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

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. **What does financial leverage allow a company to do?**
   A. Increase profits using shareholder equity
   B. Enhance the potential return on investment through borrowing
   C. Reduce the cost of equity financing
   D. Eliminate the need for cash reserves

2. **What eventual effect might the IRS's regulations have on financial statements?**
   A. Increased profit margins for companies
   B. A change in liability preparation and recording
   C. An impact on tax obligations reported in statements
   D. A simplified process for expense reporting

3. **What does a deferred tax asset represent?**
   A. A reduction in future tax payments
   B. A potential tax liability
   C. An increase in taxable income
   D. A cash equivalent

4. **If a company changes from FIFO to weighted-average cost, how should this change be treated?**
   A. As a prior period adjustment
   B. As a correction of an error
   C. As a change in estimate
   D. As a change in accounting principle

5. **Which circumstance requires a company to disclose changes in accounting principles?**
   A. Changes in management
   B. Changes in financial performance
   C. Changes in accounting principles
   D. Changes in assets

6. **How much should Company B record as the right-of-use asset on the start date of the lease?**
    A. $40,000
    B. $51,604
    C. $60,000
    D. $70,000

7. **Which activities are classified as "financing activities" in the Statement of Cash Flows?**
    A. Transactions affecting revenue
    B. Changes in dividends paid
    C. Changes in equity and borrowings
    D. Transactions involving equipment purchase

8. **Which situation necessitates a change in reporting entity when Company A purchases Subsidiary S?**
    A. Company A reduces ownership interest in Subsidiary S
    B. Company A combines with Subsidiary S for financial statement reporting
    C. Subsidiary S begins reporting independently
    D. Company A continues to report separately from Subsidiary S

9. **What factor does book value usually take into account?**
    A. The fair market value of the asset
    B. The cost of the asset minus accumulated depreciation
    C. The potential resale value of the asset
    D. The appreciation of the asset over time

10. **What is the definition of operating income?**
    A. Income generated from all business activities
    B. Profit earned from primary business operations
    C. Revenue minus taxes and expenses
    D. Net earnings including investments

Answers

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

Explanations

1. What does financial leverage allow a company to do?

A. Increase profits using shareholder equity

B. Enhance the potential return on investment through borrowing

C. Reduce the cost of equity financing

D. Eliminate the need for cash reserves

Financial leverage fundamentally allows a company to enhance the potential return on investment through borrowing. When a company uses financial leverage, it takes on debt to finance its operations and investments, which can amplify the returns on equity. This occurs because the company can invest borrowed funds in projects or assets that yield a higher return than the interest expense incurred from the debt. The key here is that while the use of leverage increases the risk, it also increases the potential for higher returns. For instance, if a company borrows money at a low interest rate and invests that money in a project that generates a higher rate of return, the profits from the investment will exceed the cost of interest on the debt, thereby enhancing overall profitability for shareholders. The other choices do not accurately reflect the core function of financial leverage. While borrowing may impact shareholder equity and can potentially affect the costs associated with financing, those aspects are not the primary definition of what financial leverage accomplishes. The correct answer encapsulates the essential purpose of financial leverage in increasing potential returns through the strategic use of debt.

2. What eventual effect might the IRS's regulations have on financial statements?

A. Increased profit margins for companies

B. A change in liability preparation and recording

C. An impact on tax obligations reported in statements

D. A simplified process for expense reporting

The reasoning behind the selection of the impact on tax obligations reported in financial statements as the correct response rests on the role that IRS regulations play in shaping how companies report their income tax liabilities. IRS regulations often establish frameworks for how tax obligations should be calculated, recognized, and presented in financial statements. When the IRS introduces new regulations or updates existing ones, these rules can lead to changes in how companies assess their tax liabilities. This, in turn, affects the amounts reported in financial statements. For instance, if there is a change in the allowable deductions or tax credits under new IRS regulations, it could result in either an increase or decrease in the tax expense for a company in a given period. This manipulation of tax-related figures will directly influence not only the tax obligations reported but also the net income figures presented in the financial statements. This understanding is crucial because financial statements aim to present a true and fair view of a company's financial position. Any significant change in tax obligations, due to new IRS regulations, must be communicated accurately to stakeholders, affecting how the financial performance of a company is perceived. In contrast, while increased profit margins, changes in liability preparation and recording, and simplified expense reporting might be considered effects of various regulatory or accounting practices, they do not

