TEXAS A&M UNIVERSITY (TAMU) ACCT229 INTRODUCTORY ACCOUNTING PRACTICE EXAM 1 (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED 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.

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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!

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Questions

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1. **What type of assets are defined as marketable securities?**
   A. Investments to be held for more than a year
   B. Investments in stocks and bonds intended to be sold within a year
   C. Physical assets for business operations
   D. Equipment and vehicles

2. **Which of the following is a characteristic of Operating activities?**
   A. They are usually long-term investments
   B. They generate revenues and incur expenses
   C. They relate to borrowing and equity financing
   D. They include asset acquisition

3. **What is the equation to calculate the Current Ratio?**
   A. Current Ratio = Total Assets / Total Current Liabilities
   B. Current Ratio = Current Assets + Current Liabilities
   C. Current Ratio = Current Assets / Current Liabilities
   D. Current Ratio = Current Liabilities / Current Assets

4. **What factor does not affect Retained Earnings in a company's financial statements?**
   A. Net Income from operations
   B. Dividend payments made to shareholders
   C. Sales Revenue earned in the year
   D. Losses from asset sales

5. **What type of stock represents investments made by owners?**
   A. Common Stock
   B. Preferred Stock
   C. Bonds Payable
   D. Retained Earnings

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6. Which accounting concept requires that a business keep its financial transactions separate from those of its owners?

A. Economic Entity

B. Going Concern

C. Matching Principle

D. Revenue Recognition

7. In a multi-step income statement, which of the following would be included under "Other Revenues/Gains"?

A. Revenue from selling products

B. Interest received on investments

C. Cost of goods sold

D. Operating expenses

8. What is a key distinction between Beginning Retained Earnings (Beg RE) and Beginning Shareholders' Equity (Beg SHE)?

A. Beg SHE always starts at $0

B. Beg RE can include dividends paid

C. Beg SHE does not always start at $0

D. Beg RE is calculated yearly

9. Which term describes resources that will produce a future economic benefit?

A. Liabilities

B. Assets

C. Equity

D. Revenue

10. What defines Accumulated Depreciation?

A. It is an asset with a debit balance

B. It is an asset with a credit balance that decreases total assets

C. It is a liability that represents depreciation expenses

D. It is an equity account that increases total shareholders' equity

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Answers

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

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Explanations

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1. What type of assets are defined as marketable securities?

A. Investments to be held for more than a year

B. Investments in stocks and bonds intended to be sold within a year

C. Physical assets for business operations

D. Equipment and vehicles

Marketable securities are defined as investments in stocks, bonds, and other financial instruments that are intended to be sold or converted into cash within a year. They are typically purchased for short-term investment purposes and can easily be liquidated on the stock market or other exchanges. The key characteristic of marketable securities is their liquidity, enabling businesses to access cash quickly if needed. The option that identifies these investments correctly focuses on the intent of holding such securities for a short duration, which aligns with the definition of marketable securities. In contrast, investments to be held for more than a year refer to long-term investments, which do not meet the criteria for marketable securities due to their longer holding period. Physical assets for business operations and equipment and vehicles pertain to tangible assets used in the production of goods or services and are not classified as marketable securities. Therefore, the emphasis on short-term financial instruments in the correct choice captures the essence of what marketable securities are in accounting terms.

2. Which of the following is a characteristic of Operating activities?

A. They are usually long-term investments

B. They generate revenues and incur expenses

C. They relate to borrowing and equity financing

D. They include asset acquisition

Operating activities are primarily focused on the core business functions of a company, which encompass transactions related to the production and sale of goods and services. These activities generate revenues through sales as well as incur expenses necessary for the daily operations, such as wages, rent, and supplies. This characteristic emphasizes the operational flow of cash and the fundamental purpose of a business, which is to engage in its main revenue-generating activities. The other options do not define operating activities correctly. Long-term investments pertain to investing activities, not day-to-day operations. Borrowing and equity financing are associated with financing activities, which involve raising funds for business operations rather than the operations themselves. Finally, asset acquisition often relates to investing activities, where the company purchases long-term assets, rather than the ongoing operations that fit the context of generating revenue and incurring expenses. Thus, the focus on revenue generation and expense incurrence clearly characterizes operating activities in accounting.

