

UNIVERSITY OF CENTRAL FLORIDA (UCF) ACG2021 PRINCIPLES OF FINANCIAL ACCOUNTING EXAM 1 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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<https://ucf-acg2021exam1.examzify.com>



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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.

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!

Questions

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- 1. Which term describes the amounts earned from selling products or services?**
 - A. Net Income
 - B. Assets
 - C. Revenues
 - D. Expenses

- 2. Beginning Retained Earnings is 20,000; Net Income is 100,000; Dividends are 0. Ending Retained Earnings is:**
 - A. 80,000
 - B. 90,000
 - C. 120,000
 - D. 140,000

- 3. Deferred Revenue is recorded when**
 - A. Revenue is earned when cash is received.
 - B. It represents equity investment by owners.
 - C. It records a liability that arises when cash is received in advance.
 - D. Cash is received in advance for goods or services to be provided in the future.

- 4. Beginning Retained Earnings is 90,000; Net Income is 15,000; Dividends are 5,000. Ending Retained Earnings is:**
 - A. 85,000
 - B. 105,000
 - C. 100,000
 - D. 110,000

- 5. Which statement correctly distinguishes prepaid expenses from accrued expenses?**
 - A. Prepaid expenses are cash paid before benefit and recorded as an asset; accrued expenses are incurred but not yet paid and recorded as a liability.
 - B. Prepaid expenses are always expenses; accrued expenses never incur liabilities.
 - C. Prepaid expenses increase liabilities; accrued expenses decrease assets.
 - D. Prepaid expenses are income; accrued expenses are cash receipts.

6. Dividends are found on which financial statement?

- A. Income Statement
- B. Balance Sheet
- C. Statement of Cash Flows
- D. Statement of Stockholders' Equity

7. Under the allowance method, how is an uncollectible account written off?

- A. Debit Accounts Receivable; Credit Cash.
- B. Debit Bad Debt Expense; Credit Allowance for Doubtful Accounts.
- C. Debit Allowance for Doubtful Accounts; Credit Accounts Receivable.
- D. Debit Accumulated Depreciation; Credit Accounts Receivable.

8. Cash payments to stockholders (owners).

- A. Dividend
- B. Common Stock
- C. Retained Earnings
- D. Accounts Payable

9. What would you include in a balance sheet for current liabilities?

- A. Accounts payable, accrued expenses, short-term notes payable, and unearned revenue.
- B. Long-term investments, intangible assets
- C. Shareholder's equity, retained earnings
- D. Cash, inventory

10. Which statement best describes permanent versus temporary accounts?

- A. Permanent accounts carry over to the next period; temporary accounts are closed at period end.
- B. Permanent accounts are closed at period end; temporary accounts carry over.
- C. Temporary accounts carry over to the next period.
- D. Permanent accounts include revenues and expenses.

Answers

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

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Explanations

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1. Which term describes the amounts earned from selling products or services?

- A. Net Income
- B. Assets
- C. Revenues**
- D. Expenses

Revenue is the amounts a business earns from selling goods or providing services. This is shown on the income statement as the top line and reflects the core activity of earning income from operations. The phrase "amounts earned from selling products or services" matches this idea exactly, which is why it's the best choice. Net income, while related, is what remains after expenses are subtracted from revenues. Assets are resources owned by the company, such as cash or accounts receivable, and expenses are the costs incurred to generate revenues. In accrual accounting, revenue is recognized when the performance obligation is satisfied, which may occur at the point of sale or when a service is rendered, even if cash is received later.

2. Beginning Retained Earnings is 20,000; Net Income is 100,000; Dividends are 0. Ending Retained Earnings is:

- A. 80,000
- B. 90,000
- C. 120,000**
- D. 140,000

Retained earnings show the profits kept in the business over time. Ending Retained Earnings equals Beginning Retained Earnings plus Net Income minus Dividends. Here, you start with 20,000, add 100,000 of net income, and subtract 0 in dividends: $20,000 + 100,000 - 0 = 120,000$. So the ending balance is 120,000. If dividends or a net loss were present, they would reduce ending retained earnings accordingly.

3. Deferred Revenue is recorded when

- A. Revenue is earned when cash is received.
- B. It represents equity investment by owners.
- C. It records a liability that arises when cash is received in advance.
- D. Cash is received in advance for goods or services to be provided in the future.**

Deferred revenue arises when cash is collected before the company has earned the revenue by delivering goods or performing services. In accrual accounting, revenue is not recognized until performance occurs, so the cash received in advance is recorded as a liability (deferred revenue) to reflect the obligation to provide the goods or services in the future. The correct option captures the exact situation: cash is received in advance for goods or services that will be provided later, creating a liability until the obligation is fulfilled and revenue can be recognized. The other statements miss or misstate this timing. Recognizing revenue only when cash is received describes cash basis accounting, not accrual accounting. Describing deferred revenue as an equity investment mischaracterizes its nature as a liability. Saying a liability arises when cash is received is true but incomplete without noting that the cash is received for future goods or services.

4. Beginning Retained Earnings is 90,000; Net Income is 15,000; Dividends are 5,000. Ending Retained Earnings is:

- A. 85,000
- B. 105,000
- C. 100,000**
- D. 110,000

Retained earnings for the period changes by net income and dividends. Beginning retained earnings plus net income increases it, while dividends reduce it. So compute: $90,000 + 15,000 - 5,000 = 100,000$. Ending retained earnings is 100,000. The reason this is the best result is that dividends decrease retained earnings, and net income increases it, so the math reflects the actual flow of earnings to the owners.

