University of Central Florida (UCF) ACG2071 Principles of Managerial Accounting Practice Test 1 (Sample)

Study Guide

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Questions

1. What is the main function of manufacturing overhead in accounting?
   A. To categorize direct costs
   B. To allocate fixed costs to products
   C. To assign costs that cannot be traced directly to products
   D. To summarize financial performance

2. Which of the following best describes the function of a board of directors?
   A. They implement strategies for financial growth.
   B. They ensure compliance with financial reporting standards.
   C. They oversee the company's managerial accounting practices.
   D. They serve as financial internal auditors.

3. Who must sign off on financial statements according to the Sarbanes-Oxley Act?
   A. Chief Marketing Officer and Board Chair
   B. Chief Operating Officer and Audit Manager
   C. CEO and CFO
   D. Internal Auditor and External Auditor

4. What is defined as a fixed cost?
   A. A cost that fluctuates with production
   B. A cost that remains constant regardless of sales levels
   C. A one-time expense
   D. A cost that includes variable labor

5. What is the primary purpose of a cash budget?
   A. To estimate profit margins
   B. To project cash inflows and outflows
   C. To track actual spending against forecasts
   D. To evaluate employee performance

6. What act increased penalties for corporate fraud and requires CEO and CFO certification of financial statements?

   A. Glass-Steagall Act

   B. Sarbanes-Oxley Act

   C. Gramm-Leach-Bliley Act

   D. Dodd-Frank Act

7. Which financial role is responsible for raising capital and investing funds?

   A. Controller

   B. Treasurer

   C. Chief Executive Officer

   D. Chief Financial Officer

8. What is the primary value associated with abstaining from activities that might discredit the profession?

   A. Honor

   B. Integrity

   C. Responsibility

   D. Transparency

9. Direct materials are first recorded on the balance sheet and later transferred to which of the following?

   A. Cash flow statement

   B. Income statement

   C. Retained earnings statement

   D. Statement of changes in equity

10. What account is impacted when raw materials are purchased for cash?

   A. Cash Account

   B. Raw Materials Account

   C. Finished Goods Account

   D. Overhead Account

Answers

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

Explanations

1. What is the main function of manufacturing overhead in accounting?

A. To categorize direct costs

B. To allocate fixed costs to products

C. To assign costs that cannot be traced directly to products

D. To summarize financial performance

Manufacturing overhead is primarily concerned with capturing those costs that are necessary for the production process but cannot be directly traced to specific products. This category includes indirect materials, indirect labor, depreciation on equipment, utilities, and other expenses that support the manufacturing process. When determining the cost of a product, it's essential to include not only the direct costs (like raw materials and direct labor) but also the manufacturing overhead to ensure a complete understanding of production costs. By assigning these indirect costs to products, a more accurate product cost can be established, allowing for better pricing, budgeting, and financial analysis. This comprehensive approach helps organizations understand the true cost of production and aids in decision-making processes related to pricing and operational efficiency. The other options focus on aspects that do not directly relate to the essential role of manufacturing overhead in assigning costs that are vague or indirect in nature.

2. Which of the following best describes the function of a board of directors?

A. They implement strategies for financial growth.

B. They ensure compliance with financial reporting standards.

C. They oversee the company's managerial accounting practices.

D. They serve as financial internal auditors.

The function of a board of directors is fundamentally centered around governance and oversight of the company, which includes ensuring that the organization adheres to legal and regulatory requirements, particularly in the realm of financial reporting. This responsibility ensures that the company's financial statements are accurate, transparent, and comply with the relevant financial reporting standards. By ensuring compliance, the board helps maintain the integrity of the financial reporting process, which is critical for stakeholders such as investors, regulators, and the public, as it affects decision-making and trust in the organization. Boards do indeed play a role in assessing the company's compliance and may review and oversee the financial reporting process to ensure that the policies and procedures are robust and effective. Adhering to these standards helps safeguard shareholder interests and upholds the company's reputation in the market.

3. Who must sign off on financial statements according to the Sarbanes-Oxley Act?

   A. Chief Marketing Officer and Board Chair

   B. Chief Operating Officer and Audit Manager

   C. CEO and CFO

   D. Internal Auditor and External Auditor

The Sarbanes-Oxley Act, enacted in response to accounting scandals, established stringent requirements for corporate governance and financial disclosures, particularly for publicly traded companies. One of its key stipulations is that the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) must personally certify the accuracy and completeness of financial statements. This requirement is in place to ensure accountability at the highest levels of management and to enhance the integrity of financial reporting. By having the CEO and CFO sign off on financial statements, the act aims to deter fraudulent financial practices and enhance transparency in the reporting process. This creates a direct line of responsibility, underlines the importance of ethical financial management, and protects investors by ensuring that the financial statements reflect the true state of the company's financial health. The other roles listed do not carry the same legal responsibility for the certification of financial statements as delineated by the Sarbanes-Oxley Act, making the choice of the CEO and CFO the correct answer in this context.