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3. What is the equation to calculate the Current Ratio?

A. Current Ratio = Total Assets / Total Current Liabilities

B. Current Ratio = Current Assets + Current Liabilities

C. Current Ratio = Current Assets / Current Liabilities

D. Current Ratio = Current Liabilities / Current Assets

The Current Ratio is a financial metric used to assess a company's short-term liquidity and its ability to cover current liabilities with current assets. The correct equation, which is represented as Current Assets divided by Current Liabilities, shows the proportion of current assets available to pay off current obligations. This ratio is crucial for stakeholders, such as investors and creditors, as it provides insight into the company's financial health; a higher ratio indicates a stronger liquidity position. It helps evaluate whether the company has sufficient resources to meet its short-term commitments, which is a key indicator of financial stability. In the context of the other answer choices, the first option incorrectly suggests using total assets, which does not reflect the specific measure of liquidity intended by the Current Ratio. The second option incorrectly adds current liabilities to current assets, violating the fundamental definition of the ratio. The last option inversely positions current liabilities over current assets, suggesting the opposite of what the ratio analyzes, which further distorts its intention to assess liquidity. Therefore, understanding the ratio as Current Assets divided by Current Liabilities is essential for evaluating a company's ability to manage its short-term debts effectively.

4. What factor does not affect Retained Earnings in a company's financial statements?

A. Net Income from operations

B. Dividend payments made to shareholders

C. Sales Revenue earned in the year

D. Losses from asset sales

Retained Earnings reflects the cumulative amount of net income that a company has retained, rather than distributed to shareholders as dividends. It is influenced by net income, dividend payments, and losses or gains from various activities. Net income from operations directly affects Retained Earnings as it increases the balance when a company is profitable. In contrast, losses from asset sales can decrease Retained Earnings because they reduce overall net income. Dividend payments are also a direct reduction in Retained Earnings because they represent profit distributions to shareholders. Sales revenue, while an important measure of a company's financial performance, does not directly affect Retained Earnings; it is the net income derived from that revenue, after expenses are deducted, that influences retained earnings. Sales revenue, as a standalone figure, does not account for costs or other deductions necessary to determine net income. Therefore, it does not have a direct impact on the Retained Earnings account in the financial statements.

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5. What type of stock represents investments made by owners?

A. Common Stock

B. Preferred Stock

C. Bonds Payable

D. Retained Earnings

Common stock represents the investments made by owners in a corporation. When individuals purchase common stock, they are essentially buying a piece of the company and providing capital for it to operate and grow. Common stockholders have voting rights in the company and can benefit from any dividends declared and from potential increases in stock value. This form of stock indicates an ownership stake, where the shareholders are entitled to any residual profits after all expenses and obligations have been met. Preferred stock, while also a type of equity, represents a different class of ownership that typically provides fixed dividends and has priority over common stock in the event of liquidation, but it does not represent the core dollar investment made by the owners in the same way common stock does. Bonds payable are a liability for the company, representing money borrowed that must be repaid to creditors, not an investment made by owners. Retained earnings reflect the accumulated profits kept in the business rather than distributed to shareholders, but they are not direct investments made by owners; they are reinvested profits from the company's operations.

6. Which accounting concept requires that a business keep its financial transactions separate from those of its owners?

A. Economic Entity

B. Going Concern

C. Matching Principle

D. Revenue Recognition

The concept that requires a business to keep its financial transactions separate from those of its owners is the Economic Entity concept. This principle is fundamental in accounting because it ensures that the financial statements of a business reflect only the activities of that business without mixing in the personal transactions of the owners. By adhering to this concept, accountants can create clear and accurate financial reports that provide a true representation of the business's financial position and performance. The separation mandated by the Economic Entity concept is crucial for a variety of reasons. It helps maintain clarity in financial reporting, making it easier for stakeholders, such as investors and creditors, to assess the business's financial health without the confusion that could arise from the owners' personal finances. Additionally, this separation is essential for tax purposes and adherence to legal regulations, which often require distinct reporting of personal and business activities. Other concepts, such as Going Concern, the Matching Principle, and Revenue Recognition, serve different purposes in accounting. Going Concern relates to the assumption that a business will continue its operations in the foreseeable future. The Matching Principle dictates that expenses should be matched with revenues in the period in which they are incurred to accurately reflect profitability. Revenue Recognition outlines when revenue should be recognized in the financial statements, typically when it is earned and realiz

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7. In a multi-step income statement, which of the following would be included under "Other Revenues/Gains"?

