

State BPA Fundamental Accounting Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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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. What are dividends?

- A. Payments made for loans**
- B. Portions of earnings distributed to shareholders**
- C. Funds set aside for research and development**
- D. Payments made to employees as bonuses**

2. What is the normal balance of prepaid insurance?

- A. Debit**
- B. Credit**
- C. Equity**
- D. Liability**

3. What does the accounting equation represent?

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

4. What balance would you expect from an asset account?

- A. Credit balance**
- B. Debit balance**
- C. Both credit and debit**
- D. No balance**

5. Define revenue in the accounting context.

- A. The cost of goods sold**
- B. The total expenses spent in a period**
- C. The amount earned by a company from its business activities**
- D. The total amount of liabilities**

6. What defines a fiscal year for an organization?

- A. A one-year period for accounting purposes**
- B. The duration of a business cycle**
- C. An annual budget cycle**
- D. A calendar year of twelve months**

7. Which financial statement shows the financial progress for the fiscal period?

- A. Balance Sheet**
- B. Income Statement**
- C. Cash Flow Statement**
- D. Statement of Retained Earnings**

8. What financial statement summarizes the revenues and expenses of a business over a specific period?

- A. Statement of Retained Earnings**
- B. Balance Sheet**
- C. Income Statement**
- D. Statement of Cash Flows**

9. What is the term for a check that has been written but not yet cleared the bank account?

- A. Cancelled Check**
- B. Outstanding Check**
- C. Void Check**
- D. Cleared Check**

10. What is the effect of a debit on an expense account?

- A. Increases the expense account**
- B. Decreases the expense account**
- C. No effect on the expense account**
- D. Credits the expense account**

Answers

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

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Explanations

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1. What are dividends?

- A. Payments made for loans**
- B. Portions of earnings distributed to shareholders**
- C. Funds set aside for research and development**
- D. Payments made to employees as bonuses**

Dividends refer specifically to portions of a company's earnings that are distributed to its shareholders. This distribution is typically made in cash or additional shares of stock, and it represents a way for companies to share profits with their owners. Dividends are an important consideration for investors, as they can provide a source of income in addition to any potential gains from selling shares at a higher price in the future. Companies may choose to pay dividends based on their profitability and decisions about how to reinvest earnings back into the business for growth or share returns with shareholders. The other options do not accurately describe dividends, as they pertain to different financial transactions and not the distribution of profit to shareholders.

2. What is the normal balance of prepaid insurance?

- A. Debit**
- B. Credit**
- C. Equity**
- D. Liability**

Prepaid insurance is classified as an asset on the balance sheet because it represents a payment that has been made in advance for insurance coverage that will be received in the future. Assets carry a normal debit balance, meaning that when you record an increase in an asset, you will debit the account. When insurance is prepaid, the expense has not yet been incurred, hence it is still considered an asset until the coverage period begins and benefits are consumed. This reflects the principle of matching expenses to revenues, recognizing expenses in the period they are incurred. As the coverage period progresses, the prepaid insurance amount will be gradually debited to the insurance expense account, thereby reflecting the use of that asset. Understanding that the normal balance of an asset account like prepaid insurance is a debit is key to properly managing and reporting financial statements accurately.

3. What does the accounting equation represent?

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

The accounting equation is fundamental to the double-entry bookkeeping system and represents the relationship between a company's assets, liabilities, and equity. Specifically, it states that a company's total assets are equal to the sum of its liabilities and shareholders' equity. This balance is essential because it reflects the sources of funds (liabilities and equity) that finance the company's assets. When a business acquires assets, it must either borrow money (creating liabilities) or use its shareholders' equity (the owners' contributions). The equation ensures that the company's balance sheet remains in balance, illustrating that what the company owns (assets) is funded either through borrowing (liabilities) or through the shareholders' investments (equity). This equation underpins the entire financial reporting process, showing how changes in one part (assets, liabilities, or equity) will affect the others. Understanding this equation is crucial for analyzing a company's financial health, as it gives insights into how well the company manages its obligations and utilizes its resources.

4. What balance would you expect from an asset account?

- A. Credit balance**
- B. Debit balance**
- C. Both credit and debit**
- D. No balance**

In accounting, asset accounts typically reflect the resources owned by a business that provide future economic benefits. According to the principles of double-entry bookkeeping, asset accounts generally carry a debit balance. This means that when an asset is increased, it is recorded as a debit, and when an asset is decreased, it's recorded as a credit. For example, if a company purchases equipment, the equipment account is debited, increasing the balance in that asset account. Conversely, if the company sells that equipment, the asset account is credited to decrease its balance. Having a debit balance signifies that the business has resources available (assets) that are greater than its obligations (liabilities). This is a fundamental aspect of the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$. By maintaining a debit balance in asset accounts, it ensures that the left side of this equation (assets) reflects the value owned by the business. This understanding is crucial for accurately interpreting financial statements and managing a business's financial health. Thus, it is expected for an asset account to have a debit balance.

