Western Governors University (WGU) ACCT3650 D105 Intermediate Accounting III Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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. **What is an untaken effect of foreign exchange rate changes on a company?**
   - A. They help stabilize prices
   - B. They can affect reported earnings
   - C. They ensure compliance with regulations
   - D. They eliminate tax liabilities

2. **What major disclosure should a manufacturing company include in its financial statements when changing from LIFO to FIFO?**
   - A. A discussion of the nature of and reason for the change, including why FIFO is preferable to LIFO
   - B. An explanation of how LIFO will continue to be applied in future
   - C. A review of the impact on cash flows
   - D. A justification for maintaining the current accounting principles

3. **Which of the following types of securities are considered trading securities?**
   - A. Long-term bonds
   - B. Debt and equity securities for short-term sale
   - C. Real estate investments
   - D. Retirement funds

4. **What is a "deferred revenue" liability?**
   - A. Revenue earned but not collected
   - B. Revenue received before delivery of services
   - C. Revenue paid to suppliers
   - D. Revenue from interest income

5. **Which disclosure is required when changing from sum-of-the-years-digits to straight-line depreciation method?**
   - A. Recomputation of current and future years' depreciation
   - B. Disclosure of prior year results only
   - C. None, as this is a change in method
   - D. Adjustment to the original cost basis

6. What type of pension plan involves the company funding a plan where employees benefit from gains but also bear the risk of losses?

A. Defined benefit plan

B. Defined contribution plan

C. Employee Stock Ownership Plan

D. Profit-sharing plan

7. If a company fails to recognize a pension liability during a period of growth, what is likely the long-term effect?

A. The company may face liquidity issues in the future

B. The company will have higher reported net income

C. The company will face legal issues from employees

D. The company will not have to make any pension contributions

8. Which of the following best describes equity in financial statements?

A. Residual interest in the assets of an entity after deducting liabilities

B. Funds reserved specifically for future projects

C. A measure of a company's short-term financial health

D. The total earnings retained in the business over time

9. What is another common name for a defined benefit plan?

A. Pension plan

B. 401(k) plan

C. Profit-sharing plan

D. Health savings account

10. When disclosing investments, what must a business consistently provide regarding its investments?

A. The tax implications of the investments

B. The purpose of the investments

C. The cost and fair value of the investments

D. The investment advisor's credentials

Answers

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

Explanations

1. What is an untaken effect of foreign exchange rate changes on a company?

A. They help stabilize prices

B. They can affect reported earnings

C. They ensure compliance with regulations

D. They eliminate tax liabilities

Foreign exchange rate changes can significantly affect a company's reported earnings, which is why this choice is considered the correct answer. When a company operates internationally, its revenues and expenses may be denominated in different currencies. As exchange rates fluctuate, the conversion of these foreign currencies into the company's reporting currency can lead to variations in reported earnings. For instance, if a company earns revenue in a foreign currency and that currency weakens against the company's reporting currency, the dollar amount reported as revenue may decrease, even if the actual amount of foreign currency received remains unchanged. Conversely, if the foreign currency strengthens, reported earnings may increase. This variability can impact overall financial performance, investor perceptions, and financial ratios that stakeholders rely on for decision-making. The other options relate to aspects that are not directly tied to the untaken effects of foreign exchange fluctuations on earnings. While stabilization of prices and regulatory compliance can be relevant in broader economic or operational contexts, they do not directly address how exports or revenues are reported, nor do they capture the essence of earnings volatility due to currency fluctuations. Similarly, tax liabilities are typically influenced by profit calculations rather than direct impacts of currency exchange rates.

2. What major disclosure should a manufacturing company include in its financial statements when changing from LIFO to FIFO?

