

State BPA Fundamental Accounting Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2025 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

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

SAMPLE

Questions

- 1. True or False: Assets normally have a credit balance.**
 - A. True**
 - B. False**
 - C. Sometimes true**
 - D. Always false**
- 2. What is a sole proprietorship?**
 - A. A business owned by multiple individuals**
 - B. A structure where ownership is divided among stakeholders**
 - C. A business run by one person who assumes all liabilities**
 - D. A cooperative governed by its members**
- 3. What are expenses in accounting?**
 - A. Costs incurred by a company in the process of earning revenues**
 - B. Future cash inflows for the business**
 - C. Assets owned by a company**
 - D. Liabilities owed to creditors**
- 4. Which of the following statements about the left side of an account is accurate?**
 - A. It represents the debit side**
 - B. It represents the credit side**
 - C. It is used for calculating interest**
 - D. It is always negative**
- 5. What concept involves separating the owner's personal records from those of the business?**
 - A. Matching Principle**
 - B. Going Concern Concept**
 - C. Business Entity Concept**
 - D. Accrual Basis**

- 6. What represents the correct order of the accounting cycle?**
- A. Journalizing, Financial statements, Posting, Worksheet**
 - B. Journalizing, Posting, Worksheet, Financial statements**
 - C. Posting, Financial statements, Journalizing, Worksheet**
 - D. Financial statements, Worksheet, Posting, Journalizing**
- 7. What is NOT typically included in a budget?**
- A. Anticipated revenue**
 - B. Forecast expenditures**
 - C. Historical financial performance**
 - D. Project funding allocations**
- 8. What is the result of a credit transaction on an expense account?**
- A. Increases the expense account**
 - B. Decreases the expense account**
 - C. Has no impact on the expense**
 - D. It converts to a revenue account**
- 9. Writing a check to a vendor for a prior purchase results in a credit to which account?**
- A. Accounts payable**
 - B. Cash**
 - C. Supplies**
 - D. Equipment**
- 10. How do you increase a revenue account?**
- A. With a debit**
 - B. With a credit**
 - C. With a transfer**
 - D. With an adjustment**

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. True or False: Assets normally have a credit balance.

- A. True**
- B. False**
- C. Sometimes true**
- D. Always false**

Assets typically have a debit balance, which means they are recorded on the left side of an accounting ledger. This is a fundamental principle in accounting that stems from the double-entry system, where every transaction affects at least two accounts. When assets increase, they are debited, and when they decrease, they are credited. The reason assets usually carry a debit balance is that they represent resources owned by the business that provide future economic benefits. Conversely, liabilities and equity accounts typically carry a credit balance because they represent claims against the assets of the business. Therefore, stating that assets normally have a credit balance is inaccurate, as it contradicts the established rules of accounting. This reinforces the understanding that debts and equity are recorded differently from assets in financial statements.

2. What is a sole proprietorship?

- A. A business owned by multiple individuals**
- B. A structure where ownership is divided among stakeholders**
- C. A business run by one person who assumes all liabilities**
- D. A cooperative governed by its members**

A sole proprietorship is defined as a business that is owned and operated by a single individual. This structure provides the owner with complete control over decision-making and the operations of the business. Furthermore, all profits generated by the business belong to this individual. However, the owner also assumes all liabilities, meaning they are personally responsible for any debts or legal obligations incurred by the business. This characteristic is crucial, as it distinguishes sole proprietorships from other business structures that may provide some degree of liability protection to their owners. Understanding this type of business structure is important because it highlights the straightforward nature of a sole proprietorship, which contrasts with more complex entities like corporations or partnerships. In those cases, the ownership might be shared among multiple individuals or stakeholders, and liability may not fall entirely on a single person. Therefore, recognizing the implications of being a sole proprietor—including full control and full liability—is essential for anyone considering this business model.

3. What are expenses in accounting?

- A. Costs incurred by a company in the process of earning revenues**
- B. Future cash inflows for the business**
- C. Assets owned by a company**
- D. Liabilities owed to creditors**

Expenses in accounting refer to the costs that a company incurs in the process of generating revenues. This encompasses various expenditures, including but not limited to operating costs, salaries, rent, utilities, and materials needed to produce goods or provide services. Recognizing expenses is crucial as they are deducted from total revenues to arrive at net income, which is a key indicator of a company's profitability. The recognition of expenses is also essential for financial reporting and analysis, as it helps stakeholders understand how much a company is spending to operate and maintain its business, thus providing insights into its operational efficiency. By accurately tracking and reporting expenses, a company can better assess its financial health and make informed decisions regarding cost management and investment strategies. In contrast, the other options relate to different aspects of financial reporting: future cash inflows, which would be classified as revenues rather than expenses; assets, which represent resources owned by a company; and liabilities, indicating obligations owed to creditors. These concepts, while important, do not define what expenses are within the realm of accounting.

4. Which of the following statements about the left side of an account is accurate?

- A. It represents the debit side**
- B. It represents the credit side**
- C. It is used for calculating interest**
- D. It is always negative**

The statement regarding the left side of an account being the debit side is accurate because, in traditional double-entry accounting, every account is divided into two sides: the left side, which is the debit side, and the right side, which is the credit side. In accounting, debits are used to record increases in asset and expense accounts and decreases in liability and equity accounts. Therefore, when analyzing a transaction, understanding that the left side reflects debits helps in determining how the accounts involved in the transaction are affected. The concept of debits and credits is foundational to the double-entry bookkeeping system, where every transaction affects at least two accounts, maintaining the accounting equation. This structure is essential for accurately reflecting a company's financial position. The other options do not accurately describe the left side of an account: it does not represent credits, is not specifically for interest calculations, and is not inherently negative.

