

Xero Certification Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of 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. 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!

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Questions

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- 1. What information can be configured when creating a new invoice in Xero?**
 - A. Only the customer's name**
 - B. The currency, branding theme, and due date**
 - C. The bank account details**
 - D. The payment processing fee**
- 2. How does Xero automatically handle transaction labels for invoices and credit notes?**
 - A. It assigns random numbers to each transaction**
 - B. It automatically prefixes and numbers them in sequence**
 - C. It requires users to manually label each transaction**
 - D. It allows unlimited customization without guidelines**
- 3. Why might you be unable to dispose of an asset in Xero?**
 - A. You haven't run depreciation for the disposal financial year.**
 - B. The asset is in the locked period.**
 - C. You need administrator privileges to dispose of it.**
 - D. You have exceeded the maximum allowed disposals.**
- 4. What is the main effect of disposing of an asset?**
 - A. It decreases the total number of assets registered in Xero**
 - B. It permanently removes all associated purchase transactions**
 - C. It updates the asset's market value**
 - D. It transfers the asset to a different account**
- 5. What action should be taken after selecting default accounts for asset disposals in Xero?**
 - A. Click Delete to remove the old accounts**
 - B. Click Save to confirm your selections**
 - C. Click Cancel to discard changes**
 - D. Click Reset to clear the selections**

6. When setting up repeating journals in Xero, what purpose do placeholders serve?

- A. To create drafts for review**
- B. To automate journal entries for specified periods**
- C. To archive entries for record keeping**
- D. To delete repeated entries from the ledger**

7. What must be done to delete an untracked inventory item that has been used on a repeating bill?

- A. Delete the item from inventory**
- B. Remove it from the repeating template**
- C. Edit the invoice that used the item**
- D. Archive the item instead**

8. Which report allows you to track depreciation according to asset values?

- A. Fixed Assets Register**
- B. Depreciation Schedule**
- C. Asset Disposal Report**
- D. Purchase Transaction Report**

9. What does the Project Summary report provide?

- A. A breakdown of expenses and tasks**
- B. High-level tracking information for your projects**
- C. Detailed invoice lists per project**
- D. Tax-related details for projects**

10. What should you do if you encounter an invoice with an incorrect account code after it has been paid?

- A. You cannot edit paid invoices**
- B. Delete the invoice entirely**
- C. Edit the invoice to correct the error**
- D. Request a refund instead**

Answers

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

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Explanations

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1. What information can be configured when creating a new invoice in Xero?

- A. Only the customer's name
- B. The currency, branding theme, and due date**
- C. The bank account details
- D. The payment processing fee

When creating a new invoice in Xero, you have the ability to configure various important details that help facilitate the transaction and provide clarity to both the sender and the recipient. The correct answer highlights that you can specify the currency in which the invoice will be issued, allowing for international transactions to be managed effectively. Additionally, you can select a branding theme, which allows businesses to customize the appearance of the invoice in line with their brand identity. This customization can include the logo, colors, and layout which are important for maintaining brand consistency. Lastly, setting a due date is crucial as it informs the customer when payment is expected, aiding in cash flow management for the business. While details such as the customer's name must be included, it does not capture the range of configurability available when creating an invoice. Similarly, bank account details and payment processing fees are not typically configured at the invoice creation stage in Xero, as these are managed in other aspects of the accounting system.

2. How does Xero automatically handle transaction labels for invoices and credit notes?

- A. It assigns random numbers to each transaction
- B. It automatically prefixes and numbers them in sequence**
- C. It requires users to manually label each transaction
- D. It allows unlimited customization without guidelines

Xero systematically manages transaction labels for invoices and credit notes by automatically prefixing and numbering them in sequence. This means that each new invoice or credit note generated will carry a consistent format that maintains a clear and organized record-keeping system. This sequential numbering aids in tracking and referencing documents easily, which is particularly useful during audits or when managing financial records. The functionality of this feature enhances accuracy and efficiency within the accounting processes, as users do not need to worry about creating unique identifiers for each transaction. Instead, they can focus on entering the necessary details into the system while Xero manages the numbering aspect automatically. In contrast to this, assigning random numbers would create confusion and make it difficult to keep track of financial documents. Requiring manual labeling could lead to inconsistencies and potential errors in record-keeping. Unlimited customization without guidelines could result in disorganized records, which would detract from the purpose of maintaining a clear and systematic approach to financial management. Thus, the automatic prefix and sequence numbering is an integral part of Xero's design to enhance usability and maintain structured financial reporting.

