

UNIVERSITY OF CENTRAL FLORIDA (UCF) ACG3173 ACCOUNTING FOR DECISION-MAKERS EXAM 2 PRACTICE (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

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

SAMPLE

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

SAMPLE

- 1. Which of the following accurately defines sensitivity analysis?**
 - A. A technique to analyze marketing strategies
 - B. A method to assess how input changes affect an outcome
 - C. A financial forecasting tool
 - D. A type of risk management strategy
- 2. Why is strategic planning important in accounting?**
 - A. It focuses solely on short-term goals
 - B. It aligns accounting practices with long-term business goals
 - C. It eliminates the need for budgeting
 - D. It only concerns operational issues
- 3. What does the Average Cost method attempt to provide?**
 - A. A precise valuation of each item in inventory
 - B. Cost averaging to simplify calculations
 - C. A current valuation of obsolete stock
 - D. An assessment of future inventory needs
- 4. How is profit margin defined?**
 - A. The total revenue minus total expenses
 - B. The percentage of revenue that remains after all expenses are deducted
 - C. The dollar amount of profit earned per item sold
 - D. The ratio of total assets to total liabilities
- 5. What type of tax is withheld as a prepayment of individual taxes?**
 - A. Federal Insurance Tax
 - B. Medicare Tax
 - C. Federal Income Tax
 - D. State Income Tax
- 6. What is the relationship between Ending Inventory and Cost of Goods Sold (COGS)?**
 - A. Directly proportional
 - B. Inverse relationship
 - C. Independent factors
 - D. Linear relationship

- 7. What is the entry when a company pays \$5,000 of the payable after 7 days under the terms 2/10, net 30?**
- A. Debit A/P \$5,000, Credit Cash \$5,000
 - B. Debit A/P \$4,900, Debit Discount on Supplies \$100, Credit Cash \$5,000
 - C. Debit Cash \$5,000, Credit A/P \$5,000
 - D. Debit Cash \$5,000, Credit Supplies Expense \$5,000
- 8. For tax purposes, why might managers prefer to expense rather than capitalize?**
- A. To increase the company's asset base
 - B. To minimize taxable income and subsequently tax liability
 - C. To comply with financial reporting standards
 - D. To improve the company's cash flow
- 9. What does the term "3/15, net 45" imply for payment terms?**
- A. A 3% discount if paid in 15 days; full payment due in 30 days
 - B. A 3% discount if paid in 15 days; full payment due in 45 days
 - C. No discount; payment due in 15 days
 - D. A 15% discount if paid within 45 days
- 10. What is a potential drawback of using LIFO during periods of rising prices?**
- A. It raises the inventory's market value
 - B. It can undervalue inventory on the balance sheet
 - C. It can complicate tax liabilities
 - D. It eliminates the need for recording inventory

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. Which of the following accurately defines sensitivity analysis?

- A. A technique to analyze marketing strategies
- B. A method to assess how input changes affect an outcome**
- C. A financial forecasting tool
- D. A type of risk management strategy

Sensitivity analysis is defined as a method to assess how changes in input variables affect the outcome of a model or decision. This technique plays a crucial role in helping decision-makers understand the degree to which different factors influence results. For example, in financial modeling, sensitivity analysis allows analysts to see how variations in sales volume, cost of goods sold, or operating expenses can impact profits or cash flow. By identifying which inputs have the most significant effect on the results, businesses can make informed decisions and develop strategies to mitigate risks associated with those variables. The other options feature concepts that, while relevant in various contexts, do not capture the essence of sensitivity analysis. It is not solely focused on marketing strategies, nor is it strictly a forecasting tool or a type of risk management strategy. Sensitivity analysis specifically emphasizes the relationships between input changes and their effects on outcomes, making it an essential practice in financial analysis and decision-making processes.

2. Why is strategic planning important in accounting?

- A. It focuses solely on short-term goals
- B. It aligns accounting practices with long-term business goals**
- C. It eliminates the need for budgeting
- D. It only concerns operational issues

Strategic planning is crucial in accounting because it ensures that accounting practices are aligned with the long-term goals of the organization. This alignment is essential for several reasons. Firstly, it allows accounting to play a pivotal role in shaping the company's future direction by providing accurate financial data that supports strategic decisions. With strategic planning, accountants can focus on metrics that truly matter for the growth and sustainability of the business rather than getting mired in short-term financial performance. Furthermore, when accounting is integrated into strategic planning, it helps in identifying long-term investment opportunities, assessing risk, and determining resource allocation that supports the overall business strategy. This way, accounting is not just a record-keeping function but a key contributor to achieving strategic objectives, thereby enhancing the value of the organization over time. In contrast, focusing solely on short-term goals or operational issues can lead to decisions that may provide temporary relief but do not contribute to sustained success. Similarly, eliminating the need for budgeting would undermine financial planning, as budgeting is a crucial element of strategic planning that helps forecast future revenues and expenditures. Therefore, the importance of strategic planning in accounting lies in its ability to synchronize financial practices with overarching business strategies for long-term success.

