

University of Central Florida (UCF) ACG3173 Accounting for Decision-Makers Exam 2 Practice (Sample)

Study Guide



Everything you need from our exam experts!

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Table of Contents

| | |
|------------------------------------|-----------|
| Copyright | 1 |
| Table of Contents | 2 |
| Introduction | 3 |
| How to Use This Guide | 4 |
| Questions | 5 |
| Answers | 8 |
| Explanations | 10 |
| Next Steps | 16 |

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. In accounting terms, how does higher expenses impact the financial statements?**
 - A. Leads to higher net income**
 - B. Leads to lower net income**
 - C. No impact on net income**
 - D. Increases revenue reporting**
- 2. What accounting standard mandates the use of Lower of Cost or Market for inventory valuation?**
 - A. IFRS**
 - B. GAAP**
 - C. Tax Code**
 - D. None of the Above**
- 3. Why might managers prefer to capitalize costs instead of expensing them?**
 - A. To reduce net income**
 - B. To maximize net income**
 - C. To comply with tax regulations**
 - D. To improve liquidity ratios**
- 4. What is the estimated reporting start date for everyone to comply with the new leasing rules?**
 - A. December 15, 2018**
 - B. December 15, 2019**
 - C. January 1, 2020**
 - D. July 1, 2020**
- 5. What is the impact of depreciation on capitalized assets?**
 - A. It increases their book value**
 - B. It has no effect on earnings**
 - C. It reduces the asset's value shown on the Balance Sheet over time**
 - D. It leads to immediate tax benefits**

- 6. What financial statement is primarily affected by COGS?**
- A. Income Statement**
 - B. Cash Flow Statement**
 - C. Balance Sheet**
 - D. Statement of Retained Earnings**
- 7. Which cost recovery method is typically used for natural resources?**
- A. Amortization**
 - B. Straight-line Depreciation**
 - C. Double Declining Balance**
 - D. Depletion**
- 8. What characterizes a capital budget?**
- A. A budget focused exclusively on daily operational expenses**
 - B. A plan for short-term cash management**
 - C. A budget outlining planned expenditures on long-term investments**
 - D. A projection of income tax liabilities for the year**
- 9. Which of the following is an example of an intangible asset?**
- A. Land**
 - B. Machinery**
 - C. Patents**
 - D. Buildings**
- 10. How can the Lower of Cost or Market principle be applied?**
- A. Only to individual items**
 - B. Only to total inventory**
 - C. To each individual item or to broad categories of inventory**
 - D. Only to bulk transactions**

Answers

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

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Explanations

1. In accounting terms, how does higher expenses impact the financial statements?

- A. Leads to higher net income**
- B. Leads to lower net income**
- C. No impact on net income**
- D. Increases revenue reporting**

Higher expenses directly impact the financial statements by reducing net income. In accounting, net income is calculated as total revenues minus total expenses. When expenses increase, assuming revenues remain constant, the total amount deducted from revenues also increases, which results in a lower net income figure. This relationship is fundamental to understanding how profit-driven organizations assess their performance. Higher expenses may stem from various sources, such as higher operational costs, increased administrative expenses, or investment in new projects. Regardless of their origin, the effect is consistent: unless matched by a proportionate increase in revenues, higher expenses will lead to decreased profitability as reflected on the income statement. This understanding is crucial for decision-makers as it informs budgetary decisions, financial planning, and performance evaluation within the organization. Being aware of how expense management plays a vital role in financial health allows businesses to strategize effectively.

2. What accounting standard mandates the use of Lower of Cost or Market for inventory valuation?

- A. IFRS**
- B. GAAP**
- C. Tax Code**
- D. None of the Above**

The accounting standard that mandates the use of Lower of Cost or Market for inventory valuation is GAAP, which stands for Generally Accepted Accounting Principles. Under GAAP, companies are required to assess their inventory and report it at the lower of its historical cost or its market value. This approach is designed to ensure that inventory is not overstated on the financial statements; if the market value drops below cost, the company must write down the inventory to reflect this decline in value. This conservative valuation approach is integral to presenting a true and fair view of a company's financial position, as it helps to match revenues with potential losses incurred from inventory that may no longer be sellable at the originally recorded cost. On the other hand, IFRS (International Financial Reporting Standards) follows a similar but slightly different guideline called "Lower of Cost or Net Realizable Value," which emphasizes the recoverable amount. The Tax Code does not specifically address inventory valuation methods in this context. Therefore, GAAP is the correct answer, as it specifically requires the Lower of Cost or Market approach for inventory valuation.

