WESTERN GOVERNORS UNIVERSITY (WGU) ACCT2350 D774 INTRO TO BUSINESS ACCOUNTING PRACTICE EXAM (SAMPLE)

STUDY GUIDE

Table of Contents

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 the percent of sales method for estimating bad debt, what is the journal entry?

A. Debit Accounts Receivable; Credit Bad Debt Expense

B. Debit Bad Debt Expense; Credit Allowance for Doubtful Accounts

C. Debit Cash; Credit Bad Debt Expense

D. Debit Allowance for Doubtful Accounts; Credit Bad Debt Expense

2. Which of the following is a deferral?

A. Accrued wages

B. Prepaid insurance

C. Unearned revenue

D. Depreciation expense

3. Explain the indirect method for preparing the statement of cash flows.

A. Start with net income, adjust for non-cash items and changes in working capital to derive cash from operating activities; then list investing and financing activities.

B. Begin with cash receipts and payments for operating activities directly.

C. Begin with net income but omit adjustments for non-cash items; report only operating activities.

D. Present all activities in a single section without separate operating, investing, and financing sections.

4. What is the final step in the sequence of the flow of costs through a manufacturing operation?

A. Sell goods and transfer cost to cost of goods sold

B. Requisition materials

C. Record overhead allocations

D. Adjust for spoilage

5. Explain the direct method for the statement of cash flows.

A. Presents cash receipts and payments for operating activities.

B. Starts with net income and adjusts for non-cash items.

C. Reports only investing activities.

D. Reconciles net income to cash provided by operating activities by itemizing reconciling items.

6. What is one of the characteristics of a corporation?

A. Ease of transfer of ownership
B. Unlimited personal liability of owners
C. Direct control by a single owner only
D. No ability to raise capital

7. Which characteristic is an advantage of zero-based budgeting?

A. Requires that every cost be justified
B. Increases complexity and reduces accountability
C. Guarantees no budget gaps
D. Is always quicker than incremental budgeting

8. What is a way that budgeting assists in operating a company?

A. Aligns management decisions with the company's goals and objectives
B. Eliminates all risk
C. Guarantees profits
D. Automates payroll processing

9. Which item from Alliah's data is a liability?

A. Accounts Payable
B. Inventory
C. Cash
D. Revenue

10. Under which condition is an asset considered impaired and subject to an impairment loss?

A. The carrying amount exceeds the asset's future cash flows or its fair value.
B. The asset's book value equals its fair value.
C. The market price of similar assets has risen.
D. Depreciation expense is greater than expected.

Answers

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

Explanations

1. In the percent of sales method for estimating bad debt, what is the journal entry?

A. Debit Accounts Receivable; Credit Bad Debt Expense

B. Debit Bad Debt Expense; Credit Allowance for Doubtful Accounts

C. Debit Cash; Credit Bad Debt Expense

D. Debit Allowance for Doubtful Accounts; Credit Bad Debt Expense

Under the percent of sales approach, you estimate bad debt as a portion of current period credit sales and record that cost now. The adjusting entry increases Bad Debt Expense on the income statement to reflect the expected uncollectible portion, and it increases the Allowance for Doubtful Accounts on the balance sheet to establish a contra-asset that reduces Accounts Receivable to net realizable value. That's why the correct entry is a debit to Bad Debt Expense and a credit to Allowance for Doubtful Accounts. When a specific receivable is later written off, you would debit Allowance for Doubtful Accounts and credit Accounts Receivable.

2. Which of the following is a deferral?

A. Accrued wages

B. Prepaid insurance

C. Unearned revenue

D. Depreciation expense

Deferrals happen when cash is exchanged before the related revenue or expense is recognized. Prepaid insurance is a classic deferral: you pay upfront, record it as an asset, and then gradually expense it as the insurance coverage is used over time. Unearned revenue is another deferral: you receive cash before delivering goods or services, so you owe the performance and recognize revenue later. Depreciation expense, on the other hand, is not a deferral of cash or revenue; it's the systematic allocation of the cost of a long-term asset over its useful life, spreading the expense over periods rather than postponing recognition relative to a prior cash transaction. So the most direct example of a deferral is prepaid insurance (and unearned revenue is also a deferral).

3. Explain the indirect method for preparing the statement of cash flows.

A. Start with net income, adjust for non-cash items and changes in working capital to derive cash from operating activities; then list investing and financing activities.

B. Begin with cash receipts and payments for operating activities directly.

C. Begin with net income but omit adjustments for non-cash items; report only operating activities.

D. Present all activities in a single section without separate operating, investing, and financing sections.

The indirect method reconciles net income to cash provided by operating activities by adjusting for items that affected net income but did not involve cash, and for changes in working capital. Net income is the starting point because it comes from the accrual-based income statement, and the goal is to convert that accrual measure into cash flow. First, add back non-cash expenses such as depreciation and amortization because these reduce net income without using cash in the period. Next, remove the effects of gains or losses from investing activities; gains increase net income but cash came from a different activity, so you subtract the gain (and add back a loss) to keep operating cash flow accurate. Then adjust for changes in working capital—accounts like accounts receivable, inventory, and prepaid expenses (current assets) typically reduce cash when they rise, while accounts payable and other current liabilities typically increase cash when they rise. Conversely, decreases in current assets or increases in current liabilities raise cash, and increases in current assets or decreases in current liabilities use cash. After arriving at cash from operating activities, the statement presents investing and financing activities in their own sections. This structure shows how accrual accounting flows into cash, and how investing and financing decisions affect cash separately. The indirect method is common because it connects directly to the income statement and balance sheet, and it can be prepared from existing records with fewer detailed disclosures than the direct method.