4. What is defined as a fixed cost?

   A. A cost that fluctuates with production

   B. A cost that remains constant regardless of sales levels

   C. A one-time expense

   D. A cost that includes variable labor

A fixed cost is defined as a cost that remains constant regardless of the level of sales or production. This means that even if production levels increase or decrease, the total fixed cost remains unchanged over a certain period. For example, rent or salaries of permanent staff would be considered fixed costs because these expenses do not vary with production output—they must be paid regardless of how many goods or services are produced or sold. Understanding fixed costs is crucial for managerial accounting as it helps businesses in budgeting and forecasting. Fixed costs contribute to the overall cost structure of a business and influence decisions regarding pricing, profit margin, and break-even analysis. By contrast, costs that fluctuate with production relate to variable costs and one-time expenses do not fall under the standard definition of fixed costs.

5. What is the primary purpose of a cash budget?

A. To estimate profit margins

B. To project cash inflows and outflows

C. To track actual spending against forecasts

D. To evaluate employee performance

The primary purpose of a cash budget is to project cash inflows and outflows. This tool is essential for organizations as it helps management ensure that there is enough cash available to meet current and future operational needs. By forecasting cash flows, a business can plan for upcoming expenses and manage liquidity effectively, helping to avoid cash shortages that could hinder operations. In preparing a cash budget, businesses estimate expected cash receipts from sales and other sources, as well as expected cash payments for expenses. This forward-looking approach enables organizations to make informed decisions, such as when to invest excess cash, when to delay expenditures, or whether to seek additional financing. Understanding cash flow projections aids in maintaining solvency and planning for contingencies, making the cash budget a critical component of effective financial management.

6. What act increased penalties for corporate fraud and requires CEO and CFO certification of financial statements?

A. Glass-Steagall Act

B. Sarbanes-Oxley Act

C. Gramm-Leach-Bliley Act

D. Dodd-Frank Act

The Sarbanes-Oxley Act, enacted in 2002, was a direct response to the corporate scandals that undermined investor trust in financial markets, such as the Enron and WorldCom scandals. This legislation aimed to improve the accuracy and reliability of corporate disclosures. A significant feature of the Sarbanes-Oxley Act is the requirement for the CEO and CFO to personally certify the accuracy of financial statements, which holds executives accountable for the integrity of their company's financial reporting. This act also increased penalties for corporate fraud, including severe criminal penalties for those who knowingly falsify financial reports. The overarching intent is to enhance corporate governance and restore public confidence in the financial statements of publicly traded companies. The other acts mentioned, while related to financial regulations, address different aspects of economic policy and do not focus specifically on corporate fraud or the certification of financial statements.

7. Which financial role is responsible for raising capital and investing funds?

A. Controller

B. Treasurer

C. Chief Executive Officer

D. Chief Financial Officer

The treasurer plays a crucial role in an organization's financial management, specifically focusing on raising capital and investing funds. This position is responsible for overseeing the company's liquidity, funding strategies, and risk management related to financial investments. The treasurer actively manages cash flow and financial resources, ensuring that the company has adequate funds to meet its obligations and can invest in projects that will generate future returns. While the controller typically handles the organization's accounting functions, financial reporting, and compliance, the chief executive officer focuses on overall business strategy and direction. The chief financial officer, although involved in financing and investment decisions, encompasses a broader range of responsibilities, including financial planning and analysis, reporting, and corporate strategy. The specific responsibility for capital raising and investment management distinctly falls under the purview of the treasurer, making this role fundamental in ensuring the company meets its financial goals.

8. What is the primary value associated with abstaining from activities that might discredit the profession?

A. Honor

B. Integrity

C. Responsibility

D. Transparency

The primary value associated with abstaining from activities that might discredit the profession is integrity. Integrity in a professional context refers to the adherence to moral and ethical principles, which includes maintaining honesty and upholding the reputation of the profession. Professionals are expected to act in ways that promote public trust and confidence in their field, making decisions that reflect ethical considerations. When individuals exhibit integrity, they choose not to engage in actions that could harm the credibility of their profession, thereby fostering a positive image and maintaining the trust of stakeholders, clients, and the larger community. This commitment to ethical behavior reinforces the significance of integrity as a cornerstone value in managerial accounting and all professions.

9. Direct materials are first recorded on the balance sheet and later transferred to which of the following?

A. Cash flow statement

B. Income statement

C. Retained earnings statement

D. Statement of changes in equity

Direct materials are first recorded on the balance sheet as inventory. Once these materials are used in the production process, they are transferred to the income statement. This transfer occurs when the materials are incorporated into the finished goods that are sold, thereby recognizing the costs associated with these materials as an expense. This expense is categorized under cost of goods sold, which directly affects the profitability of a company for that accounting period. The income statement is essential for determining how efficiently a company is operating and how its revenues compare to its expenses, including the costs of direct materials used in production. Recognizing these costs allows managers and stakeholders to assess the overall performance of the company and make informed decisions based on the profitability reflected in the income statement.

10. What account is impacted when raw materials are purchased for cash?

A. Cash Account

B. Raw Materials Account

C. Finished Goods Account

D. Overhead Account

When raw materials are purchased for cash, the Raw Materials Account is impacted because this account reflects the value of raw materials that a company has available for production. The purchase increases the balance in the Raw Materials Account, representing the company's investment in those materials intended for manufacturing goods. Simultaneously, cash is decreased by the amount paid for these materials, which would affect the Cash Account, but since the question specifically pertains to the account impacted by the purchase of raw materials, Raw Materials Account is the correct focus. Other accounts, such as Finished Goods or Overhead, are not directly involved in the initial transaction of purchasing raw materials; therefore, they are not affected at this stage.