

WESTERN GOVERNORS UNIVERSITY (WGU) ACCT3650 D105 INTERMEDIATE ACCOUNTING III PRACTICE EXAM (SAMPLE) STUDY GUIDE



Prepare with structure. Pass with confidence



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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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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. Classify the payment of dividends within the context of financial activities.**
 - A. Operating activities
 - B. Financing activities
 - C. Investing activities
 - D. Supplemental activities
- 2. Which principle dictates that expenses should match the revenue they generate?**
 - A. Revenue recognition principle
 - B. Cost principle
 - C. Matching principle
 - D. Accrual principle
- 3. What is the depreciation expense recorded by the lessor for the operating lease?**
 - A. \$1,000
 - B. \$2,000
 - C. \$2,500
 - D. \$3,000
- 4. What is the expected residual value of the computers at the end of the lease according to Company A?**
 - A. \$5,000
 - B. \$12,689
 - C. \$2,000
 - D. \$14,538
- 5. How are long-term liabilities classified?**
 - A. As liabilities due to be settled in one year
 - B. As equity financing
 - C. As obligations due for more than one year
 - D. As operational costs

- 6. Under what condition does impairment occur according to accounting standards?**
- A. When future cash flows are expected to increase
 - B. When carrying amounts exceed recoverable amounts
 - C. When assets are liquidated
 - D. When revenue exceeds expenses
- 7. 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
- 8. What is the significance of the statement of changes in equity for investors?**
- A. It provides a summary of liabilities
 - B. It offers insights into the financial performance of a company
 - C. It shows how equity components change, including contributions and distributions
 - D. It details cash flow from operating activities
- 9. How does the IRS influence financial reporting?**
- A. By providing a framework for asset sales
 - B. By administering and enforcing federal tax laws
 - C. By auditing the financial statements of all companies
 - D. By setting the interest rates for business loans
- 10. When PWT Company failed to record depreciation expense in 2019 and discovered it in 2020, how should the error be accounted for?**
- A. By adjusting the current period's expenses
 - B. As a prior period adjustment
 - C. By restating previous financial statements
 - D. As a footnote in the financial statements

Answers

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

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Explanations

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1. Classify the payment of dividends within the context of financial activities.

- A. Operating activities
- B. Financing activities**
- C. Investing activities
- D. Supplemental activities

The classification of dividend payments as financing activities is grounded in the fundamental nature of financing activities themselves. Financial activities focus on transactions that result in changes to the equity and debt structure of an organization. When a company distributes dividends, it is returning a portion of its profits to shareholders, which directly affects the equity of the company. By categorizing dividends under financing activities, it is acknowledged that this action represents a method by which companies raise or distribute capital. While operational activities revolve around the core business transactions necessary for earning revenue and investing activities pertain to acquiring or disposing of long-term assets, financing activities like dividend payments are primarily concerned with how firms manage their capital structure. In essence, recognizing dividend payments as financing activities helps delineate the cash flow impacts of such distributions, emphasizing their role in providing a return to investors and fulfilling the expectations of share capital management. This classification is consistent with accounting standards and reflects the broader implications of how businesses manage their financial resources.

2. Which principle dictates that expenses should match the revenue they generate?

- A. Revenue recognition principle
- B. Cost principle
- C. Matching principle**
- D. Accrual principle

The principle that dictates that expenses should match the revenue they generate is known as the matching principle. This principle is fundamental in accounting and ensures that expenses incurred to generate revenue are recognized in the same period as the revenue they help produce. This creates a more accurate representation of a company's profitability during a specific time frame, thereby providing stakeholders with crucial insights into the company's financial performance. By adhering to the matching principle, organizations align their expenses with the corresponding revenues, allowing for clear visibility into how effectively resources are being utilized to generate income. This is particularly important in presenting financial statements that reflect true operational results, as it helps prevent distortions in income reporting due to mismatched timing of revenue and expense recognition. The other options, while relevant in various accounting contexts, do not pertain specifically to the matching of expenses to revenue. For instance, the revenue recognition principle focuses on when revenue is recognized, the cost principle emphasizes recording assets at their historical cost, and the accrual principle pertains to the timing of expense and revenue recognition beyond just matching them. Thus, the matching principle is specifically designed to ensure that expenses correlate directly with the revenues they generate, reinforcing its importance in financial reporting.

3. What is the depreciation expense recorded by the lessor for the operating lease?

- A. \$1,000
- B. \$2,000**
- C. \$2,500
- D. \$3,000

In an operating lease, the lessor retains ownership of the asset and recognizes the asset on its balance sheet. The depreciation expense recorded by the lessor depends on a few factors, including the cost of the asset, its useful life, and the depreciation method used. If the lessor has chosen a systematic and rational method, such as straight-line depreciation, it would typically spread the cost of the asset evenly over its useful life. This means that the depreciation expense would remain consistent over each accounting period for the duration of the lease term. Choosing the correct depreciation amount likely reflects calculations based on these elements. In this case, if the depreciation expense is \$2,000, it indicates that the lessor has effectively determined this amount to be appropriate based on the capitalized cost of the leased asset and its respective useful life and depreciation methodology. Understanding this concept is crucial in accounting as it directly affects the income statements and balance sheets of both the lessor and lessee, given that the lessor retains the asset's value while recognizing the corresponding depreciation expense.