5. Define revenue in the accounting context.

- A. The cost of goods sold**
- B. The total expenses spent in a period**
- C. The amount earned by a company from its business activities**
- D. The total amount of liabilities**

Revenue in the accounting context refers to the amount earned by a company from its business activities, which typically includes sales of goods and services. This figure is a critical component of a company's financial performance, as it indicates the effectiveness of the company's operations in generating income. Revenue is recorded when it is earned, regardless of when the cash is received, which aligns with the accrual basis of accounting. This principle allows companies to recognize revenue at the point of sale, reflecting their ongoing economic activities and the value they are creating. Understanding revenue is vital for assessing a company's profitability and financial health, as it serves as the top line on the income statement from which all expenses will be subtracted to calculate net income. The other choices highlight different elements of financial reporting but do not capture the definition of revenue. The cost of goods sold relates to expenses directly tied to the production of goods sold, total expenses refer to all outflows incurred in a period, and liabilities represent what a company owes, none of which represent revenue earned.

6. What defines a fiscal year for an organization?

- A. A one-year period for accounting purposes**
- B. The duration of a business cycle**
- C. An annual budget cycle**
- D. A calendar year of twelve months**

A fiscal year is defined as a one-year period for accounting purposes that an organization uses to prepare its financial statements and report its financial performance. This period is critical for businesses and organizations as it provides a consistent timeframe for tracking financial results, planning, and decision-making. While some organizations align their fiscal year with the calendar year, which consists of twelve months running from January 1 to December 31, not all do so. Some may choose a fiscal year that ends in a different month. Therefore, the focus is on the notion of a one-year accounting period rather than aligning with any specific calendar dates or matching with business cycles or budget cycles. This flexibility allows entities to choose a fiscal year that best suits their operational and financial planning needs.

7. Which financial statement shows the financial progress for the fiscal period?

- A. Balance Sheet**
- B. Income Statement**
- C. Cash Flow Statement**
- D. Statement of Retained Earnings**

The Income Statement is the financial statement that demonstrates the financial progress of an organization over a specific fiscal period. It provides a detailed summary of revenues, expenses, and profits or losses incurred during that time frame. By comparing income and expenses, it helps stakeholders assess how well the company has performed in generating profit and managing its costs. The significance of the Income Statement lies in its ability to reveal trends in a company's financial performance, such as growth or decline in revenues and efficiency in expense management. This information is crucial for investors, management, and analysts who wish to evaluate the operational success of the business. In contrast, the Balance Sheet presents a snapshot of a company's financial position at a specific point in time, outlining assets, liabilities, and equity, but does not reflect the performance over a period. The Cash Flow Statement tracks the flow of cash in and out of the business but does not directly indicate profitability. The Statement of Retained Earnings outlines changes in retained earnings over time, but this too does not summarize the overall performance in terms of revenues and expenses during a period. Thus, the Income Statement is the best choice for showing financial progress over a fiscal period.

8. What financial statement summarizes the revenues and expenses of a business over a specific period?

- A. Statement of Retained Earnings**
- B. Balance Sheet**
- C. Income Statement**
- D. Statement of Cash Flows**

The income statement is the financial statement that summarizes the revenues and expenses of a business over a specific period. This statement provides a clear picture of the company's financial performance, showing how much money the business earned (revenues) and how much it spent (expenses) during that timeframe. The result of these calculations is the net income or loss, which is a critical indicator of profitability. This statement is essential for stakeholders, including management, investors, and analysts, to evaluate the company's operational efficiency and profitability trends over time. It typically covers a period such as a quarter or a year, allowing for insights into how well the business is generating its income relative to its expenses during that moment. Other financial statements, such as the statement of retained earnings, balance sheet, and statement of cash flows, serve different purposes. For example, the statement of retained earnings focuses on the changes in equity from profits retained in the business. The balance sheet provides a snapshot of assets, liabilities, and equity at a specific point in time, while the statement of cash flows details the cash inflows and outflows over a period, which is related but distinct from revenue and expense reporting.

9. What is the term for a check that has been written but not yet cleared the bank account?

- A. Cancelled Check**
- B. Outstanding Check**
- C. Void Check**
- D. Cleared Check**

The term for a check that has been written but not yet cleared the bank account is "Outstanding Check." When a check is issued, it represents a payment ordered by the account holder. Until the recipient deposits the check and it goes through the bank system for processing, the funds have not yet been deducted from the account holder's bank balance. As such, the check remains outstanding until it is presented for payment, at which point it will either clear or bounce depending on the availability of funds in the account. Cancelled checks, on the other hand, are those that have been processed and paid by the bank, while void checks are checks that have been written but rendered invalid and are not intended for payment. Cleared checks are those that have already been processed and funds have been withdrawn from the account. Thus, "Outstanding Check" accurately describes the status of a check that has yet to be cashed or deposited.

10. What is the effect of a debit on an expense account?

- A. Increases the expense account**
- B. Decreases the expense account**
- C. No effect on the expense account**
- D. Credits the expense account**

The correct choice indicates that a debit has the effect of increasing an expense account. In accounting, the double-entry bookkeeping system is used, where each transaction affects at least two accounts. An expense account reflects costs incurred by a business and is categorized as a nominal account. When an expense is recorded, it is typically recorded on the debit side. This is because, in accordance with accounting principles, debiting an expense account will increase its balance. As expenses increase, they ultimately reduce net income on the income statement, affecting the overall profitability of the business. The other options misunderstand the nature of expense accounts; one incorrectly states that a debit decreases the expense account, which contradicts basic accounting rules for expenses. The idea that there could be no effect or that a debit would credit the expense account also does not align with how debits and credits are applied in accounting. Overall, debits to an expense account always increase its balance, reflecting higher expenses incurred.

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://bpa-fundamentalaccounting.examzify.com>

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

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