ARIZONA STATE UNIVERSITY (ASU) ACC232 FINANCIAL ACCOUNTING 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 should Hayes Construction report in 2024 based on incurred costs and estimates?

A. Recognized profit based on total estimated costs.

B. Not recognize any profit due to loss.

C. Profit based on historical performance.

D. Report all costs as operating expenses.

2. In a sale with a right of return, how should the estimated return be treated?

A. Recognized as a reduction in sales revenue.

B. Recorded as an asset.

C. Ignored until products are returned.

D. Recorded as a liability.

3. What should Landis report as a gain or loss when selling bonds after accruing for interest?

A. ($88,110)

B. ($65,610)

C. ($7,440)

D. $0

4. Which statement describes the term "liabilities"?

A. Assets that a company owns

B. Financial obligations that a company owes to external parties

C. The ownership interest of shareholders in a company

D. Revenue generated from operations

5. What are current assets?

A. Assets expected to last more than one year

B. Assets expected to be converted to cash or used up within one year

C. Long-term investments in other companies

D. Non-physical assets that generate future benefits

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6. Regarding unrealized gains or losses on available-for-sale debt securities, how are they treated?

A. They are taxed as regular income

B. They adjust stockholders' equity directly

C. They are immediately realized

D. They affect net income for the period

7. For a contract that is expected to generate a loss, what is the recording treatment for this expected loss?

A. Postponed until project completion.

B. Spread over the contract duration.

C. Recognized immediately in current period.

D. Not recognized unless explicitly stated by client.

8. What is the estimated cost to complete the bridge project for Hardhat Construction Company in 2020?

A. 1,000,000

B. 3,000,000

C. 4,500,000

D. 4,000,000

9. What is considered a non-cash expense on the income statement?

A. Interest expense

B. Depreciation

C. Cost of goods sold

D. Payroll expenses

10. What should a company do when sales are made with a right of return?

A. Should not recognize any revenue.

B. Should recognize revenue for the full sales price.

C. Records the returned asset in a separate inventory account.

D. Records the estimated returns in the Sales Revenue account.

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Answers

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

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Explanations

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1. What should Hayes Construction report in 2024 based on incurred costs and estimates?

A. Recognized profit based on total estimated costs.

B. Not recognize any profit due to loss.

C. Profit based on historical performance.

D. Report all costs as operating expenses.

In a construction accounting context, recognizing profit based on total estimated costs is a critical concept when accounting for long-term projects. In the percentage-of-completion method, a construction firm like Hayes Construction recognizes revenue and profit proportionally as the job progresses based on the costs incurred relative to the total estimated costs. When costs are incurred, they provide an indication of the level of completion of the project. If costs incurred indicate substantial progress toward completion, the company can estimate how much profit should be recognized at that time. This recognized profit reflects the work completed and aligns with the matching principle in accounting, which states that expenses should be matched with the revenues they help generate. Thus, if Hayes Construction has incurred significant costs in 2024 and has reliable estimates indicating likely profitability, they should report that recognized profit based on the total estimated costs to accurately reflect their financial position and performance during the period.

2. In a sale with a right of return, how should the estimated return be treated?

A. Recognized as a reduction in sales revenue.

B. Recorded as an asset.

C. Ignored until products are returned.

D. Recorded as a liability.

The treatment of estimated returns in a sale with a right of return is rooted in the revenue recognition principle. When a company sells a product that may be returned, it must recognize the risk that some portion of the sales will be reversed through returns. Recognizing the estimated return as a reduction in sales revenue accurately reflects the anticipated decrease in revenue resulting from future returns. By estimating the returns and adjusting the sales revenue accordingly, the financial statements present a more accurate picture of the company's revenue earned from sales during the accounting period. This approach aligns with the principle of conservatism in accounting, where accountants prefer to report figures that avoid overstating revenues. In contrast, alternative treatments—such as recording the estimate as an asset or liability or ignoring the returns until they occur—would not adequately reflect the potential impact of returns on overall revenue and could mislead stakeholders regarding the company's performance. The practice of recognizing estimated returns ensures that both revenues and expenses (related to the potential return of goods) are matched properly in the financial statements.

