

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

- 1. How is treasury stock recorded in financial accounts?**
 - A. As an asset on the balance sheet**
 - B. As a deduction from total equity**
 - C. As a liability**
 - D. As revenue**
- 2. What is the term for the interest rate stated in the bond contract?**
 - A. Market rate**
 - B. Stated interest rate**
 - C. Effective interest rate**
 - D. Amortization rate**
- 3. What are non-current assets?**
 - A. Assets expected to be converted to cash within one year**
 - B. Assets that generate cash flow annually**
 - C. Assets that are not expected to be converted to cash or consumed within one year**
 - D. Assets held for resale**
- 4. Which of the following is excluded from operating cash flows?**
 - A. Cash receipts from customers**
 - B. Dividends paid**
 - C. Payments to suppliers**
 - D. Payments to employees**
- 5. What is meant by the 'carrying value' of a bond?**
 - A. The premium above face value**
 - B. The balance in the bonds payable account**
 - C. The market value of the bond**
 - D. The total interest paid over the life of the bond**

- 6. What is an advantage of preferred stock compared to common stock?**
- A. It carries no dividend rights**
 - B. Shareholders earn a fixed dividend**
 - C. It allows for unlimited voting rights**
 - D. It has a higher par value**
- 7. What is considered paid-in capital in financial accounting?**
- A. Retained earnings from previous years**
 - B. Money received from issuing stock**
 - C. Interest income from invested funds**
 - D. Future expenses that will be incurred**
- 8. Which statement is true regarding the balance sheet?**
- A. It summarizes income over a specific period**
 - B. It reflects the financial position of a company at a specific point in time**
 - C. It shows cash inflows and outflows**
 - D. It is not necessary for external reporting**
- 9. 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**
- 10. What is the primary financial statement that shows liabilities such as bonds?**
- A. Income statement**
 - B. Balance sheet**
 - C. Cash flow statement**
 - D. Statement of changes in equity**

Answers

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

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Explanations

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1. How is treasury stock recorded in financial accounts?

- A. As an asset on the balance sheet
- B. As a deduction from total equity**
- C. As a liability
- D. As revenue

Treasury stock is recorded as a deduction from total equity on the balance sheet because it represents shares that the company has repurchased from shareholders. When a company buys back its own shares, those shares are no longer outstanding and are not considered an asset. Instead, they are treated as a contra-equity account, effectively reducing the total equity available to shareholders. By deducting the cost of treasury stock from total equity, it reflects a true picture of the equity that is available to external stakeholders. This approach also signifies that the company has used its resources to buy its own shares, which can affect the overall financial stability and liquidity of the company. The treatment of treasury stock in this manner helps users of financial statements understand the impact of share repurchases on shareholder equity.

2. What is the term for the interest rate stated in the bond contract?

- A. Market rate
- B. Stated interest rate**
- C. Effective interest rate
- D. Amortization rate

The interest rate stated in the bond contract is known as the stated interest rate. This is the rate that is explicitly listed on the bond agreement and is the rate used to calculate the interest payments that the bond issuer will pay to bondholders. It represents the nominal interest rate that lenders can expect to receive, and it is expressed as a percentage of the bond's face value. The stated interest rate is crucial for both investors and issuers because it determines the cash flows associated with the bond, specifically the periodic interest payments. For an investor, understanding this rate helps them assess the bond's yield and compare it against other investment opportunities. For the issuer, it reflects the cost of borrowing. In contrast, the market rate refers to the interest rate prevailing in the market at the time the bond is issued or traded, and it can differ from the stated rate. The effective interest rate, meanwhile, is calculated based on the bond's actual return, taking into account the price paid for the bond and any premiums or discounts. Amortization rate typically refers to the process of paying off debt through regular payments and is not directly related to the interest rate in the bond contract. Thus, the stated interest rate is the correct answer as it directly pertains to the bond.

3. What are non-current assets?

- A. Assets expected to be converted to cash within one year
- B. Assets that generate cash flow annually
- C. Assets that are not expected to be converted to cash or consumed within one year**
- D. Assets held for resale

Non-current assets are defined as resources that a company owns and expects to use in its operations for longer than one year. This includes items such as property, plant, equipment, intangible assets like patents, and long-term investments. The distinction is important because non-current assets are not intended for quick liquidation or conversion to cash; rather, they are utilized over time to generate revenue and support business activities. The correct choice emphasizes that these assets will not be converted into cash or consumed within a year, highlighting their long-term nature and function within a business's operational framework. This classification is crucial for financial reporting, as it affects both the balance sheet and how a company's resources are managed and evaluated in terms of solvency and operational efficiency. In contrast, options that refer to converting assets to cash within a year focus on current assets, while those mentioning annual cash flow might suggest a broader category that includes both current and non-current assets. The mention of assets held for resale pertains specifically to inventory, which is classified as a current asset. Hence, the accurate interpretation of non-current assets aligns well with the given definition in choice C.

