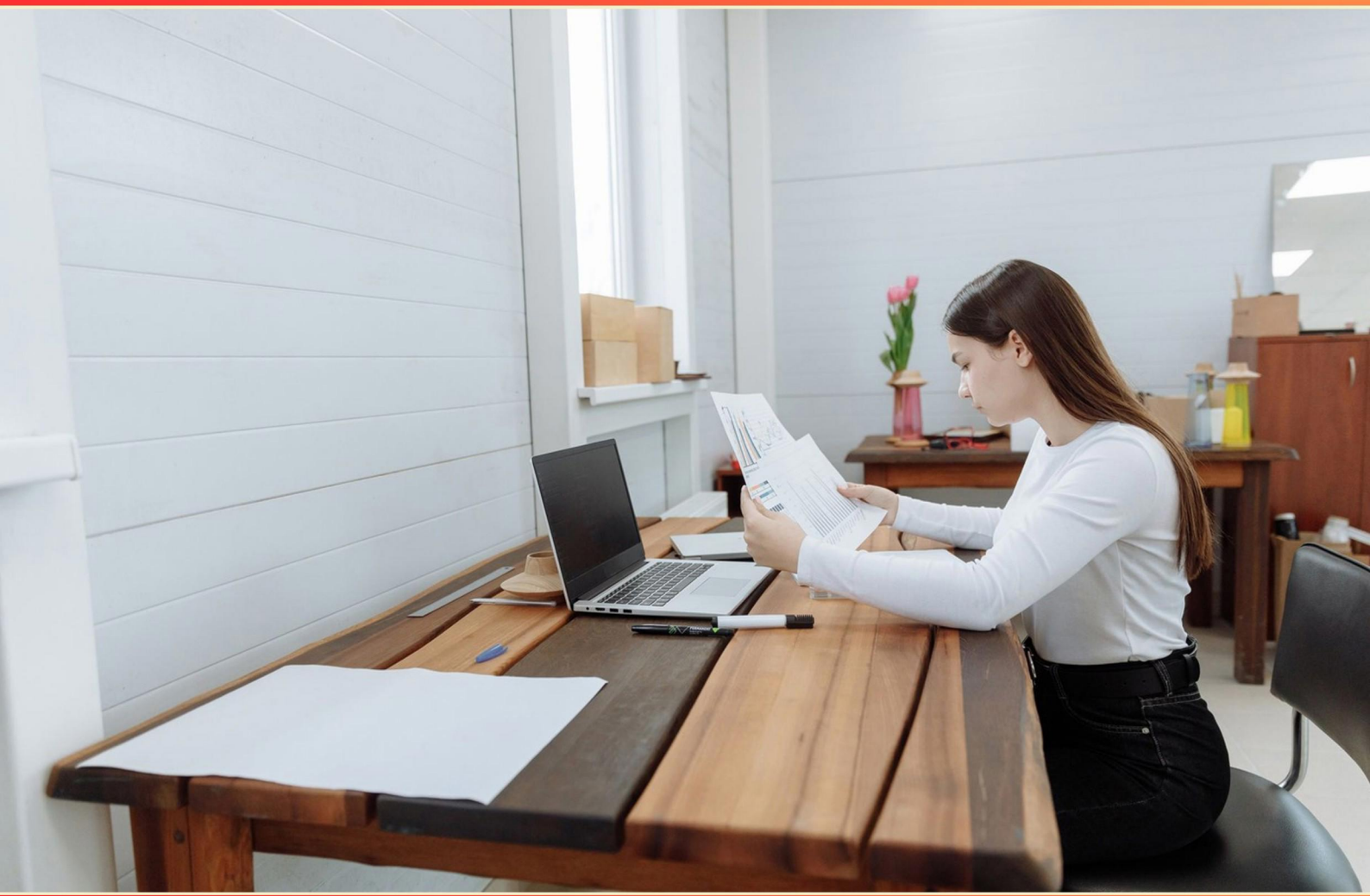
WESTERN GOVERNORS UNIVERSITY (WGU) ACCT3650 D105 INTERMEDIATE ACCOUNTING III PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR THE FULL VERSION STUDY GUIDE

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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. What distinguishes realized gains from unrealized gains?