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3. What should Landis report as a gain or loss when selling bonds after accruing for interest?

A. ($88,110)

B. ($65,610)

C. ($7,440)

D. $0

When determining the gain or loss from the sale of bonds after accruing for interest, it is essential to consider both the carrying value of the bonds at the time of sale and the sale price of those bonds. In this case, if Landis accrued the interest earned on the bonds prior to sale, this accrued interest would need to be factored into the carrying value. If the bonds were sold for less than their carrying value after taking into account the accrued interest, it would result in a loss. Conversely, if the bonds were sold for more than the carrying value, it would reflect a gain. Reporting a gain or loss accurately reflects the true economic transaction and the financial position of Landis after the sale. Therefore, if the calculation yields a difference of $7,440 indicating that the sale price was below the carrying amount after considering accrued interest, this number would be reported as a loss. This situation illustrates the importance of recognizing interest accruals and their impact on the overall value of investments when they are disposed of. In financial reporting, accurate measurement and reporting of gains and losses are crucial for transparency and decision-making.

4. Which statement describes the term "liabilities"?

A. Assets that a company owns

B. Financial obligations that a company owes to external parties

C. The ownership interest of shareholders in a company

D. Revenue generated from operations

The term "liabilities" refers to the financial obligations that a company owes to external parties. This encompasses debts and other responsibilities that must be settled in the future, such as loans, accounts payable, mortgages, and other financial commitments. Liabilities are crucial for understanding a company's financial position as they represent claims against the company's assets by creditors. When assessing a business's financial health, recognizing liabilities allows stakeholders to gauge how leveraged the company is, which can impact everything from operational decisions to creditworthiness. Current liabilities, for example, are those due within one year and can include accounts payable and short-term loans. In contrast, long-term liabilities, such as bonds payable, are due beyond one year and may involve larger commitments over an extended time frame. The incorrect options focus on different aspects of a company's finances. One discusses assets owned by the company, another addresses shareholder ownership interest, while the last involves revenues, none of which accurately define liabilities. Understanding this distinction is essential for interpreting financial statements and evaluating a company's overall financial stability.

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5. What are current assets?

A. Assets expected to last more than one year

B. Assets expected to be converted to cash or used up within one year

C. Long-term investments in other companies

D. Non-physical assets that generate future benefits

Current assets are defined as resources that a company expects to convert into cash or use up within one year. This classification is crucial in financial accounting, as it helps assess a company's short-term liquidity and operational efficiency. Examples of current assets include cash, inventory, accounts receivable, and short-term investments. These assets are vital for day-to-day operations, enabling a business to meet its short-term obligations and fund ongoing activities. By managing current assets effectively, a company ensures it has sufficient liquidity to operate smoothly, without falling into financial distress. The other categories mentioned in the choices pertain to different classifications of assets. Assets that are expected to last more than one year align with long-term or non-current assets, which are not classified as current. Long-term investments, as described in another option, refer specifically to investments that a company intends to hold for an extended period, which again differentiates them from current assets. Lastly, non-physical assets that generate future benefits relate to intangible assets, which do not fit the definition of current assets. Thus, the correct understanding of current assets is crucial for evaluating a company's short-term financial health.

6. Regarding unrealized gains or losses on available-for-sale debt securities, how are they treated?

A. They are taxed as regular income

B. They adjust stockholders' equity directly

C. They are immediately realized

D. They affect net income for the period

Unrealized gains or losses on available-for-sale debt securities are treated as adjustments to stockholders' equity directly. This treatment aligns with the accounting principles governing available-for-sale securities, which are not intended for immediate resale. Instead, any unrealized gains or losses affect other comprehensive income and are recorded in a separate component of equity, typically called "Accumulated Other Comprehensive Income." This approach allows the accounting records to reflect the current market value of these securities without impacting the income statement until the securities are actually sold, at which point the gains or losses become realized and affect net income. This method ensures that shareholders have an accurate and updated view of equity without the volatility that could come from reflecting these unrealized amounts in the income statement.

