

Texas A&M University (TAMU) ACCT229

Introductory Accounting Practice Exam 1 (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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- 1. What is the result of closing dividend accounts during closing entries?**
 - A. Increased net income**
 - B. Decreased total assets**
 - C. Retained Earnings decrease**
 - D. Temporary accounts remain open**
- 2. Which organization has the ultimate authority regarding the enforcement of financial regulations?**
 - A. American Institute of Certified Public Accountants (AICPA)**
 - B. Securities and Exchange Commission (SEC)**
 - C. Financial Accounting Standards Board (FASB)**
 - D. United Nations Financial Office**
- 3. What follows immediately after recording journal entries of transactions in the accrual accounting cycle?**
 - A. Prepare Financial Statements**
 - B. Prepare Closing Entries**
 - C. Prepare Trial Balance**
 - D. Record Adjusting Journal Entries**
- 4. What is the ideal outcome of managing Working Capital effectively?**
 - A. Increased liabilities**
 - B. Increased asset utilization**
 - C. Higher dividends paid**
 - D. Lower financial leverage**
- 5. What are long-term investments?**
 - A. Investments in stocks and bonds expected to be sold within 12 months**
 - B. Stocks and bonds of other companies to be held for more than one year**
 - C. Investments categorized as current assets**
 - D. Accounts receivable due within a year**

6. What term refers to cumulative earnings retained by a company and not paid out as dividends?

- A. Common Stock**
- B. Retained Earnings**
- C. Net Income**
- D. Gross Profit**

7. What is the professional organization for certified public accountants?

- A. Financial Accounting Standards Board (FASB)**
- B. International Accounting Standards Board (IASB)**
- C. American Institute of Certified Public Accountants (AICPA)**
- D. Securities and Exchange Commission (SEC)**

8. In what way can Corporations raise significant capital from investors?

- A. Through loans**
- B. By issuing bonds**
- C. By selling stock**
- D. By increasing prices**

9. Which financial statement provides insights into a company's revenue and expenses over a specific period?

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

10. What is the purpose of using the Statement of Stockholders' Equity instead of the Statement of Retained Earnings?

- A. To track cash flows from operating activities**
- B. To determine total assets of the company**
- C. To find Net Income and Common Stock when Retained Earnings are unavailable**
- D. To analyze dividend distributions**

Answers

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

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Explanations

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1. What is the result of closing dividend accounts during closing entries?

- A. Increased net income
- B. Decreased total assets
- C. Retained Earnings decrease**
- D. Temporary accounts remain open

Closing dividend accounts during the closing entry process results in a decrease in Retained Earnings. This is because dividends represent a distribution of a company's earnings to its shareholders, and they are deducted from Retained Earnings when the accounts are closed at the end of the accounting period. When preparing closing entries, the purpose is to transfer the balances of temporary accounts (like revenues, expenses, and dividends) to permanent accounts (like Retained Earnings). Dividends specifically reduce the overall balance of Retained Earnings since they signify that the company has allocated a portion of its profits to its shareholders rather than retaining those profits for reinvestment or other purposes. This action does not impact net income directly; instead, it reflects how much the earnings were reduced due to distributions to shareholders. The overall effect of closing dividend accounts helps keep the accounting records organized and ensures that the temporary accounts are reset for the next accounting period.

2. Which organization has the ultimate authority regarding the enforcement of financial regulations?

- A. American Institute of Certified Public Accountants (AICPA)
- B. Securities and Exchange Commission (SEC)**
- C. Financial Accounting Standards Board (FASB)
- D. United Nations Financial Office

The Securities and Exchange Commission (SEC) holds the ultimate authority regarding the enforcement of financial regulations in the United States. The SEC is a federal agency established to protect investors, maintain fair and efficient markets, and facilitate capital formation. One of its primary responsibilities is enforcing securities laws, which includes overseeing the financial reporting of publicly traded companies to ensure that they provide accurate and timely information to investors. The SEC has the power to regulate and enforce compliance with the securities laws and can take action against companies that fail to comply. This enforcement capability includes the authority to impose penalties, fines, and sanctions against violators, making it the key regulatory body in the context of financial regulations. While other organizations like the AICPA, FASB, and the United Nations Financial Office have important roles in the accounting and financial reporting landscape, they do not have the same level of enforcement power as the SEC. The AICPA primarily sets ethical standards for CPAs and develops auditing standards, while the FASB establishes financial accounting and reporting standards for non-governmental entities. The United Nations Financial Office typically deals with matters related to financial operations within the UN and does not have jurisdiction over U.S. financial regulations.

