

Arizona State University (ASU) ACC241 Uses of Accounting Information II Exam 2 Practice (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

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1. What are the three activities measured in a cash flow statement?
 - A. Operating activities, investing activities, and financing activities
 - B. Sales activities, operational efficiency, and financing activities
 - C. Budgeting activities, investing activities, and operational activities
 - D. Financing activities, tax activities, and investing activities

2. What is defined as the difference between actual and expected material costs?
 - A. Direct materials variance
 - B. Labor cost variance
 - C. Administrative expense variance
 - D. Fixed overhead variance

3. What is the primary purpose of account analysis in cost classification?
 - A. To eliminate fixed costs from general ledger accounts
 - B. To classify each general ledger account as variable, fixed, or mixed
 - C. To assess only the variable costs within the accounts
 - D. To determine total costs without regard for fixed components

4. What is the primary purpose of managerial accounting?
 - A. To provide information for internal decision-making
 - B. To record financial transactions
 - C. To prepare financial statements
 - D. To manage tax compliance

5. What does a just-in-time inventory system aim to achieve?
 - A. Arrive at maximum storage capacities promptly
 - B. Ensure materials arrive only as they are needed
 - C. Keep large stocks of materials to prevent shortages
 - D. Reduce the time taken for product distribution

6. What determines fixed cost per unit as volume changes?
- A. It stays constant across all levels of production
 - B. It varies inversely with the change in volume
 - C. It increases at an increasing rate as production goes up
 - D. It fluctuates at random based on fixed factors
7. What is the main purpose of a strategic budget?
- A. To minimize short-term expenses
 - B. To allocate financial resources for employee salaries
 - C. To align resources with long-term goals
 - D. To estimate tax obligations for the year
8. What does margin of safety in dollars represent?
- A. Current sales - Breakeven sales
 - B. Breakeven sales - Current sales
 - C. Total revenue - Total costs
 - D. Expected sales - Actual sales
9. What does Activity-based Management (ABM) primarily focus on?
- A. Reducing production times
 - B. Improving customer satisfaction and profitability
 - C. Increasing employee cross-training
 - D. Minimizing manufacturing costs
10. What is variance analysis used for?
- A. To compare historical financial statements
 - B. To analyze market trends
 - C. To compare actual performance to budgeted or standard costs
 - D. To assess tax compliance

Answers

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

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Explanations

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1. What are the three activities measured in a cash flow statement?

- A. Operating activities, investing activities, and financing activities
- B. Sales activities, operational efficiency, and financing activities
- C. Budgeting activities, investing activities, and operational activities
- D. Financing activities, tax activities, and investing activities

The cash flow statement is a key financial document that provides insights into a company's liquidity and cash management. It categorizes cash flows into three main activities: operating activities, investing activities, and financing activities. Operating activities reflect the cash generated or used in the core business operations, including revenues from sales and payments to suppliers and employees. This section highlights how well the company can generate cash from its normal operational activities. Investing activities involve cash flows related to the acquisition or disposal of long-term assets, such as property, equipment, and investments in other companies. This section helps investors understand how much a company is investing in its future growth through capital expenditures. Financing activities include cash flows resulting from changes in the size and composition of the equity capital and borrowings of the entity. This may involve cash raised through issuing stock or bonds and cash paid out as dividends or loan repayments. Therefore, the correct answer encompasses all three fundamental aspects of cash transactions that companies engage in, providing a comprehensive overview of their financial health and operational efficiency.

2. What is defined as the difference between actual and expected material costs?

- A. Direct materials variance
- B. Labor cost variance
- C. Administrative expense variance
- D. Fixed overhead variance

The concept of the difference between actual and expected material costs is accurately described by the term "direct materials variance." This variance specifically measures how much the actual material costs deviate from the budgeted or standard material costs for a specific period. When analyzing this variance, it helps businesses understand their efficiency in using materials. A favorable direct materials variance occurs when actual costs are less than expected, indicating better cost management or reduced material prices. Conversely, an unfavorable variance points to higher actual costs, which might suggest inefficiencies or price increases. The other options pertain to different categories of costs. Labor cost variance deals with the difference in actual and budgeted labor costs, administrative expense variance covers operational overhead costs unrelated to production, and fixed overhead variance assesses discrepancies in fixed manufacturing overhead expenses. Therefore, the focus on material costs distinctly aligns with the definition of direct materials variance.

