NOCTI ACCOUNTING FOUNDATIONS 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. Which statement about cost of goods sold (COGS) is true for a merchandising company?

A. COGS is recorded for all businesses.

B. COGS is not used in calculating gross margin.

C. COGS is recorded only when inventory is sold at a loss.

D. COGS is recorded for the merchandiser and is included in gross margin calculation.

2. EFT is defined as

A. Electronic Funds Transfer

B. Electronic Financial Transaction

C. External Fund Transfer

D. Electronic Fund Transfer

3. Reconciling a bank account involves the process of making sure you and the bank agree on how much money is in your checking account

A. calculating interest earned on the balance

B. the process of making sure you and the bank agree on how much money is in your checking account

C. preparing tax returns for the year

D. updating the general ledger with depreciation

4. What type of account is accumulated depreciation?

A. Asset

B. Contra-asset account

C. Liability

D. Revenue

5. A promissory note is the source document for issuing a _____.

A. Account payable

B. Note payable

C. Revenue

D. Inventory

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6. Under LIFO in a period of rising prices, which statement is true?

A. The ending inventory is the lowest

B. The ending inventory is the highest

C. COGS is lower

D. Gross profit is higher

7. Which statement shows revenues and expenses for a period, resulting in net income?

A. A balance of accounts at end.

B. A summary of net worth.

C. A financial statement showing revenues and expenses for a period, resulting net income.

D. A cash inflows/outflows ledger.

8. In the seller's books, when a customer takes a sales discount, which journal entry is recorded?

A. Debit Cash for full amount; Credit Accounts Receivable for full amount.

B. Debit Cash for net amount; Debit Sales Discounts for the discount; Credit Accounts Receivable for full amount.

C. Debit Sales Discounts; Credit Cash for the discounted amount.

D. Debit Accounts Receivable; Credit Cash for the discount.

9. Which financial statement shows assets, liabilities, and owner's equity at a specific date?

A. A balance sheet.

B. An income statement.

C. A cash flow statement.

D. A statement of changes in equity.

10. Which of the following is a valid name for a contra-revenue account?

A. Sales Returns and Allowances

B. Accounts Receivable

C. Revenue

D. Interest Income

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Answers

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

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Explanations

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1. Which statement about cost of goods sold (COGS) is true for a merchandising company?

A. COGS is recorded for all businesses.

B. COGS is not used in calculating gross margin.

C. COGS is recorded only when inventory is sold at a loss.

D. COGS is recorded for the merchandiser and is included in gross margin calculation.

In a merchandising company, cost of goods sold (COGS) is the cost of the inventory that was sold during the period. It's crucial for figuring gross margin, because gross margin equals net sales minus COGS. When inventory is sold, the business records the cost as an expense by moving it from Inventory to COGS (a debit to COGS and a credit to Inventory). This reduces assets and reflects the expense tied to the sale, and that COGS figure is what is subtracted from sales to determine gross profit. COGS is included in the gross margin calculation specifically for merchandisers because their core activity involves selling goods they purchased or produced. The other statements don't fit: not every business incurs COGS (service-only or non-inventory businesses may not have this expense); COGS is essential for calculating gross margin; and COGS is recorded whenever inventory is sold, not only when a sale occurs at a loss.

2. EFT is defined as

A. Electronic Funds Transfer

B. Electronic Financial Transaction

C. External Fund Transfer

D. Electronic Fund Transfer

The term EFT refers to the electronic movement of money, so the best choice is Electronic Funds Transfer. In banking, EFT describes transferring funds electronically between accounts or institutions, rather than handling cash or performing a generic electronic transaction. The plural "funds" is the conventional wording because it emphasizes moving money as a balance from one place to another. The other options alter the meaning by using Financial instead of Funds, External instead of Funds, or the singular Fund, which isn't the standard term used. So Electronic Funds Transfer is the standard, widely used definition.

3. Reconciling a bank account involves the process of making sure you and the bank agree on how much money is in your checking account

A. calculating interest earned on the balance

B. the process of making sure you and the bank agree on how much money is in your checking account

C. preparing tax returns for the year

D. updating the general ledger with depreciation

Bank reconciliation is the process of comparing the cash balance in your own records with the balance shown on the bank statement to make sure they match for your checking account. This ensures you know the true cash on hand by accounting for timing items like deposits in transit and outstanding checks, as well as bank charges or errors. Maintaining this match helps catch mistakes and keep accurate financial records. The other options describe activities that aren't about ensuring the two records agree: calculating interest earned is just tracking earnings on the balance, preparing tax returns is a separate accounting task, and updating the general ledger with depreciation relates to long term assets, not reconciling cash.

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4. What type of account is accumulated depreciation?

