ACCOUNTING FUNDAMENTALS CERTIFICATION (AFC) PRACTICE TEST (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.

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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!

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Questions

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1. **What accounting concept is described by the expectation that a business will remain in operation indefinitely?**

   A. Accrual Basis

   B. Going Concern

   C. Matching Principle

   D. Historical Cost

2. **What is Ann Eagle's total earnings for a two-week pay period if she worked 85 hours at a rate of $9.80 per hour and time and a half for hours over 40?**

   A. $800.00

   B. $857.50

   C. $900.00

   D. $950.00

3. **What is the source document for a debit card purchase?**

   A. Bill

   B. Invoice

   C. Memo

   D. Contract

4. **Which insurance is usually necessary when taking out a mortgage with less than 20% down?**

   A. Home Warranty Insurance

   B. Title Insurance

   C. Moral Hazard Insurance

   D. Mortgage Insurance

5. **What information does a balance sheet provide?**

   A. The profit or loss over a period

   B. The cash flows of a business

   C. The financial position of a business on a specific date

   D. The total expenses incurred

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6. Under accrual accounting, when is revenue recorded and reported?

A. When cash is received

B. When the service is rendered

C. At the end of the financial year

D. When the invoice is sent

7. To calculate the component percentages on an income statement, how do you proceed?

A. Each account by total assets

B. Each account by total liabilities

C. Each account by total expenses

D. Each account by total sales

8. Who typically uses financial statements?

A. Only shareholders

B. Management, employees, and customers

C. Management, government agencies, and creditors

D. Investors and analysts

9. If the balance on the next unused check stub equals the cash balance calculated, what does this indicate?

A. Cash is not accounted for

B. Cash is proved

C. Cash is insufficient

D. Cash is overestimated

10. What source document is used when a consumer makes a payment on his or her account?

A. Invoice

B. Receipt

C. Purchase Order

D. Credit Note

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Answers

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

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Explanations

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1. What accounting concept is described by the expectation that a business will remain in operation indefinitely?

A. Accrual Basis

B. Going Concern

C. Matching Principle

D. Historical Cost

The concept described by the expectation that a business will remain in operation indefinitely is known as the Going Concern principle. This fundamental accounting concept assumes that a company will continue its operations for the foreseeable future, allowing it to defer the realization of certain expenses and revenues until later periods. This is particularly important for financial statements, as it justifies the classification of assets and liabilities in a way that reflects ongoing business operations. Moreover, when preparing financial statements, if a company is not deemed a going concern, different accounting principles may apply, making it critical for accountants and financial professionals to assess the viability of a business. The Going Concern assumption underpins the preparation of the balance sheet and income statement, ensuring that they provide an accurate portrayal of a company's financial health over time.

2. What is Ann Eagle's total earnings for a two-week pay period if she worked 85 hours at a rate of $9.80 per hour and time and a half for hours over 40?

A. $800.00

B. $857.50

C. $900.00

D. $950.00

*To determine Ann Eagle's total earnings for a two-week pay period, we start by calculating her regular and overtime hours. Ann worked a total of 85 hours. The standard workweek consists of 40 hours, so any hours worked beyond that are considered overtime. In this scenario, Ann's regular hours amount to 40 hours, and the remaining 45 hours (85 - 40) are classified as overtime. The standard hourly pay rate is $9.80. Therefore, her earnings for the regular hours are calculated as follows: 40 hours at $9.80 per hour equals $392.00. For the overtime hours, which are paid at a time-and-a-half rate, the pay rate increases to $14.70 per hour ($9.80 * 1.5). Since she worked 45 hours of overtime, her earnings from overtime work are: 45 hours at $14.70 per hour equals $661.50. Now, to find Ann's total earnings for the pay period, we combine her regular earnings and overtime earnings: $392.00 (regular earnings) + $661.50 (overtime earnings) equals $1,053.50. However, since I noticed the provided answer seems incorrect*

3. What is the source document for a debit card purchase?

A. Bill

B. Invoice

C. Memo

D. Contract

The source document for a debit card purchase is a memo. When a debit card transaction occurs, a memo is often created to record the details of the purchase. This document typically includes information such as the date of the transaction, the vendor, the amount spent, and purpose of the purchase. Unlike receipts or invoices, which may be received from vendors, memos are internal documents that help businesses keep track of expenditures made through debit card transactions. In contrast, bills and invoices are associated with payments owed for goods or services received, while contracts pertain to agreements made between parties. These documents do not specifically capture the action of a debit card transaction in the same immediate way that a memo would, making a memo the most appropriate choice for representing the source of the transaction.

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4. Which insurance is usually necessary when taking out a mortgage with less than 20% down?

A. Home Warranty Insurance

B. Title Insurance

C. Moral Hazard Insurance

D. Mortgage Insurance

When taking out a mortgage with less than a 20% down payment, it is typically necessary to obtain mortgage insurance. This is specifically designed to protect the lender in case the borrower defaults on the loan. Since a smaller down payment is associated with a higher risk for the lender, mortgage insurance mitigates that risk by providing a level of security. Mortgage insurance comes in various forms, including private mortgage insurance (PMI) for conventional loans or mortgage insurance premiums (MIP) for government-backed loans like FHA loans. By requiring this insurance, lenders can offer loans to borrowers who may not have the means to make a substantial down payment, thereby expanding access to home ownership while managing their financial risk. Unlike other types of insurance mentioned, such as home warranty insurance which covers repairs and maintenance of home appliances, title insurance that protects against defects in the title to the property, or moral hazard insurance which is not a standard type of insurance, mortgage insurance specifically applies to situations involving home loans with lower equity stakes. Therefore, it is the appropriate requirement when the down payment is less than 20%.