5. What concept involves separating the owner's personal records from those of the business?

- A. Matching Principle**
- B. Going Concern Concept**
- C. Business Entity Concept**
- D. Accrual Basis**

The concept that involves separating the owner's personal records from those of the business is the Business Entity Concept. This principle is fundamental in accounting as it establishes that a business's financial activities should be accounted for separately from those of its owners or any other businesses. By maintaining this separation, it ensures that the financial statements of the business accurately reflect its performance and financial position without being mixed with personal financial matters of the owner. This separation is critical for various reasons, including legal clarity, financial reporting accuracy, and tax purposes. It helps in assessing the business's performance and obligations independently, which is important for investors, creditors, and regulatory bodies. Adhering to this concept also aids in safeguarding the owner's personal assets since it reinforces the legal distinction between personal and business liabilities. In contrast, the other concepts focus on different accounting principles. For example, the Matching Principle relates to aligning revenues with the expenses incurred during the same period. The Going Concern Concept assumes that a business will continue to operate indefinitely unless there are indications to the contrary. Accrual Basis refers to recognizing revenue and expenses when they are incurred, rather than when cash is exchanged. These principles, while important, do not address the separation of personal and business records as the Business Entity Concept does.

6. What represents the correct order of the accounting cycle?

- A. Journalizing, Financial statements, Posting, Worksheet**
- B. Journalizing, Posting, Worksheet, Financial statements**
- C. Posting, Financial statements, Journalizing, Worksheet**
- D. Financial statements, Worksheet, Posting, Journalizing**

The correct order of the accounting cycle is vital for ensuring that financial transactions are recorded and reported accurately. The process begins with journalizing, where transactions are initially recorded in a journal. This step is crucial as it provides the details of each transaction in chronological order. Next, posting takes place, which involves transferring the journalized transactions to the respective accounts in the ledger. This step helps in organizing the transactions by account, allowing for better tracking and analysis of the financial activities. After posting, the worksheet is prepared, which serves as a tool for summarizing financial data, aiding in adjustments, and preparing for the financial statements. The worksheet is not a formal financial statement but a step that helps ensure that all accounts are balanced and ready for reporting. Finally, financial statements are produced, providing a formal representation of the financial position and performance of the entity. This includes key statements such as the income statement, balance sheet, and cash flow statement. Understanding this sequence is critical in accounting as it helps ensure that financial information is accurate and complies with accounting principles. The inclusion of the worksheet after posting but before financial statements emphasizes its role in the preparation and review process in the accounting cycle.

7. What is NOT typically included in a budget?

- A. Anticipated revenue**
- B. Forecast expenditures**
- C. Historical financial performance**
- D. Project funding allocations**

In the context of budgeting, historical financial performance is typically used as a reference point or background information rather than being explicitly included in a budget itself. A budget focuses on future financial planning, including anticipated revenue, forecast expenditures, and project funding allocations, all of which outline expected income and spending for a specific period. Anticipated revenue outlines what an organization expects to earn, while forecast expenditures predict the costs that will be incurred. Project funding allocations designate how funds are intended to be distributed across various projects or initiatives. These elements are integral to planning and managing an organization's finances effectively. In contrast, historical financial performance provides context and insights for developing the budget but is not a direct component of it. Thus, it is considered the correct answer in identifying what is not typically included in a budget.

8. What is the result of a credit transaction on an expense account?

- A. Increases the expense account**
- B. Decreases the expense account**
- C. Has no impact on the expense**
- D. It converts to a revenue account**

A credit transaction on an expense account results in a decrease in that account. This is because, in accounting, expenses are recorded as a debit balance. When a credit is applied to an expense account, it effectively reduces the total amount of expenses reported. For example, if a business initially incurs an expense and then receives a refund or reduces its liability related to that expense, a credit is recorded to reflect the decrease. This credit would reduce the overall expense amount in the financial records, impacting the net income positively since expenses are subtracted from revenues to determine profit. Thus, the correct response accurately captures the effect of a credit on an expense account, which is to decrease it.

9. Writing a check to a vendor for a prior purchase results in a credit to which account?

A. Accounts payable

B. Cash

C. Supplies

D. Equipment

When writing a check to a vendor for a prior purchase, the transaction involves reducing the amount the business owes to that vendor. This reduction is reflected in the accounts payable account, which represents the company's obligations to pay suppliers for goods or services received. By making a payment to the vendor, the accounts payable account is credited, thereby decreasing the liability. This entry signifies that the business has satisfied part of its outstanding debts. In contrast, the cash account is debited to show the outflow of cash as the business pays off the liability. Understanding this relationship between the liability and the cash accounts is crucial for proper accounting practices, as it reflects the company's commitment to settling its obligations.

10. How do you increase a revenue account?

A. With a debit

B. With a credit

C. With a transfer

D. With an adjustment

Increasing a revenue account requires a credit entry. In accounting, revenue accounts are part of the equity section in the accounting equation, whereby increased revenues enhance the overall equity of the business. When a company earns revenue, it records the amount as a credit, reflecting the increase in the revenue account. This is rooted in the double-entry accounting system, where each transaction affects at least two accounts. Credits increase revenue accounts, while debits are used to decrease them. The other methods listed—transfers and adjustments—do not specifically pertain to the concept of increasing a revenue account. Transfers generally refer to moving funds between accounts, and adjustments are commonly used for corrections or reallocations within accounts but do not inherently increase revenues. Understanding this fundamental aspect of accounting is key to managing and reporting financial activities accurately.