3. What follows immediately after recording journal entries of transactions in the accrual accounting cycle?

- A. Prepare Financial Statements**
- B. Prepare Closing Entries**
- C. Prepare Trial Balance**
- D. Record Adjusting Journal Entries**

In the accrual accounting cycle, after journal entries for transactions have been recorded, the next immediate step is to prepare a trial balance. A trial balance is important because it serves as a way to ensure that the total debits equal total credits after all journal entries have been made. This step helps in identifying any discrepancies in the accounting records before adjustments or financial statements are prepared. The trial balance acts as a preliminary check on the accounts and sets the stage for the subsequent steps in the accounting cycle, such as recording adjusting journal entries, which correct any errors or account for accruals and deferrals. The focus on achieving a balanced trial balance is crucial for maintaining the integrity of the financial statements that will be generated later.

4. What is the ideal outcome of managing Working Capital effectively?

- A. Increased liabilities**
- B. Increased asset utilization**
- C. Higher dividends paid**
- D. Lower financial leverage**

Managing working capital effectively ultimately leads to increased asset utilization. Working capital is the difference between a company's current assets and current liabilities and is crucial for maintaining a company's operational efficiency. When working capital is managed well, it means the company can efficiently convert its assets into cash while meeting its short-term financial obligations. Increased asset utilization occurs when a company can use its resources—like inventory and accounts receivable—more effectively, leading to improved operational efficiency and potentially higher sales and profitability. Efficient working capital management ensures that a company is not tying too much money up in assets that are not generating revenue, therefore maximizing the return on assets. This concept is tied closely to the company's overall liquidity and financial health, as better asset utilization can also minimize excessive borrowing and the associated costs. It's about striking a balance where the company can sustain operations and growth without excess that could otherwise hinder cash flow.

5. What are long-term investments?

- A. Investments in stocks and bonds expected to be sold within 12 months
- B. Stocks and bonds of other companies to be held for more than one year**
- C. Investments categorized as current assets
- D. Accounts receivable due within a year

Long-term investments are defined as stocks and bonds of other companies that are intended to be held for a period exceeding one year. This classification of investments reflects the intention of the investor to maintain ownership and achieve potential gains over a longer time horizon rather than seeking immediate liquidity. Holding investments for more than one year typically indicates a strategy focused on capital appreciation or long-term income generation, such as dividends or interest. In contrast, investments anticipated to be sold within 12 months are categorized as current assets, which primarily emphasize liquidity and short-term returns. The distinction is crucial in accounting as it affects how assets are reported on balance sheets. Furthermore, accounts receivable that are due within a year are also classified under current assets but do not represent investments in other entities like stocks or bonds. By recognizing what constitutes long-term investments, it becomes clear how they fit into the broader spectrum of financial strategy, emphasizing the role they play in a diversified investment portfolio aimed at sustained growth.

6. What term refers to cumulative earnings retained by a company and not paid out as dividends?

- A. Common Stock
- B. Retained Earnings**
- C. Net Income
- D. Gross Profit

The term that refers to cumulative earnings retained by a company and not paid out as dividends is retained earnings. This represents the portion of a company's profit that is reinvested in the business or used to pay off debt rather than being distributed to shareholders as dividends. Retained earnings are reported on the balance sheet and reflect the company's ability to generate profits over time while also indicating how those profits are utilized. This concept is fundamental in understanding how a company manages its resources and growth potential. By retaining earnings, a company can fund new projects, expand operations, or strengthen its financial position. Retained earnings are accumulated from the profits generated in previous periods, minus any dividends paid to shareholders. The other options refer to different financial elements: common stock represents ownership in the company; net income is the profit earned over a specific period after expenses are deducted from revenues; and gross profit is the difference between sales revenue and the cost of goods sold, which does not account for other expenses. Each of these terms serves a distinct purpose within the financial statements, but only retained earnings specifically refers to the accumulation of profits not distributed as dividends.