4. Which of the following is excluded from operating cash flows?

- A. Cash receipts from customers
- B. Dividends paid**
- C. Payments to suppliers
- D. Payments to employees

Dividends paid are excluded from operating cash flows because they are classified under financing activities. Operating cash flows specifically relate to the cash transactions that are part of the company's core business operations, which include cash receipts from customers, payments to suppliers, and payments to employees. These activities are integral to determining how much cash is being generated or used in day-to-day operations. Dividends paid represent a return of profit to shareholders and are not tied directly to the operational efficiency or profitability of the business itself. Thus, they fall under a different category that reflects how a company manages its equity and financing rather than its operational cash generation capabilities. Understanding this distinction is crucial in analyzing cash flow statements correctly and assessing the health of a business's cash generation from its core activities.

5. What is meant by the 'carrying value' of a bond?

- A. The premium above face value
- B. The balance in the bonds payable account**
- C. The market value of the bond
- D. The total interest paid over the life of the bond

The carrying value of a bond represents the net amount at which the bond is valued on the balance sheet over time. This value consists of the bond's face value adjusted for any unamortized premium or discount. Therefore, the balance in the bonds payable account, which includes these adjustments, accurately defines the carrying value. This concept is vital because it reflects the bond's actual accounting value, which will change over the life of the bond due to the amortization of any premium or discount. Understanding the carrying value is essential for analyzing a company's liabilities and ensuring accurate financial reporting. The other options do not define carrying value accurately; they refer to distinct concepts related to bonds but do not capture the comprehensive nature of the carrying value as it appears on financial statements.

6. What is an advantage of preferred stock compared to common stock?

- A. It carries no dividend rights
- B. Shareholders earn a fixed dividend**
- C. It allows for unlimited voting rights
- D. It has a higher par value

Preferred stock has distinct characteristics that differentiate it from common stock, particularly in terms of dividend distribution. One significant advantage of preferred stock is that it typically provides shareholders with a fixed dividend. This means that preferred shareholders receive dividends at predetermined intervals and amounts, making their investment more stable compared to common stock, which often has variable dividends that can change based on the company's profitability and decisions made by the board of directors. This fixed dividend characteristic makes preferred stock attractive to investors who seek predictable income, particularly in times of economic uncertainty. In contrast, common stock may not pay dividends consistently, as they are dependent on the company's performance and management decisions. Moreover, preferred shareholders usually have a higher claim on assets in the event of liquidation than common shareholders, adding to its appeal as a more secure investment. Therefore, the fixed dividend is a key reason why preferred stock is often favored by those looking for more reliability in their investment returns.

7. What is considered paid-in capital in financial accounting?

- A. Retained earnings from previous years
- B. Money received from issuing stock**
- C. Interest income from invested funds
- D. Future expenses that will be incurred

Paid-in capital, also known as contributed capital, refers specifically to the funds that a company receives from its shareholders in exchange for shares of stock. This encompasses the total amount of capital that shareholders have invested in the company through purchasing its equity. When a company issues stock, the money received from these transactions directly contributes to its paid-in capital. The nature of paid-in capital is crucial for understanding a company's financial structure, as it reflects the equity financing provided by shareholders rather than funds derived from operations or retained earnings. This financing is vital for funding business operations, expansion, or other capital needs. In contrast, retained earnings represent cumulative profits that have been retained in the business rather than distributed as dividends, which is not a direct contribution from shareholders at a specific point in time. Interest income is revenue earned from investments, which does not pertain to shareholders' contributions through stock purchases. Future expenses are obligations the company expects to incur but do not fall under the capital that has been raised from shareholders. Thus, the funds received from issuing stock stand out clearly as the definition of paid-in capital in this context.

8. Which statement is true regarding the balance sheet?

- A. It summarizes income over a specific period
- B. It reflects the financial position of a company at a specific point in time**
- C. It shows cash inflows and outflows
- D. It is not necessary for external reporting

The balance sheet is a financial statement that presents a company's financial position at a specific point in time. This statement details the company's assets, liabilities, and equity, indicating what the company owns and owes at that moment. The balance sheet provides a snapshot of the company's financial health, which is essential for stakeholders to assess its ability to meet obligations, invest in growth, and make decisions regarding the company's future. Understanding that the balance sheet reflects this financial position at a specific date distinguishes it from other financial statements, like the income statement, which summarizes revenues and expenses over a period, or the cash flow statement, which details cash inflows and outflows. Additionally, every company must prepare a balance sheet for external reporting to give creditors and investors a clear view of its financial standing, making it essential rather than optional.

9. 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.

10. What is the primary financial statement that shows liabilities such as bonds?

- A. Income statement**
- B. Balance sheet**
- C. Cash flow statement**
- D. Statement of changes in equity**

The primary financial statement that shows liabilities such as bonds is the balance sheet. The balance sheet provides a snapshot of a company's financial position at a specific point in time and lists assets, liabilities, and equity. Liabilities represent the company's obligations, and they are classified as either current or long-term. Bonds, as a long-term liability, are presented in this section to reflect the amounts owed to bondholders. The income statement, by contrast, focuses on revenues and expenses over a period of time and does not provide information on the company's obligations. The cash flow statement tracks the cash inflows and outflows, categorizing them into operating, investing, and financing activities, but it does not detail the balances of liabilities. The statement of changes in equity outlines the movements in equity accounts over time but does not include information on liabilities. Therefore, the balance sheet is the correct answer because it comprehensively presents all liabilities, including bonds.

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!