TRACKING ASSETS AND SALES 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. **When recording a lease, which account category should be used for a capital/financing lease asset?**

   A. Account 101: Checking

   B. Account 103: Fixed assets

   C. Account 602: Office expenses

   D. Account 220: Notes payable

2. **If raw materials are purchased with cash, which account is credited in the journal entry?**

   A. Raw Materials

   B. Cash

   C. Accounts Payable

   D. Revenue

3. **Which inventory valuation method uses a constant average cost per unit for both COGS and ending inventory?**

   A. Last in, first out (LIFO)

   B. First-in, first-out (FIFO)

   C. Average cost method (AVCO)

   D. Specific identification

4. **In recording a cash prize, which account is debited?**

   A. Cash

   B. Sales Revenue

   C. Tax Payable

   D. Accounts Receivable

5. **If the original purchase price of shirts was $2,000 and $300 was spent on shipping, what is the COGS when all shirts are sold for $4,000 and ending inventory is zero?**

   A. $4,000

   B. $2,300

   C. $1,700

   D. $2,000

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6. What is the primary purpose of adding a disclosure to new financial reports after fixing inventory errors?

A. To ensure the new reports are legally compliant

B. To provide transparency and inform readers about the adjustments made

C. To highlight the presence of errors in the financial statements

D. To confuse readers with unnecessary information

7. How is depreciation expense recorded over time?

A. It is recorded as a credit over time.

B. It is recorded as a debit over time.

C. It has a zero balance.

D. It is recorded as revenue.

8. What is the effect on the income statement when bad debt is recorded?

A. It increases assets

B. It reduces profit

C. It increases revenue

D. It has no effect

9. Which term describes the estimate of how long you can reasonably expect to use an asset for your business?

A. Service life

B. Depreciation

C. Accumulated depreciation

D. Depreciation expense

10. What does FIFO stand for in inventory valuation?

A. First-In, First-Out

B. Last-In, First-Out

C. First-Out, First-In

D. In-First, Out-First

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Answers

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

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Explanations

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1. When recording a lease, which account category should be used for a capital/financing lease asset?

A. Account 101: Checking

B. Account 103: Fixed assets

C. Account 602: Office expenses

D. Account 220: Notes payable

Key idea: a capital/financing lease creates a long-term asset on the balance sheet that the company will use in operations, along with a corresponding liability. Because the lessee effectively obtains control of the asset for a substantial period, the asset is classified as a fixed asset (property, plant, and equipment). This recognition reflects that the asset will be depreciated over time and provides future economic benefits to the business, just like purchased equipment or machinery. When recording, the asset is measured at the present value of the minimum lease payments and the same amount is recognized as a lease liability. Over the lease term, you depreciate the asset and gradually pay down the liability, with interest expense recognized on the liability. This approach keeps the asset category aligned with long-lived operational resources, rather than with cash accounts or ordinary operating expenses. Choosing among the other options isn't appropriate for the asset side: a checking account is a cash/short-term asset, not a long-lived operating asset; office expenses are current period costs and do not represent a long-term asset; notes payable is a liability category, not an asset category (though the lease liability itself would be tracked somewhere similar to a payable). The fixed assets classification best matches a capital lease asset.

2. If raw materials are purchased with cash, which account is credited in the journal entry?

A. Raw Materials

B. Cash

C. Accounts Payable

D. Revenue

When you buy raw materials with cash, you're exchanging one asset for another, so the journal records reflect that change. In double-entry bookkeeping, increases to assets are recorded as debits and decreases as credits. Paying cash decreases your Cash balance, so Cash is credited. At the same time, the raw materials you now own increase your asset base, so you debit the Raw Materials account. For example, if the cost is $5,000, you'd record: Debit Raw Materials $5,000; Credit Cash $5,000. The other accounts don't apply here: Accounts Payable would be used if you bought on credit, Revenue isn't affected by purchasing supplies, and Raw Materials would be increased (debited), not credited.

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3. Which inventory valuation method uses a constant average cost per unit for both COGS and ending inventory?

A. Last in, first out (LIFO)

B. First-in, first-out (FIFO)

C. Average cost method (AVCO)

D. Specific identification

The average cost method (AVCO) uses a single, constant cost per unit for both COGS and ending inventory. This per-unit cost is the weighted average of all costs available for sale during the period—calculated by dividing the total cost of goods available for sale by the total units available for sale. Because every unit is valued at that same average cost, both the cost of goods sold and the ending inventory reflect the same per-unit amount. For example, if you have 100 units at $5 and 100 units at $7, the average cost per unit is $6. If you sell 150 units, COGS = 150 × $6 = $900, and ending inventory = 50 units × $6 = $300. Other methods assign costs based on the order or specific items (LIFO uses the latest costs for COGS; FIFO uses the oldest costs for COGS; specific identification uses exact costs for each item), but AVCO always uses that single average per-unit cost.