4. What is the expected residual value of the computers at the end of the lease according to Company A?

- A. \$5,000**
- B. \$12,689
- C. \$2,000
- D. \$14,538

To determine the expected residual value of the computers at the end of the lease according to Company A, it's essential to understand what residual value represents in the context of leasing agreements. The residual value is the estimated value of the asset at the end of its lease term and typically reflects factors such as market demand, condition, and economic life of the asset. In this case, the correct answer indicates that Company A expects the computers to have a residual value of \$5,000 at the end of the lease. This figure may have been derived based on historical values for similar computers, projections about future market conditions, depreciation methods, or the company's own experience with similar leases. If Company A utilized specific data about the computer's longevity and projected market trends effectively, it could reasonably conclude that \$5,000 is the most appropriate estimate for the residual value. Hence, this assessment generally aligns with standard practices in accounting for leased assets and the financial reporting for such leases under relevant accounting standards.

5. How are long-term liabilities classified?

- A. As liabilities due to be settled in one year
- B. As equity financing
- C. As obligations due for more than one year**
- D. As operational costs

Long-term liabilities are classified as obligations that a company is required to settle beyond one year from the date of the financial statement. This classification is significant because it helps investors, creditors, and management understand the long-term financial responsibilities of the entity. Long-term liabilities typically include items such as bonds payable, long-term loans, and lease obligations, which play a crucial role in assessing the company's capital structure and financial health. The distinction between long-term liabilities and current liabilities is important because it influences liquidity assessments and financial ratios used for analysis. By identifying these obligations clearly, stakeholders can make informed decisions regarding the company's future financial stability and operational capacity. This classification allows users of financial statements to evaluate how much leverage the company is using and its ability to meet long-term obligations.

6. Under what condition does impairment occur according to accounting standards?

- A. When future cash flows are expected to increase
- B. When carrying amounts exceed recoverable amounts**
- C. When assets are liquidated
- D. When revenue exceeds expenses

Impairment occurs when the carrying amount of an asset exceeds its recoverable amount. This concept is fundamental in accounting, as it ensures that assets are not overstated on the balance sheet. The recoverable amount is defined as the higher of an asset's fair value less costs to sell and its value in use, which is the present value of its future cash flows expected to be derived from the asset. When an asset is impaired, it must be written down to its recoverable amount, reflecting a more accurate value that can be realized if the asset were to be sold or used in operations. This procedure adheres to the principle of conservatism in accounting, promoting the recording of an asset at a value that is not higher than what can be recovered. In contrast, the other options do not align with the definition and conditions under which impairment is recognized. For example, an increase in future cash flows could indicate a strengthening of the asset's value rather than impairment. Liquidation of assets pertains to their disposal, which may not necessarily involve impairment. Lastly, revenues exceeding expenses relate to profitability and do not directly pertain to the valuation of an individual asset relative to its recoverable amount.

7. 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.

8. What is the significance of the statement of changes in equity for investors?

- A. It provides a summary of liabilities
- B. It offers insights into the financial performance of a company
- C. It shows how equity components change, including contributions and distributions**
- D. It details cash flow from operating activities

The statement of changes in equity is significant for investors as it provides a detailed overview of how the components of equity have changed over a specific period. This includes contributions made by shareholders, such as stock issuances, as well as distributions to shareholders, such as dividends. By analyzing this statement, investors can gain valuable insights into the company's financing decisions, how it retains earnings, and its overall financial strategy regarding equity management. Understanding these changes helps investors assess the company's growth potential and the sustainability of its dividend policy. Therefore, option C is essential for investors seeking to understand the dynamics of a company's capital structure and its approach to managing shareholder equity.

9. How does the IRS influence financial reporting?

- A. By providing a framework for asset sales
- B. By administering and enforcing federal tax laws**
- C. By auditing the financial statements of all companies
- D. By setting the interest rates for business loans

The impact of the IRS on financial reporting primarily stems from its role in administering and enforcing federal tax laws. This oversight means that businesses must prepare their financial statements in accordance with tax regulations to ensure compliance with federal requirements. The tax laws set forth by the IRS dictate how various transactions, assets, income, and expenses should be reported, which directly affects how companies present their financial data. When companies report their earnings, they must consider the implications of IRS guidelines to accurately reflect their tax liability. This interplay between tax reporting and financial reporting influences the overall presentation of income, expenses, and the resulting financial position of the entity. The need to comply with IRS standards ensures that financial reporting is not only accurate in terms of GAAP (Generally Accepted Accounting Principles) but also aligned with tax obligations, thus continuously shaping business financial strategies and practices. Other options, while related to financial activities, do not directly establish the foundational influence that the IRS has on how financial reporting must be conducted. For example, providing a framework for asset sales doesn't encapsulate the broad compliance required for financial statements, and auditing all companies' financial statements is not a function of the IRS. Additionally, while interest rates for loans can be influenced by economic factors, they do not relate to the

10. When PWT Company failed to record depreciation expense in 2019 and discovered it in 2020, how should the error be accounted for?

- A. By adjusting the current period's expenses
- B. As a prior period adjustment**
- C. By restating previous financial statements
- D. As a footnote in the financial statements

When a company fails to record depreciation expense in a prior period and realizes the oversight in a subsequent period, the appropriate method to account for this error is as a prior period adjustment. This approach is necessary because depreciation is a systematic allocation of cost over the useful life of an asset, and failing to record it affects the accuracy of the financial statements for the period in which the asset was used. By recognizing the error as a prior period adjustment, PWT Company will correct its retained earnings at the beginning of the current period to reflect the accumulated depreciation that should have been recognized in 2019. This adjustment ensures that the financial statements present a true and fair view of the company's financial position and results in the correction of historical financial data, which is crucial for accurate reporting and compliance with accounting standards. This method maintains the integrity of financial reporting by ensuring that users of the financial statements are aware of the adjustments made to previous periods, thus providing transparency regarding the company's financial history.

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!

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