

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

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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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.

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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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

- 1. What does the term "cost behavior" refer to?**
 - A. How costs are allocated in financial statements**
 - B. How costs change concerning changes in activity levels**
 - C. How costs are managed within a budget**
 - D. How costs relate to product pricing**
- 2. What happens to assets when expenses are incurred?**
 - A. Assets remain unchanged.**
 - B. Assets increase while owners' equity increases.**
 - C. Assets decrease while owners' equity decreases.**
 - D. Assets decrease while liabilities decrease.**
- 3. What is the primary purpose of accounting?**
 - A. To collect taxes for the government**
 - B. To accumulate and report financial information for decision-making**
 - C. To manage investments**
 - D. To enforce financial regulations**
- 4. Which of these is a key component of evaluating performance in managerial accounting?**
 - A. Goal Setting**
 - B. Variance Assessment**
 - C. Sales Pitch Development**
 - D. Market Analysis**
- 5. Which type of cost remains constant regardless of changes in activity levels?**
 - A. Variable cost**
 - B. Fixed cost**
 - C. Controllable cost**
 - D. Direct cost**

- 6. Which of the following is an example of a liability?**
- A. Inventory**
 - B. Accounts Receivable**
 - C. Mortgage**
 - D. Capital Stock**
- 7. What effect do expenses have on net assets?**
- A. Increase net assets**
 - B. Decrease net assets**
 - C. No effect on net assets**
 - D. Only decrease net assets if they are revenue-related**
- 8. Which entity has authority over financial reporting by government entities?**
- A. FASB**
 - B. SEC**
 - C. GAAP**
 - D. GASB**
- 9. Which organization is responsible for establishing financial accounting rules in the United States?**
- A. American Institute of Certified Public Accountants (AICPA)**
 - B. Financial Accounting Standards Board (FASB)**
 - C. International Accounting Standards Board (IASB)**
 - D. Internal Revenue Service (IRS)**
- 10. Which of the following best describes the evaluating step in managerial accounting?**
- A. Creating New Policies**
 - B. Analyzing Sales Trends**
 - C. Budget vs Actual Assessment**
 - D. Implementing Controls**

Answers

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

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Explanations

1. What does the term "cost behavior" refer to?

- A. How costs are allocated in financial statements
- B. How costs change concerning changes in activity levels**
- C. How costs are managed within a budget
- D. How costs relate to product pricing

The term "cost behavior" specifically describes how costs vary in response to changes in the level of activity within a business. Understanding cost behavior is crucial for decision-making, as different costs behave differently when activity levels fluctuate. For instance, fixed costs remain constant regardless of changes in production volume, while variable costs change in direct proportion to the level of activity. This knowledge helps managers predict how total costs will change when production levels increase or decrease, enabling them to make more informed pricing, budgeting, and production decisions. The other options, while related to financial management, do not encapsulate the essence of cost behavior. Allocating costs in financial statements pertains to the presentation and classification of expenses rather than their reaction to activity changes. Managing costs within a budget focuses on maintaining control over expenditures rather than understanding how they fluctuate with activity levels. Relating costs to product pricing is more about strategic decision-making concerning pricing strategies than about the behavior of costs based on activities. Thus, the correct understanding of "cost behavior" aligns with how costs change with varying levels of business activity.

2. What happens to assets when expenses are incurred?

- A. Assets remain unchanged.
- B. Assets increase while owners' equity increases.
- C. Assets decrease while owners' equity decreases.**
- D. Assets decrease while liabilities decrease.

When expenses are incurred, they represent costs that the business has to bear in order to generate revenue. Each expense reduces the net income of the company, which in turn affects owners' equity negatively. When expenses are recorded, they lead to a decrease in the company's assets. This happens because expenses could involve using up cash (which is an asset) or incurring accounts payable (which generate liabilities). For instance, if a company pays an expense in cash, its cash asset decreases; if it incurs a liability, the asset might not change immediately, but eventually it will lead to a cash outflow. In either case, the overall impact on the balance sheet is that when expenses increase, net income decreases and this reduction in profits ultimately leads to a decrease in the retained earnings within owners' equity. Hence, as expenses go up, both the assets decrease (due to cash being used or liabilities incurred) and the owners' equity decreases as a consequence of lower profits. This reasoning supports the conclusion that assets decrease while owners' equity decreases.

3. What is the primary purpose of accounting?

- A. To collect taxes for the government
- B. To accumulate and report financial information for decision-making**
- C. To manage investments
- D. To enforce financial regulations

The primary purpose of accounting is to accumulate and report financial information for decision-making. This involves systematically recording, classifying, and summarizing financial transactions in a way that provides stakeholders—such as management, investors, creditors, and regulatory agencies—clear insights into the financial health and performance of an organization. By presenting this information through financial statements and reports, accounting aids in business planning, evaluation of financial performance, and strategic decision-making. This foundational aspect of accounting ensures that individuals and entities can make informed choices regarding resource allocation, financial planning, and compliance with regulations. It goes beyond merely tracking numbers; it translates data into actionable information, enhancing an organization's ability to navigate its financial landscape effectively.

