

# UNLV Accounting Competency 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

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- 1. What is retained earnings in accounting?**
  - A. The total cash flow generated by a company**
  - B. The cumulative amount of net income retained in the company after dividends are paid**
  - C. The total value of a company's liabilities**
  - D. The profit distributed to shareholders**
  
- 2. What is a fiscal year?**
  - A. A period of six months for financial reporting**
  - B. A one-year period that companies use for financial reporting and budgeting**
  - C. A quarter of the calendar year**
  - D. A financial term that varies from industry to industry**
  
- 3. What is the main purpose of an internal control system?**
  - A. To manage investor relations**
  - B. To enhance employee productivity**
  - C. To ensure compliance with tax laws**
  - D. To safeguard assets and ensure accurate financial reporting**
  
- 4. What is the main purpose of financial statement analysis?**
  - A. To prepare statements for tax purposes**
  - B. To evaluate a company's financial performance**
  - C. To calculate dividends for shareholders**
  - D. To determine cash flow management**
  
- 5. If a cost cannot be linked to revenues or to an accounting period, how is the expense recorded?**
  - A. It is deferred until linked to revenues**
  - B. It is amortized over time**
  - C. It is recorded immediately**
  - D. It is capitalized as an asset**

- 6. What is a limited liability company (LLC)?**
- A. A type of corporation that has unlimited personal liability**
  - B. A business structure that combines liability protection with tax benefits**
  - C. A type of non-profit organization**
  - D. A temporary business entity**
- 7. What defines current assets in an accounting context?**
- A. Assets held for over a year**
  - B. Controlled resources expected to gain future benefit**
  - C. Assets that have been fully depreciated**
  - D. Items only related to capital investments**
- 8. What is the significance of calculating gross profit?**
- A. It helps in determining operational efficiency**
  - B. It indicates the total income earned**
  - C. It provides insight into product pricing and cost management**
  - D. It measures the effectiveness of marketing strategies**
- 9. Which type of account typically has a credit balance?**
- A. Assets**
  - B. Expenses**
  - C. Liabilities**
  - D. Withdrawals**
- 10. What is the significance of having a budgeted income statement for a business?**
- A. It helps predict stock market trends**
  - B. It serves as a roadmap for financial performance expectations**
  - C. It is used only for tax filing purposes**
  - D. It replaces the need for external audits**

## Answers

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

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## **Explanations**

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## 1. What is retained earnings in accounting?

- A. The total cash flow generated by a company
- B. The cumulative amount of net income retained in the company after dividends are paid**
- C. The total value of a company's liabilities
- D. The profit distributed to shareholders

Retained earnings represent the cumulative amount of net income that a company has retained for reinvestment in the business after accounting for dividend payments to shareholders. This figure is crucial because it reflects the portion of profits that is not distributed but instead kept for reinvestment in activities such as expanding operations, paying down debt, or saving for future downturns. By focusing on retained earnings, businesses can utilize their profits to fund their growth strategies without needing to rely solely on external financing. Retained earnings are typically reported in the shareholders' equity section of the balance sheet and are an indicator of the financial health and potential for growth within a company. In contrast, the other options do not accurately define retained earnings. For instance, total cash flow generated by a company refers to the operational cash that flows in and out and does not account for specific net income retention. The total value of a company's liabilities pertains to what the company owes, rather than what it has earned and retained. Lastly, the profit distributed to shareholders relates to dividends, which are the opposite of retained earnings, as they represent the money paid out rather than retained within the company.

## 2. What is a fiscal year?

- A. A. A period of six months for financial reporting
- B. B. A one-year period that companies use for financial reporting and budgeting**
- C. C. A quarter of the calendar year
- D. D. A financial term that varies from industry to industry

