



DSST Financial Account Practic

Free Practice Test — 30 Real Exam-Style Questions

with full answer key & explanations

**Unlock the full bank of 505 questions
+ unlimited timed mock exams + mistake book**

Practice on the web: <https://certs.theorypractice.app/dsst>

\$2.99 / week · \$6.99 / month · cancel anytime

What you unlock: all 505 questions • unlimited timed mock exams • mistake book • instant explanations

**Also on iOS & Android — and watch the full Q&A walkthrough on [YouTube](#)
[@CertsQuizPrep](#)**



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



Practice Questions

Try all 30 first, then check the answer key at the back.

Want the other 475+ questions & full timed mock exams? Unlock at
<https://certs.theorypractice.app/dsst>

1. Which of the following is classified as a current asset on the balance sheet?

- A. Equipment
- B. Long-term investments
- C. Patents
- D. Accounts receivable

2. On the balance sheet, total assets must equal

- A. Total revenues minus total expenses
- B. Net income plus retained earnings
- C. Total liabilities plus stockholders' equity
- D. Total liabilities minus stockholders' equity

3. Which financial statement shows a company's financial position at a specific point in time?

- A. Statement of retained earnings
- B. Balance sheet
- C. Income statement
- D. Statement of cash flows

Also on iOS & Android — and watch the full Q&A walkthrough on [YouTube](#)
[@CertsQuizPrep](#)

4. Net income from the income statement flows directly into which other financial statement?

- A. Statement of retained earnings
- B. Balance sheet only
- C. Statement of cash flows only
- D. Pro forma balance sheet



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



5. The current ratio is calculated as

- A. Current liabilities divided by current assets
- B. Total assets divided by total liabilities
- C. Cash divided by current liabilities
- D. Current assets divided by current liabilities

6. Which of the following ratios is used to measure a company's liquidity?

- A. Return on assets
- B. Gross profit margin
- C. Quick ratio
- D. Debt-to-equity ratio

Want the other 475+ questions & full timed mock exams? Unlock at
<https://certs.theorypractice.app/dsst>

7. The statement of cash flows is divided into which three main sections?

- A. Cash, receivables, and inventory activities
- B. Operating, investing, and financing activities
- C. Current, non-current, and equity activities
- D. Revenue, expense, and net income activities

8. Under the indirect method of preparing the statement of cash flows, depreciation expense is

- A. Added back to net income
- B. Subtracted from net income
- C. Shown as a financing activity
- D. Shown as an investing activity

9. The debt-to-equity ratio is used to measure a company's

- A. Liquidity
- B. Profitability
- C. Market value
- D. Solvency

Also on iOS & Android — and watch the full Q&A walkthrough on [YouTube](#)
[@CertsQuizPrep](#)



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



10. Which of the following is an example of a profitability ratio?

- A. Debt ratio
- B. Times interest earned
- C. Return on equity
- D. Current ratio

11. Gross profit is calculated as

- A. Total revenue minus total expenses
- B. Sales revenue minus cost of goods sold
- C. Sales revenue minus operating expenses
- D. Operating income minus interest expense

12. The DuPont analysis decomposes return on equity (ROE) into which three components?

- A. Profit margin, asset turnover, and equity multiplier
- B. Current ratio, quick ratio, and cash ratio
- C. Gross margin, operating margin, and net margin
- D. Debt ratio, equity ratio, and leverage ratio

Want the other 475+ questions & full timed mock exams? Unlock at
<https://certs.theorypractice.app/dsst>

13. If a company's marginal tax rate is 35% and its average tax rate is 28%, which rate should be used for evaluating a new project?

- A. The average tax rate of 28%
- B. The difference of 7%
- C. The sum of both rates
- D. The marginal tax rate of 35%

14. Which of the following appears on both the income statement and the statement of cash flows?

- A. Purchase of equipment
- B. Issuance of stock
- C. Interest expense
- D. Dividends paid



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



15. The times interest earned ratio measures a company's ability to

- A. Convert assets into cash
- B. Meet its interest obligations
- C. Pay its current liabilities
- D. Generate profit from sales

Also on iOS & Android — and watch the full Q&A walkthrough on [YouTube](#)
[@CertsQuizPrep](#)

16. Inventory turnover ratio is calculated as

- A. Cost of goods sold divided by average inventory
- B. Sales divided by average inventory
- C. Average inventory divided by cost of goods sold
- D. Ending inventory divided by beginning inventory

