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. 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. Which cash flow activity includes cash receipts and payments for goods sold?

A. Investing activities

B. Financing activities

C. Operating activities

D. Cash flow activities are not categorized

2. What does the term "non-counterbalancing errors" refer to in financial reporting?

A. Errors that correct themselves in future periods

B. Errors that are unrelated to income statements

C. Errors that require adjustments longer than two periods

D. Errors that only affect cash flow statements

3. 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

4. Which of the following is an example of a correction of an error in previously issued financial statements?

A. Revising sales revenue from previous estimates

B. Change to compensation expense for bonuses earned in the prior period that are paid in the subsequent period

C. Adjustment of inventory values due to overstocking

D. Calculating interest expense differently than before

5. Where is the information about cash raised from issuing bonds found on the statement of cash flows?

A. Operating activities

B. Investing activities

C. Financing activities

D. Administrative activities

6. What adjustment is Company A required to make to the right-of-use asset based on the advance payment?

A. Decrease by $9,000

B. Add $9,000

C. Record as a liability

D. No adjustment needed

7. What do "temporary differences" refer to in tax accounting?

A. Differences in cash flow and profit

B. Variations between tax basis and reported amounts

C. Differences in accounting methods used

D. Discrepancies in asset depreciation

8. Which of the following activities does not affect net income?

A. Cash receipts from sales

B. Cash payments for expenses

C. Cash invested in capital assets

D. Cash obtained from creditors

9. In financial statements, what does non-controlling interest represent?

A. Value of assets owned directly by the parent

B. Ownership interests in a subsidiary not owned by the parent

C. Debt obligations of the parent company

D. Common stock held by the parent

10. When a company changes the useful life of an asset, when does this change necessitate an adjustment?

A. Only in the current period

B. Only in future periods

C. In the current period and future periods

D. Retrospectively to past periods only

Answers

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

Explanations

1. Which cash flow activity includes cash receipts and payments for goods sold?

A. Investing activities

B. Financing activities

C. Operating activities

D. Cash flow activities are not categorized

Cash flow activities are classified into three broad categories: operating, investing, and financing activities. Operating activities encompass the core business functions and include cash transactions related to the production and sale of goods and services. This category incorporates cash receipts from customers for goods sold and cash payments to suppliers for inventory purchases and operating expenses. When we consider cash receipts and payments specifically for goods sold, they fall under the operating activities because they directly relate to a company's primary revenue-generating operations. This includes inflows from sales and outflows for costs of goods sold and operating expenses, which are essential for measuring a company's performance and operational efficiency. Investing activities relate to cash flows from the acquisition and disposal of long-term assets or investments, while financing activities involve cash flows associated with raising capital or paying off debts. Since the question specifically asks about cash flows connected to goods sold, operating activities are the appropriate category. Thus, the selection of operating activities accurately reflects the nature of cash transactions linked to the sale of goods, emphasizing the intrinsic operational aspect of handling cash receipts and payments within a business context.

2. What does the term "non-counterbalancing errors" refer to in financial reporting?

A. Errors that correct themselves in future periods

B. Errors that are unrelated to income statements

C. Errors that require adjustments longer than two periods

D. Errors that only affect cash flow statements

The term "non-counterbalancing errors" refers to errors in financial reporting that do not self-correct in subsequent accounting periods and usually require adjustments that extend beyond two periods. This type of error can arise from items that are fundamental to the financial statements and affect the overall reported amounts on the balance sheet or income statement for a significant time frame. As such, they are not corrected in the normal course of business operations, and an accounting adjustment will be needed to rectify the error when it is eventually detected. In contrast, counterbalancing errors are those that will eventually offset themselves over time, usually within the next fiscal period, as revenues and expenses are matched. Non-counterbalancing errors, on the other hand, can lead to lasting misstatements on a company's financial records, impacting stakeholders' understanding of the financial position and performance for more than just one reporting period. This understanding clarifies why the other choices do not accurately represent the definition of non-counterbalancing errors. Specifically, errors that correct themselves in future periods describe the characteristics of counterbalancing errors, while those that are unrelated to income statements or only affect cash flow statements do not capture the essence of the term as it specifically pertains to more durable financial discrepancies that necessitate long

3. **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

4. **Which of the following is an example of a correction of an error in previously issued financial statements?**

   A. **Revising sales revenue from previous estimates**

   B. **Change to compensation expense for bonuses earned in the prior period that are paid in the subsequent period**

   C. **Adjustment of inventory values due to overstocking**

   D. **Calculating interest expense differently than before**

The adjustment regarding the change to compensation expense for bonuses earned in the prior period that are paid in the subsequent period exemplifies a correction of an error in previously issued financial statements because it addresses an error related to the timing of recognizing expenses. This correction is necessary when previous financial statements did not accurately reflect incurred expenses, leading to an understatement or overstatement of net income in those periods. In this scenario, the bonuses, although paid in the subsequent period, relate to performance in the prior period, meaning that an adjustment must be made to reflect that expense in the correct accounting period. This adjustment aligns the financial statements with the accrual basis of accounting, where expenses should be recognized when they are incurred, regardless of when they are paid. As a result, it rectifies the prior misstatement, thus qualifying as a correction of an error. The other scenarios do not fit the definition of correcting an error in previously issued financial statements. Revising sales revenue from previous estimates may involve adjustments but does not specifically address an accounting error that needs to be corrected. Adjusting inventory values due to overstocking or recalculating interest expense can indicate operational changes or accounting policy revisions but are not directly related to correcting inaccuracies in past financial statements.