4. What is the final step in the sequence of the flow of costs through a manufacturing operation?

A. Sell goods and transfer cost to cost of goods sold

B. Requisition materials

C. Record overhead allocations

D. Adjust for spoilage

The final step is recognizing the cost when the goods are sold. In manufacturing, costs flow from raw materials to work in process, then to finished goods, and finally to cost of goods sold (COGS) when the product is sold. When a sale occurs, the costs that were accumulated in inventory are moved to COGS, reflecting that those production costs are now expensed in the period of sale. In a perpetual system, this shows up as a debit to COGS and a credit to finished goods (inventory). The other steps occur earlier in the process: requisitioning materials moves raw materials into production; overhead allocations apply factory overhead to products in production; spoilage adjustments record losses during production. These are all part of preparing costs for sale, but they aren't the final transfer to an expense.

5. Explain the direct method for the statement of cash flows.

A. Presents cash receipts and payments for operating activities.

B. Starts with net income and adjusts for non-cash items.

C. Reports only investing activities.

D. Reconciles net income to cash provided by operating activities by itemizing reconciling items.

Direct method presents cash receipts and payments for operating activities. It lays out the actual cash inflows and outflows from day-to-day operations—cash collected from customers and cash paid to suppliers, employees, and other operating expenses—so the cash effects of operating activities are shown directly. This contrasts with the indirect method, which starts with net income and adjusts for non-cash items and changes in working capital to arrive at cash flow from operations. The other descriptions align with the indirect method or with presenting investing activities, not with the direct method's approach.

6. What is one of the characteristics of a corporation?

A. Ease of transfer of ownership

B. Unlimited personal liability of owners

C. Direct control by a single owner only

D. No ability to raise capital

Ownership can be transferred easily in a corporation because it is a separate legal entity whose ownership is represented by shares that can be bought and sold without affecting the company's existence. This liquidity in ownership helps investors enter and exit smoothly, which is a defining feature of corporations. In contrast, unlimited personal liability is not a characteristic of a corporation—shareholders' liability is limited to their investment. A corporation also isn't controlled by a single owner; governance is through a board of directors and officers, even if one person owns most or all shares. And the ability to raise capital is a strength, not a weakness, since corporations can issue stock or bonds to fund operations. So the easy transfer of ownership best matches how corporations operate.

7. Which characteristic is an advantage of zero-based budgeting?

A. Requires that every cost be justified

B. Increases complexity and reduces accountability

C. Guarantees no budget gaps

D. Is always quicker than incremental budgeting

Zero-based budgeting rests on starting from zero and requiring every cost to be justified for the new period, rather than assuming current expenditures will simply continue. That forcing function makes it advantageous because managers must defend why each expense is needed, which pushes resources toward activities that truly support current goals and prevents automatic carryovers of unnecessary spending. In this way, spending is more clearly linked to value and priorities. Keep in mind, though, the process can be more time-consuming and complex since every cost is reviewed anew. It does not guarantee there will be no budget gaps, as priorities can shift or funding constraints can appear. And it isn't necessarily quicker than incremental budgeting; it's often slower due to the thorough justification required for every item.

8. What is a way that budgeting assists in operating a company?

A. Aligns management decisions with the company's goals and objectives

B. Eliminates all risk

C. Guarantees profits

D. Automates payroll processing

Budgeting plans future operations in financial terms and turns strategic goals into concrete, action-oriented plans. It gives a roadmap for revenue targets, expected costs, capital needs, and cash flows, so managers across departments can coordinate their efforts and allocate resources where they're most needed. By setting clear benchmarks and a common framework, budgeting helps guide decisions, align daily activities with the company's objectives, and provide a basis for evaluating performance as actual results come in. Budgeting doesn't eliminate risk, guarantee profits, or automate payroll. It assists decision-making and control, but it can't remove uncertainty, ensure profits, or replace accounting systems that handle routine payroll processing.

9. Which item from Alliah's data is a liability?

A. Accounts Payable

B. Inventory

C. Cash

D. Revenue

Liabilities are obligations the business must settle in the future. Accounts Payable fits this definition because it represents amounts the business owes to suppliers for goods or services already received, and it will be paid off with cash or other assets. Inventory and cash are both assets—inventory is what the company owns to sell or use, and cash is the most liquid asset. Revenue is income earned from operations and increases equity, not a liability. Therefore, the item that is a liability is Accounts Payable.

10. Under which condition is an asset considered impaired and subject to an impairment loss?

A. The carrying amount exceeds the asset's future cash flows or its fair value.

B. The asset's book value equals its fair value.

C. The market price of similar assets has risen.

D. Depreciation expense is greater than expected.

An asset is impaired when its carrying amount cannot be recovered from the expected future benefits it will generate. The recoverable amount is the greater of the asset's fair value (or fair value less costs to sell) and its value in use. If the carrying amount exceeds this recoverable amount, an impairment loss must be recognized to bring the asset down to the recoverable amount. That's why the condition where the carrying amount is higher than the asset's anticipated future cash flows or its fair value signals impairment. If carrying value already equals fair value, there's no impairment; a rising market price increases value rather than indicating impairment; and depreciation being higher than expected doesn't by itself establish impairment, since impairment hinges on recoverable amount rather than depreciation expense.

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://wgu-acct2350d774.examzify.com

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