A. A discussion of the nature of and reason for the change, including why FIFO is preferable to LIFO

B. An explanation of how LIFO will continue to be applied in future

C. A review of the impact on cash flows

D. A justification for maintaining the current accounting principles

When a manufacturing company changes its inventory valuation method from LIFO (Last-In, First-Out) to FIFO (First-In, First-Out), it is essential to disclose the nature of and the reason for the change in its financial statements. This includes explaining why the FIFO method is preferable in the context of the company's financial reporting. This disclosure is crucial for several reasons. First, it provides transparency to investors, analysts, and other stakeholders about the company’s decision-making process and accounting policies. Understanding why a company opts for FIFO over LIFO can shed light on its financial health and inventory management strategies. For example, FIFO may lead to a lower cost of goods sold and higher net income during periods of inflation, making it an attractive option. Including the rationale for the choice not only aligns with accounting standards, such as GAAP, but also supports the need for consistency and comparability in financial reporting. Notate this disclosure is an obligation under the requirements set forth in ASC 258-10-45, which emphasizes the importance of informing users of the financial statements about significant changes in accounting principles. Therefore, by discussing both the nature of the change and the reasons for it, the company enhances the clarity and usefulness of the financial statements to users who rely

3. Which of the following types of securities are considered trading securities?

A. Long-term bonds

B. Debt and equity securities for short-term sale

C. Real estate investments

D. Retirement funds

Trading securities refer specifically to debt and equity securities that a company intends to buy and sell within a short time frame to earn profits from market price fluctuations. These securities are actively managed, meaning that the purchases and sales are intended for near-term profit rather than long-term investment. The correct choice is thus focused on those debt and equity securities that are held with the intent of selling them in the near term. This distinguishes them from other types of investments such as long-term bonds, which are typically held until maturity, or real estate investments and retirement funds, which are intended for long-term holding and growth rather than immediate trading for profit. By this definition, debt and equity securities for short-term sale fit within the classification of trading securities as they align with the purpose of trading rather than holding for investment or income generation over a longer period.

4. What is a "deferred revenue" liability?

A. Revenue earned but not collected

B. Revenue received before delivery of services

C. Revenue paid to suppliers

D. Revenue from interest income

A deferred revenue liability arises when a company receives payment from a customer for goods or services that have not yet been delivered or performed. This means the company has an obligation to provide the service or deliver the product in the future, creating a liability on the balance sheet. Until the service is rendered or the product is delivered, the received cash cannot be recognized as revenue, as it does not yet satisfy the revenue recognition principle. When the company eventually delivers the service or product, the deferred revenue will then be recognized as earned revenue on the income statement, reflecting the completion of the obligation. This accounting treatment ensures that financial statements accurately reflect a company's financial position and performance over time.

5. Which disclosure is required when changing from sum-of-the-years-digits to straight-line depreciation method?

A. Recomputation of current and future years' depreciation

B. Disclosure of prior year results only

C. None, as this is a change in method

D. Adjustment to the original cost basis

When transitioning from the sum-of-the-years-digits method to the straight-line depreciation method, it is essential to recompute the current and future years' depreciation. This is necessary because the two methods allocate depreciation expense differently over the asset's useful life. Under the sum-of-the-years-digits method, higher depreciation expense is recognized in the earlier years of an asset's life, whereas straight-line depreciation spreads the expense evenly over that life. By recomputing the depreciation under the new method, companies ensure that financial statements reflect accurate and comparable financial performance. This recomputed amount is critical for both the current year and any of the future remaining years, impacting not only the lower portion of the income statement (depreciation expense) but also potentially the asset's book value on the balance sheet. This step aligns with the accounting requirement to maintain consistency and transparency in financial reporting, as any changes in accounting methods typically require careful disclosure to allow stakeholders to understand the impact of such changes on the financial position and performance of the entity.

6. What type of pension plan involves the company funding a plan where employees benefit from gains but also bear the risk of losses?

A. Defined benefit plan

B. Defined contribution plan

C. Employee Stock Ownership Plan

D. Profit-sharing plan

In a defined contribution plan, the company makes contributions to individual employee accounts, but the ultimate benefits employees receive depend on the performance of the investments made with those contributions. Employees essentially own their accounts and are directly affected by any gains or losses that occur, which can fluctuate based on market performance. This contrasts with a defined benefit plan, where the employer guarantees a specific payout at retirement, regardless of investment performance, shifting the investment risk away from the employee. In defined contribution plans, such as 401(k) plans, employees often have the option to choose how their funds are invested, be it in stocks, bonds, mutual funds, or other investment vehicles. This choice empowers employees but also exposes them to the inherent risks associated with these market options. Therefore, any increases or decreases in their retirement savings are a direct reflection of their investment choices and market conditions, making this a suitable description based on the question about employee risk and gains. Understanding this distinction helps clarify how different pension plans allocate both risks and rewards between the employer and employee.