3. What does the Average Cost method attempt to provide?

- A. A precise valuation of each item in inventory
- B. Cost averaging to simplify calculations**
- C. A current valuation of obsolete stock
- D. An assessment of future inventory needs

The Average Cost method aims to determine an overall average cost for all units available for sale during a specific period. By doing this, it simplifies the calculations associated with inventory valuation and cost of goods sold. Rather than tracking the actual cost of each individual item—which can be cumbersome and complex, especially in businesses with large volumes of inventory—this method aggregates the costs over a period and assigns a single average cost to all items sold and remaining in inventory. This approach is useful because it smooths out price fluctuations over time, making it particularly beneficial in industries where inventory costs can vary significantly. It removes the level of detail needed to track individual inventory movements while still providing a reasonable approximation of inventory costs. The simplicity of cost averaging not only helps in reducing paperwork and record-keeping burdens but also aids in achieving more consistent financial reporting. The other options do not accurately capture the primary objective of the Average Cost method. For example, while obtaining a precise valuation of each item in inventory focuses on detail that the Average Cost method does not emphasize, nor does it inherently provide a current valuation of obsolete stock or an assessment of future inventory needs. Such considerations fall outside the scope of this method's primary function.

4. How is profit margin defined?

- A. The total revenue minus total expenses
- B. The percentage of revenue that remains after all expenses are deducted**
- C. The dollar amount of profit earned per item sold
- D. The ratio of total assets to total liabilities

Profit margin is defined as the percentage of revenue that remains after all expenses are deducted. This measure is crucial for assessing the efficiency and profitability of a company. It indicates how much profit is generated from each dollar of sales, providing insight into the company's financial health and operational efficiency. When profit margin is calculated, it takes into account all expenses, including cost of goods sold, operating expenses, interest, and taxes, thereby presenting a clear picture of what portion of revenue is actually retained as profit. Understanding profit margin helps stakeholders make informed decisions regarding cost management and pricing strategies, ultimately affecting the company's overall performance. This definition distinguishes profit margin from mere dollar amounts or revenue calculations. For example, while total revenue minus total expenses defines net profit, it does not contextualize that profit in relation to total sales. Likewise, the dollar amount of profit earned per item sold focuses on individual product performance rather than overall profitability. The ratio of total assets to total liabilities relates to the company's financial leverage and solvency rather than its profitability metrics. Thus, option B is the most accurate representation of profit margin.

5. What type of tax is withheld as a prepayment of individual taxes?

- A. Federal Insurance Tax
- B. Medicare Tax
- C. Federal Income Tax**
- D. State Income Tax

The correct choice is the Federal Income Tax, as this tax is typically withheld from an employee's paycheck as a prepayment of their annual income tax liability. When an employer pays an employee, a portion of the earnings is deducted and sent directly to the federal government to cover the employee's income tax. This withholding mechanism is designed to spread the overall tax burden throughout the year, rather than requiring individuals to pay a large sum at tax time. The Federal Insurance Tax and Medicare Tax are different in nature. The Federal Insurance Tax, often referred to as FICA, is primarily for social security benefits and does not serve as a prepayment for income taxes. Similarly, the Medicare Tax is specifically for funding Medicare, a healthcare program, and is also not a prepayment of individual income taxes. State Income Tax, while it may also be withheld from paychecks, pertains specifically to the taxation laws of a state and does not cover federal obligations. Therefore, Federal Income Tax is correctly identified as a prepayment mechanism for individual federal income tax liabilities.

6. What is the relationship between Ending Inventory and Cost of Goods Sold (COGS)?

- A. Directly proportional
- B. Inverse relationship**
- C. Independent factors
- D. Linear relationship

The correct relationship between Ending Inventory and Cost of Goods Sold (COGS) is an inverse relationship. This means that as Ending Inventory increases, COGS decreases, and vice versa, assuming sales and other factors remain constant. This relationship arises from the fundamental accounting equation used in inventory accounting. Ending Inventory is derived from the beginning inventory plus purchases made during the period minus the Cost of Goods Sold. Therefore, if the Ending Inventory is high, it indicates that fewer goods were sold, resulting in a lower COGS. Conversely, if COGS is high, it implies that a significant quantity of inventory has been sold, leading to a lower Ending Inventory. In practical terms, businesses aim to balance inventory levels with sales trends to optimize both Ending Inventory and COGS. Understanding this relationship is crucial for effective inventory management and financial analysis, as it directly influences liquidity, profitability, and overall business performance.

