Western Governors University (WGU) ACCT2020 D196 Principles of Financial and Managerial Accounting Practice Test (Sample)

Study Guide

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Questions

1. When an activity is removed and its associated costs are eliminated, those costs are referred to as what type of costs?

   A. Controllable costs

   B. Direct costs

   C. Variable costs

   D. Fixed costs

2. Which budget focuses on the direct costs associated with manufacturing products?

   A. Sales budget

   B. Direct materials budget

   C. Manufacturing overhead budget

   D. Direct labor budget

3. What type of cost is categorized as being past and unchangeable?

   A. Opportunity cost

   B. Direct cost

   C. Sunk cost

   D. Variable cost

4. What aspects does managerial accounting review?

   A. Credit analysis and financial health

   B. Product cost, breakeven analysis, and budgeting

   C. Market analysis and competitive dynamics

   D. Tax liabilities and compliance

5. Which label is given to the cost of electricity in a furniture factory?

   A. Administrative expenses

   B. Manufacturing overhead

   C. Direct materials

   D. Direct labor

6. What is the minimum number of years of income statements that the SEC requires companies to provide?
   - A. 1 year
   - B. 2 years
   - C. 3 years
   - D. 4 years

7. How are the wages of cashiers classified in a merchandising company?
   - A. Cost of goods sold
   - B. Work-in-process inventory
   - C. Selling expense
   - D. Manufacturing overhead

8. Which of the following is one of the three primary financial statements?
   - A. Statement of management accounting
   - B. Statement of cash flows
   - C. Statement of operational efficiency
   - D. Statement of accounts payable

9. Which of the following is an example of a direct cost?
   - A. Factory rent
   - B. Sales commission
   - C. Materials used in production
   - D. Administrative expenses

10. Why is the concept of relevant range significant for managers?
   - A. To understand fixed costs
   - B. To ensure variable cost per unit remains steady
   - C. To deny fluctuations in sales
   - D. To assess long-term profitability

Answers

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

Explanations

1. When an activity is removed and its associated costs are eliminated, those costs are referred to as what type of costs?

A. Controllable costs

B. Direct costs

C. Variable costs

D. Fixed costs

When an activity is removed and its associated costs are eliminated, the costs that are associated with that activity are referred to as direct costs. Direct costs can be directly traced to a specific activity, product, or department, making them integral to understanding the financial implications of that particular activity. In this context, removing an activity means that the direct costs linked to that activity—such as materials, labor specific to that activity, or any specific overhead allocated—will also disappear. This highlights the relationship between the activity and the costs directly attributable to it. In contrast, controllable costs are those that can be influenced or managed by a specific manager within a period, variable costs fluctuate with production levels, and fixed costs remain constant regardless of output within a relevant range. However, when a specific activity is eliminated, it is the direct costs that are directly tied to that activity that will cease to exist along with it.

2. Which budget focuses on the direct costs associated with manufacturing products?

A. Sales budget

B. Direct materials budget

C. Manufacturing overhead budget

D. Direct labor budget

The direct materials budget is specifically designed to outline the costs associated with the raw materials needed for the manufacturing of products. It estimates the quantity of materials required for production based on the production budget and thus directly correlates to the manufacturing process. This budget takes into account factors like the budgeted production levels, the amount of direct materials required per unit of product, and considerations for inventory levels. By focusing on these elements, the direct materials budget ensures that the company can adequately plan for purchasing and managing its materials without overstocking or running short. In contrast, the sales budget addresses projected sales revenue and does not delve into direct costs. The manufacturing overhead budget includes all indirect costs related to manufacturing, such as utilities and maintenance, rather than direct material costs. The direct labor budget deals with costs associated with labor used in the manufacturing process but does not encompass the raw materials themselves. Therefore, the direct materials budget is the one that focuses specifically on the direct costs of manufacturing products in terms of the materials needed.

