

ONLY ACCOUNTING COMPETENCY PRACTICE EXAM (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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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 a budgeted income statement?

- A. A financial statement that summarizes cash flow
- B. A financial plan that estimates future revenues and expenses
- C. A report that lists current liabilities and assets
- D. A document that reflects past financial performance

2. Which user group evaluates financial statements to determine the repayment of loans?

- A. Investors
- B. Employees
- C. Government regulators
- D. Lenders

3. What does "deferred revenue" indicate?

- A. Revenue that is not expected to be earned
- B. Money received for goods or services not yet delivered
- C. Revenue that has been fully earned
- D. Funds set aside for future expenses

4. Why is the revenue recognition principle significant?

- A. A. It dictates when cash is disbursed
- B. B. Revenue should be recognized when it is earned, regardless of when cash is received
- C. C. It prevents recording any revenue
- D. D. It focuses solely on cash transactions

5. What is meant by the term "net asset value"?

- A. The value of an entity's assets minus its liabilities
- B. The total market value of a company's shares
- C. The sum of cash and cash equivalents on a balance sheet
- D. The total assets of a company before depreciation

6. Which of the following best defines assets?

- A. Resources a company must pay off
- B. Obligations that a company has
- C. Items owned by a company that may generate future economic benefits
- D. Investments in other companies

7. How does a budgeted income statement assist in performance evaluation?

- A. It provides historical sales data
- B. It outlines expected future revenues and expenses
- C. It focuses solely on cash flow management
- D. It lists all fixed and variable costs

8. Which of the following best describes equity?

- A. The total money a company owes
- B. The owner's residual interest in the assets of the company
- C. The profit earned distributed among shareholders
- D. The revenue generated after all costs

9. What does the fundamental accounting equation represent?

- A. Assets equals Liabilities minus Equity
- B. Assets equals Liability plus Equity
- C. Assets equals Revenue plus Expenses
- D. Assets equals Equity minus Liabilities

10. What does the balance sheet provide?

- A. A snapshot of a company's financial performance over a period
- B. A breakdown of cash flow activities
- C. A snapshot of a company's financial position at a specific point in time
- D. A list of all company liabilities and net worth

Answers

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

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Explanations

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1. What is a budgeted income statement?

- A. A financial statement that summarizes cash flow
- B. A financial plan that estimates future revenues and expenses**
- C. A report that lists current liabilities and assets
- D. A document that reflects past financial performance

A budgeted income statement serves as a financial plan that outlines anticipated revenues and expenses for a specific period, typically a fiscal year. This statement is essential for organizations as it allows them to set targets and gauge their financial performance against those expectations. In the budgeted income statement, management estimates future sales figures, the costs associated with goods sold, and operating expenses. This aids in strategic planning and helps in making informed decisions to drive profitability and ensure proper resource allocation. By forecasting these elements, organizations can plan for potential shortfalls or excesses, allowing for proactive management of finances. The other options describe different financial documents or reports. For instance, summarizing cash flow pertains to a cash flow statement, which details actual cash inflows and outflows rather than projections. A report listing current liabilities and assets refers to a balance sheet, showing a snapshot of financial health at a specific point in time. Lastly, reflecting past financial performance aligns with an income statement that records historical data instead of future projections.

2. Which user group evaluates financial statements to determine the repayment of loans?

- A. Investors
- B. Employees
- C. Government regulators
- D. Lenders**

Lenders are the user group that evaluates financial statements to determine the repayment of loans because they need to assess the creditworthiness and financial stability of borrowers. Their primary concern is whether the borrower will be able to meet their repayment obligations. By analyzing financial statements such as the balance sheet, income statement, and cash flow statement, lenders can gain insights into the borrower's financial position, profitability, and cash flow situation. This information is critical for making informed decisions about loan approval and the terms of lending, including interest rates and repayment schedules. In contrast, while investors may also analyze financial statements, their focus is on the potential for returns on their investment, rather than solely on the ability to repay loans. Employees typically look at financial statements to understand the overall health of the company and their job security, rather than for lending purposes. Government regulators primarily focus on compliance with laws and regulations rather than loan repayment analyses. Therefore, lenders are specifically interested in assessing the financial data concerning a borrower's ability to repay loans, which makes them the appropriate choice in this context.