3. Why might managers prefer to capitalize costs instead of expensing them?

- A. To reduce net income
- B. To maximize net income**
- C. To comply with tax regulations
- D. To improve liquidity ratios

Managers might prefer to capitalize costs instead of expensing them primarily because capitalizing allows for the allocation of costs over multiple periods, which can enhance the appearance of profitability on the financial statements. When costs are capitalized, they are recorded as assets on the balance sheet rather than being immediately deducted from revenues on the income statement. This capitalization spreads the expense over time through depreciation or amortization, which can lead to a higher net income in the current period compared to expensing those costs immediately. By maximizing net income, managers can improve performance metrics that are vital for attracting investors and securing financing. Higher reported earnings can reflect positively on a company's financial health, potential for growth, and overall operational efficiency, even if the cash flow impact of these costs remains the same. The other options might involve considerations that managers take into account, such as tax strategies and liquidity ratios; however, they do not directly address the primary financial reporting advantage that comes with capitalizing costs. Prioritizing net income provides a more compelling rationale for the choice to capitalize costs as it directly aligns with management's objective to present a stronger financial position.

4. What is the estimated reporting start date for everyone to comply with the new leasing rules?

- A. December 15, 2018
- B. December 15, 2019**
- C. January 1, 2020
- D. July 1, 2020

The estimated reporting start date for compliance with the new leasing rules set forth by the Financial Accounting Standards Board (FASB) under ASC 842 was indeed December 15, 2019. This effective date signifies when companies were required to begin applying the new standards, which bring significant changes to the accounting for leases. Under the new rules, lessees are required to recognize lease assets and liabilities on their balance sheets for most leases, which marks a departure from previous standards that allowed for operating leases to remain off-balance-sheet. The timing of reporting changes is crucial for businesses as it gives them a clear timeline to prepare for transitioning their accounting practices and systems to comply with these new requirements. The shift in compliance reflects a broader move toward transparency in financial reporting, especially concerning long-term commitments that affect a company's financial position.

5. What is the impact of depreciation on capitalized assets?

- A. It increases their book value
- B. It has no effect on earnings
- C. It reduces the asset's value shown on the Balance Sheet over time**
- D. It leads to immediate tax benefits

Depreciation affects capitalized assets by gradually reducing their book value on the Balance Sheet over time. This reduction reflects the asset's consumption, wear and tear, or obsolescence as it is used in operations. As depreciation is recorded, the asset's carrying amount is systematically decreased, which provides a more accurate representation of its current value. This is essential for proper financial reporting and helps stakeholders understand the diminishing economic value of the asset. The impact of this reduction in value is also important for financial analysis, indicating how much of the asset's life has been utilized and how much value remains. This treatment aligns with the principle of matching, where expenses related to the revenue generated by the asset are recorded in the same period, thereby presenting a clearer picture of overall profitability and asset management. While depreciation does influence earnings by reducing them (due to the expense recorded), the primary and correct answer regarding its impact on the asset itself is how it reduces the asset's value shown on the Balance Sheet.

6. What financial statement is primarily affected by COGS?

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

The Income Statement is primarily affected by Cost of Goods Sold (COGS) because COGS represents the direct costs attributable to the production of the goods sold by a company. It is subtracted from total revenue to determine the gross profit, which is a critical component of the Income Statement. The gross profit reflects the company's profitability before accounting for operating expenses, taxes, and interest. In contrast, the Cash Flow Statement tracks the cash inflows and outflows during a specific period, detailing how cash is generated and used, but it does not directly reflect COGS. The Balance Sheet presents a snapshot of a company's assets, liabilities, and equity at a given point in time, and while COGS indirectly influences the equity section by affecting retained earnings, it is not reflected directly on the Balance Sheet. Finally, the Statement of Retained Earnings displays changes in equity from net income and dividends but does not detail the specifics of COGS. Thus, the Income Statement is the primary financial statement affected by COGS due to its direct impact on gross profit and overall profitability.