17. Pro forma financial statements are used primarily for

- A. Historical performance analysis only
- B. Tax reporting to the IRS
- C. Recording actual past transactions
- D. Financial planning and forecasting

18. On the statement of cash flows, the purchase of treasury stock would be classified as a

- A. Investing activity
- B. Non-cash activity
- C. Financing activity
- D. Operating activity

Want the other 475+ questions & full timed mock exams? Unlock at
<https://certs.theorypractice.app/dsst>

19. The asset turnover ratio measures

- A. The liquidity position of the company
- B. How efficiently assets are used to generate sales
- C. How quickly assets can be converted to cash
- D. The profitability of the company's assets



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



20. Which of the following would cause total stockholders' equity to increase?

- A. Net income for the period
- B. Payment of cash dividends
- C. Purchase of treasury stock
- D. Payment of accounts payable

21. The cash conversion cycle is calculated as:

- A. Inventory period plus accounts payable period
- B. Accounts receivable period minus inventory period
- C. Operating cycle plus accounts payable period
- D. Operating cycle minus accounts payable period

**Also on iOS & Android — and watch the full Q&A walkthrough on [YouTube](#)
[@CertsQuizPrep](#)**

22. A firm has an average collection period of 40 days, an average inventory period of 60 days, and an average payment period of 35 days. What is the firm's cash conversion cycle?

- A. 25 days
- B. 100 days
- C. 65 days
- D. 135 days

23. Which of the following represents a use of cash in working capital management?

- A. An increase in accrued expenses
- B. An increase in accounts receivable
- C. An increase in accounts payable
- D. A decrease in inventory

24. A company offers credit terms of 2/10, net 30. What is the approximate annualized cost of not taking the discount?

- A. 37.2%
- B. 2.0%
- C. 24.0%
- D. 18.3%

**Want the other 475+ questions & full timed mock exams? Unlock at
<https://certs.theorypractice.app/dsst>**



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



25. Which of the following is NOT a component of the operating cycle?

- A. Inventory period
- B. Accounts receivable period
- C. Average age of inventory
- D. Accounts payable period

26. A firm adopts a more aggressive working capital policy. Which of the following is most likely to occur?

- A. Increased liquidity
- B. Lower short-term debt usage
- C. Lower levels of current assets relative to sales
- D. Higher levels of current assets relative to sales

27. The quick ratio differs from the current ratio in that it:

- A. Excludes accounts payable from current liabilities
- B. Excludes inventory from current assets
- C. Includes only cash and marketable securities
- D. Uses total assets instead of current assets

**Also on iOS & Android — and watch the full Q&A walkthrough on [YouTube](#)
[@CertsQuizPrep](#)**

28. Which short-term financing source typically has the lowest explicit cost?

- A. Accrued expenses
- B. Commercial paper
- C. Line of credit
- D. Factoring of receivables

29. A company is preparing a cash budget. Which of the following would appear as a cash inflow?

- A. Purchase of inventory
- B. Payment of accounts payable
- C. Depreciation expense
- D. Collection of accounts receivable



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



30. Float refers to the difference between:

- A. Cash receipts and cash disbursements
- B. Accounts receivable and accounts payable
- C. The firm's book balance and the bank's available balance
- D. Current assets and current liabilities



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start



Answer Key & Explanations

You just practised 30 of 505. Unlock every question + timed mocks at
<https://certs.theorypractice.app/dsst>

1. D — Accounts receivable

Accounts receivable represents amounts owed to the company by customers and is expected to be collected within one year, making it a current asset.

2. C — Total liabilities plus stockholders' equity

The fundamental accounting equation states that $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$. This equation must always balance.

3. B — Balance sheet

The balance sheet presents a snapshot of assets, liabilities, and equity at a specific date, showing the company's financial position at that moment.

4. A — Statement of retained earnings

Net income from the income statement is added to beginning retained earnings on the statement of retained earnings (or statement of owner's equity) to calculate ending retained earnings.

5. D — Current assets divided by current liabilities

The current ratio is a liquidity measure calculated by dividing current assets by current liabilities. It indicates the company's ability to pay short-term obligations.

6. C — Quick ratio

The quick ratio (acid-test ratio) measures a company's ability to meet short-term obligations using its most liquid assets, making it a liquidity ratio.

7. B — Operating, investing, and financing activities

The statement of cash flows categorizes cash flows into operating activities (day-to-day business), investing activities (long-term assets), and financing activities (debt and equity).

