

UNIVERSITY OF CENTRAL FLORIDA (UCF) ACG2021 PRINCIPLES OF FINANCIAL ACCOUNTING FINAL PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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 should be done when a gain contingency is probable and the amount is reasonably estimable?**
 - A. Recognized in the income statement
 - B. Disclosed but not recognized in the income statement
 - C. Ignored until actual gain occurs
 - D. Listed as a current asset
- 2. Which financial statement includes liabilities?**
 - A. Income Statement
 - B. Statement of Cash Flows
 - C. Balance Sheet
 - D. Retained Earnings Statement
- 3. 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
- 4. What statement typically reflects stockholders' equity?**
 - A. Income statement
 - B. Statement of cash flows
 - C. Balance sheet
 - D. Statement of retained earnings
- 5. What is the correct entry to record the sale of treasury stock?**
 - A. Cash debit, Treasury stock credit
 - B. Cash credit, Treasury stock debit
 - C. Cash debit, Additional paid-in capital credit
 - D. Cash credit, Additional paid-in capital debit
- 6. What does sales tax payable represent?**
 - A. An asset to be collected in the future
 - B. A liability to pay sales tax collected from customers
 - C. An expense related to the cost of goods sold
 - D. A revenue account tracking sales activity

7. What is a secured bond?

- A. A bond backed by collateral
- B. A bond without collateral
- C. A bond that matures in installments
- D. A bond convertible to stock

8. What does effective cash flow management influence in an organization?

- A. Inventory levels
- B. Employee satisfaction
- C. Overall operational success
- D. Market competition

9. What is meant by "book value"?

- A. The estimated market price of an asset
- B. The value of an asset recorded on the balance sheet
- C. The appraised value of a company's real estate
- D. The current liquidation value of an asset

10. In financial accounting, what is the function of equity?

- A. To represent the total liabilities of the company
- B. To measure profitability over time
- C. To show the owners' claim on the assets of the company
- D. To record daily business transactions

Answers

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

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Explanations

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1. What should be done when a gain contingency is probable and the amount is reasonably estimable?

- A. Recognized in the income statement
- B. Disclosed but not recognized in the income statement**
- C. Ignored until actual gain occurs
- D. Listed as a current asset

When a gain contingency is probable and the amount can be reasonably estimated, it should be disclosed but not recognized in the income statement. This is because accounting principles, particularly those related to conservatism, dictate that gains are recognized only when they are realized or realizable, and not in anticipation of a future event. In financial accounting, contingencies refer to potential future events that may impact the financial statements. For a gain contingency, even if the outcome appears positive and estimable, recognizing it prematurely could misrepresent the financial condition of the entity. By disclosing the gain contingency, the financial statements provide relevant information to users about potential future benefits without overstating current financial performance or position. This approach maintains transparency and adheres to the conservative principle of only recognizing income when it is certain, helping to ensure that financial reporting remains reliable and trustworthy.

2. Which financial statement includes liabilities?

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

The Balance Sheet is the financial statement that includes liabilities. It presents a company's financial position at a specific point in time, detailing its assets, liabilities, and equity. Liabilities are obligations that the company owes to outside parties, which must be settled over time through the transfer of economic benefits. By showing liabilities alongside assets and equity, the Balance Sheet provides a complete picture of the financial health of the organization, illustrating how assets are financed—either through debt (liabilities) or through owner's equity. The Income Statement, on the other hand, focuses on a company's revenues and expenses over a period of time, leading to the net income or loss. The Statement of Cash Flows reports the cash inflows and outflows from operating, investing, and financing activities, but it does not provide a breakdown of liabilities. The Retained Earnings Statement shows changes in retained earnings over a reporting period, primarily linking net income to the equity section, but it does not include details about liabilities. Thus, the Balance Sheet is the only financial statement where liabilities are specifically reported.

3. 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.

4. What statement typically reflects stockholders' equity?

- A. Income statement
- B. Statement of cash flows
- C. Balance sheet**
- D. Statement of retained earnings

The choice of the balance sheet as the statement that typically reflects stockholders' equity is accurate because the balance sheet presents a company's financial position at a specific point in time. It clearly outlines the accounting equation, which is assets equal liabilities plus stockholders' equity. Stockholders' equity is a crucial component of this equation and represents the residual interest in the assets of the entity after deducting liabilities. On the balance sheet, stockholders' equity includes common stock, preferred stock, additional paid-in capital, retained earnings, and often treasury stock. This gives stakeholders, such as investors and creditors, a clear snapshot of the value that shareholders hold in the company at that moment. The income statement, on the other hand, focuses on revenues and expenses over a period to determine net income but does not provide information about equity itself. The statement of cash flows shows the cash inflows and outflows categorized by operating, investing, and financing activities but also does not directly reflect stockholders' equity. Lastly, the statement of retained earnings provides details on changes in retained earnings over a specific period, which is a component of stockholders' equity, but it does not present the entire equity section as a whole as the balance sheet does. Thus, the balance sheet

5. What is the correct entry to record the sale of treasury stock?

- A. Cash debit, Treasury stock credit
- B. Cash credit, Treasury stock debit
- C. Cash debit, Additional paid-in capital credit
- D. Cash credit, Additional paid-in capital debit

The correct entry for recording the sale of treasury stock involves recognizing the cash received and the reduction of treasury stock on the books. When a company sells treasury stock, it receives cash, which increases the company's assets. This is reflected by debiting the cash account. At the same time, the company must decrease its treasury stock account, which is a contra equity account, leading to a credit entry. Therefore, the entry involves debiting cash to show the increase in assets and crediting treasury stock to reflect the decrease in equity due to the sale of the purchased shares. Recording the sale this way ensures that both the cash received and the adjustment of equity are accurately reflected in the company's financial statements. This practice adheres to proper accounting principles and maintains the integrity of the equity section of the balance sheet.

