UNIVERSITY OF CENTRAL FLORIDA (UCF) ACG3173 ACCOUNTING FOR DECISION-MAKERS EXAM 2 PRACTICE (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 of the following is a characteristic of relevant costs?

A. They include all historical costs

B. They are always variable costs

C. They differ between alternatives in a decision

D. They are unaffected by future decisions

2. What type of tax is withheld as a prepayment of individual taxes?

A. Federal Insurance Tax

B. Medicare Tax

C. Federal Income Tax

D. State Income Tax

3. How is goodwill generally calculated?

A. Fair market value of net assets minus purchase price

B. Purchase price minus fair market value of the net assets

C. Purchase price plus fair market value of the net assets

D. Purchase price multiplied by total assets

4. What principle is applied in cost recovery methods such as depreciation, amortization, and depletion?

A. Revenue Recognition Principle

B. Matching Principle

C. Cost Principle

D. Accrual Principle

5. Which of the following is an example of an intangible asset?

A. Land

B. Machinery

C. Patents

D. Buildings

6. What is the inventory effect of LIFO when costs are rising?

A. Higher Cost of Goods Sold

B. Higher Net Income

C. Lower Inventory

D. Higher Assets

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7. What does the Lower of Cost or Market principle indicate regarding inventory valuation?

A. Inventory must be reported at cost

B. Inventory must be reported at market value when market is lower than cost

C. Inventory should always reflect the selling price

D. Inventory valuations should ignore current market trends

8. Leasehold improvements are amortized over which of the following?

A. Lease term or useful life, whichever is longer

B. Lease term or useful life, whichever is shorter

C. Indefinitely with no amortization

D. 5 years regardless of lease term

9. What characterizes a capital budget?

A. A budget focused exclusively on daily operational expenses

B. A plan for short-term cash management

C. A budget outlining planned expenditures on long-term investments

D. A projection of income tax liabilities for the year

10. Which inventory method results in lower taxes during periods of inflation?

A. FIFO

B. LIFO

C. Weighted Average

D. Specific Identification

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Answers

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

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Explanations

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1. Which of the following is a characteristic of relevant costs?

A. They include all historical costs

B. They are always variable costs

C. They differ between alternatives in a decision

D. They are unaffected by future decisions

The defining characteristic of relevant costs is that they differ between alternatives in a decision-making context. When evaluating different options, only the costs that will change as a result of the decision at hand are considered relevant. These costs are typically future costs that will be incurred or savings that can be realized depending on the alternatives chosen. For instance, if a company is deciding whether to continue producing a product or to discontinue it, the relevant costs would include any future costs that would vary with the decision—such as production costs or lost revenue—while ignoring sunk costs or fixed costs that will not change regardless of the company's decision. Understanding this distinction helps decision-makers focus on the costs that will impact their future choices, allowing for more informed and financially sound decisions. It emphasizes that the evaluation is based on fresh data related to potential future outcomes rather than irrelevant past costs or fixed expenses that remain constant.

2. What type of tax is withheld as a prepayment of individual taxes?

A. Federal Insurance Tax

B. Medicare Tax

C. Federal Income Tax

D. State Income Tax

The correct choice is the Federal Income Tax, as this tax is typically withheld from an employee's paycheck as a prepayment of their annual income tax liability. When an employer pays an employee, a portion of the earnings is deducted and sent directly to the federal government to cover the employee's income tax. This withholding mechanism is designed to spread the overall tax burden throughout the year, rather than requiring individuals to pay a large sum at tax time. The Federal Insurance Tax and Medicare Tax are different in nature. The Federal Insurance Tax, often referred to as FICA, is primarily for social security benefits and does not serve as a prepayment for income taxes. Similarly, the Medicare Tax is specifically for funding Medicare, a healthcare program, and is also not a prepayment of individual income taxes. State Income Tax, while it may also be withheld from paychecks, pertains specifically to the taxation laws of a state and does not cover federal obligations. Therefore, Federal Income Tax is correctly identified as a prepayment mechanism for individual federal income tax liabilities.