A. Asset

B. Contra-asset account

C. Liability

D. Revenue

Accumulated depreciation is a contra-asset account. It records the total depreciation charged against a fixed asset over time and is shown on the balance sheet as a deduction from the asset's cost to arrive at its net book value. It is not an asset itself because it does not provide future economic benefits; instead, it represents the portion of the asset's cost that has already been expensed. It is not a liability or revenue. The normal balance is a credit, opposite to the debit balance of asset accounts. Each period, depreciation expense is debited and accumulated depreciation is credited, increasing this contra-asset. For example, if equipment costs $50,000 and has $15,000 accumulated depreciation, the equipment would be shown at $35,000 on the books for net value.

5. A promissory note is the source document for issuing a _____.

A. Account payable

B. Note payable

C. Revenue

D. Inventory

A promissory note is a written promise to pay a specific amount of money by a future date. When a business issues one, it creates a formal obligation to repay, recorded as a note payable, a liability on the balance sheet. The promissory note is the source document because it provides the exact debt, amount borrowed, and repayment terms that justify recording the liability. For example, borrowing cash by signing a promissory note would be recorded as a debit to Cash and a credit to Note payable. This item is not related to accounts payable (which comes from supplier invoices), revenue (which is income), or inventory (an asset).

6. Under LIFO in a period of rising prices, which statement is true?

A. The ending inventory is the lowest

B. The ending inventory is the highest

C. COGS is lower

D. Gross profit is higher

Under LIFO in a period of rising prices, the most recently acquired goods—which carry the higher costs—are the ones treated as sold first. That means cost of goods sold goes up, while the remaining inventory consists of older units with lower costs. As a result, the ending inventory value reflects those older, cheaper cost layers and is the lowest among the common costing methods. Since COGS is higher under this scenario, gross profit wouldn't be higher—it would be lower. So the ending inventory ends up being the lowest.

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7. Which statement shows revenues and expenses for a period, resulting in net income?

A. A balance of accounts at end.

B. A summary of net worth.

C. A financial statement showing revenues and expenses for a period, resulting net income.

D. A cash inflows/outflows ledger.

Revenues and expenses over a specific period are summarized in the income statement. This report lists all the revenues earned and expenses incurred during the period and subtracts expenses from revenues to produce net income (or a net loss). It shows how well the business performed over that span, not just a snapshot at one moment in time. This differs from a balance sheet, which shows assets, liabilities, and owners' equity at a single date; a summary of net worth, which reflects changes in equity rather than operating results over a period; and a cash inflows/outflows ledger, which tracks actual cash movements and is the cash flow statement. The statement that directly shows revenues, expenses, and the resulting net income is the income statement.

8. In the seller's books, when a customer takes a sales discount, which journal entry is recorded?

A. Debit Cash for full amount; Credit Accounts Receivable for full amount.

B. Debit Cash for net amount; Debit Sales Discounts for the discount; Credit Accounts Receivable for full amount.

C. Debit Sales Discounts; Credit Cash for the discounted amount.

D. Debit Accounts Receivable; Credit Cash for the discount.

When a customer pays within the discount period, the seller records the cash actually received, reduces the Accounts Receivable by the full amount due, and recognizes the discount as a deduction from revenue. The entry shows Cash for the net amount (price minus discount), a Debit to Sales Discounts (a contra-revenue account) for the discount, and a Credit to Accounts Receivable for the full amount owed. This arrangement reflects that the sale brings in less cash than the full price and that revenue is reduced by the amount of the discount. The alternative entries either ignore the discount, debit the wrong accounts, or fail to reduce revenue appropriately, so they don't match how discounts should affect both cash flow and revenue.

9. Which financial statement shows assets, liabilities, and owner's equity at a specific date?

A. A balance sheet.

B. An income statement.

C. A cash flow statement.

D. A statement of changes in equity.

The key idea is identifying a financial statement that captures the company's position at a single moment in time. A balance sheet does just that: it lists what the company owns (assets), what it owes (liabilities), and the owners' claim to the assets (owners' equity) as of a specific date. This gives a snapshot of financial position, not performance over a period. In contrast, the income statement shows revenues and expenses over a span of time, producing net income or loss; the cash flow statement traces cash movements over a period; and the statement of changes in equity shows how owners' equity changes during the period. The balance sheet also reflects the fundamental equation assets = liabilities plus owners' equity, which must balance on that date. So the financial statement that shows assets, liabilities, and owner's equity at a specific date is the balance sheet.

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10. Which of the following is a valid name for a contra-revenue account?

A. Sales Returns and Allowances

B. Accounts Receivable

C. Revenue

D. Interest Income

Contra-revenue accounts reduce the amount of revenue reported, and they have the opposite (debit) balance of revenue accounts, which usually carry a credit balance. Sales Returns and Allowances records reductions in revenue when customers return goods or receive allowances, so it directly lowers gross sales to yield net sales. On the income statement, Net Sales = Gross Sales minus Sales Returns and Allowances (and minus Sales Discounts if applicable). The other options describe assets or regular revenue accounts, not contra-revenue: Accounts Receivable is an asset; Revenue and Interest Income are normal revenue accounts with credit balances.

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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://noctiaccountingfoundations.examzify.com

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

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