A. Realized gains are taxed, unrealized gains are not

B. Realized gains occur upon sale of an asset, unrealized gains do not

C. Realized gains come from fixed assets

D. Unrealized gains affect cash flow

2. Acquiring new equipment would be classified under which type of cash flow activity?

A. Financing activities

B. Operating activities

C. Investing activities

D. Activity types are not categorized

3. What is the primary purpose of an audit in financial reporting?

A. To increase company revenue

B. To assess fairness and compliance of financial statements

C. To provide management with financial forecasts

D. To enhance operational efficiency

4. What is the impact of operating activities on cash flow statements?

A. They reflect the long-term investment decisions

B. They measure cash management efficiency

C. They position net income against cash outflows

D. They account for cash used in capital activities

5. If a company records $150,000 revenue that applies to the next year after closing books, what should it do about the error?

A. Adjust the financial statements for the prior year

B. Reopen the books and correct the entry

C. No action is needed as the error is counterbalanced

D. Report the error in the notes to the financial statements

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6. In terms of accounting, what does accumulated depreciation represent?

A. The total revenue generated by an asset

B. The total earnings over the life of the asset

C. The reduction in value of an asset over time

D. The initial purchase price of the asset

7. What does the principle of "conservatism" in accounting suggest?

A. Recognize revenues as soon as possible

B. Report assets at their highest value

C. Be cautious in financial reporting by recognizing liabilities and expenses sooner than revenues

D. Exclude potential losses from financial statements

8. Which components are included in a balance sheet?

A. Assets, liabilities, and shareholders' equity

B. Revenue, expenses, and net income

C. Cash flows, operating income, and dividends

D. Investments, current assets, and long-term debt

9. What is the main purpose of the Statement of Changes in Equity?

A. To report on the company's income and expenses

B. To detail changes in equity components over a specific period

C. To summarize total revenues for a period

D. To track cash inflows and outflows

10. When a company switches from LIFO to FIFO for inventory valuation, how should related profit-sharing expenses be accounted?

A. Recognize a direct effect and record the change in expense in future periods

B. Do not recognize the change as it does not affect expenses

C. Recognize an indirect effect and record the change in expense in the current period

D. Record the additional expenses as a separate line item

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Answers

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

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Explanations

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1. What distinguishes realized gains from unrealized gains?

A. Realized gains are taxed, unrealized gains are not

B. Realized gains occur upon sale of an asset, unrealized gains do not

C. Realized gains come from fixed assets

D. Unrealized gains affect cash flow

Realized gains are distinguished from unrealized gains primarily by the event of a sale or transaction involving an asset. When an asset is sold for more than its purchase price, the profit made from that sale is considered a realized gain. This is the point at which the economic benefit of the increase in value is converted into actual cash or cash equivalents. On the contrary, unrealized gains arise when an asset appreciates in value but remains unsold. These gains reflect paper profits that exist on the balance sheet but do not yet represent actual cash flow or income. Since the asset has not been sold, there is no taxable event associated with unrealized gains, which remains a critical aspect of how they differ from realized gains. This distinction is important for accounting and tax purposes, as only realized gains can be officially recognized in financial statements and are subject to taxation. As such, the correct understanding of these terms is essential for accurate financial reporting and analysis.

2. Acquiring new equipment would be classified under which type of cash flow activity?

A. Financing activities

B. Operating activities

C. Investing activities

D. Activity types are not categorized

Acquiring new equipment is classified under investing activities because it involves the purchase of long-term assets that will be used to generate revenue over time. Investing activities represent transactions involving the acquisition or disposal of physical assets, investments in other companies, or the purchase and sale of securities. When a company purchases equipment, it is making a significant investment that is expected to benefit the business in future accounting periods. This expenditure is crucial for the company's operational capacity and is recorded on the balance sheet as a fixed asset. In the context of the cash flow statement, cash outflows for these kinds of investments show how much the company is spending to support its growth and operations through the acquisition of long-term resources. Operating activities typically include transactions that relate to the day-to-day functions of the business, such as revenue from sales and payments to suppliers and employees. Financing activities, on the other hand, involve cash flows from transactions with the company's owners and creditors, such as issuing stock or borrowing money. Thus, classifying the purchase of equipment under investing activities aligns well with the nature of the transaction and its impact on the financial statements.