7. What is the entry when a company pays \$5,000 of the payable after 7 days under the terms 2/10, net 30?

- A. Debit A/P \$5,000, Credit Cash \$5,000
- B. Debit A/P \$4,900, Debit Discount on Supplies \$100, Credit Cash \$5,000**
- C. Debit Cash \$5,000, Credit A/P \$5,000
- D. Debit Cash \$5,000, Credit Supplies Expense \$5,000

When a company pays a \$5,000 payable under the terms 2/10, net 30, it has the opportunity to take a discount because the payment is made within the discount period (the first 10 days). The terms indicate a 2% discount on the total payable if paid early. Calculating the discount: - The total payable is \$5,000. - The discount is 2% of \$5,000, which amounts to \$100 ($\$5,000 \times 0.02$). - Therefore, the amount the company actually pays in cash is \$4,900 ($\$5,000 - \100). In this journal entry, the company recognizes the reduction in accounts payable by debiting the entire amount of the payable (\$5,000). The discount taken is recorded by debiting "Discount on Supplies" for the amount of the discount, \$100. The cash paid out is credited to reflect the actual cash leaving the business, which is \$4,900. Thus, the entry accurately reflects the accounting treatment of the transaction by showing the reduction in liabilities, accounting for the discount taken, and capturing the cash payment made. This method ensures that the company's financial records reflect both the benefits of prompt payment

8. For tax purposes, why might managers prefer to expense rather than capitalize?

- A. To increase the company's asset base
- B. To minimize taxable income and subsequently tax liability**
- C. To comply with financial reporting standards
- D. To improve the company's cash flow

Managers may prefer to expense rather than capitalize because expensing an item directly reduces taxable income, which ultimately minimizes the amount of tax liability a company has to pay in the current period. When a cost is expensed, it is recognized in its entirety on the income statement right away, which decreases the taxable income in that period. This can be particularly advantageous for companies looking to improve their short-term financial performance or manage cash flow more effectively by ensuring that they pay less in taxes. On the other hand, capitalizing costs spreads the expense over several periods as depreciation, which would not provide the immediate tax benefit that expensing does. By opting to expense, managers can thus reflect lower profits on paper, which translates to lower income taxes owed. This strategy can be especially appealing in periods where cash flow is a concern or when a company is looking to reinvest in growth opportunities without the immediate burden of tax expenses.

9. What does the term "3/15, net 45" imply for payment terms?

- A. A 3% discount if paid in 15 days; full payment due in 30 days
- B. A 3% discount if paid in 15 days; full payment due in 45 days**
- C. No discount; payment due in 15 days
- D. A 15% discount if paid within 45 days

The term "3/15, net 45" indicates that a buyer can receive a 3% discount on the invoice amount if payment is made within 15 days of the invoice date. If the buyer does not take advantage of the discount, the full invoice amount is due within 45 days. This payment structure incentivizes prompt payment while also allowing a longer timeline for settling the total balance. The distinction between the discount period and the net payment period is crucial, as it differentiates the benefits of early payment from the standard expectation of payment timing. Understanding these terms helps businesses manage their cash flow by offering discounts and setting clear expectations for payment schedules with their customers.

10. What is a potential drawback of using LIFO during periods of rising prices?

- A. It raises the inventory's market value
- B. It can undervalue inventory on the balance sheet**
- C. It can complicate tax liabilities
- D. It eliminates the need for recording inventory

Using the Last In, First Out (LIFO) inventory method during periods of rising prices can lead to undervaluing inventory on the balance sheet. Under LIFO, the most recently acquired inventory—the one that has typically been purchased at higher prices—is considered sold first. This results in the cost of goods sold reflecting these higher costs while the older, lower-cost inventory remains on the balance sheet. As a consequence, the remaining inventory reflects older costs, which can significantly undervalue the inventory position of a company, especially when prices are rising. This can misrepresent the actual value of assets, potentially affecting financial ratios and the overall financial health portrayed to stakeholders. While there are complexities and complications associated with tax liabilities when using LIFO, especially in terms of changes to tax laws or the need for different reporting for tax versus financial statements, the primary impact of LIFO in times of inflation is its effect on the assessment of inventory value on the balance sheet.

SAMPLE

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!

SAMPLE