University of Central Florida (UCF) ACG2021 Principles of Financial Accounting Final Practice Exam (Sample)

Study Guide

Everything you need from our exam experts!

Table of Contents

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!

Questions

1. **When cash is collected after selling a gift card, which account receives credit?**
   - A. Sales revenue
   - B. Deferred revenue
   - C. Cash
   - D. Unearned revenue

2. **How do revenues differ from gains?**
   - A. Revenues originate from investments, while gains are from main operations
   - B. Revenues are material costs, whereas gains are financial assets
   - C. Revenues are generated from normal business operations, while gains are from peripheral transactions
   - D. Revenues and gains are essentially the same in accounting

3. **What is considered an increase in operating cash flows in the indirect method?**
   - A. Increase in accounts payable
   - B. Decrease in inventory
   - C. All of the above
   - D. None of the above

4. **What does the term "solvency" refer to?**
   - A. The ability of a company to meet its short-term obligations
   - B. The ability of a company to meet its long-term obligations
   - C. The process of liquidating company assets
   - D. The ratio of total liabilities to total assets

5. **Which of the following is NOT a common right for shareholders?**
   - A. Voting for board members
   - B. Receiving corporate secrets
   - C. Participating in asset distribution
   - D. Receiving dividends

6. Which of the following best describes the cash basis accounting method?
   A. It records revenues when they are earned
   B. It records expenses when they are incurred
   C. It records transactions only when cash changes hands
   D. It requires financial audits to verify accuracy

7. What is defined as an expense in financial terms?
   A. A revenue generated from core business activities
   B. A cost incurred in the process of generating revenue
   C. A profit earned after all expenses are paid
   D. An asset purchased for long-term use

8. What method is used for amortizing the discount over the term of a bond?
   A. Simple interest method
   B. Effective interest method
   C. Straight-line method
   D. Decreasing balance method

9. In relation to bonds, what does the term 'market rate' refer to?
   A. The standard return expected on equity investments
   B. The interest rate used for pricing bonds
   C. The historical average of interest rates
   D. The rate set by the Federal Reserve

10. What are retained earnings?
   A. The total amount of assets owned by the company
   B. The cumulative amount of net income retained in the company rather than distributed as dividends
   C. The portion of revenues set aside for future investments
   D. The total liabilities a company has accrued over time

Answers

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

Explanations

1. When cash is collected after selling a gift card, which account receives credit?

A. Sales revenue

B. Deferred revenue

C. Cash

D. Unearned revenue

When cash is collected after selling a gift card, the account that receives credit is Cash. This represents the inflow of cash into the business as customers purchase gift cards. The selling of a gift card generates cash immediately, but it creates a liability for the business because the gift card represents a promise to provide services or goods in the future. As such, the amount collected from the sale of the gift card does not count as revenue until the gift card is redeemed. Once the gift card is sold and cash is received, the liability account that typically reflects this obligation is deferred revenue or unearned revenue. This liability account is what will later be credited when the gift card is redeemed for goods or services. In summary, upon the sale of a gift card, cash received is credited to the Cash account, increasing the business's cash balance. At the same time, a corresponding entry would be made to recognize the liability created from the gift card sale, typically reflected in the deferred or unearned revenue account.

2. How do revenues differ from gains?

A. Revenues originate from investments, while gains are from main operations

B. Revenues are material costs, whereas gains are financial assets

C. Revenues are generated from normal business operations, while gains are from peripheral transactions

D. Revenues and gains are essentially the same in accounting

Revenues are distinct from gains primarily based on their source and context within a company's operations. Revenues are generated through a company's primary business activities and operations, such as selling goods or providing services. This means that revenues are closely tied to the core functions of the business, reflecting the main activities that drive its financial performance. On the other hand, gains arise from transactions that are not part of the company's ordinary operations. These could include the sale of an asset, such as property or equipment, for more than its carrying amount. While gains do contribute to the total income reported by a company, they do not result from its ongoing business activities. This differentiation is essential in accounting as it impacts the assessment of a company's performance and financial health. It helps stakeholders, including investors and creditors, understand how well a company is managing its primary business functions compared to other incidental financial activities.