8. A — Added back to net income

Depreciation is a non-cash expense that reduced net income but did not use cash. Therefore, it is added back to net income to calculate cash from operating activities.

9. D — Solvency

The debt-to-equity ratio compares total liabilities to stockholders' equity, measuring the degree of financial leverage and long-term solvency of the company.

10. C — Return on equity

Return on equity (ROE) measures how effectively a company generates profit from shareholders' investments, making it a key profitability ratio.

11. B — Sales revenue minus cost of goods sold

Gross profit represents the difference between sales revenue and the direct cost of producing goods sold (cost of goods sold). It appears on the income statement.



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start

Unofficial study material · not affiliated with any certifying body



12. A — Profit margin, asset turnover, and equity multiplier

The DuPont formula breaks ROE into profit margin (profitability), total asset turnover (efficiency), and equity multiplier (leverage): $ROE = \text{Profit Margin} \times \text{Asset Turnover} \times \text{Equity Multiplier}$.

13. D — The marginal tax rate of 35%

The marginal tax rate should be used for decision making because it represents the tax rate applied to the next dollar of income, which is relevant for evaluating incremental projects.

14. C — Interest expense

Interest expense appears as an expense on the income statement and is also part of the operating activities section of the statement of cash flows (under the indirect method).

15. B — Meet its interest obligations

The times interest earned ratio (EBIT divided by interest expense) measures how many times a company can cover its interest obligations with operating income, indicating solvency.

16. A — Cost of goods sold divided by average inventory

Inventory turnover measures how many times inventory is sold and replaced during a period. It is calculated by dividing cost of goods sold by average inventory.

17. D — Financial planning and forecasting

Pro forma statements are projected financial statements used for planning and forecasting future financial performance based on assumptions about future business conditions.

18. C — Financing activity

Treasury stock purchases involve the company buying back its own shares, which is a transaction with owners and therefore classified as a financing activity.

19. B — How efficiently assets are used to generate sales

Asset turnover (Sales divided by Total Assets) measures how efficiently a company uses its assets to generate sales revenue. Higher turnover indicates better asset utilization.

20. A — Net income for the period

Net income increases retained earnings, which is a component of stockholders' equity. Profitable operations increase the equity of the company.

21. D — Operating cycle minus accounts payable period

The cash conversion cycle equals the operating cycle minus the accounts payable period. It represents the time from when cash is paid for inventory until cash is collected from customers.

22. C — 65 days

Cash conversion cycle = Inventory period + Collection period - Payment period = $60 + 40 - 35 = 65$ days.

23. B — An increase in accounts receivable

An increase in accounts receivable means the firm has extended more credit to customers, tying up cash in receivables. This is a use of cash.

24. A — 37.2%

The discount is 2% for paying 20 days early (30-10). Annualized cost = $(2/98) \times (365/20) =$ approximately 37.2%.



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start

Unofficial study material · not affiliated with any certifying body



25. D — Accounts payable period

The operating cycle includes the inventory period and accounts receivable period. The accounts payable period is not part of the operating cycle; it is subtracted from the operating cycle to calculate the cash conversion cycle.

26. C — Lower levels of current assets relative to sales

An aggressive working capital policy involves maintaining lower levels of current assets relative to sales, which increases risk but may improve returns.

27. B — Excludes inventory from current assets

The quick ratio (acid-test ratio) excludes inventory from current assets because inventory is less liquid than other current assets like cash and receivables.

28. A — Accrued expenses

Accrued expenses (wages, taxes) represent spontaneous financing with no explicit interest cost, making them the lowest-cost source of short-term financing.

29. D — Collection of accounts receivable

Collection of accounts receivable converts credit sales into cash, representing a cash inflow in the cash budget.

30. C — The firm's book balance and the bank's available balance

Float is the difference between the cash balance shown on a firm's books and the cash balance shown on the bank's books, arising from delays in processing checks and deposits.



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start

Unofficial study material · not affiliated with any certifying body



Ready to pass?

Unlock the full DSST Financial Account Practic bank, every explanation, and unlimited timed mock exams.

Scan to start practising

<https://certs.theorypractice.app/dsst>

Watch the full video walkthrough on YouTube @CertsQuizPrep



Unlock all 505 questions + timed mock exams

→ <https://certs.theorypractice.app/dsst>

\$2.99/week or \$6.99/month · cancel anytime · scan to start