3. How is goodwill generally calculated?

A. Fair market value of net assets minus purchase price

B. Purchase price minus fair market value of the net assets

C. Purchase price plus fair market value of the net assets

D. Purchase price multiplied by total assets

Goodwill is an intangible asset that arises when a company acquires another business for a premium over the fair market value of its identifiable net assets. To calculate goodwill, you take the total purchase price of the acquired company and subtract the fair market value of its net assets (which include both tangible and identifiable intangible assets). This difference represents the goodwill, which reflects factors such as brand reputation, customer loyalty, and potential synergies that may not be captured in the book value of the company's assets. In this context, the correct calculation reflects the nature of goodwill as an excess payment made by the acquiring company for the potential advantages the acquired entity brings beyond its identifiable net assets. As a result, the method described leads to a clear understanding of how goodwill stands apart from other assets on the balance sheet.

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4. What principle is applied in cost recovery methods such as depreciation, amortization, and depletion?

A. Revenue Recognition Principle

B. Matching Principle

C. Cost Principle

D. Accrual Principle

The matching principle is indeed the correct choice because it dictates that expenses should be recognized in the same accounting period as the revenues they help to generate. When applying methods like depreciation, amortization, and depletion, costs associated with long-term assets are systematically allocated over their useful lives. This allocation ensures that a portion of the asset's cost is matched with the revenue generated from its use during each accounting period. For instance, when a piece of machinery is used in production, the cost of that machinery should not be fully recognized as an expense in the year of purchase. Instead, as the machinery contributes to production and generates revenue over several years, its cost is spread out, or "matched," against that revenue over its useful life. This provides a clearer picture of financial performance and ensures that income statements reflect both the costs incurred and the revenues earned. The other principles, while related to accounting processes, do not specifically deal with the systematic allocation of costs in this manner. The revenue recognition principle focuses on when revenue is recognized, the cost principle emphasizes recording assets at their original purchase price, and the accrual principle involves recognizing expenses when they are incurred, regardless of when cash is exchanged. Instead, it is the matching principle that directly supports the systematic allocation of

5. Which of the following is an example of an intangible asset?

A. Land

B. Machinery

C. Patents

D. Buildings

An intangible asset is a non-physical resource that has value due to the advantages it provides to the company, often related to legal rights or competitive advantages. Patents specifically represent legal rights granted for an invention, allowing the holder exclusive rights to use or license the invention for a certain period. This exclusivity can offer significant economic benefits, thus qualifying patents as intangible assets. In contrast, the other choices represent tangible assets. Land, machinery, and buildings are all physical items that have measurable, concrete value and can be seen or touched. They are essential to business operations but do not convey the same type of legal or competitive benefits as intangible assets like patents. Understanding the difference between tangible and intangible assets is crucial in financial reporting and accounting, as it affects how companies evaluate their assets and report them in financial statements.

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6. What is the inventory effect of LIFO when costs are rising?

A. Higher Cost of Goods Sold

B. Higher Net Income

C. Lower Inventory

D. Higher Assets

When utilizing the Last-In, First-Out (LIFO) inventory method in an environment where costs are rising, the most prominent effect is the recognition of a higher Cost of Goods Sold (COGS). This results because LIFO assumes that the most recently purchased inventory items are sold first. Therefore, in periods of increasing costs, the more expensive inventory is matched against revenues sooner, leading to a higher COGS. This higher COGS reduces the profitability reported on the income statement since expenses (in this case, cost of goods sold) are higher. As a result, the net income for the period will decrease, which aligns with the LIFO approach in inflationary environments. While the inventory levels reported on the balance sheet may also be lower due to LIFO (as older, less expensive items remain in inventory), the primary effect under rising costs is the increase in COGS. Consequently, selecting the option related to a higher Cost of Goods Sold accurately reflects the financial implications of using LIFO during periods of inflation.