3. What does "deferred revenue" indicate?

- A. Revenue that is not expected to be earned
- B. Money received for goods or services not yet delivered**
- C. Revenue that has been fully earned
- D. Funds set aside for future expenses

Deferred revenue refers to payments that have been received in advance for goods or services that have yet to be delivered or performed. This means that the company has an obligation to deliver those goods or services in the future. Until the company fulfills that obligation, the revenue cannot be recognized as earned in the financial statements, hence it is recorded as a liability on the balance sheet. This accounting treatment reflects the principle of revenue recognition, which requires that revenue is only recognized when it is earned and realizable. Therefore, deferred revenue acts as a placeholder indicating that the company is holding onto funds for future delivery of products or services, creating a liability until the revenue can be appropriately recognized. The other options do not accurately describe the nature of deferred revenue; for instance, it is not about funds for future expenses or revenue that is fully earned, but rather represents a financial obligation to provide future goods or services.

4. Why is the revenue recognition principle significant?

- A. A. It dictates when cash is disbursed
- B. B. Revenue should be recognized when it is earned, regardless of when cash is received**
- C. C. It prevents recording any revenue
- D. D. It focuses solely on cash transactions

The revenue recognition principle is significant because it establishes the timeframe in which revenue can be recognized in the financial statements, ensuring that it is recorded when it is earned, rather than when the cash is received. This principle provides a more accurate depiction of a company's financial performance during a specific accounting period. By recognizing revenue when it is earned, businesses can reflect their actual business activities and economic realities, which aids stakeholders in making informed decisions based on an accurate assessment of profitability and operational success. This approach aligns with the accrual basis of accounting, which emphasizes the matching principle, whereby income is recorded in the same period as the expenses incurred to generate that income. This principle supports the integrity and reliability of financial reporting, as it ensures that revenues are not exaggerated or delayed beyond the period in which they were actually earned. It emphasizes the importance of recognizing revenue based on the completion of performance obligations, rather than merely tracking cash inflows, which can lead to misleading financial statements if cash transactions are misaligned with the timing of earned income.

5. What is meant by the term "net asset value"?

- A. The value of an entity's assets minus its liabilities
- B. The total market value of a company's shares
- C. The sum of cash and cash equivalents on a balance sheet
- D. The total assets of a company before depreciation

The term "net asset value" refers to the difference between an entity's total assets and its total liabilities. This figure provides a clear picture of the equity or ownership interest that shareholders have in a company or investment fund. It is a fundamental measure used in finance and accounting to assess a company's financial health, as it indicates what would be left for the shareholders if all assets were liquidated and all liabilities were paid off. In the context of investment funds, net asset value is crucial for determining the price at which shares of the fund will be bought or sold. It effectively reflects the value that one share of the fund represents in terms of the actual, underlying assets it holds after addressing any obligations. This concept is integral for both investors and management, as it assists in understanding the intrinsic worth of the entity relative to its liabilities.

6. Which of the following best defines assets?

- A. Resources a company must pay off
- B. Obligations that a company has
- C. Items owned by a company that may generate future economic benefits
- D. Investments in other companies

Assets are best defined as items owned by a company that may generate future economic benefits. This definition highlights the key characteristic of assets: their ability to contribute to future cash flows or financial returns for the company. Assets include a wide range of resources such as cash, inventory, property, equipment, and investments that a company controls and utilizes in its operations. Understanding assets in this context allows for grasping their role in the balance sheet, where they are listed as resources that provide value to the company. This value can be in the form of cash generation, cost savings, or other benefits that enhance the company's profitability over time. The other choices refer to concepts related to financial obligations and investments, but they do not capture the comprehensive definition of assets as resources with potential for future economic benefit.