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7. For a contract that is expected to generate a loss, what is the recording treatment for this expected loss?

A. Postponed until project completion.

B. Spread over the contract duration.

C. Recognized immediately in current period.

D. Not recognized unless explicitly stated by client.

When a contract is expected to generate a loss, the appropriate accounting treatment is to recognize that expected loss immediately in the current period. This approach aligns with the accounting principle of conservatism, which dictates that losses should be recognized as soon as they are anticipated, while gains should only be recognized when they are realized. By recognizing the loss immediately, the financial statements provide a true and fair view of the company's financial position. This helps stakeholders understand the potential risks and financial obligations associated with the contract, thereby facilitating better decision-making. This principle also ensures that the financial results reflect the economic reality of the situation, avoiding the deferment of losses which can lead to inflated asset values and misrepresentation of profitability. In cases where losses are anticipated, waiting until project completion or spreading the loss over the contract duration would not provide stakeholders with timely and relevant information, which is why those approaches are not suitable for recognizing expected losses.

8. What is the estimated cost to complete the bridge project for Hardhat Construction Company in 2020?

A. 1,000,000

B. 3,000,000

C. 4,500,000

D. 4,000,000

To determine the estimated cost to complete the bridge project for Hardhat Construction Company, it is important to consider the total costs incurred to date, the progress of the project, and the remaining work that still needs to be completed. Establishing the correct figure involves analyzing the project's specific circumstances, which may include previous expenditures and evaluating the projected costs based on remaining work. The $3,000,000 figure suggests that, after accounting for what has been spent and how much work is left, the company expects it will require that amount to complete the project effectively. Choosing this amount indicates a careful assessment of the ongoing project costs and the need to budget appropriately to bring the project to completion without incurring financial overruns. It reflects a comprehensive understanding of the project's financial requirements and demonstrates a commitment to managing project costs strategically.

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9. What is considered a non-cash expense on the income statement?

A. Interest expense

B. Depreciation

C. Cost of goods sold

D. Payroll expenses

Depreciation is classified as a non-cash expense because it represents the allocation of the cost of tangible assets over their useful lives, rather than an immediate cash outflow. When a business purchases a fixed asset, such as machinery or equipment, it incurs a cash expense at that time. However, instead of reflecting that entire cash expenditure in the income statement in the year of purchase, accounting standards require the company to spread the cost over the asset's useful life. This is done to match the expense with the revenues generated by the asset in each accounting period. As a result, while depreciation reduces the reported earnings on the income statement, it does not involve an actual cash transaction in the periods when depreciation is recorded. This characteristic distinguishes it from other expenses such as interest expense, cost of goods sold, and payroll expenses, which do involve cash transactions when payments are made. Understanding depreciation as a non-cash expense is critical for evaluating a company's financial health and cash flow.

10. What should a company do when sales are made with a right of return?

A. Should not recognize any revenue.

B. Should recognize revenue for the full sales price.

C. Records the returned asset in a separate inventory account.

D. Records the estimated returns in the Sales Revenue account.

When sales are made with a right of return, the best practice involves estimating potential returns and appropriately accounting for them. Recording the returned asset in a separate inventory account helps the company keep track of items that may come back, reflecting the company's true inventory levels. It ensures that financial statements present a more accurate picture of both inventory and potential revenue. By not recognizing any revenue or recognizing the full sales price without considering the likelihood of returns, the financial statements could present a distorted view of the company's current financial position. Estimating returns also involves adjusting the revenue figures to reflect only those sales expected to be finalized, providing a clearer picture of actual revenue. Thus, maintaining a separate inventory account for anticipated returns allows the company to manage its assets more effectively while adhering to accounting principles related to revenue recognition.

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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-acc232exam2.examzify.com

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

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