7. What does the Lower of Cost or Market principle indicate regarding inventory valuation?

A. Inventory must be reported at cost

B. Inventory must be reported at market value when market is lower than cost

C. Inventory should always reflect the selling price

D. Inventory valuations should ignore current market trends

The Lower of Cost or Market principle is a fundamental accounting guideline that dictates how inventory should be valued on the balance sheet. According to this principle, inventory must be reported at the lower of its historical cost or its current market value. This is intended to ensure that inventory is not overstated. When market value falls below the cost of inventory, reflecting potential losses in value, it is crucial for financial statements to present a realistic and conservative view of the company's asset base. Therefore, if market value is lower than cost, inventory should be valued at this reduced market price to provide an accurate representation of the potential economic benefit those assets will provide. This approach is meant to protect stakeholders by ensuring that financial statements do not overstate the financial health of a company. In contrast, reporting inventory solely at cost or always reflecting the selling price without consideration for current market conditions would not align with the goals of the Lower of Cost or Market principle. Furthermore, ignoring current market trends would negate the purpose of this conservative valuation method by allowing the possibility of inflating asset values.

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8. Leasehold improvements are amortized over which of the following?

A. Lease term or useful life, whichever is longer

B. Lease term or useful life, whichever is shorter

C. Indefinitely with no amortization

D. 5 years regardless of lease term

Leasehold improvements are capitalized expenditures by a lessee that enhance their leased property, such as renovations or improvements made to the space. The appropriate way to account for these improvements is to amortize them over a period that reflects the benefit that the lessee will receive from those enhancements. The correct approach is to amortize leasehold improvements over the shorter of the lease term or the useful life of the improvements. This is because the lessee may not benefit from the improvements beyond the lease term; thus, it wouldn't make sense to spread the expense over a longer period than the time the lessee is expected to use the improvements. If the useful life of the improvement is shorter than the lease term, then it's prudent to amortize over the useful life instead. By using the shorter of the two periods, financial statements will more accurately reflect the expense associated with the leasehold improvements and align with the matching principle in accounting, ensuring that expenses are recorded in the same period as the revenues they help generate.

9. What characterizes a capital budget?

A. A budget focused exclusively on daily operational expenses

B. A plan for short-term cash management

C. A budget outlining planned expenditures on long-term investments

D. A projection of income tax liabilities for the year

A capital budget is characterized by a focus on planned expenditures for long-term investments. This includes investments in fixed assets such as property, plant, equipment, and other resources that are expected to provide benefits over an extended period, typically more than one year. The purpose of a capital budget is to allocate funds for projects that facilitate the growth and expansion of the organization, which can significantly affect its future profitability and operational capacity. In contrast, a budget that focuses exclusively on daily operational expenses pertains to the routine costs involved in running a business, which are short-term by nature. Short-term cash management plans are concerned with effectively overseeing daily cash flow and managing operational liquidity rather than long-term investment strategies. Similarly, a projection of income tax liabilities addresses tax obligations rather than capital expenditures. Therefore, the nature of the capital budget stands distinct in aiming for strategic growth through significant asset acquisition versus covering everyday operational costs or fiscal responsibilities.

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10. Which inventory method results in lower taxes during periods of inflation?

A. FIFO

B. LIFO

C. Weighted Average

D. Specific Identification

The Last-In, First-Out (LIFO) inventory method results in lower taxes during periods of inflation due to the way it calculates the cost of goods sold (COGS). Under LIFO, the most recently purchased items (which are typically more expensive in times of rising prices) are treated as the first sold. This means that the COGS is higher, which leads to a lower taxable income. As expenses increase and revenue remains constant, using LIFO results in a greater expense being deducted, thus reducing the overall tax liability. The higher COGS value reduces the pre-tax income, which can significantly lower the taxes owed in an inflationary environment. In contrast, FIFO (First-In, First-Out) records the oldest inventory costs as the cost of goods sold, resulting in lower expenses during inflation, higher taxable income, and thus higher tax liability. The Weighted Average method spreads the cost of inventory across all units, while Specific Identification tracks individual items, neither of which tend to provide the same tax benefits during inflation as LIFO does.

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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-acg3173-exam2.examzify.com

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

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