7. **If a company fails to recognize a pension liability during a period of growth, what is likely the long-term effect?**

   A. **The company may face liquidity issues in the future**

   B. **The company will have higher reported net income**

   C. **The company will face legal issues from employees**

   D. **The company will not have to make any pension contributions**

The long-term effect of failing to recognize a pension liability during a period of growth is that the company may face liquidity issues in the future. When a company does not acknowledge its pension obligation, it can lead to an underestimation of future cash outflows required to meet pension obligations. As the company grows, it may invest funds in expansion, operational needs, or other areas, assuming it has more available cash. However, if it has significant pension liabilities that have not been accounted for, this could result in a cash shortfall when it comes time to pay the pensions. This mismanagement of liabilities can create a situation where the company's current financial statements appear healthier than they actually are. When the pension payments come due, the company might struggle to meet these obligations, leading to liquidity issues. This can affect the company's ability to operate effectively, pay other obligations, or invest in necessary projects. While recognizing a pension liability can impact net income in the period it's recognized, the primary risk of not recognizing it centers around cash flow management and long-term financial stability. Therefore, the effect is not limited to immediate financial statements but has a broader implication for the company's financial health and liquidity management in the future.

8. **Which of the following best describes equity in financial statements?**

   A. **Residual interest in the assets of an entity after deducting liabilities**

   B. **Funds reserved specifically for future projects**

   C. **A measure of a company's short-term financial health**

   D. **The total earnings retained in the business over time**

Equity in financial statements represents the residual interest in the assets of an entity after all liabilities have been deducted. This definition is fundamental to understanding the accounting equation, which states that Assets = Liabilities + Equity. Essentially, equity reflects the ownership interest of shareholders in a company and can be thought of as the net worth of the firm. When liabilities are subtracted from total assets, what remains is the equity, highlighting the portion of the assets that the owners truly own outright. This can include common stock, preferred stock, retained earnings, and additional paid-in capital. While funds reserved for specific projects, short-term financial health, and total retained earnings might provide useful information about a company's financial status, they do not encompass the comprehensive definition of equity as it relates to the overall financial position of the business.

9. What is another common name for a defined benefit plan?

A. Pension plan

B. 401(k) plan

C. Profit-sharing plan

D. Health savings account

A defined benefit plan is commonly referred to as a pension plan because it is designed to provide a predetermined amount of retirement income based on a formula that typically considers factors like salary history and years of service. This type of plan guarantees a specific benefit at retirement, which is different from defined contribution plans, such as 401(k) plans, where the retirement benefit depends on how much money was contributed and the performance of the investments. The terminology "pension plan" aligns with the purpose of providing regular income during retirement, distinguishing it from other retirement vehicles that may not guarantee a specific payout.

10. When disclosing investments, what must a business consistently provide regarding its investments?

A. The tax implications of the investments

B. The purpose of the investments

C. The cost and fair value of the investments

D. The investment advisor's credentials

A business must consistently disclose the cost and fair value of its investments to provide stakeholders with critical information about the financial position and performance of the company. This disclosure allows investors and other interested parties to understand the value of investments held by a company, assess potential gains or losses, and evaluate the overall financial health. The cost represents what the company paid to acquire the investments, while the fair value reflects the market value, which could be higher or lower than the cost depending on market conditions. Consistent reporting of both metrics ensures comparability over time and among different entities, which is essential for informed decision-making by investors and regulators. While other considerations, such as the tax implications of investments, the purpose of the investments, or the investment advisor's credentials, may be of interest to stakeholders, they do not provide the same level of immediate financial insight necessary for assessing the company's investment strategy and its impact on financial results.

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-acct3650-d105.examzify.com

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