7. What is the professional organization for certified public accountants?

- A. Financial Accounting Standards Board (FASB)**
- B. International Accounting Standards Board (IASB)**
- C. American Institute of Certified Public Accountants (AICPA)**
- D. Securities and Exchange Commission (SEC)**

The American Institute of Certified Public Accountants (AICPA) is the professional organization that represents certified public accountants (CPAs) in the United States. This organization plays a crucial role in establishing auditing standards and ethics for CPAs, as well as promoting the profession to ensure that CPAs meet the highest professional standards. AICPA provides training, sets guidelines for practice, and helps with continuing education, which is essential for maintaining CPA certification. The other organizations mentioned serve different functions. The Financial Accounting Standards Board (FASB) is primarily responsible for establishing accounting standards for financial reporting, not specifically for CPAs. The International Accounting Standards Board (IASB) works on global accounting standards (IFRS) and does not focus on CPAs in the U.S. Lastly, the Securities and Exchange Commission (SEC) is a government regulator overseeing security transactions, but it does not represent or oversee the CPA profession itself. Therefore, AICPA is the correct answer as it specifically supports and represents CPAs.

8. In what way can Corporations raise significant capital from investors?

- A. Through loans**
- B. By issuing bonds**
- C. By selling stock**
- D. By increasing prices**

Corporations can raise significant capital from investors by selling stock, which is the correct answer. When a corporation issues stock, it is essentially offering ownership shares in the company to investors. This process, known as equity financing, allows the corporation to gather funds without incurring debt, as investors purchase shares in exchange for their investment. The capital raised from selling stock can be used for various purposes, such as funding new projects, expanding operations, or paying off existing obligations. Selling stock not only provides immediate capital but also has the advantage of not requiring repayment, unlike loans or bonds which must be paid back with interest. Additionally, stockholders may receive dividends based on the corporation's profitability, which can be an attractive incentive for investors, contributing to the overall appeal of this method for raising capital. This approach aligns with the broader goal of corporations to grow and increase their market presence while leveraging the resources provided by investors.

9. Which financial statement provides insights into a company's revenue and expenses over a specific period?

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

The Income Statement is the financial statement that details a company's revenues and expenses over a specific period, often referred to as the "profit and loss statement." This statement provides a summary that shows how much money the company earned (revenues) and how much it spent (expenses) during a defined time frame, such as a quarter or a year. By comparing revenues and expenses, the Income Statement allows stakeholders to assess the company's profitability during that period, indicating whether the company made a profit or incurred a loss. In contrast, the Cash Flow Statement focuses on the inflow and outflow of cash within the business, highlighting how cash is generated and used over time rather than detailing revenues and expenses directly. The Balance Sheet presents a snapshot of the company's assets, liabilities, and equity at a particular point in time, thereby offering insight into its financial position but not its performance over a period. The Statement of Changes in Equity outlines changes in the equity section of the Balance Sheet and does not provide detailed information about revenues and expenses.

10. What is the purpose of using the Statement of Stockholders' Equity instead of the Statement of Retained Earnings?

- A. To track cash flows from operating activities**
- B. To determine total assets of the company**
- C. To find Net Income and Common Stock when Retained Earnings are unavailable**
- D. To analyze dividend distributions**

The Statement of Stockholders' Equity serves a broader purpose than just the Statement of Retained Earnings. While the Statement of Retained Earnings focuses primarily on changes in retained earnings over a specific period, the Statement of Stockholders' Equity also details other components of equity, such as common stock, preferred stock, additional paid-in capital, and treasury stock. This comprehensive overview allows investors and other stakeholders to see the full picture of equity movements and provides insights into the overall health of the company's equity structure. When the available information does not include retained earnings, the Statement of Stockholders' Equity can still provide data on net income and common stock. This is critical because it gives stakeholders an understanding of both profitability (through net income) and the equity funding that supports the overall financial stability of the company. By understanding these elements, one can assess how equity is being affected by various factors, including the issuance of new shares or variation in retained earnings.

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://tamu-acct229-exam1.examzify.com>

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

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