5. Which statement correctly distinguishes prepaid expenses from accrued expenses?

- A. Prepaid expenses are cash paid before benefit and recorded as an asset; accrued expenses are incurred but not yet paid and recorded as a liability.**
- B. Prepaid expenses are always expenses; accrued expenses never incur liabilities.
- C. Prepaid expenses increase liabilities; accrued expenses decrease assets.
- D. Prepaid expenses are income; accrued expenses are cash receipts.

The key idea is how timing affects where the item sits on the financial statements. Prepaid expenses arise when you pay cash before you receive the benefit, so they start as an asset. As time passes and the benefit is used, you move costs from the asset to an expense. Think of paying for a full year of insurance upfront: you record a prepaid insurance asset, then gradually recognize insurance expense each month and reduce that asset. Accrued expenses are the opposite: you incur the expense in the current period but haven't paid cash yet, so you record a liability and an expense. For example, wages earned by employees but not yet paid at period end increase both an expense and a payable liability. When you finally pay, the liability decreases and cash goes down. So, the statement is correct because prepaid expenses are cash paid before benefit and start as an asset, while accrued expenses are incurred but not yet paid and start as a liability. The other descriptions would misstate the nature of prepaid or accrued items (for instance, prepaid expenses aren't always expenses, and accrued expenses do involve liabilities).

6. Dividends are found on which financial statement?

- A. Income Statement
- B. Balance Sheet
- C. Statement of Cash Flows
- D. Statement of Stockholders' Equity**

Dividends represent a distribution of a company's earnings to its owners, so they reduce what is left for shareholders—retained earnings. Because of that, they are shown in the equity section where changes to stockholders' equity are tracked, specifically as a reduction to retained earnings on the statement of stockholders' equity. Dividends are not expenses, so they don't appear on the income statement, and they aren't presented as a separate line item on the balance sheet (except for a potential dividends payable liability if the dividend has been declared but not yet paid). The cash effect of paying dividends is reported in the statement of cash flows under financing activities. So dividends are found in the statement of stockholders' equity.

7. Under the allowance method, how is an uncollectible account written off?

- A. Debit Accounts Receivable; Credit Cash.
- B. Debit Bad Debt Expense; Credit Allowance for Doubtful Accounts.
- C. Debit Allowance for Doubtful Accounts; Credit Accounts Receivable.**
- D. Debit Accumulated Depreciation; Credit Accounts Receivable.

Under the allowance method, uncollectible accounts are written off by reducing the valuation allowance and the accounts receivable simultaneously. When a specific receivable is deemed uncollectible, you debit the Allowance for Doubtful Accounts and credit Accounts Receivable for the amount. This removes the uncollectible amount from AR and reduces the allowance, with no impact on income statement at the time of the write-off because the bad debt expense was recognized earlier when the estimation was made. The write-off does not affect cash or depreciation accounts, and it aligns the balance sheet with the estimated realizable value of receivables.

8. Cash payments to stockholders (owners).

- A. Dividend**
- B. Common Stock
- C. Retained Earnings
- D. Accounts Payable

Cash payments to stockholders are dividends. Dividends are distributions of a company's earnings to owners and are paid in cash when declared. They reduce cash and reduce retained earnings, and they do not appear as an expense on the income statement. Common stock represents ownership and the funding of the company, not a cash distribution. Retained earnings is the cumulative earnings kept in the business; dividends reduce this account, but the term itself is not the cash payout. Accounts payable is a liability reflecting amounts owed to suppliers, not payments to owners.

9. What would you include in a balance sheet for current liabilities?

- A. Accounts payable, accrued expenses, short-term notes payable, and unearned revenue.**
- B. Long-term investments, intangible assets
- C. Shareholder's equity, retained earnings
- D. Cash, inventory

Current liabilities are obligations expected to be settled within one year or the operating cycle. They appear on the balance sheet as obligations the company must pay or fulfill soon. The items that belong here include accounts payable, which are amounts owed to suppliers for goods or services already received; accrued expenses, which are costs incurred but not yet paid; short-term notes payable, debt due within the year; and unearned revenue, cash collected before the corresponding goods or services are delivered, creating a future obligation. The other options describe assets (long-term investments and intangible assets) or equity (shareholder's equity, retained earnings) or current assets (cash, inventory), so they do not represent current liabilities.

10. Which statement best describes permanent versus temporary accounts?

- A. Permanent accounts carry over to the next period; temporary accounts are closed at period end.**
- B. Permanent accounts are closed at period end; temporary accounts carry over.
- C. Temporary accounts carry over to the next period.
- D. Permanent accounts include revenues and expenses.

Permanent accounts are the balances that stay on the books from period to period—assets, liabilities, and equity accounts—so their ending balances carry into the next reporting period. Temporary accounts, like revenues and expenses (and dividends in many setups), are reset to zero at the end of the period through closing entries, so the next period starts with fresh balances for those accounts. This is why the correct statement says permanent accounts carry over to the next period, while temporary accounts are closed at period end. The reason other ideas don't fit is that revenues and expenses don't carry forward, and permanent accounts do not get closed each period; also, revenues and expenses are not permanent accounts.

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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://ucf-acg2021exam1.examzify.com>

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

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