NCEA LEVEL 1 ACCOUNTING 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. 'Drawings' represent distributions to which accounting category?

A. Non-Current Liability

B. Income

C. Assets

D. Equity

2. Which expense is a common charge incurred for professional financial services?

A. Accountant fees

B. Bad debt

C. Discount allowed

D. Doubtful debts rates

3. How do the 'Notes to the Financial Statements' enhance transparency in financial reporting?

A. By providing clear, additional detail on financial data

B. By limiting the number of figures presented

C. By prioritizing profitability above all

D. By using complicated financial jargon

4. How is 'net income' defined in accounting?

A. Total revenue minus total expenses

B. Gross revenue before deductions

C. The same as gross profit

D. The total of all assets

5. What classification is the "Inventory" account?

A. Asset

B. Liability

C. Expense

D. Revenue

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6. What does a 'general ledger' contain?

A. A summary of the financial statements

B. A complete record of all account information needed for financial reporting

C. Only the revenue accounts of a business

D. The estimated expenses for the next period

7. What is involved in 'financial reporting'?

A. The process of tracking sales and income per employee

B. The process of producing statements that disclose an organization's financial status to management, investors, and regulators

C. The analysis of industry trends and forecasts

D. The preparation of budgets and financial projections

8. What is typically considered a Non-Current Liability?

A. Accounts Payable

B. GST Payable

C. Loan

D. Sales

9. What type of income does 'Rent/Interest received' represent?

A. Direct Costs

B. Operating Income

C. Non-Operating Income

D. Capital Gain

10. What kind of expense is typically incurred for employee health benefits?

A. Tax Expenses

B. Insurance Expenses

C. Wages

D. General Expenses

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Answers

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

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Explanations

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1. 'Drawings' represent distributions to which accounting category?

A. Non-Current Liability

B. Income

C. Assets

D. Equity

Drawings are amounts withdrawn by the owner from their business for personal use. This involves the distribution of profits or equity back to the owner, effectively reducing the total equity in the business. In accounting terms, this reflects a decrease in the owner's equity account because the owner's personal withdrawals reduce the resources that remain within the business. When an owner makes a drawing, it is not considered an expense or an income item; rather, it directly impacts the equity section of the balance sheet. This means that recording drawings appropriately is crucial for maintaining accurate equity figures, as it provides a clear view of the amount the owner has withdrawn compared to the total amount they have invested in the business. This is why the accounting category that drawings represent is equity, as it reflects the transactions between the business and its owner concerning personal withdrawals. Understanding this concept is key in grasping how owner's equity functions in relation to business operations.

2. Which expense is a common charge incurred for professional financial services?

A. Accountant fees

B. Bad debt

C. Discount allowed

D. Doubtful debts rates

Accountant fees represent a standard expense that businesses often incur when seeking professional financial services. These fees are charged by accountants for their expertise in managing financial records, preparing tax returns, advising on financial strategies, and ensuring compliance with applicable laws and regulations. Employing professional accountants can help businesses maintain accurate financial records, which is crucial for decision-making and financial health. In contrast, bad debts relate to amounts that are not expected to be collected from customers and represent risks associated with credit sales but are not a regular service expense. Discount allowed refers to reductions given to customers on the selling price and is more of a sales strategy than an expense for professional services. Lastly, doubtful debts rates pertain to estimating the likelihood of not collecting certain receivables, again more related to managing risk rather than incurring charges for professional financial assistance.

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3. How do the 'Notes to the Financial Statements' enhance transparency in financial reporting?

A. By providing clear, additional detail on financial data

B. By limiting the number of figures presented

C. By prioritizing profitability above all

D. By using complicated financial jargon

The choice highlighting the provision of clear, additional detail on financial data is central to enhancing transparency in financial reporting. The 'Notes to the Financial Statements' serve as an integral part of the financial reporting package. They offer detailed explanations and contexts that help users understand the figures presented in the main financial statements, such as the balance sheet and income statement. This additional information can include descriptions of accounting policies, breakdowns of large figures, or insights into contingent liabilities, which collectively clarify the financial position and performance of the entity. This transparency is crucial for stakeholders—such as investors, creditors, and regulators—who rely on accurate and comprehensive information to make informed decisions. The notes help to demystify complex transactions and accounting practices, ensuring that the financial statements reflect the true economic reality of the business. By making the financial statements more understandable, the notes contribute significantly to trust and credibility in the financial reporting process.

4. How is 'net income' defined in accounting?

A. Total revenue minus total expenses

B. Gross revenue before deductions

C. The same as gross profit

D. The total of all assets

Net income is defined as total revenue minus total expenses. This figure represents the profit that a company has earned over a specific period after accounting for all costs incurred in generating revenue, including operating expenses, interest, taxes, and other expenses. This definition is fundamental to understanding a company's profitability and financial performance. When a business calculates its net income, it assesses how efficiently it has operated; a positive net income indicates that the company has generated more revenue than it has spent, while a negative net income signals a loss. The other choices do not accurately reflect the concept of net income. Gross revenue before deductions does not take into account expenses, making it an incomplete picture of a company's profitability. Saying net income is the same as gross profit is misleading, as gross profit does not include all operational expenses, nor taxes, which are necessary to calculate net income. Lastly, the total of all assets pertains to the balance sheet and does not relate to income or profits at all, making it unrelated to the definition of net income.

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5. What classification is the "Inventory" account?

