INTERMEDIATE FINANCIAL REPORTING 1 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.

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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. Which group uses the term 'Statement of Financial Position' instead of 'Balance Sheet'?

A. IFRS users

B. US GAAP users

C. Both

D. Neither

2. Which statement best describes the single-step income statement?

A. First all revenues and gains are listed; Then all expenses and losses (other than income taxes)

B. It reports a series of intermediate subtotals

C. It separates operating and non-operating items

D. It lists only ending net income

3. Which step follows Adjusting Entries in the accounting cycle?

A. Adjusted Trial Balance

B. Prepare financial statements

C. Closing entries

D. Journalize the transactions

4. What does comprehensive income provide?

A. A narrower perspective of income limited to net income

B. A broader perspective of income and includes all revenues, expenses, gains, and losses for the period

C. Only realized gains and losses

D. Only changes in retained earnings

5. Current Assets are assets expected to be converted to cash within the coming year or within the normal operating cycle.

A. assets that are not expected to be converted to cash soon

B. assets expected to be converted to cash within the coming year or within the normal operating cycle

C. long-term investments only

D. intangible assets with indefinite life

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6. General Ledger

A. A ledger used for tax filings

B. An external report of market values

C. A ledger that contains all accounts needed to prepare financial statements

D. A ledger that contains only cash accounts

7. Under what condition are prior period adjustments required?

A. Required for any accounting error

B. Only for estimates

C. Required when a material error is discovered in the statements that have been published and distributed to shareholders

D. Only when the error affects taxes

8. How is income from discontinued operations presented in the income statement?

A. Separately, below income from continuing operations

B. As part of continuing operations

C. Net of tax on the balance sheet

D. In the notes to financial statements

9. Liquidity is defined as the ability of a company to

A. pay its long-term debts

B. earn profits from operations

C. convert its assets to cash

D. issue new shares

10. What do investors and creditors like to know about?

A. Net income

B. Revenues

C. Expenses

D. Claims to a company's resources

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Answers

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

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Explanations

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1. Which group uses the term 'Statement of Financial Position' instead of 'Balance Sheet'?

A. IFRS users

B. US GAAP users

C. Both

D. Neither

The term used for the financial statement that shows assets, liabilities, and equity is different across accounting standards. Under IFRS, the official title is the Statement of Financial Position, reflecting IFRS's phrasing that focuses on the entity's financial position at a moment in time. In contrast, US GAAP consistently uses the term Balance Sheet for this same statement. Therefore, the group that uses the term Statement of Financial Position is IFRS users. The other options don't fit because US GAAP does not use that title, and it's not true that both or neither use it.

2. Which statement best describes the single-step income statement?

A. First all revenues and gains are listed; Then all expenses and losses (other than income taxes)

B. It reports a series of intermediate subtotals

C. It separates operating and non-operating items

D. It lists only ending net income

The key idea is simplicity in presentation: a single-step income statement lists all revenues and gains at the top, then all expenses and losses below, and net income is computed in one step by subtracting total expenses from total revenues. There are no operating vs. non-operating subtotals or multiple layers of subtotal lines; it's one straightforward calculation. The option captures this structure by describing revenues and gains first, followed by expenses and losses, leading to net income. In practice, income tax expense is included within the expenses block, which aligns with the one-step format. The other descriptions imply subtotals or separate sections that aren't part of the single-step layout.

3. Which step follows Adjusting Entries in the accounting cycle?

A. Adjusted Trial Balance

B. Prepare financial statements

C. Closing entries

D. Journalize the transactions

After adjusting entries are posted, the balances in all accounts reflect the revised amounts. The next step is to prepare an adjusted trial balance, which lists every account with its updated balance after the adjustments. This step verifies that total debits still equal total credits and provides a single, comprehensive basis for creating the financial statements. Once the adjusted trial balance is prepared, you move on to producing the financial statements, then close the temporary accounts with closing entries. Journalizing transactions, by contrast, occurs earlier in the cycle before the adjustments are made, so it isn't the step that follows adjusting entries.

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4. What does comprehensive income provide?

A. A narrower perspective of income limited to net income

B. A broader perspective of income and includes all revenues, expenses, gains, and losses for the period

C. Only realized gains and losses

D. Only changes in retained earnings

Comprehensive income provides a broader view of what happens to a company's equity in a period, not just what passes through net income. It combines net income with other comprehensive income items—those changes in equity from non-owner sources that aren't reported in net income—so you see the full picture of how the company's equity has changed during the period. This means including items such as certain unrealized gains and losses, foreign currency translation adjustments, and pension-related adjustments, which together expand what's reported beyond just revenues and expenses that affect net income. That broader scope is why this option is the best fit: it describes a wider perspective that includes all revenues, expenses, gains, and losses for the period, reflecting both net income and the additional components that affect equity. The other descriptions are too narrow or incomplete. Limiting to net income misses the additional comprehensive items; focusing only on realized gains and losses omits unrealized and other OCI components; and concentrating on changes in retained earnings ignores the broader changes in equity from non-owner sources.