3. What does a deferred tax asset represent?

A. A reduction in future tax payments

B. A potential tax liability

C. An increase in taxable income

D. A cash equivalent

A deferred tax asset represents a situation where a company has overpaid its taxes or has experienced a loss that will reduce future taxable income. It reflects future tax benefits that the company can realize in subsequent periods. Essentially, this means that the company expects to pay less in taxes in the future due to temporary differences between accounting income and taxable income, or due to loss carryforwards. For instance, if a company recognizes an expense in its financial statements that it cannot deduct for tax purposes until a future period, it creates a deferred tax asset. When the time comes to apply this asset against future taxable income, it effectively reduces the amount the company will have to pay in taxes. This characteristic of deferred tax assets allows companies to manage their tax liabilities more efficiently and provides insight into expected future tax savings, making it a crucial aspect of tax accounting and financial reporting. While other options mention aspects of taxation, only the concept of a reduction in future tax payments succinctly captures the essence of what a deferred tax asset signifies.

4. If a company changes from FIFO to weighted-average cost, how should this change be treated?

A. As a prior period adjustment

B. As a correction of an error

C. As a change in estimate

D. As a change in accounting principle

When a company changes its inventory valuation method from FIFO (First-In, First-Out) to weighted-average cost, this is treated as a change in accounting principle. This classification is appropriate because the change reflects a different approach to measuring inventory costs and affects the presentation of financial statements. Accounting principles define how financial events are to be recorded and reported, and any change in these principles requires disclosure in the financial statements. When transitioning from one method to another, the company must apply the new method retrospectively if it is practicable, which means that previous financial statements are revised as if the new principle had always been in use. This ensures consistency and comparability in financial reporting. Such a change does not fall under prior period adjustments or corrections of errors since it is a strategic decision to change an accounting method rather than an attempt to correct an error or misstatement from the past. Additionally, it is not simply a change in estimate since that involves revisions to estimates based on new information, rather than an overhaul of accounting practices. Therefore, recognizing this as a change in accounting principle reflects both the importance of the method change and the implications it holds for financial reporting.

5. Which circumstance requires a company to disclose changes in accounting principles?

A. Changes in management

B. Changes in financial performance

C. Changes in accounting principles

D. Changes in assets

The need for a company to disclose changes in accounting principles arises specifically when there are actual changes in the accounting methods used for financial reporting. Such changes might occur due to the adoption of new accounting standards or a decision to change from one accepted accounting method to another that provides more reliable or relevant financial information. Disclosing these changes is essential because it allows stakeholders to understand the context of the financial statements, enhances transparency, and ensures comparability across financial periods. The users of financial statements—such as investors, creditors, and analysts—rely on consistent accounting methods to evaluate a company's financial health and performance accurately. Understanding this requirement helps stakeholders grasp the effects of different accounting choices made by the company, which may impact the financial results and positions presented. Also, it assures confidence in the integrity of the financial reporting process, aligning with the broader principle of full disclosure in financial reporting.

6. How much should Company B record as the right-of-use asset on the start date of the lease?

A. $40,000

B. $51,604

C. $60,000

D. $70,000

To determine the amount that Company B should record as the right-of-use asset at the start date of the lease, it is essential to consider the present value of the lease payments that the company is obligated to make over the lease term. Under accounting standards for lease accounting, the right-of-use asset is typically measured at the present value of future lease payments, adjusted for any initial direct costs, lease incentives, or prepaid lease payments. In this case, calculating the present value involves discounting the future lease payments using an appropriate discount rate, which reflects the company's borrowing cost or an interest rate implied in the lease. As a result, the right-of-use asset will represent not only the total contractual payments but also factor in the timing of those payments—typically over the lease's term. If the calculation leads to the amount of $51,604, it would indicate that this figure accurately reflects the total present value of the required lease payments when considering the relevant interest rate and lease term. This amount would be recorded as both the right-of-use asset and the corresponding lease liability on the balance sheet at the beginning of the lease term. Thus, the correct figure to record as the right-of-use asset is $51,604, reflecting a proper understanding of lease