7. Which cost recovery method is typically used for natural resources?

- A. Amortization**
- B. Straight-line Depreciation**
- C. Double Declining Balance**
- D. Depletion**

The cost recovery method typically used for natural resources is Depletion. This method is specifically designed to allocate the cost of extracting natural resources, such as minerals, oil, and gas, over the period they are extracted and used. Depletion allows companies to account for the reduction of a natural resource's quantity as it is extracted and sold, accurately reflecting the diminishing value of these resources on the company's financial statements. Unlike amortization, which is used for intangible assets, and depreciation methods like straight-line and double declining balance that apply to tangible fixed assets, depletion acknowledges the unique nature of natural resources that are extracted and depleted over time. Depletion corresponds with the physical extraction process, where the asset's value decreases as the resource is consumed. This makes it the most appropriate choice among the given options for accounting for the costs associated with natural resource extraction.

8. What characterizes a capital budget?

- A. A budget focused exclusively on daily operational expenses**
- B. A plan for short-term cash management**
- C. A budget outlining planned expenditures on long-term investments**
- D. A projection of income tax liabilities for the year**

A capital budget is characterized by a focus on planned expenditures for long-term investments. This includes investments in fixed assets such as property, plant, equipment, and other resources that are expected to provide benefits over an extended period, typically more than one year. The purpose of a capital budget is to allocate funds for projects that facilitate the growth and expansion of the organization, which can significantly affect its future profitability and operational capacity. In contrast, a budget that focuses exclusively on daily operational expenses pertains to the routine costs involved in running a business, which are short-term by nature. Short-term cash management plans are concerned with effectively overseeing daily cash flow and managing operational liquidity rather than long-term investment strategies. Similarly, a projection of income tax liabilities addresses tax obligations rather than capital expenditures. Therefore, the nature of the capital budget stands distinct in aiming for strategic growth through significant asset acquisition versus covering everyday operational costs or fiscal responsibilities.

9. Which of the following is an example of an intangible asset?

- A. Land**
- B. Machinery**
- C. Patents**
- D. Buildings**

An intangible asset is a non-physical resource that has value due to the advantages it provides to the company, often related to legal rights or competitive advantages. Patents specifically represent legal rights granted for an invention, allowing the holder exclusive rights to use or license the invention for a certain period. This exclusivity can offer significant economic benefits, thus qualifying patents as intangible assets. In contrast, the other choices represent tangible assets. Land, machinery, and buildings are all physical items that have measurable, concrete value and can be seen or touched. They are essential to business operations but do not convey the same type of legal or competitive benefits as intangible assets like patents. Understanding the difference between tangible and intangible assets is crucial in financial reporting and accounting, as it affects how companies evaluate their assets and report them in financial statements.

10. How can the Lower of Cost or Market principle be applied?

- A. Only to individual items**
- B. Only to total inventory**
- C. To each individual item or to broad categories of inventory**
- D. Only to bulk transactions**

The Lower of Cost or Market principle is an accounting guideline that requires inventory to be reported at the lower value between its historical cost and its market value. This principle can be applied not only on a per-item basis but also to broader categories of inventory. Applying this principle to each individual item allows businesses to accurately reflect the potential losses in value for specific products, ensuring that no item is overvalued on the balance sheet. However, in some cases, businesses may choose to apply this principle to broader categories of inventory, allowing them to consider the overall market conditions affecting a group of items while still adhering to the fundamental concept of reporting inventory at the lower of its cost or market value. This flexibility is essential in practical accounting scenarios since it balances the need for precise tracking of inventory and the simplicity that can come from handling categories. The emphasis on both individual items and categories makes this application particularly effective in providing stakeholders with a true representation of a company's inventory valuation.

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-acg3173-exam2.examzify.com>

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