A fiscal year is defined as a one-year period that organizations utilize for financial reporting and budgeting purposes. This timeframe is crucial for companies as it is the interval during which they summarize their financial performance, prepare financial statements, and plan for future budgetary needs. The fiscal year can start and end at any point in the calendar year, which allows businesses the flexibility to align their accounting periods with their operational cycles rather than strictly adhering to the January to December calendar year. For many companies, especially those in retail or seasonal industries, the timing of the fiscal year can significantly impact financial reporting and analysis due to variations in sales patterns and expenses throughout the year. By adopting a fiscal year that best suits their business model, companies can present a more accurate and relevant financial picture to stakeholders. Notably, other options do not accurately capture the true definition of a fiscal year. A period of six months does not represent a full fiscal year; a quarter of the calendar year is merely a segment of time and does not account for the complete annual financial cycle; and while the concept of fiscal years might vary across different industries, the fundamental definition remains consistent in representing a full annual accounting cycle. Therefore, the understanding of a fiscal year as a one-year period is essential for compreh

### 3. What is the main purpose of an internal control system?

- A. To manage investor relations
- B. To enhance employee productivity
- C. To ensure compliance with tax laws
- D. To safeguard assets and ensure accurate financial reporting**

An internal control system is primarily designed to safeguard an organization's assets and ensure that its financial reporting is accurate and reliable. This system encompasses a set of processes and procedures implemented to manage risks associated with financial reporting and to protect the integrity of financial data. By establishing internal controls, organizations can prevent errors, fraud, and misstatements in financial reporting, which are critical for stakeholders who rely on this information for decision-making. The protection of assets is crucial as it helps prevent loss due to theft, fraud, or other unforeseen risks. Accurate financial reporting not only builds trust with investors, creditors, and regulators but also supports effective operational management. This combination of safeguarding assets and ensuring reliable reporting helps organizations operate efficiently and comply with statutory requirements. Thus, the correct answer highlights the central role of the internal control system in maintaining the overall financial health and integrity of an organization.

### 4. What is the main purpose of financial statement analysis?

- A. To prepare statements for tax purposes
- B. To evaluate a company's financial performance**
- C. To calculate dividends for shareholders
- D. To determine cash flow management

The main purpose of financial statement analysis is to evaluate a company's financial performance. This process involves assessing various financial metrics and ratios derived from the financial statements—such as the income statement, balance sheet, and cash flow statement—to gain insights into the company's profitability, efficiency, liquidity, and solvency. Investors, creditors, and management use this analysis to make informed decisions regarding investments, lending, and operational strategies. It helps stakeholders understand how well the company operates and how effectively it generates profit relative to its resources. By focusing on financial performance, stakeholders can compare the company's results over time or against industry benchmarks, enabling a clearer understanding of its health and growth potential. While preparing statements for tax purposes, calculating dividends, and managing cash flow are important aspects of financial accounting and corporate finance, they are not the primary goal of financial statement analysis. This analysis serves a broader purpose of measuring and interpreting a company's overall financial health, which in turn provides critical insights for various stakeholders.

**5. If a cost cannot be linked to revenues or to an accounting period, how is the expense recorded?**

- A. It is deferred until linked to revenues**
- B. It is amortized over time**
- C. It is recorded immediately**
- D. It is capitalized as an asset**

When a cost cannot be directly linked to revenues or an accounting period, it is recorded immediately as an expense. This approach reflects the principle of matching costs with the revenues they help generate, but if no clear linkage exists, the cost is recognized in the period incurred. This prevents the misleading portrayal of financial statements, which could occur if expenses were deferred indefinitely or capitalized without justification. Immediate recognition of the expense ensures that the financial statements reflect the actual economic activities of the entity during the reporting period. It helps maintain accuracy and transparency, ensuring that stakeholders have a clear view of the organization's financial health without the potential distortion that could arise from delaying the recognition of expenses. In contrast, deferring or capitalizing costs would imply a future economic benefit tied to revenue generation, which is not applicable in this scenario, as the costs do not meet the criteria for linkage. Amortization over time applies only to specific types of costs, typically those that provide benefits over multiple periods, further emphasizing why immediate recognition is appropriate here.

**6. What is a limited liability company (LLC)?**

- A. A type of corporation that has unlimited personal liability**
- B. A business structure that combines liability protection with tax benefits**
- C. A type of non-profit organization**
- D. A temporary business entity**

A limited liability company (LLC) is indeed a business structure that effectively combines liability protection with tax benefits. This means that owners (referred to as members) are typically shielded from personal responsibility for the debts and liabilities of the LLC, much like shareholders in a corporation. This protection is advantageous because it helps preserve the personal assets of the members in the event that the LLC faces lawsuits or financial difficulties. Additionally, LLCs benefit from pass-through taxation, meaning that the profits and losses can be reported on the members' personal tax returns rather than being taxed at the corporate level. This can lead to potential tax savings, making LLCs a popular choice among small business owners and entrepreneurs. Understanding this combination of liability protection and tax advantages is essential for individuals considering the formation of a business entity, which is why option B accurately describes an LLC.

