ARIZONA STATE UNIVERSITY (ASU) ACC231 USES OF ACCOUNTING INFORMATION I EXAM 2 PRACTICE (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 is a 'return on equity' (ROE)?

A. A measure of financial performance that calculates the return generated on shareholders' equity.

B. A method for valuing inventory on a balance sheet.

C. A metric for assessing a company's liquidity position.

D. A calculation of total assets minus total liabilities.

2. What aspect of cash management is enhanced through bank reconciliation?

A. Forecasting future sales

B. Planning marketing strategies

C. Monitoring cash flow and liquidity

D. Setting employee salaries

3. Which financial metric indicates the profitability of a company relative to its total assets?

A. Gross profit margin

B. Return on assets

C. Debt to equity ratio

D. Current ratio

4. What does the term "inventory shrinkage" refer to?

A. Assessment of estimated sales

B. The loss of inventory due to factors like theft or damage

C. Increase in inventory valuation

D. Excess purchases over sales

5. If shrinkage results in a $400 decrease in inventory, what would the adjusting entry look like?

A. Debit Inventory; Credit Cost of Goods Sold

B. Debit Cost of Goods Sold for $400; Credit Inventory for $400

C. Debit Inventory; Credit Accounts Payable

D. Debit Cost of Goods Sold for $400; Credit Cash for $400

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6. What best defines the concept of operating expenses?

A. Costs associated with long-term investments

B. Costs that do not vary with production levels

C. Costs required for everyday business functions

D. Costs calculated for tax purposes

7. What is the total amount of short-term assets for Kramer and Associates?

A. $28,000

B. $23,500

C. $25,500

D. $21,000

8. What type of fraud is it called when two or more employees conspire to steal from a company?

A. Embezzlement

B. Collusion

C. Forgery

D. Insider Trading

9. Which of the following is NOT a primary focus of internal control?

A. Safeguarding assets

B. Increasing revenue

C. Ensuring the accuracy of financial reporting

D. Compliance with laws and regulations

10. Which of the following is classified as a liability on the balance sheet?

A. Accounts Receivable

B. Prepaid Insurance

C. Unearned Revenue

D. Cash

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Answers

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

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Explanations

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1. What is a 'return on equity' (ROE)?

A. A measure of financial performance that calculates the return generated on shareholders' equity.

B. A method for valuing inventory on a balance sheet.

C. A metric for assessing a company's liquidity position.

D. A calculation of total assets minus total liabilities.

Return on equity (ROE) is a key financial performance indicator that measures how effectively a company utilizes shareholders' equity to generate profit. Specifically, it is calculated by taking net income and dividing it by the average shareholders' equity during a specific time period. This ratio gives investors insight into how well their capital is being employed to create earnings. A higher ROE signifies that the company is more efficient in turning equity into profit, making it a crucial metric for assessing the potential return on investment for shareholders. In summary, ROE reflects the company's profitability relative to the equity that shareholders have invested, providing a clear understanding of the effectiveness of management's use of equity financing.

2. What aspect of cash management is enhanced through bank reconciliation?

A. Forecasting future sales

B. Planning marketing strategies

C. Monitoring cash flow and liquidity

D. Setting employee salaries

The enhancement of cash management through bank reconciliation primarily involves monitoring cash flow and liquidity. Bank reconciliation is the process of comparing a company's cash records with the bank's records to identify any discrepancies, such as outstanding checks, deposits in transit, or bank fees. By regularly performing bank reconciliations, a business can ensure that its cash records accurately reflect its available cash, which is crucial for making informed financial decisions. This practice helps businesses track their cash flow, as it provides a clearer picture of how much cash is genuinely available for daily operations, expenditures, and investments. Additionally, effective monitoring of cash liquidity is vital for ensuring that there are enough funds to meet obligations, thus preventing overdrafts and maintaining good relationships with creditors and suppliers. Overall, bank reconciliation serves as an essential tool in the broader context of cash management.

3. Which financial metric indicates the profitability of a company relative to its total assets?

A. Gross profit margin

B. Return on assets

C. Debt to equity ratio

D. Current ratio

The financial metric that indicates the profitability of a company relative to its total assets is the return on assets (ROA). This measure provides insight into how efficiently a company is using its assets to generate profits. ROA is calculated by dividing net income by total assets. A higher ROA suggests that the company is effectively utilizing its assets to produce earnings, which is a key indicator of managerial efficiency and overall financial performance. In contrast, other metrics like gross profit margin primarily focus on the relationship between revenue and cost of goods sold, without considering the total asset base. The debt to equity ratio measures a company's financial leverage and its reliance on debt versus equity financing, while the current ratio assesses a company's liquidity by comparing its current assets to its current liabilities. None of these metrics provide a direct measure of profitability in relation to total assets, making return on assets the most relevant choice for this question.

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4. What does the term "inventory shrinkage" refer to?

A. Assessment of estimated sales

B. The loss of inventory due to factors like theft or damage

C. Increase in inventory valuation

D. Excess purchases over sales

Inventory shrinkage refers specifically to the loss of inventory that can occur due to various reasons such as theft, damage, expiration, or errors in recording. This term is commonly used in retail and other inventory-based businesses to quantify the discrepancy between the recorded inventory and the actual inventory available. Recognizing inventory shrinkage is crucial for businesses as it can significantly impact financial statements and resource management. Understanding this concept helps companies take measures to minimize these losses, such as improving security, better inventory management practices, and staff training. By addressing the causes of shrinkage, organizations can improve their overall efficiency and profitability.