5. Current Assets are assets expected to be converted to cash within the coming year or within the normal operating cycle.

A. assets that are not expected to be converted to cash soon

B. assets expected to be converted to cash within the coming year or within the normal operating cycle

C. long-term investments only

D. intangible assets with indefinite life

Current assets are items a business expects to convert into cash or use up in the near term. The defining time frame is the coming year or the normal operating cycle, whichever is longer, so these assets are expected to be realized or consumed within that period. This focus on the short-term horizon is what separates current assets from non-current assets. That's why the statement describing assets expected to be converted to cash within the coming year or within the normal operating cycle is the best fit. It aligns with how liquidity is assessed and how assets are classified on the balance sheet. Assets not expected to be converted soon, or assets typically held for longer periods—like long-term investments or intangible assets with indefinite life—do not meet the current-asset criteria because they are not expected to be realized in the short term.

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6. General Ledger

A. A ledger used for tax filings

B. An external report of market values

C. A ledger that contains all accounts needed to prepare financial statements

D. A ledger that contains only cash accounts

The general ledger is the set of all accounts a company uses to record its financial data, containing every asset, liability, equity, revenue, and expense account with their cumulative balances. This completeness lets you prepare the financial statements—the balance sheet and income statement—by pulling totals from each account and aggregating them. Transactions flow from the journal into the general ledger, where running balances are maintained and used to generate the trial balance, adjustments, and closing entries. Subsidiary ledgers (like accounts receivable, accounts payable, and inventory) feed detailed balances into the general ledger, and their totals roll up into the corresponding general ledger accounts. The other options describe narrower or external reporting needs and do not capture all accounts needed to produce financial statements.

7. Under what condition are prior period adjustments required?

A. Required for any accounting error

B. Only for estimates

C. Required when a material error is discovered in the statements that have been published and distributed to shareholders

D. Only when the error affects taxes

The key idea is that prior period adjustments are required when there is a material misstatement in financial statements that have already been issued to shareholders. If a material error is discovered in statements that were published and distributed, the financial statements must be restated retrospectively, and the opening balance of retained earnings (and other affected accounts) for the earliest period presented is adjusted. This preserves comparability across periods and provides accurate information to users, with an accompanying disclosure of the nature of the error and its impact. Changes in accounting estimates are not treated as errors and are handled prospectively, and tax effects are not the triggering condition for a prior period adjustment.

8. How is income from discontinued operations presented in the income statement?

A. Separately, below income from continuing operations

B. As part of continuing operations

C. Net of tax on the balance sheet

D. In the notes to financial statements

Income from discontinued operations is shown separately from ongoing (continuing) operations in the income statement. This separation highlights the portion of earnings that will not continue in the future, making it easier to assess the sustainability of the company's ongoing profitability. The amount is presented net of tax, and appears after the line for income from continuing operations, typically as a single line such as "Discontinued operations, net of tax." If there are multiple disposed items, they're combined into one after-tax figure. The related assets and liabilities tied to the disposal may appear on the balance sheet (often as held-for-sale), but the income statement presentation focuses on the discontinued operations as a distinct line after continuing operations.

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9. Liquidity is defined as the ability of a company to

A. pay its long-term debts

B. earn profits from operations

C. convert its assets to cash

D. issue new shares

Liquidity is the ability to convert assets to cash to meet short-term obligations. The essence is having cash readily available or quickly convertible assets to cover near-term payments, so a company can pay its current liabilities as they come due. Cash itself is the most liquid asset, and quick access to it—directly or through easily saleable assets like marketable securities or accounts receivable—keeps day-to-day operations smooth. The other ideas describe different concepts. Paying long-term debts relates to solvency and long-range financing, not immediate cash readiness. Earning profits reflects operating performance, not the cash available to cover near-term obligations. Issuing new shares is a financing activity that affects capital structure, not the ability to meet current payments.

10. What do investors and creditors like to know about?

A. Net income

B. Revenues

C. Expenses

D. Claims to a company's resources

Investors and creditors want to know who has claims to a company's resources because that reveals how the assets are financed and who gets paid first. The claims on resources—shown on the balance sheet as liabilities (creditors) and owners' equity (shareholders)—tell you who has rights to the company's assets and in what order those assets would be available in profits, losses, or liquidation. While profitability measures like net income, revenues, and expenses are important for evaluating performance and value, they don't indicate the allocation of assets among claimants. Understanding claims helps assess solvency, risk, and potential returns by showing the mix and priority of claims against the resources.

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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://intermediatefinreporting1.examzify.com

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

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