized as revenue

Stock-based compensation reflects the cost of the employee services provided in exchange for stock options, recognized as an expense over the vesting period using the grant-date fair value. The offset goes to additional paid-in capital, an equity account, since no cash is paid out at grant. This treatment reduces net income in the periods when the employee earns the award, even though the cash effects occur later if and when employees exercise the options (and possibly for tax withholding). It is not treated as cash outflow at grant, not deferred until exercise, and not recorded as revenue.

10. When a company pays 20 in interest consisting of 10 cash and 10 PIK, what is the effect on Net Income and Cash Flow from Operations?

- A. Net income declines by 12; CFO declines by 2.**
- B. Net income declines by 20; CFO declines by 20.
- C. Net income declines by 8; CFO declines by 8.
- D. Net income declines by 12; CFO increases by 2.

When interest is paid, it reduces net income because it's a expense. But the portion paid in cash affects cash flow, while the portion that is paid-in-kind (PIK) does not involve cash outflow now, even though it increases interest expense and debt for the future. So net income falls by the full after tax effect of the total interest expense, while cash flow from operations is affected only by the cash portion of the payment. Here, the company incurs 20 of interest, split into 10 cash and 10 PIK. The PIK portion increases expense without cash impact, so net income drops by the after-tax amount of the total interest. If the after-tax effect is 12, that's the decline in net income. The cash portion reduces cash flow from operations by the actual cash paid (10), but tax effects on that cash payment partially offset that cash outlay, yielding a smaller net effect on CFO in this scenario (shown as a decline of 2). The PIK portion (non-cash) does not push CFO down because there's no cash spent at that moment. In short, interest expense lowers net income (including the after-tax effect of both cash and PIK portions), while only the cash portion affects cash flow from operations, with the non-cash PIK component not reducing CFO directly.

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:

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

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