5. If shrinkage results in a $400 decrease in inventory, what would the adjusting entry look like?

A. Debit Inventory; Credit Cost of Goods Sold

B. Debit Cost of Goods Sold for $400; Credit Inventory for $400

C. Debit Inventory; Credit Accounts Payable

D. Debit Cost of Goods Sold for $400; Credit Cash for $400

The adjusting entry for shrinkage involves recognizing that a portion of the inventory has been lost, damaged, or deemed unsellable, which requires adjusting the financial records accordingly. In this case, a $400 decrease in inventory due to shrinkage means that the company needs to reflect the loss in its accounting records. When shrinkage occurs, inventory is reduced, so the correct adjustment is to decrease the inventory account. In accounting, this is done by crediting the inventory account. To balance this entry, the loss from the shrinkage is recognized as an expense in the Cost of Goods Sold (COGS). Therefore, the necessary action is to debit COGS, which increases the expense to acknowledge the financial impact of the inventory loss. The adjusting entry to reflect this transaction would thus be a debit to Cost of Goods Sold for $400 and a credit to Inventory for $400. This correctly updates the accounts to show that while the inventory has decreased, the expenses related to the cost of goods sold have increased, maintaining the integrity of the financial statements.

6. What best defines the concept of operating expenses?

A. Costs associated with long-term investments

B. Costs that do not vary with production levels

C. Costs required for everyday business functions

D. Costs calculated for tax purposes

Operating expenses are best defined as costs required for everyday business functions. These expenses are essential for running a business on a day-to-day basis and include items such as rent, utilities, salaries, and office supplies. They are incurred regardless of the level of production or sales and play a vital role in the overall functioning and profitability of a company. By managing these expenses effectively, businesses can maintain operational efficiency, which is crucial for achieving their financial goals. Understanding this definition helps clarify how operating expenses contribute to a company's financial performance by reducing income when assessed against revenues generated. It also distinguishes them from costs associated with investments or tax-specific calculations, which have different implications and purposes in financial management.

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7. What is the total amount of short-term assets for Kramer and Associates?

A. $28,000

B. $23,500

C. $25,500

D. $21,000

To determine the total amount of short-term assets for Kramer and Associates, the process involves identifying all assets that are classified as short-term or current assets. Short-term assets typically include cash, accounts receivable, inventory, and other assets expected to be converted to cash or consumed within one year. If the correct answer is $25,500, this figure suggests that when all relevant short-term assets were summed—such as the total cash on hand, outstanding receivables, and the value of inventory—the outcome is this specific amount. This reflects a proper categorization and calculation of assets, confirming the understanding of how short-term assets are defined in financial statements. Other amounts indicate different calculations or possible misclassifications, such as including long-term assets or misestimating one of the short-term asset components, which does not align with the recognized definition of current assets. This underscores the importance of accurately identifying and calculating the components that contribute to the total of short-term assets in accounting practices.

8. What type of fraud is it called when two or more employees conspire to steal from a company?

A. Embezzlement

B. Collusion

C. Forgery

D. Insider Trading

When two or more employees conspire to steal from a company, the act is classified as collusion. This involves a secret agreement between parties to accomplish an illegal or deceitful act, such as diverting company assets for personal gain. In a collusive scenario, the cooperation between the involved employees typically allows them to circumvent internal controls and detection measures set by the organization, making the act of theft more sophisticated and harder to uncover. Embezzlement refers specifically to the theft or misappropriation of funds placed in one's trust or belonging to one's employer, which usually involves a single individual rather than a conspiracy of multiple employees. Forgery involves the falsification of documents or signatures with the intent to deceive, while insider trading pertains to the buying or selling of stocks based on non-public, material information about a company. These concepts, while related to financial misconduct, do not capture the essence of the collaborative theft depicted in the question.

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9. Which of the following is NOT a primary focus of internal control?

A. Safeguarding assets

B. Increasing revenue

C. Ensuring the accuracy of financial reporting

D. Compliance with laws and regulations

Internal control systems are designed primarily to help organizations manage risks and achieve their objectives through several key focuses. One of the main objectives is safeguarding assets, which ensures that company resources are protected from theft or misuse. Another critical aspect is ensuring the accuracy of financial reporting, which helps in providing reliable financial information to stakeholders. Compliance with laws and regulations is also a major focus, as organizations must adhere to applicable laws to avoid legal issues and maintain their reputations. Increasing revenue, while important for a business's success, is not considered a primary focus of internal control. Internal controls are more oriented towards processes that ensure the integrity of financial reporting, asset protection, and legal compliance rather than directly driving revenue growth. Effective internal control systems may support revenue generation indirectly by creating a stable and compliant environment conducive to business operations, but they do not specifically aim to increase revenue as one of their main objectives.

10. Which of the following is classified as a liability on the balance sheet?

A. Accounts Receivable

B. Prepaid Insurance

C. Unearned Revenue

D. Cash

Unearned revenue is classified as a liability on the balance sheet because it represents money received by a business for goods or services that have not yet been delivered or performed. This indicates an obligation on the part of the business to provide those goods or services in the future. Until the company fulfills its commitment, it cannot recognize this revenue as earned, hence it remains a liability reflecting an outstanding obligation. In contrast, accounts receivable represents amounts owed to the business, which is an asset, as it is expected to bring future economic benefits. Prepaid insurance is also classified as an asset because it represents a payment made in advance for insurance coverage that will benefit the company in the future. Cash is straightforwardly categorized as an asset since it is liquid and readily available for use by the business.

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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://asu-acc231exam2.examzify.com

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

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