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3. What is the primary purpose of an audit in financial reporting?

A. To increase company revenue

B. To assess fairness and compliance of financial statements

C. To provide management with financial forecasts

D. To enhance operational efficiency

The primary purpose of an audit in financial reporting is to assess fairness and compliance of financial statements. This involves evaluating whether the financial statements accurately represent the company's financial position and results of operations in accordance with applicable accounting standards, such as GAAP or IFRS. Auditing ensures that the financial information is free from material misstatements, whether caused by error or fraud. By conducting an independent review, auditors provide assurance to stakeholders, including investors, creditors, and regulators, that the financial statements can be trusted. This process enhances the credibility and reliability of financial reporting, which is essential for informed decision-making by users of the financial statements. In contrast, increasing company revenue, providing management with financial forecasts, and enhancing operational efficiency, while important for overall business strategy and performance, are not the fundamental objectives of an audit. Audits focus specifically on the integrity of financial reporting rather than operational or forecasting aspects of a business.

4. What is the impact of operating activities on cash flow statements?

A. They reflect the long-term investment decisions

B. They measure cash management efficiency

C. They position net income against cash outflows

D. They account for cash used in capital activities

Operating activities in cash flow statements primarily focus on the day-to-day transactions that affect a company's core operations, and they do indeed position net income against cash outflows. This aspect is crucial because it allows stakeholders to see how much cash is generated from regular business operations, highlighting whether the company's core activities are financially sustainable. When assessing cash flow from operating activities, adjustments are often made to reconcile net income to net cash provided by operating activities. This reconciliation process involves adding back non-cash expenses like depreciation and adjusting for changes in working capital, such as accounts receivable and accounts payable, which can significantly impact cash flow. While measuring cash management efficiency and considering the long-term investment decisions are essential in financial analysis, those aspects pertain more to other sections of the cash flow statement or overall financial performance rather than directly addressing how operating activities contribute to cash flow. Similarly, cash used in capital activities is related to investing activities, which is a separate section entirely. Hence, the correct answer accurately captures the fundamental role that operating activities play in the cash flow statement.

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5. If a company records $150,000 revenue that applies to the next year after closing books, what should it do about the error?

A. Adjust the financial statements for the prior year

B. Reopen the books and correct the entry

C. No action is needed as the error is counterbalanced

D. Report the error in the notes to the financial statements

When a company records revenue that applies to a future period after the books have been closed, the circumstances of the error often determine the appropriate response. In this case, selecting to take no action because the error is counterbalanced can be justifiable in certain situations. Generally, under the accrual accounting principle, revenue should only be recognized when it is earned, which in this case is in the next accounting period. As such, recognizing this advance revenue in the current period does not alter the overall financial performance when viewed in the context of future periods. This is particularly relevant if the recognized revenue is offset by future expenses in the next period, leading to a balanced outcome. Even if it appears that revenue was wrongly recorded, if the financial performance is unaffected in this and the subsequent year, it may not necessitate an adjustment to the financial statements. This principle allows for a certain level of practical judgment that acknowledges the real economic implications of the transactions. Thus, if the company concludes that the error will balance out over future periods and does not misrepresent the financial results of the prior period, choosing not to take corrective action can be a valid decision. However, it is crucial to note that if the error had significant implications for stakeholders or financial ratios, the

6. In terms of accounting, what does accumulated depreciation represent?

A. The total revenue generated by an asset

B. The total earnings over the life of the asset

C. The reduction in value of an asset over time

D. The initial purchase price of the asset

Accumulated depreciation represents the total amount of depreciation expense that has been allocated for a tangible fixed asset since it was acquired. Over time, as an asset is used in operations, its value decreases due to wear and tear, obsolescence, and age. This decrease in value is systematically recorded in the accounting records through depreciation expense, which is recognized periodically over the asset's useful life. The concept of accumulated depreciation allows for a more accurate representation of an asset's carrying value on the balance sheet, as it reflects the ongoing reduction in the asset's value. When you look at the financial statements, the accumulated depreciation is subtracted from the original cost of the asset to show its book value, making it clear how much of the asset's value has been consumed. This is why accumulated depreciation is fundamentally linked to the reduction in the asset's value over time.