A. Asset

B. Liability

C. Expense

D. Revenue

Inventory is classified as an asset because it represents goods that a business holds for sale in the ordinary course of operations. Assets are resources owned by a business that provide future economic benefits, and inventory fits this definition as it can be converted into cash through sales. When inventory is recorded on the balance sheet, it reflects the value of unsold goods at a given point in time, contributing to the overall assets of the company. It plays a crucial role in the business's ability to generate revenue; without inventory, a retail or manufacturing business would not be able to function effectively as it would have no products to sell. In contrast, liabilities represent obligations that a company must settle in the future, expenses reflect the costs incurred in the process of earning revenue, and revenue accounts record the income generated from sales of goods or services. Therefore, the classification of inventory as an asset is essential for understanding the financial position and operational capacity of a business.

6. What does a 'general ledger' contain?

A. A summary of the financial statements

B. A complete record of all account information needed for financial reporting

C. Only the revenue accounts of a business

D. The estimated expenses for the next period

The general ledger serves as the central repository for all financial data related to a business's accounts. Specifically, it contains a complete record of all account information necessary for financial reporting. This encompasses various accounts, including assets, liabilities, equity, revenues, and expenses, thus providing a comprehensive view of the company's financial position and performance. Each account in the general ledger provides detailed transactions that contribute to the totals found in the financial statements. By maintaining accurate records in the general ledger, businesses ensure that they can produce reliable financial statements in compliance with accounting standards. This level of detail allows for better financial analysis, tracking of financial performance over time, and informed decision-making for management. In contrast, the other options focus on narrower or incomplete aspects of financial reporting. Summaries of financial statements do not provide the detailed transaction data found in the general ledger. Limiting the ledger to only revenue accounts would exclude essential information about expenses and other key accounts, failing to give a complete financial picture. Additionally, estimated expenses for the next period would not fall under the general ledger criteria, since the ledger typically records past and present transactions rather than future projections.

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7. What is involved in 'financial reporting'?

A. The process of tracking sales and income per employee

B. The process of producing statements that disclose an organization's financial status to management, investors, and regulators

C. The analysis of industry trends and forecasts

D. The preparation of budgets and financial projections

Financial reporting is a crucial process that entails producing structured financial statements intended to communicate an organization's financial performance and position to various stakeholders, including management, investors, and regulators. This involves creating key documents such as the income statement, balance sheet, and cash flow statement, which provide detailed insights into how the company is performing financially over a specific period. These reports are critical for stakeholders to make informed decisions, assess the company's efficiency, profitability, and solvency, and ensure compliance with applicable laws and regulations. The other options, while relevant to aspects of financial management, do not accurately capture the essence of financial reporting. Tracking sales and income per employee is more focused on operational efficiency rather than overall financial health. Similarly, analyzing industry trends and forecasts pertains to market analysis rather than the presentation of an organization's own financial data. Finally, preparing budgets and financial projections involves planning and forecasting but is distinct from the actual process of financial reporting, which emphasizes historical financial data and its reporting format.

8. What is typically considered a Non-Current Liability?

A. Accounts Payable

B. GST Payable

C. Loan

D. Sales

A non-current liability refers to obligations that are not expected to be settled within one year, meaning they are long-term in nature. A loan fits this definition as it is often a financial obligation that a business takes on and typically requires repayment over a period longer than one year. Loans usually involve a principal amount and interest, and the repayment terms reflect the long-term nature of the liability. In contrast, accounts payable and GST payable are examples of current liabilities since they are obligations that are expected to be paid off within the short term, usually within a year. Sales, on the other hand, represent revenue generated by a business and are not classified as liabilities at all. Thus, the identification of a loan as a non-current liability is aligned with the typical classification of liabilities in accounting.

9. What type of income does 'Rent/Interest received' represent?

A. Direct Costs

B. Operating Income

C. Non-Operating Income

D. Capital Gain

'Rent/Interest received' represents non-operating income because it typically comes from activities that are not part of the primary operations of a business. This type of income is generated from investing excess funds into interest-generating accounts or leasing out property, rather than from the sale of goods or services that constitute the main business activities. Non-operating income is important for providing a complete picture of a company's financial performance, as it can contribute significantly to the overall profitability, even if it does not directly relate to the core business operations. In contrast, direct costs refer to expenses that can be directly attributed to the production of goods or services, and operating income is derived from the primary activities of the business, including the sales of products or services. Capital gain refers specifically to profit from the sale of an asset, like property or stocks, which is not relevant to the rent or interest context.

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10. What kind of expense is typically incurred for employee health benefits?

A. Tax Expenses

B. Insurance Expenses

C. Wages

D. General Expenses

Employee health benefits are typically classified as insurance expenses. This classification is appropriate because health benefits often involve premiums paid for health insurance policies on behalf of employees. These payments are costs that businesses incur to provide health coverage as part of their employee compensation package. In the context of accounting, insurance expenses relate directly to the costs associated with various types of insurance, including health insurance, which protects employees against medical costs. This is a crucial aspect of employer expenses and is treated as an operational cost necessary for maintaining a workforce. The other options represent different types of expenses that are not directly related to employee health benefits. Tax expenses pertain to payments owed to the government and are not specifically tied to employee health. Wages represent direct compensation paid to employees for their work, while general expenses cover a wide range of indirect costs not specifically associated with employee benefits. Therefore, choosing insurance expenses is accurate in the context of costs associated with providing health benefits to employees.

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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://ncealvl1accounting.examzify.com

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

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