3. What is the primary purpose of account analysis in cost classification?

- A. To eliminate fixed costs from general ledger accounts
- B. To classify each general ledger account as variable, fixed, or mixed
- C. To assess only the variable costs within the accounts
- D. To determine total costs without regard for fixed components

The primary purpose of account analysis in cost classification is to classify each general ledger account as variable, fixed, or mixed. This classification is essential for understanding how costs behave in relation to changes in production levels or activity volume. By identifying accounts in these categories, businesses can better predict how costs will respond to various levels of activity, which is crucial for budgeting, forecasting, and decision-making processes. For example, variable costs fluctuate with production volume, while fixed costs remain constant regardless of activity levels. Mixed costs contain both variable and fixed components, making their classification vital for accurate financial analysis. Effective account analysis enables managers to apply relevant costing methods when making decisions such as pricing, product selection, and cost control, thus directly impacting profitability and resource allocation. Understanding the nature of costs allows for deeper insights into cost structure and operational efficiency.

4. What is the primary purpose of managerial accounting?

- A. To provide information for internal decision-making
- B. To record financial transactions
- C. To prepare financial statements
- D. To manage tax compliance

The primary purpose of managerial accounting is to provide information for internal decision-making. This branch of accounting focuses on generating data that managers can use to make informed business decisions related to operations, budgeting, forecasting, and performance evaluation. It helps management assess the financial health of different departments, plan for future growth, and make strategic choices based on detailed financial analyses. Managerial accounting differs from other types of accounting, such as financial accounting, which primarily focuses on producing financial statements for external stakeholders, including investors and regulators. While recording financial transactions and preparing financial statements are essential functions, they are not the main focus of managerial accounting. Similarly, while tax compliance is important, it generally falls under the scope of tax accounting rather than managerial accounting, which emphasizes internal uses of financial data for improving business operations and achieving organizational goals.

5. What does a just-in-time inventory system aim to achieve?

- A. Arrive at maximum storage capacities promptly
- B. Ensure materials arrive only as they are needed
- C. Keep large stocks of materials to prevent shortages
- D. Reduce the time taken for product distribution

A just-in-time inventory system focuses on ensuring materials arrive only as they are needed for the production process. This approach minimizes the inventory holding costs and reduces waste by aligning inventory levels closely with production schedules. By receiving materials just in time for their use, companies can decrease excess stock and improve cash flow, as less capital is tied up in inventory. This strategy not only helps in maintaining efficiency in production but also enhances responsiveness to customer demand, as businesses can adjust inventory levels based on actual sales and consumption patterns. Adopting a just-in-time approach can lead to streamlined operations and reduced costs associated with storage and handling of inventory.

6. What determines fixed cost per unit as volume changes?

- A. It stays constant across all levels of production
- B. It varies inversely with the change in volume
- C. It increases at an increasing rate as production goes up
- D. It fluctuates at random based on fixed factors

The concept of fixed cost per unit relates to how fixed costs behave as production volume changes. Fixed costs, such as rent or salaries, remain constant in total regardless of production levels. However, when you think about fixed costs on a per-unit basis, the situation changes. As production volume increases, the total fixed costs are spread over a larger number of units, which causes the fixed cost per unit to decrease. This inverse relationship means that for every additional unit produced, the fixed cost allocated to each unit decreases. Conversely, if production decreases, the fixed cost per unit increases because the total fixed costs are divided among fewer units. This understanding is crucial for decision-making in matters like pricing and budgeting. Therefore, the correct choice accurately reflects that fixed costs per unit vary inversely with the change in volume, reinforcing the principle that as production increases, the average fixed cost per unit decreases.