7. How does a budgeted income statement assist in performance evaluation?

- A. It provides historical sales data
- B. It outlines expected future revenues and expenses**
- C. It focuses solely on cash flow management
- D. It lists all fixed and variable costs

A budgeted income statement is a key tool in performance evaluation because it outlines expected future revenues and expenses. This forward-looking financial statement serves as a baseline for comparison against actual results. By establishing projected income and costs, management can assess how well the organization is performing in relation to its financial goals. When actual results are measured against the budgeted figures, any variances can highlight areas needing attention. For instance, if actual revenues fall short of budgeted expectations, management may explore the reasons behind this discrepancy, such as lower sales volume or pricing issues. Conversely, if expenses exceed what was budgeted, it may prompt an examination of operational efficiencies. This process not only aids in evaluating performance against targets but also helps in strategic planning and decision-making. It empowers managers to make informed adjustments to operations and strategies to improve future performance. The historical sales data and details about fixed and variable costs, while useful in certain contexts, do not specifically guide future performance evaluations in the same way that projections do, nor does a focus solely on cash flow management adequately capture the holistic picture provided by the budgeted income statement.

8. Which of the following best describes equity?

- A. The total money a company owes
- B. The owner's residual interest in the assets of the company**
- C. The profit earned distributed among shareholders
- D. The revenue generated after all costs

Equity represents the owner's residual interest in the assets of a company after all liabilities have been settled. This means that equity reflects what owners actually own in a business, calculated as total assets minus total liabilities. This concept is crucial because it provides insights into the net worth of a business, showing how much value belongs to the shareholders. In a financial context, equity can take various forms, including stock and retained earnings, and serves as a measure of the company's financial stability and health. It is an essential component of the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$, highlighting its foundational role in understanding a firm's financial structure. The other options, while related to financial concepts, do not accurately capture the definition of equity. For instance, total money a company owes pertains to liabilities rather than equity, and profit distribution and revenue generation address aspects of income and operations, rather than the ownership stake in assets.

9. What does the fundamental accounting equation represent?

- A. Assets equals Liabilities minus Equity
- B. Assets equals Liability plus Equity**
- C. Assets equals Revenue plus Expenses
- D. Assets equals Equity minus Liabilities

The fundamental accounting equation represents the relationship between a company's assets, liabilities, and equity. It states that assets are equal to the sum of liabilities and equity. This equation is essential because it reflects the basic principle of accounting that every financial transaction affects at least two accounts and maintains the balance of the financial statements. In this context, assets refer to everything the company owns, such as cash, inventory, and property. Liabilities represent the company's obligations or debts to outside parties, and equity refers to the owner's residual interest in the assets after all liabilities have been deducted. By demonstrating how assets are financed—either through borrowing (liabilities) or through investments by owners (equity)—the equation helps maintain balance across the accounting records. This foundational concept is critical for understanding financial accounting, as it underscores the double-entry system where every financial transaction alters the equation but keeps it in balance, ensuring the integrity of financial information provided in statements like the balance sheet.

10. What does the balance sheet provide?

- A. A snapshot of a company's financial performance over a period
- B. A breakdown of cash flow activities
- C. A snapshot of a company's financial position at a specific point in time**
- D. A list of all company liabilities and net worth

The balance sheet provides a snapshot of a company's financial position at a specific point in time. This is crucial as it lays out the company's assets, liabilities, and equity, giving stakeholders a clear view of what the company owns and owes on that particular date. By presenting this information, the balance sheet allows users to assess the overall financial health and stability of the company, facilitating important decisions regarding investment, lending, and management strategies. While other financial statements, like the income statement, cover performance over a period of time, the balance sheet focuses solely on a single moment. It encapsulates critical information, showcasing how resources (assets) are financed, whether through debt (liabilities) or shareholder equity. This perspective helps stakeholders understand capital structure and liquidity, making the balance sheet a vital tool for evaluating a firm's financial integrity and operational efficiency.

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://unlvaccountingcompetency.examzify.com>

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

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