4. In recording a cash prize, which account is debited?

A. Cash

B. Sales Revenue

C. Tax Payable

D. Accounts Receivable

In double-entry bookkeeping, increases in assets are recorded as debits. Receiving a cash prize adds to your cash, so you debit the Cash account. The credit would go to the appropriate income or prize-revenue account, but the question focuses on which account is debited, and Cash is the one that increases with the prize. Other options don't fit because they represent different types of accounts: Sales Revenue is an income account that would be credited when revenue is earned, not debited on receipt of cash; Tax Payable is a liability and would be affected by taxes, not by receiving prize money; Accounts Receivable would only increase if you had a receivable, which isn't the case when cash is actually received.

5. If the original purchase price of shirts was $2,000 and $300 was spent on shipping, what is the COGS when all shirts are sold for $4,000 and ending inventory is zero?

A. $4,000

B. $2,300

C. $1,700

D. $2,000

COGS includes all costs to acquire inventory and get it ready for sale. Here that means the purchase price of the shirts plus the shipping cost. Because all shirts are sold and ending inventory is zero, COGS is the total cost of goods available for sale: 2,000 + 300 = 2,300. The $4,000 selling price doesn't change COGS; it affects gross profit, which would be 4,000 − 2,300 = 1,700. The other amounts either omit shipping (2,000) or reflect gross profit (1,700) or revenue (4,000), not COGS.

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6. What is the primary purpose of adding a disclosure to new financial reports after fixing inventory errors?

A. To ensure the new reports are legally compliant

B. To provide transparency and inform readers about the adjustments made

C. To highlight the presence of errors in the financial statements

D. To confuse readers with unnecessary information

Disclosures added after correcting inventory errors center on transparency—letting readers understand what was changed and why. When an inventory mistake is fixed, accounting standards require describing the nature of the error, the amount of the adjustment, and how prior periods and current results are affected. This helps users compare performance over time, assess the true financial position, and judge management's stewardship of resources. It also supports faithful representation by showing precisely how the statements were misstated and corrected. While legal compliance can be a byproduct, the main aim is to inform readers about the adjustments rather than merely highlight that an error existed or mislead them.

7. How is depreciation expense recorded over time?

A. It is recorded as a credit over time.

B. It is recorded as a debit over time.

C. It has a zero balance.

D. It is recorded as revenue.

Depreciation is an expense recognized over the asset's useful life, so it carries a normal debit balance. In each period you record depreciation by debiting Depreciation Expense and crediting Accumulated Depreciation, a contra-asset that reduces the asset's net book value on the balance sheet. This pairing shows the cost of using the asset on the income statement while gradually rebuilding the cumulative depreciation on the balance sheet. So, the correct approach is to increase the expense with a debit (not a credit), and to accumulate the total depreciation separately via a credit to Accumulated Depreciation. It isn't zero each period, and it isn't revenue, since depreciation is a cost, not income.

8. What is the effect on the income statement when bad debt is recorded?

A. It increases assets

B. It reduces profit

C. It increases revenue

D. It has no effect

When a bad debt is recorded, you are recognizing that some sales won't be collected, which adds a bad debt expense to the income statement. Expenses reduce net income, so profit falls. The income statement focuses on revenues minus expenses, and bad debt expense increases the expense side, lowering the bottom line. (The balance sheet would show a reduction in receivables or an increase in the allowance for doubtful accounts, but the question asks about the income statement effect.)

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9. Which term describes the estimate of how long you can reasonably expect to use an asset for your business?

A. Service life

B. Depreciation

C. Accumulated depreciation

D. Depreciation expense

Understanding asset lifespans: the term that describes the estimate of how long you can reasonably expect to use an asset for your business is service life (often called useful life). This is about planning and reporting how long the asset will contribute to operations before it becomes obsolete or needs replacement. It isn't about the accounting allocation itself. Depreciation is the process of allocating that cost over the service life, not the estimate of how long you'll use the asset. Accumulated depreciation is the total amount of depreciation that has been recorded to date. Depreciation expense is the amount recognized in a specific period. So the best fit for the question is the estimate of how long you can reasonably expect to use the asset. For example, a machine with a $100,000 cost and a ten-year service life will be depreciated over ten years, typically $10,000 per year.

10. What does FIFO stand for in inventory valuation?

A. First-In, First-Out

B. Last-In, First-Out

C. First-Out, First-In

D. In-First, Out-First

FIFO stands for First-In, First-Out. It is a method of valuing inventory that assumes the earliest goods added to inventory are the first to be sold. Because of this, the cost of goods sold is based on the oldest purchase costs, while the ending inventory reflects the costs of the newer purchases. This ordering can change reported profits and inventory value, especially when prices are changing. The other phrases aren't recognized inventory valuation methods.

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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:

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

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