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7. What does the principle of "conservatism" in accounting suggest?

A. Recognize revenues as soon as possible

B. Report assets at their highest value

C. Be cautious in financial reporting by recognizing liabilities and expenses sooner than revenues

D. Exclude potential losses from financial statements

The principle of "conservatism" in accounting suggests that when preparing financial statements, a company should exercise caution and prudence. This means recognizing liabilities and expenses as soon as possible, while delaying the recognition of revenues and gains until they are assured. The primary goal of this principle is to avoid overstatement of financial health and to provide a more accurate and cautious portrayal of a company's financial position. By recognizing liabilities and expenses sooner, conservatism helps ensure that the financial statements do not paint an overly optimistic picture that could mislead stakeholders. This approach reflects a commitment to presenting a cautious view of income and financial prospects, thereby protecting users of the financial statements, such as investors and creditors, from potential risks associated with overestimating asset values or income.

8. Which components are included in a balance sheet?

A. Assets, liabilities, and shareholders' equity

B. Revenue, expenses, and net income

C. Cash flows, operating income, and dividends

D. Investments, current assets, and long-term debt

A balance sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time. It is structured around the accounting equation, which states that assets equal liabilities plus shareholders' equity. The components included in the balance sheet are assets, which represent resources owned by the company; liabilities, which reflect obligations owed to outside parties; and shareholders' equity, which represents the owners' residual interest in the company's assets after liabilities have been settled. This triad of components gives a complete overview of what the company owns, what it owes, and the net worth of the owners in relation to those assets. Other options, while relevant to financial statements, do not fit the definition of what is included on a balance sheet. Revenue, expenses, and net income are found on the income statement, which assesses performance over a period; cash flows, operating income, and dividends pertain to the cash flow statement, which details cash inflow and outflow; and investments, current assets, and long-term debt are subcategories of the primary components listed in the correct answer rather than main categories themselves.

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9. What is the main purpose of the Statement of Changes in Equity?

A. To report on the company's income and expenses

B. To detail changes in equity components over a specific period

C. To summarize total revenues for a period

D. To track cash inflows and outflows

The main purpose of the Statement of Changes in Equity is to detail changes in equity components over a specific period. This financial statement provides a comprehensive overview of how equity has changed during the reporting period, including contributions from owners, distributions to owners, adjustments for any prior period corrections, and the impact of net income or loss on retained earnings. By focusing on these changes, stakeholders can understand how the company's capital structure is evolving and the impacts of various transactions and events on shareholders' equity. This statement is essential for investors, creditors, and management as it not only presents the starting and ending balances of equity accounts but also breaks down the movements within those accounts. This allows users to assess the financial health of a company, the level of retained earnings, and the effects of dividends or other distributions. Understanding these changes is crucial for evaluating a company's ability to generate and utilize profits effectively, thereby informing investment and operational decision-making.

10. When a company switches from LIFO to FIFO for inventory valuation, how should related profit-sharing expenses be accounted?

A. Recognize a direct effect and record the change in expense in future periods

B. Do not recognize the change as it does not affect expenses

C. Recognize an indirect effect and record the change in expense in the current period

D. Record the additional expenses as a separate line item

When a company switches from LIFO (Last-In, First-Out) to FIFO (First-In, First-Out) for inventory valuation, it affects how the cost of goods sold and inventory are calculated, which can impact the company's reported profits. An indirect effect of the change in inventory valuation method is that profit-sharing expenses, often based on reported earnings, will also be influenced by this switch. Choosing to recognize an indirect effect and recording the change in expense in the current period is correct because the change in inventory costing methods will typically lead to changes in net income. When switching to FIFO, a company may report higher profits during periods of rising prices, as earlier, lower costs are matched against current revenues. Since profit-sharing expenses are often tied to profitability, an increase in reported profits under FIFO would lead to a corresponding increase in profit-sharing expenses, which should be acknowledged and recorded in the period in which the change is made. This approach reflects the reality that earnings, and consequently expenses tied to those earnings, must be recorded in the same period that the changes in inventory costing provide a different economic picture. Recognizing these effects helps ensure that financial statements accurately reflect the company's financial position and performance for the reporting period following the change in the inventory valuation method.

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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://wgu-acct3650-d105.examzify.com

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

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