7. What is the main purpose of a strategic budget?

- A. To minimize short-term expenses
- B. To allocate financial resources for employee salaries
- C. To align resources with long-term goals
- D. To estimate tax obligations for the year

The main purpose of a strategic budget is to align resources with long-term goals. This type of budget is designed to ensure that financial resources are strategically allocated in a way that supports the organization's overarching objectives, such as growth, expansion, or improvements in competitive positioning. It serves as a roadmap for achieving long-term success, taking into account various factors such as market trends, economic conditions, and organizational priorities. A strategic budget goes beyond just the immediate fiscal year and involves looking at the bigger picture, considering how current financial decisions will impact the organization's future. By aligning resources with long-term goals, organizations can ensure that they are not only covering their current operational needs but also investing in areas that will drive future success and sustainability. In contrast, other options focus on narrower aspects of financial management, such as minimizing expenses, allocating salaries, or estimating taxes, which do not capture the broader strategic intent inherent in a strategic budget.

8. What does margin of safety in dollars represent?

- A. Current sales - Breakeven sales
- B. Breakeven sales - Current sales
- C. Total revenue - Total costs
- D. Expected sales - Actual sales

The margin of safety in dollars represents the difference between current sales and breakeven sales. This figure indicates how much current sales can drop before a company reaches its breakeven point, where total revenues equal total costs and no profit or loss is incurred. Understanding this concept is crucial for businesses as it provides insight into the company's risk levels. A larger margin of safety suggests that the business has a wider buffer and can withstand a decline in sales without immediately incurring losses. Conversely, a smaller margin of safety implies greater risk, as small changes in sales can lead to negative financial consequences. In this context, the margin of safety is a key measure for management to assess financial health and strategize for sustainability. It helps in decision-making regarding pricing, budgeting, and operational adjustments necessary to maintain profitability.

9. What does Activity-based Management (ABM) primarily focus on?

- A. Reducing production times
- B. Improving customer satisfaction and profitability
- C. Increasing employee cross-training
- D. Minimizing manufacturing costs

Activity-based Management (ABM) primarily focuses on improving customer satisfaction and profitability by analyzing the costs and activities within an organization. This approach seeks to understand the relationships between activities, costs, and the value provided to customers. By identifying and managing the activities that drive costs and influence customer perception, organizations can enhance their operational efficiency and effectiveness. In essence, ABM facilitates a more strategic view of how activities contribute to profitability and how they can be optimized to meet customer needs better. The focus is not just on cutting costs or reducing production times but rather on ensuring that resources are used in a way that maximizes value for customers while maintaining or improving profitability. This dual emphasis on customer satisfaction and profitability aligns closely with modern business priorities, where long-term success is driven by meeting customer expectations and maintaining healthy profit margins.

10. What is variance analysis used for?

- A. To compare historical financial statements
- B. To analyze market trends
- C. To compare actual performance to budgeted or standard costs
- D. To assess tax compliance

Variance analysis is primarily used to compare actual performance to budgeted or standard costs. This process allows businesses to identify discrepancies or variances between what was expected (the budget or standards) and what actually occurred. By analyzing these variances, companies can better understand their financial performance, control costs, and make informed operational decisions to improve future budgeting and efficiency. When actual results differ from budgeted targets, the analysis highlights areas that may require closer examination, such as operational inefficiencies or the need for adjustments in budgeting practices. This tool is essential for managerial accounting as it provides insights into performance driver metrics, helping managers to effectively allocate resources and implement corrective actions when necessary. The other options do not align with the specific purpose of variance analysis; comparing historical financial statements focuses on retrospective analysis rather than performance deviations, analyzing market trends deals with external factors affecting the business rather than internal budget adherence, and assessing tax compliance relates to regulatory adherence rather than performance metrics against budgets or standards.