3. What is considered an increase in operating cash flows in the indirect method?

A. Increase in accounts payable

B. Decrease in inventory

C. All of the above

D. None of the above

In the context of the indirect method for calculating operating cash flows, both an increase in accounts payable and a decrease in inventory represent adjustments that lead to an increase in operating cash flows. When accounts payable increase, it indicates that a company has delayed cash outflows, as it owes money to suppliers rather than paying them immediately. This postponement of payment means that cash remains in the business for a longer period, thereby enhancing the cash flow from operating activities. Similarly, a decrease in inventory signifies that the company has sold more goods than it has purchased or produced during the period, thus increasing cash inflows. When inventory levels drop, it often indicates more efficient use of resources and indicates that goods are being converted to cash through sales at a faster rate. Therefore, both scenarios contribute positively to operating cash flows, making "all of the above" the correct choice, as they reflect conditions that enhance cash availability from operations.

4. What does the term "solvency" refer to?

A. The ability of a company to meet its short-term obligations

B. The ability of a company to meet its long-term obligations

C. The process of liquidating company assets

D. The ratio of total liabilities to total assets

The term "solvency" refers specifically to a company's ability to meet its long-term obligations. This is a crucial measure of financial health, indicating whether the entity has sufficient assets to cover its liabilities over the long run. Solvency focuses on the balance sheet and provides insights into the overall financial stability of the company. A solvent company is one that can pay its long-term debts and continue operations over time without facing bankruptcy. Understanding solvency is important for stakeholders such as investors, creditors, and management, as it assesses the company’s ability to sustain operations and manage debt over the long term, ensuring it can survive any financial crises or downturns. This distinguishes it from liquidity, which deals with short-term obligations, typically assessed through current ratios or quick ratios.

5. Which of the following is NOT a common right for shareholders?

A. Voting for board members

B. Receiving corporate secrets

C. Participating in asset distribution

D. Receiving dividends

Shareholders possess various rights that are fundamental to their ownership of a company, but the right to receive corporate secrets is not one of them. Shareholders typically have the right to vote for board members, participate in asset distribution upon liquidation of the company, and receive dividends as declared by the board of directors. Voting rights allow shareholders to influence corporate governance by electing members to the board, who will then make significant decisions regarding the company's management. The right to participate in asset distribution comes into play in the event of liquidation, where shareholders are entitled to a portion of the remaining assets after the company's debts have been settled. Similarly, the right to receive dividends provides shareholders with a share of the company's profits, as dividends are often paid out based on the number of shares they own. The concept of corporate secrets, on the other hand, pertains to sensitive information critical to the business's operations and competitive advantage. This information is typically restricted to protect the interests of the company and its stakeholders, meaning that shareholders do not have the right to access such confidential data.

6. Which of the following best describes the cash basis accounting method?

A. It records revenues when they are earned

B. It records expenses when they are incurred

C. It records transactions only when cash changes hands

D. It requires financial audits to verify accuracy

Cash basis accounting is characterized by recording transactions only when cash changes hands. This method focuses on the actual inflow and outflow of cash, meaning that revenues are recognized at the moment cash is received, and expenses are recognized when cash is paid out. This approach contrasts with accrual basis accounting, where revenues and expenses are recorded when they are earned or incurred, regardless of when cash is exchanged. In cash basis accounting, financial statements reflect the real cash flow situation of a business, which can be particularly useful for small businesses and individuals managing their finances on a simpler level. This method does not provide a comprehensive view of a company's overall financial health in terms of obligations or receivables since it overlooks transactions that have occurred but have not yet involved cash movement. Other options address different principles of accounting or requirements that do not relate to the cash basis method. For instance, recognizing revenue when it's earned pertains to accrual accounting, and requiring financial audits is more associated with compliance and reporting standards rather than the cash basis itself.