7. Which activities are classified as "financing activities" in the Statement of Cash Flows?

A. Transactions affecting revenue

B. Changes in dividends paid

C. Changes in equity and borrowings

D. Transactions involving equipment purchase

In the Statement of Cash Flows, financing activities include transactions that affect the equity and debt structure of the company. This category encompasses actions such as issuing or repurchasing stock, borrowing funds through loans or bonds, and repaying amounts borrowed. Recognizing changes in equity and borrowings as financing activities is essential for understanding how a company finances its operations and growth. For example, when a company takes on debt, it increases its cash reserves, which can be invested in operations, while issuing new shares can provide necessary capital from investors. This classification helps investors and analysts gauge a company's capital structure and financial health. The other activities listed do not fit into the financing category. Transactions affecting revenue relate to operating activities, and changes in dividends paid, while significant, are considered a financing activity in a broader sense but do not encompass the overall changes in equity and borrowings, which explicitly highlight the company's capital-related movements. Finally, equipment purchases fall under investing activities, which involve the acquisition or disposal of long-term assets crucial for maintaining operational capacity.

8. Which situation necessitates a change in reporting entity when Company A purchases Subsidiary S?

A. Company A reduces ownership interest in Subsidiary S

B. Company A combines with Subsidiary S for financial statement reporting

C. Subsidiary S begins reporting independently

D. Company A continues to report separately from Subsidiary S

The correct choice indicates that a change in reporting entity is necessary when Company A combines with Subsidiary S for financial statement reporting. When a company acquires another entity, the relationships between the entities change. A combination for reporting purposes means that the financial statements of both Company A and Subsidiary S will be presented as a single economic entity. This reflects the reality of the economic relationship that exists after the transaction has taken place, as the parent company (Company A) now has a controlling interest in Subsidiary S and assumes complete responsibility for its financial results. This combination enhances the relevance and usefulness of the reported financial statements for users. It provides a more comprehensive view of the overall financial position and performance of the combined entities. Such reporting aligns with the principles of consolidation in accounting, which aim to provide a true representation of an entity's financial condition. The other situations do not necessitate a change in reporting entity because they either signify a reduction in control or independence rather than a combination that requires unification in financial reporting. This understanding is crucial in determining how businesses communicate their financial positions to stakeholders, making it essential knowledge in intermediate accounting.

9. What factor does book value usually take into account?

A. The fair market value of the asset

B. The cost of the asset minus accumulated depreciation

C. The potential resale value of the asset

D. The appreciation of the asset over time

Book value is primarily defined as the value of an asset as recorded on the balance sheet, which takes into account the original cost of the asset adjusted for accumulated depreciation. This means that the book value reflects the amount that has not yet been expensed over the asset's useful life, giving stakeholders a clear view of the asset's remaining value from an accounting perspective. This approach is crucial for financial reporting as it provides a conservative estimate of value, which is important for both investors and management. The book value fundamentally helps in understanding how much of the asset's value has been consumed or "used up" through wear and tear or obsolescence over time. Other options focus on different valuation concepts that do not align with the traditional definition of book value. For example, fair market value is a consideration of what an asset could sell for in the current market, which varies and is often higher or lower than book value. Potential resale value suggests an anticipated future price rather than the current recorded value. Appreciation over time refers to the increase in worth, yet book value captures the asset's cost basis adjusted for depreciation rather than any potential increase. Thus, the correct understanding of book value is distinctly connected to the cost of the asset minus accumulated depreciation.

10. What is the definition of operating income?

A. Income generated from all business activities

B. Profit earned from primary business operations

C. Revenue minus taxes and expenses

D. Net earnings including investments

Operating income refers specifically to the profit earned from a company's core business operations, excluding any income derived from non-operational sources such as investments or sales of assets. This measure focuses solely on the revenue generated from the primary activities that the business engages in, subtracting the associated operating expenses such as cost of goods sold and administrative costs. The emphasis on profit from primary business operations makes this definition particularly relevant for assessing the efficiency and profitability of a company's core activities, as it provides a clearer picture of how well the company is performing in its primary business endeavors without the influence of peripheral activities. This distinction allows stakeholders, such as investors and analysts, to gauge the operational effectiveness of the business separate from irregular or secondary income streams.

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:

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