3. What type of cost is categorized as being past and unchangeable?

A. Opportunity cost

B. Direct cost

C. Sunk cost

D. Variable cost

The concept of a sunk cost refers to expenses that have already been incurred and cannot be recovered, regardless of future decisions. These costs are "past" in the sense that they represent historical expenditures, and they are "unchangeable" because no action can reverse them or retrieve the funds spent. For instance, if a company invests in a marketing campaign that has already taken place and yields no further benefit, the money spent is considered a sunk cost. This characteristic distinguishes sunk costs from other types of costs, as decisions should typically not be influenced by these past expenditures when considering future actions. This is crucial in effective decision-making because adhering to the idea of sunk costs can lead to the phenomenon known as "escalation of commitment," where individuals or companies continue to invest in a losing proposition, hoping to recoup losses based on prior investment rather than future potential. Understanding sunk costs helps in focus on prospective costs and benefits rather than letting past expenditures dictate business choices. In contrast, opportunity cost relates to the value of the best alternative forgone, which is future-oriented; direct costs are directly attributable to a specific project or production; and variable costs fluctuate with production levels.

4. What aspects does managerial accounting review?

A. Credit analysis and financial health

B. Product cost, breakeven analysis, and budgeting

C. Market analysis and competitive dynamics

D. Tax liabilities and compliance

Managerial accounting focuses on providing information to internal users, primarily for the purposes of planning, controlling, and making decisions that affect the organization's operations. In this context, reviewing product costs involves analyzing the expenses associated with manufacturing or delivering products, which helps management understand pricing, profitability, and overall cost management. Breakeven analysis allows organizations to determine the level of sales necessary to cover their costs, thus identifying the minimum performance needed to avoid losses. Budgeting is crucial as it helps in planning and controlling financial resources, ensuring that the organization operates within its means while aiming for its strategic goals. Options relating to credit analysis and financial health typically focus on external evaluations and are more aligned with financial accounting rather than the internal focus of managerial accounting. Market analysis and competitive dynamics also pertain to external factors influencing the organization, which are more relevant in strategic planning than in the internal financial planning and control functions of managerial accounting. Lastly, tax liabilities and compliance are primarily the concern of financial accounting and regulatory compliance, rather than the internal decision-making processes that managerial accounting supports. Thus, the aspects encompassed in product costs, breakeven analysis, and budgeting directly align with the core functions of managerial accounting, making that the correct choice.

5. Which label is given to the cost of electricity in a furniture factory?

A. Administrative expenses

B. Manufacturing overhead

C. Direct materials

D. Direct labor

The cost of electricity in a furniture factory is classified as manufacturing overhead because it is an indirect cost that supports the production process without being directly tied to the creation of specific products. Manufacturing overhead encompasses all costs incurred in the manufacturing process that are not direct materials or direct labor. This includes utilities like electricity, as well as rent, depreciation, and maintenance of manufacturing equipment. Since these costs contribute to production as a whole rather than a specific unit, they fall into the category of manufacturing overhead. In contrast, administrative expenses refer to costs associated with running the business that are not directly linked to manufacturing, such as office salaries and supplies. Direct materials pertain specifically to the raw materials used in manufacturing products, and direct labor consists of the wages paid to workers who are directly involved in producing the furniture. Thus, the classification of electricity as manufacturing overhead reflects its role as a necessary operation cost in the overall manufacturing environment.

6. What is the minimum number of years of income statements that the SEC requires companies to provide?

A. 1 year

B. 2 years

C. 3 years

D. 4 years

The Securities and Exchange Commission (SEC) requires companies to provide a minimum of three years of income statements when filing their annual reports. This requirement ensures that investors and stakeholders have adequate information to assess the company's financial performance over a significant period. By presenting three years of income data, companies facilitate trend analysis, allowing users to identify patterns, growth trajectories, and fluctuations in profitability. This depth of information supports more informed decision-making by potential investors, creditors, and analysts, as it provides a clearer view of the company's financial health and operational performance over time. An increase in the duration of financial data aids transparency, enhances accountability, and can ultimately foster greater investor confidence.