5. **Where is the information about cash raised from issuing bonds found on the statement of cash flows?**

   A. Operating activities

   B. Investing activities

   C. Financing activities

   D. Administrative activities

The information about cash raised from issuing bonds is found under financing activities on the statement of cash flows. This section of the cash flow statement specifically focuses on cash transactions that affect a company's capital structure, including cash inflows from issuing debt and equity, as well as cash outflows related to dividends and the repayment of debt. When a company issues bonds, it is essentially borrowing money from investors with the promise to pay them back at a later date, typically along with interest. This financial activity is considered a key part of financing because it impacts the company's capital and financing strategy. Thus, the cash inflow generated from bond issuance will be reported as a positive cash flow in the financing activities section. The other sections of the statement of cash flows do not reflect this activity. Operating activities deal primarily with the day-to-day revenue and expenses of a company. Investing activities focus on the acquisition and disposal of long-term assets, such as property, equipment, or securities. Administrative activities are not a recognized category in the statement of cash flows. Therefore, financing activities is the appropriate location for information regarding cash flows from bonds issued.

6. **What adjustment is Company A required to make to the right-of-use asset based on the advance payment?**

   A. Decrease by $9,000

   B. Add $9,000

   C. Record as a liability

   D. No adjustment needed

When a company recognizes a right-of-use asset, it typically reflects the present value of the lease payments, adjusted for any prepayments made at the beginning of the lease term. An advance payment made by Company A increases the initial measurement of the right-of-use asset because it represents an amount that has been paid up front for the right to use the leased asset over time. In this case, the advance payment of $9,000 is a prepayment that directly increases the value of the right-of-use asset. Therefore, the correct adjustment is to add this amount to the carrying amount of the right-of-use asset. This adjustment ensures the asset reflects the total amount that the company has effectively paid in advance for future benefits under the lease agreement. By recognizing this advance payment as part of the right-of-use asset, the accounting reflects the company's total investment in the lease, aligning the asset value with the economic reality of the transaction.

7. What do "temporary differences" refer to in tax accounting?

A. Differences in cash flow and profit

B. Variations between tax basis and reported amounts

C. Differences in accounting methods used

D. Discrepancies in asset depreciation

"Temporary differences" in tax accounting refer to variations between the tax basis of assets and liabilities and their reported amounts in the financial statements. These differences arise because certain income and expense items are recognized in different periods for tax purposes compared to financial reporting purposes. For example, a company might expense costs for financial reporting at a different time than it deducts them for tax purposes. These differences are not permanent and will eventually reverse over time, meaning that they will lead to taxable income or tax deductions in different reporting periods. Examples include differences arising from depreciation methods for tax and accounting and unearned revenue that may be recognized collectively in one period for accounting but taxed in the period received. Understanding these temporary differences is crucial for accurately preparing tax provisions and financial statements, as they impact deferred tax assets and liabilities on the balance sheet.

8. Which of the following activities does not affect net income?

A. Cash receipts from sales

B. Cash payments for expenses

C. Cash invested in capital assets

D. Cash obtained from creditors

The activity that does not affect net income is investing cash in capital assets. When a company purchases capital assets, such as property, plant, or equipment, this transaction is recorded on the balance sheet and does not immediately impact the income statement. Instead, the cost of those assets will be allocated over time through depreciation or amortization, which will then influence net income. On the other hand, cash receipts from sales and cash payments for expenses directly affect the income statement by influencing revenues and expenses, leading to a change in net income. Cash obtained from creditors also impacts net income indirectly through the potential interest expenses that may result from borrowing, affecting financial performance in future periods.

9. In financial statements, what does non-controlling interest represent?

A. Value of assets owned directly by the parent

B. Ownership interests in a subsidiary not owned by the parent

C. Debt obligations of the parent company

D. Common stock held by the parent

Non-controlling interest represents the ownership interests in a subsidiary that are not owned by the parent company. This concept arises when a parent company has a controlling interest in a subsidiary (typically more than 50% of the voting shares) but does not own 100% of the subsidiary. The non-controlling interest accounts for the portion of equity in the subsidiary that belongs to other shareholders. Including non-controlling interest in the consolidated financial statements is important because it provides a complete picture of the financial positioning and performance of the entire corporate group. It reflects the rights of those shareholders outside of the parent company and is shown in the equity section of the balance sheet. For clarity and context, ownership interests in assets directly owned by the parent (which would be referred to directly here) does not encompass the portion owned by external shareholders in a subsidiary, nor do debt obligations or stock held specifically by the parent company relate to this concept.

10. When a company changes the useful life of an asset, when does this change necessitate an adjustment?

A. Only in the current period

B. Only in future periods

C. In the current period and future periods

D. Retrospectively to past periods only

When a company changes the useful life of an asset, it necessitates an adjustment in both the current period and future periods. This is because a change in the useful life affects the depreciation expense calculation going forward, necessitating a reevaluation of how the asset is being depreciated based on its new expected useful life. In the current period, the company must update the depreciation expense to reflect the asset's revised useful life, which can lead to immediate adjustments in the financial statements for that period. This ensures that the financial statements accurately represent the asset's current value and expense recognition. For future periods, the depreciation expense needs to be recalculated for remaining useful life based on the new estimate. This ongoing adjustment ensures that the asset's cost is allocated over the appropriate period, reflecting its remaining economic benefits to the company. Past periods do not require adjustments to prior financial statements, as accounting practices typically do not allow for retrospective changes for estimates unless an error has occurred. Thus, the focus remains on adjusting current and future financial statements to reflect the new circumstances.

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!