## 7. What defines current assets in an accounting context?

- A. Assets held for over a year
- B. Controlled resources expected to gain future benefit**
- C. Assets that have been fully depreciated
- D. Items only related to capital investments

Current assets are defined as resources that a company owns or controls that are expected to provide future economic benefits within one operating cycle or one year, whichever is longer. This definition emphasizes the liquidity of current assets, as they are typically used to fund day-to-day operations and meet short-term obligations. Examples include cash, accounts receivable, and inventory, which are all expected to be converted into cash or used up within that timeframe. Selecting the option related to controlled resources expected to gain future benefit captures the essence of what current assets represent in accounting. The focus on expecting future benefits highlights their role in operational efficiency and financial stability, making it clear why this choice accurately represents the concept of current assets. This understanding is crucial for evaluating a company's liquidity and financial health.

## 8. What is the significance of calculating gross profit?

- A. It helps in determining operational efficiency
- B. It indicates the total income earned
- C. It provides insight into product pricing and cost management**
- D. It measures the effectiveness of marketing strategies

Calculating gross profit is significant because it directly provides insight into product pricing and cost management. Gross profit is the difference between revenue and the cost of goods sold (COGS). By analyzing gross profit, businesses can assess how well their pricing strategies cover costs associated with producing and selling their products. A healthy gross profit margin indicates that a company is effectively managing its production costs and pricing its products in a way that supports profitability. This information can be crucial for making strategic decisions related to pricing adjustments or cost reductions. Additionally, understanding gross profit allows businesses to evaluate their product performance and make necessary adjustments to enhance their profit margins. This focus on pricing and cost management is pivotal for businesses seeking to maximize their profitability and sustainability in the market.

## 9. Which type of account typically has a credit balance?

- A. Assets
- B. Expenses
- C. Liabilities**
- D. Withdrawals

Liability accounts are typically characterized by having a credit balance, which is integral to the double-entry accounting system. This system maintains that every transaction affects at least two accounts, with debits equaling credits. When a company incurs a liability, such as taking out a loan or purchasing goods on credit, it records a credit in the liability account to reflect the obligation to pay in the future. In contrast, asset accounts, which reflect resources owned by the company, usually have a debit balance. When assets increase, they are debited, and when they decrease, they are credited. Expense accounts, which track costs incurred by the business, also have a debit balance since expenses reduce equity. Similarly, withdrawal accounts, which represent amounts taken out of the business by owners, also maintain a debit balance. Understanding the nature of liability accounts and their role in the broader accounting equation— $\text{Assets} = \text{Liabilities} + \text{Equity}$ —clarifies why liabilities have a credit balance, as they signify obligations rather than resources owned or consumed.

## 10. What is the significance of having a budgeted income statement for a business?

- A. It helps predict stock market trends
- B. It serves as a roadmap for financial performance expectations**
- C. It is used only for tax filing purposes
- D. It replaces the need for external audits

A budgeted income statement is significant for a business because it serves as a roadmap for financial performance expectations. It outlines anticipated revenues and expenses over a specific period, allowing management to set financial goals and measure actual performance against these projections. By preparing a budgeted income statement, businesses can make informed decisions regarding resource allocation, identify potential financial difficulties in advance, and adjust their operations accordingly to achieve desired outcomes. This proactive approach helps in strategic planning and ensures that the business is aligned with its long-term financial objectives. In contrast, predicting stock market trends typically involves a broader analysis that goes beyond just the income statement. While tax filing might involve various financial statements, a budgeted income statement serves a more strategic planning purpose rather than solely for compliance with tax regulations. Additionally, having a budgeted income statement does not replace the need for external audits, which focus on verifying the accuracy of financial statements and ensuring compliance with accounting standards.

## 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](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://unlvaccountingcompetency.examzify.com>**

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

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