7. How are the wages of cashiers classified in a merchandising company?

A. Cost of goods sold

B. Work-in-process inventory

C. Selling expense

D. Manufacturing overhead

The wages of cashiers in a merchandising company are classified as a selling expense because their primary role is to facilitate the sale of merchandise to customers. Selling expenses are incurred to promote and sell products, and this category includes costs directly associated with selling activities, such as salaries of sales staff, advertising expenses, and costs related to the sales department. In contrast, costs classified under cost of goods sold relate specifically to the production or purchase of inventory that will be sold, while work-in-process inventory pertains to costs associated with items that are still in production and not yet completed. Manufacturing overhead includes indirect costs related to production that cannot be directly traced to specific units of production, such as utilities or depreciation on factory equipment. The classification of cashier wages as a selling expense reflects the nature of their work in the merchandising context, focusing on the sales process rather than the procurement or production of goods. This financial categorization helps companies analyze their operating expenses and profitability accurately.

8. Which of the following is one of the three primary financial statements?

A. Statement of management accounting

B. Statement of cash flows

C. Statement of operational efficiency

D. Statement of accounts payable

The Statement of Cash Flows is one of the three primary financial statements, alongside the Balance Sheet and the Income Statement. This statement provides a detailed analysis of the cash inflows and outflows of a company over a specific period, categorizing them into operating, investing, and financing activities. The information provided in the Statement of Cash Flows is crucial for assessing the liquidity and overall financial health of a business. It helps stakeholders understand how cash is generated and used, which is essential for budgeting and forecasting. The assessment of cash flows is also important for management decisions and for investors looking to gauge the company's ability to generate cash and maintain operations. Other statements such as the Statement of Management Accounting, Statement of Operational Efficiency, and Statement of Accounts Payable are not primary financial statements recognized under generally accepted accounting principles (GAAP). These may be useful in specific managerial or operational contexts but do not represent the foundational financial reporting required for external stakeholders.

9. Which of the following is an example of a direct cost?

A. Factory rent

B. Sales commission

C. Materials used in production

D. Administrative expenses

Direct costs are expenses that can be directly attributed to a specific product, service, or project. This means they can be traced directly to the cost object in question without any allocation. In the case of manufacturing, direct costs typically include raw materials, labor directly involved in production, and any other costs that are directly tied to producing a specific good. Materials used in production fit this definition perfectly. They are directly utilized in the creation of the final product and can be easily identified with the specific goods being manufactured. If a company produces furniture, the wood, fabric, and other materials involved in crafting each piece can be directly charged to those specific items. In contrast, factory rent is considered an indirect cost as it cannot be attributed to one specific product; it is a general expense that supports the entire operation. Sales commissions, while they are directly related to sales, fluctuate based on sales performance rather than the production of goods. Administrative expenses are overhead costs that are not directly tied to production activities and thus do not qualify as direct costs.

10. Why is the concept of relevant range significant for managers?

A. To understand fixed costs

B. To ensure variable cost per unit remains steady

C. To deny fluctuations in sales

D. To assess long-term profitability

The concept of relevant range is significant for managers primarily because it helps to ensure that variable costs per unit remain steady within a certain level of production or activity. This relevant range defines the limits within which the assumptions about fixed and variable costs hold true. When a company operates within the relevant range, managers can predict how costs behave with changes in production volume. Fixed costs remain constant in total within this range, while variable costs change with production levels but are predictable on a per-unit basis. Understanding this concept allows managers to make informed decisions regarding pricing, budgeting, and resource allocation, ensuring that they do not inadvertently exceed the limits where cost behaviors might change. For example, if production levels exceed the relevant range, variable costs could increase per unit due to factors like overtime pay or purchasing block quantities of materials. Therefore, recognizing and effectively managing the relevant range is crucial for maintaining control over costs and ensuring financial forecasts are accurate.