6. What does sales tax payable represent?

- A. An asset to be collected in the future
- B. A liability to pay sales tax collected from customers
- C. An expense related to the cost of goods sold
- D. A revenue account tracking sales activity

Sales tax payable represents a liability that a business has to pay to the government, reflecting the sales tax that has been collected from customers during sales transactions. When a company sells goods or services, it often collects sales tax from customers on behalf of the government. This collected tax is not the company's income but rather a amount held temporarily until it is due to be remitted to the appropriate tax authority. In accounting, it is essential to differentiate between the business's income and any tax collected. Since the sales tax collected increases the company's obligation to remit that amount to the tax authority, it is classified as a liability on the balance sheet. This distinction is crucial for accurate financial reporting and compliance with tax regulations. Understanding that sales tax payable is a liability helps in grasping how businesses manage their obligations related to taxes in their financial statements.

7. What is a secured bond?

- A. A bond backed by collateral
- B. A bond without collateral
- C. A bond that matures in installments
- D. A bond convertible to stock

A secured bond is indeed a bond backed by collateral. This means that if the issuing company defaults on its obligations, bondholders have a claim on specific assets that serve as collateral. This added security typically makes secured bonds less risky for investors compared to unsecured bonds, where there is no collateral backing the bond. Collateral can include various types of assets, such as real estate or other tangible assets, which can be seized and sold in the event of default to help satisfy the debt. This characteristic of secured bonds provides investors with a higher level of assurance regarding the likelihood of recovering their investment, in contrast with bonds that do not offer such safeguards. Understanding this concept is crucial for comprehending the different risk levels associated with various types of bonds within the financial markets.

8. What does effective cash flow management influence in an organization?

- A. Inventory levels
- B. Employee satisfaction
- C. Overall operational success**
- D. Market competition

Effective cash flow management is crucial for ensuring that an organization has the necessary liquidity to meet its obligations, invest in opportunities, and maintain day-to-day operations. When cash flow is effectively managed, an organization can pay bills on time, ensure employees are compensated, invest in inventory or new projects, and avoid financial distress. This stability allows for better planning and execution of business strategies, directly influencing the organization's overall operational success. While effective cash flow management can indirectly influence inventory levels, employee satisfaction, and market competition, its primary impact is on the organization's ability to operate smoothly and achieve its long-term strategic goals. This operational success is fundamental, as it reflects the organization's ability to generate revenue, manage expenses, and create value for stakeholders.

9. What is meant by "book value"?

- A. The estimated market price of an asset
- B. The value of an asset recorded on the balance sheet**
- C. The appraised value of a company's real estate
- D. The current liquidation value of an asset

The term "book value" refers to the value of an asset that is recorded on a company's balance sheet. It represents the original cost of the asset, minus any accumulated depreciation or amortization. This figure provides a historical perspective on the asset's worth according to the company's accounting records. Book value is important in financial reporting as it helps stakeholders understand the organization's financial position and the value of its assets. It is crucial for assessing the net worth of a company and aids in various analytical evaluations, like determining return on investment or analyzing asset performance over time. In contrast, the market price of an asset fluctuates based on supply and demand dynamics, and appraisal values can vary based on professional assessments, often influenced by current market conditions or specific evaluations of real estate. Liquidation value pertains to the amount that can be obtained if an asset is sold off quickly, which can differ significantly from the book value. Each of these alternatives examines value measurement in different contexts, but only the book value provides a consistent and standardized figure for accounting purposes on a balance sheet.

10. In financial accounting, what is the function of equity?

- A. To represent the total liabilities of the company
- B. To measure profitability over time
- C. To show the owners' claim on the assets of the company**
- D. To record daily business transactions

Equity serves a crucial role in financial accounting by representing the owners' claim on the assets of the company. This claim reflects the residual interest in the assets of the business after deducting all liabilities. In simpler terms, equity indicates what the owners truly own in the business, which can be understood as the net assets available to shareholders once all debts and obligations have been settled. By illustrating the ownership stake, equity provides insight into the financial health and value of the company from the owners' perspective. It is essential for assessing how much of the company's resources belong to the shareholders, making it a vital component of the balance sheet. The other choices, while related to different concepts in financial accounting, do not accurately define the specific function of equity. The option pertaining to total liabilities focuses on the company's obligations rather than ownership, measuring profitability relates to income statements rather than equity, and recording daily transactions pertains to operational accounting rather than the ownership structure represented by equity.

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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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