3. Why might you be unable to dispose of an asset in Xero?

- A. You haven't run depreciation for the disposal financial year.**
- B. The asset is in the locked period.**
- C. You need administrator privileges to dispose of it.**
- D. You have exceeded the maximum allowed disposals.**

The reason you might be unable to dispose of an asset in Xero due to having not run depreciation for the disposal financial year is tied closely to how asset management and accounting principles operate. In Xero, before an asset is disposed of, all relevant financial records concerning its depreciation need to be completed and up to date for the current financial year. When depreciation is not run, it means that the asset's value has not been accurately represented in your financial records for that year. Disposing of an asset without accounting for its depreciation could lead to inaccuracies in your financial statements, potentially impacting profit and loss reporting as well as balance sheet valuations. Since Xero relies on accurate financial data, it prevents disposal until the depreciation adjustment has been made, ensuring that all accounting entries are aligned and compliant with financial regulations. In contrast to this, locked periods, administrative privileges, and maximum disposal limits do not directly affect whether depreciation needs to be completed before an asset can be disposed of. Locked periods refer to financial periods that cannot be edited to prevent unauthorized changes, administrator privileges pertain to user permissions, and maximum disposal limits are not standard restrictions that typically exist in Xero's asset management. Understanding these requirements ensures accuracy in asset disposal processes and maintains the integrity of financial reporting

4. What is the main effect of disposing of an asset?

- A. It decreases the total number of assets registered in Xero**
- B. It permanently removes all associated purchase transactions**
- C. It updates the asset's market value**
- D. It transfers the asset to a different account**

The main effect of disposing of an asset is that it decreases the total number of assets registered in Xero. When an asset is disposed of, whether through sale, scrapping, or any other form of disposal, it is removed from the company's asset register. This action reflects the actual state of the company's assets, ensuring that the financial statements and reports accurately represent the resources available to the business. Other options may touch on related concepts but do not capture the primary consequence of asset disposal. For example, removing associated purchase transactions may seem relevant, but this is not the case; the historical purchase records typically remain for reference and accounting accuracy. Additionally, updating the market value of the asset isn't a direct result of disposal as the disposal process is more about taking it off the balance sheet rather than adjusting its value. Lastly, transferring to a different account does not directly align with what is meant by asset disposal, which focuses on permanently removing the asset from the financial records. Thus, the reduction of total assets on the balance sheet is the central outcome of this action.

5. What action should be taken after selecting default accounts for asset disposals in Xero?

- A. Click Delete to remove the old accounts**
- B. Click Save to confirm your selections**
- C. Click Cancel to discard changes**
- D. Click Reset to clear the selections**

After selecting default accounts for asset disposals in Xero, the appropriate action is to click "Save" to confirm your selections. This ensures that your choices are recorded and that the default accounts will be used for any future asset disposals. Saving is a vital step in the workflow to finalize settings and ensure that all configurations are applied as intended. Not saving the selections means that the chosen accounts will not be implemented, which can lead to errors or complications in tracking asset disposals. It's crucial in accounting software like Xero to explicitly save any changes made to ensure data integrity and continuity in accounting practices.