7. What is defined as an expense in financial terms?

- A. A revenue generated from core business activities
- B. A cost incurred in the process of generating revenue
- C. A profit earned after all expenses are paid
- D. An asset purchased for long-term use

In financial terms, an expense is defined as a cost incurred in the process of generating revenue. This definition highlights that expenses are necessary for a company to operate and ultimately to produce revenue. They encompass various costs, such as salaries, rent, utilities, and materials, that a business must pay to maintain its operations. When evaluating expenses, it's important to recognize that they are recorded on the income statement and directly impact a company's profitability. By subtracting expenses from revenues, a business determines its net income or loss, which reflects the overall financial performance for a given period. Understanding expenses this way emphasizes their critical role in accounting, as they relate directly to the efficient functioning and financial health of the organization.

8. What method is used for amortizing the discount over the term of a bond?

- A. Simple interest method
- B. Effective interest method
- C. Straight-line method
- D. Decreasing balance method

The effective interest method is used for amortizing the discount over the term of a bond because it reflects a more accurate representation of the cost of borrowing over time compared to the other methods. This approach allocates interest expense based on the carrying amount of the bond at the beginning of each period and the market interest rate at the time the bond was issued. When a bond is issued at a discount, the difference between the face value and the issue price represents an additional cost to the issuer that must be amortized. Under the effective interest method, the interest expense recognized in each period increases as the carrying amount of the bond rises due to the amortization of the discount. This method aligns more closely with the accrual basis of accounting, ensuring that interest costs are matched with the periods they help finance. In contrast, the straight-line method allocates an equal amount of the discount to each period without considering changes in the carrying amount of the bond. While simpler, it may not provide as accurate a picture of the interest expense over the life of the bond. The simple interest method is not applicable here because it does not account for the complexity of bond discounts. The decreasing balance method generally relates to depreciation or amortization of assets rather than to bond discounts. Thus

9. In relation to bonds, what does the term 'market rate' refer to?

A. The standard return expected on equity investments

B. The interest rate used for pricing bonds

C. The historical average of interest rates

D. The rate set by the Federal Reserve

The term 'market rate' in relation to bonds refers to the interest rate used for pricing bonds, which is crucial for determining the present value of future cash flows associated with the bond. This market rate reflects the prevailing rate of interest in the market for similar bonds, meaning it is influenced by factors such as supply and demand, economic conditions, and credit risk associated with the bond issuer. When bonds are issued, they come with a stated interest rate (also known as the coupon rate). However, if the market conditions change, the market rate will fluctuate, impacting how the bonds are valued in the marketplace. If investors demand a higher yield due to increased risk or changing economic conditions, the market rate will rise above the coupon rate, making existing bonds with lower rates less attractive. This leads to a decrease in the bond's price. Conversely, if the market rate falls below the coupon rate, the bond will become more valuable. This understanding of the market rate is essential for both issuing and investing in bonds, as it directly affects the pricing decisions made by both issuers and investors in the bond market. Other terms, such as the standard return expected on equity investments, historical averages, or rates set by regulatory bodies like the Federal Reserve, do not specifically

10. What are retained earnings?

A. The total amount of assets owned by the company

B. The cumulative amount of net income retained in the company rather than distributed as dividends

C. The portion of revenues set aside for future investments

D. The total liabilities a company has accrued over time

Retained earnings refer to the cumulative amount of net income that a company has retained in the business instead of distributing it to shareholders as dividends. This means that when a company earns a profit, it can choose to reinvest those earnings back into the business, which contributes to the growth of the company. Retained earnings are recorded on the balance sheet under shareholders' equity and represent a key source of funding for various business activities, such as purchasing new equipment, financing research and development, or expanding operations. The concept of retained earnings is essential for understanding how companies manage their profits and the financial decisions they make regarding reinvestment versus distributing dividends. This measure allows investors and analysts to assess how effectively a company is using its profits to fuel growth and enhance shareholder value. While assets, liabilities, and specific portions of revenue might play significant roles in a company's financial health, they do not convey the same specific meaning as retained earnings, which is focused on profits retained for reinvestment rather than distribution.

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://ucf-acg2021-final.examzify.com

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