5. What information does a balance sheet provide?

A. The profit or loss over a period

B. The cash flows of a business

C. The financial position of a business on a specific date

D. The total expenses incurred

A balance sheet provides a snapshot of a company's financial position at a specific point in time, detailing its assets, liabilities, and shareholders' equity. This document is crucial because it allows stakeholders to assess what the company owns and owes, offering insights into its liquidity and financial stability. For instance, by examining the balance sheet, investors and creditors can evaluate whether the company has sufficient resources to meet its obligations and how investments are funded—whether through debt or equity. The balance sheet reflects these elements as of the date it is prepared, distinguishing it from other financial statements that cover performance over a period, such as the income statement, which shows profit or loss, or the cash flow statement, which details the cash inflows and outflows during a specific timeframe.

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6. Under accrual accounting, when is revenue recorded and reported?

A. When cash is received

B. When the service is rendered

C. At the end of the financial year

D. When the invoice is sent

Under accrual accounting, revenue is recorded and reported when it is earned, which typically occurs when the service is rendered or the product is delivered, regardless of whether cash has been received at that moment. This principle is central to accrual accounting, which aims to match revenues with the expenses incurred to generate those revenues within the same accounting period. By recognizing revenue when it is earned rather than when cash is received, financial statements provide a more accurate picture of a company's financial performance and position. In this context, cash being received, the timing of sending an invoice, or merely concluding a financial year do not determine when revenue should be recognized under accrual accounting principles. Instead, the focus is on the completion of the service or delivery of the good, which signifies that the earning process is complete and the revenue can be justifiably recorded. This ensures that stakeholders can assess the company's readiness and ability to generate income beyond just cash transactions.

7. To calculate the component percentages on an income statement, how do you proceed?

A. Each account by total assets

B. Each account by total liabilities

C. Each account by total expenses

D. Each account by total sales

To calculate the component percentages on an income statement, each account is expressed as a percentage of total sales. This method allows for an understanding of how each revenue and expense item contributes to total sales, providing insights into the overall profitability and cost structure of the business. Using total sales as the denominator helps identify the proportion of each item relative to the revenue generated, making it easier to analyze trends over time and compare performance with other companies. Each line item, such as gross profit, operating expenses, and net income, can be assessed for its efficiency and effectiveness in relation to sales, which is fundamental in financial analysis. This approach is particularly useful in financial statement analysis, enabling stakeholders to see which expenses are taking up larger portions of sales, thereby impacting profitability. Other options involving total assets, total liabilities, or total expenses do not provide the same clarity in relation to revenue generation, making them less appropriate for calculating component percentages on an income statement.

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8. Who typically uses financial statements?

A. Only shareholders

B. Management, employees, and customers

C. Management, government agencies, and creditors

D. Investors and analysts

Financial statements are crucial tools for various stakeholders when assessing the financial health and performance of an organization. Management uses these statements to make informed decisions about operations, investments, and future strategies. They provide insights into revenue, expenses, assets, and liabilities, allowing management to plan effectively and set goals for growth. Government agencies utilize financial statements to ensure compliance with regulations and statutes, evaluating a company's adherence to financial reporting standards and tax obligations. These agencies may include tax authorities or regulatory bodies ensuring fair practices within the industry. Creditors, including banks and lending institutions, rely heavily on financial statements to assess a company's creditworthiness before extending loans or credit. They analyze the financial data to determine the risk involved and to ensure that the borrower can meet their financial obligations. The combination of these groups highlights the broad utility of financial statements in providing transparency and supporting various financial decisions across different areas. While shareholders and investors indeed find these documents useful, the inclusion of management, government agencies, and creditors captures a more comprehensive range of users who depend on the data presented in financial statements.

9. If the balance on the next unused check stub equals the cash balance calculated, what does this indicate?

A. Cash is not accounted for

B. Cash is proved

C. Cash is insufficient

D. Cash is overestimated

When the balance on the next unused check stub matches the cash balance that has been calculated, this indicates that the cash is proved. Essentially, this alignment between the check stub and the cash balance demonstrates that the records are consistent and accurate. This consistency indicates that all cash transactions have been properly accounted for, and there are no discrepancies. In accounting, proving cash is essential for confirming that the reported cash position is accurate. If the cash balance matches the check stub amount, it suggests that the accounting methods used to track cash inflows and outflows are functioning correctly. This verification process is crucial for maintaining financial integrity and ensuring that the organization can depend on its cash flow for operational needs. The other options imply issues with cash management—such as not accounting for cash, a lack of funds, or an overestimation of cash—which are not the case when the check stub balance aligns with the calculated cash balance.

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10. What source document is used when a consumer makes a payment on his or her account?

A. Invoice

B. Receipt

C. Purchase Order

D. Credit Note

A receipt is the source document that serves as proof of payment made by a consumer towards their account. It typically includes important details such as the date of the transaction, the amount paid, a description of the goods or services, and can also contain information about the method of payment used. This documentation is essential for both the consumer and the business, as it confirms that the payment has been received and is often used for record-keeping and reconciliation purposes. In contrast, other options serve different purposes. An invoice is a request for payment and outlines the amount owed, but it is issued before payment is made. A purchase order is a document generated by the buyer to authorize a purchase, not related to the payment itself. A credit note is issued to indicate a reduction in the amount owed, usually after a return or adjustment, which also does not serve as proof of a payment transaction.

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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://afc.examzify.com

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

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