6. When setting up repeating journals in Xero, what purpose do placeholders serve?

- A. To create drafts for review**
- B. To automate journal entries for specified periods**
- C. To archive entries for record keeping**
- D. To delete repeated entries from the ledger**

Placeholders in Xero when setting up repeating journals serve to automate journal entries for specified periods. This functionality allows users to create a set of journal entries that will automatically generate and post at regular intervals without the need for manual input each time. This is particularly useful for recurring expenses or revenues, such as monthly rent or subscription fees, thereby saving time and reducing the risk of errors associated with manual entries. The creation of repeating journals enhances efficiency in financial reporting and ensures consistency in accounting practices. By utilizing placeholders, users can manage their financial records more effectively while ensuring that all scheduled entries are captured in the accounting period they pertain to.

7. What must be done to delete an untracked inventory item that has been used on a repeating bill?

- A. Delete the item from inventory**
- B. Remove it from the repeating template**
- C. Edit the invoice that used the item**
- D. Archive the item instead**

To delete an untracked inventory item that has been used on a repeating bill, it is essential to first remove it from the repeating template. This is necessary because the repeating bill acts as a scheduled transaction that automatically generates invoices based on its setup. If the inventory item is still linked to the repeating template, attempting to delete it from the inventory would lead to potential errors or inconsistencies in the billing process. By removing the item from the repeating template, you ensure that no future bills will contain this inventory item. After that step is completed, you can then proceed to delete the item from inventory without affecting any existing transactions. This approach maintains the integrity of the accounting records while allowing for proper inventory management.

8. Which report allows you to track depreciation according to asset values?

- A. Fixed Assets Register**
- B. Depreciation Schedule**
- C. Asset Disposal Report**
- D. Purchase Transaction Report**

The Depreciation Schedule is the correct choice for tracking depreciation according to asset values because it specifically details how an asset's value decreases over time due to wear, tear, or obsolescence. This report provides an organized view of each asset, the method of depreciation applied, and the timeline for depreciation calculations. It ensures that businesses can accurately manage their financial statements and reflect the true value of their assets. This is crucial for financial reporting, tax calculations, and understanding the overall financial health of the organization. The Fixed Assets Register primarily serves as a record of all fixed assets owned by the business, including their purchase cost and location, but it may not explicitly provide detailed calculations of depreciation over time. The Asset Disposal Report focuses on assets that have been disposed of, detailing their sale or write-off but does not deal with tracking ongoing depreciation. The Purchase Transaction Report highlights the purchase transactions of assets but does not provide information regarding their depreciation.

9. What does the Project Summary report provide?

- A. A breakdown of expenses and tasks**
- B. High-level tracking information for your projects**
- C. Detailed invoice lists per project**
- D. Tax-related details for projects**

The Project Summary report is designed to give users a high-level overview of their projects. It encapsulates essential tracking information such as total income, expenses, and profitability, enabling users to quickly evaluate the performance and health of their projects without delving into granular details. This summary format is particularly useful for project managers and stakeholders who require a snapshot of project status rather than itemized data. While the other options may provide useful information in their own rights—such as detailed expense breakdowns or invoices—they do not align with the primary purpose of the Project Summary report, which focuses on summarization and high-level tracking. This makes the selection of the high-level tracking information as the correct answer, as it captures the essence of what the report is designed to deliver.

10. What should you do if you encounter an invoice with an incorrect account code after it has been paid?

- A. You cannot edit paid invoices**
- B. Delete the invoice entirely**
- C. Edit the invoice to correct the error**
- D. Request a refund instead**

When you encounter an invoice with an incorrect account code after it has been paid, editing the invoice to correct the error is the appropriate course of action. In Xero, paid invoices can still be adjusted for mistakes like incorrect account codes, ensuring that your financial records remain accurate. This capability allows for more precise reporting and helps maintain the integrity of your accounts in the financial statements. Correcting the error directly on the invoice is vital for proper reconciliation and auditing purposes, as it provides a clear trail of changes made. This is not just about fixing an immediate issue but also about maintaining accurate and reliable financial records moving forward. Making the necessary adjustments ensures that the financial data reflects the true nature of transactions and that any reports generated will be based on corrected information.

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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://xerocert.examzify.com>

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

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