A. Revenue from selling products

B. Interest received on investments

C. Cost of goods sold

D. Operating expenses

In a multi-step income statement, "Other Revenues/Gains" represents income generated from activities not related to the core operations of the business. This typically includes revenues sourced from investments, such as interest received on investments. It reflects additional income that can positively affect net income but is not a direct result of selling goods or providing services. Interest received on investments is categorized as "Other Revenues/Gains" because it arises from financial activities rather than the primary business operations of selling products or services. Unlike revenue from selling products, which falls under operating revenues, or costs associated with goods sold and operating expenses, which are crucial to determining operating profit, interest earned provides additional insight into how well the company is managing its investments and overall financial health. This distinction helps users of financial statements understand the various income sources contributing to the company's profitability.

8. What is a key distinction between Beginning Retained Earnings (Beg RE) and Beginning Shareholders' Equity (Beg SHE)?

A. Beg SHE always starts at $0

B. Beg RE can include dividends paid

C. Beg SHE does not always start at $0

D. Beg RE is calculated yearly

The key distinction between Beginning Retained Earnings (Beg RE) and Beginning Shareholders' Equity (Beg SHE) is that Beg SHE does not always start at $0. This is because Shareholders' Equity includes several components, such as common stock, additional paid-in capital, and retained earnings. For a company that has been in operation for more than one accounting period, Beg SHE will reflect the cumulative impact of these components over time. Starting at $0 generally applies only to new corporations or when a company is formed. Established companies will have a history of retained earnings and other equity components, which contribute to the Beg SHE figure. Understanding this distinction is crucial for analyzing a company's financial health and equity structure. It helps clarify how retained earnings contribute to the broader picture of shareholders' equity, which encompasses all forms of investment in the company. This comprehensive view is essential for stakeholders assessing the company's past performance and future viability.

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9. Which term describes resources that will produce a future economic benefit?

A. Liabilities

B. Assets

C. Equity

D. Revenue

The concept of resources that are expected to produce a future economic benefit is fundamentally encapsulated in the term "assets." Assets are anything of value or a resource owned by an individual or entity that can generate future cash flow, lower expenses, or enhance overall profitability. For a business, these assets can take numerous forms, including cash, inventory, property, and equipment. When considering why this understanding is critical, it's important to note that assets are a major component of a company's balance sheet, and they represent what the company owns. They play a crucial role in the ongoing operations and financial health of the business. This definition directly ties into the single most important accounting equation: Assets = Liabilities + Equity. Thus, recognizing and categorizing assets accurately is essential for assessing a company's capacity to generate future economic benefits. On the other hand, liabilities represent obligations the company owes to outside parties, equity reflects the owners' claims on the assets after all liabilities are settled, and revenue pertains to income earned from normal business operations. These terms, while important in the context of financial accounting, do not describe resources in the same manner that assets do, highlighting why "assets" is the correct choice for this question.

10. What defines Accumulated Depreciation?

A. It is an asset with a debit balance

B. It is an asset with a credit balance that decreases total assets

C. It is a liability that represents depreciation expenses

D. It is an equity account that increases total shareholders' equity

Accumulated Depreciation is defined as a contra asset account that records the total depreciation expense allocated to a tangible fixed asset over its useful life. When specifying that it has a credit balance, this indicates that it directly reduces the total value of assets reported on the balance sheet. In essence, even though the underlying asset may have been recorded at its original cost, the accumulated depreciation reflects the wear and tear or usage of that asset, thus reducing its book value over time. By maintaining a credit balance, it effectively serves to decrease the total assets, enabling accurate financial reporting of the asset's remaining value. This definition is crucial because it highlights the role of accumulated depreciation in the accounting cycle and emphasizes its function in reflecting the asset's current value to stakeholders. Understanding this helps in grasping how depreciation impacts financial statements and informs decisions related to asset management.

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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:

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

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