4. Which of these is a key component of evaluating performance in managerial accounting?

- A. Goal Setting
- B. Variance Assessment**
- C. Sales Pitch Development
- D. Market Analysis

Variance assessment is a crucial component of evaluating performance in managerial accounting because it involves comparing actual financial results to budgeted or forecasted figures. This process helps managers identify and analyze discrepancies, known as variances, between expected and actual performance. By assessing these variances, managers can understand the reasons behind performance deviations, whether they stem from increased costs, lower revenues, operational inefficiencies, or other factors. Understanding variances allows management to take corrective actions, refine processes, or adjust budgets and forecasts for future periods. This evaluation process is essential for effective decision-making, resource allocation, and strategic planning within an organization. In contrast, while goal setting is important for establishing targets, and market analysis and sales pitch development are relevant for strategic positioning and marketing efforts, variance assessment directly ties financial performance to operational efficiency and accountability in a managerial accounting context.

5. Which type of cost remains constant regardless of changes in activity levels?

- A. Variable cost**
- B. Fixed cost**
- C. Controllable cost**
- D. Direct cost**

Fixed costs are expenses that do not change with the level of output or activity within a certain range. This means that even as production increases or decreases, fixed costs remain the same. Common examples include rent, salaries for permanent staff, and insurance. These costs are associated with the fundamental operations of a business and are incurred regardless of the volume of goods or services produced. In contrast, variable costs fluctuate directly with changes in activity levels, such as raw materials or hourly wages for temporary workers. Controllable costs are those that can be influenced or adjusted by management decisions, and direct costs are expenses that can be traced to a specific product or service. However, fixed costs provide stability and predictability in budgeting since they are not affected by production volume within a relevant range. This characteristic makes them a crucial consideration when analyzing a company's financial situation and planning for profitability.

6. Which of the following is an example of a liability?

- A. Inventory**
- B. Accounts Receivable**
- C. Mortgage**
- D. Capital Stock**

A mortgage is considered a liability because it represents a financial obligation that a borrower has to repay a lender. In accounting, liabilities are defined as present obligations of a company arising from past transactions that are settled over time through the transfer of economic benefits, typically in the form of money. A mortgage specifically is a loan secured by real estate, and the obligation to pay this loan back creates a liability on the balance sheet. In contrast, inventory is classified as an asset because it represents goods available for sale, while accounts receivable is also an asset since it represents money owed to the company by customers. Capital stock reflects the ownership interest in the company and is classified as equity, not a liability. Understanding these classifications helps in analyzing a company's financial health and obligations.

7. What effect do expenses have on net assets?

- A. Increase net assets**
- B. Decrease net assets**
- C. No effect on net assets**
- D. Only decrease net assets if they are revenue-related**

Expenses decrease net assets because they represent the outflow of resources or the costs incurred to generate revenue. When a company incurs an expense, it reduces its net income, which, in turn, affects retained earnings—a key component of net assets. As expenses accumulate, they reduce the overall equity available to shareholders, reflecting a decrease in net assets. This relationship shows how managing expenses is critical for maintaining or increasing net assets over time.

8. Which entity has authority over financial reporting by government entities?

- A. FASB
- B. SEC
- C. GAAP
- D. GASB**

The Governmental Accounting Standards Board (GASB) is the authoritative body responsible for establishing accounting and financial reporting standards for state and local governments in the United States. GASB provides guidance on the preparation of financial statements, ensuring transparency and consistency in how government entities report their financial activities. GASB's standards are crucial because they specifically address the unique financial reporting needs of government entities, which differ from those of private sector companies. This includes considerations like fund accounting, budgetary compliance, and various types of revenue and expenditure classifications that are unique to governmental operations. In contrast, the other entities listed have different roles. The Financial Accounting Standards Board (FASB) primarily sets accounting standards for private-sector organizations, while the Securities and Exchange Commission (SEC) oversees the financial reporting of publicly traded companies, ensuring that their financial disclosures meet regulatory requirements. Generally Accepted Accounting Principles (GAAP) are the overall accounting principles that encompass the standards set by both FASB and GASB, but they do not represent an authoritative body themselves. Therefore, GASB is the correct entity that specifically governs financial reporting for government entities.

9. Which organization is responsible for establishing financial accounting rules in the United States?

- A. American Institute of Certified Public Accountants (AICPA)
- B. Financial Accounting Standards Board (FASB)**
- C. International Accounting Standards Board (IASB)
- D. Internal Revenue Service (IRS)

The Financial Accounting Standards Board (FASB) is the primary organization responsible for establishing financial accounting rules in the United States. It develops and issues accounting standards known as Generally Accepted Accounting Principles (GAAP), which provide a framework for financial reporting and ensure consistency and transparency among financial statements prepared by organizations across various industries. FASB's role is critical because it helps maintain public confidence in the financial reporting process. By setting rigorous standards, FASB ensures that the financial information presented by companies is reliable, comparable, and relevant, which is essential for investors, creditors, and other stakeholders making informed decisions based on that information. While other organizations mentioned play significant roles in the financial and accounting landscape, their functions differ. The American Institute of Certified Public Accountants (AICPA) primarily focuses on the professional development and standards for certified public accountants, whereas the International Accounting Standards Board (IASB) is responsible for international accounting standards. The Internal Revenue Service (IRS) is responsible for tax administration and compliance rather than accounting standards. Thus, FASB is the correct entity for establishing the financial accounting rules in the U.S.

10. Which of the following best describes the evaluating step in managerial accounting?

- A. Creating New Policies**
- B. Analyzing Sales Trends**
- C. Budget vs Actual Assessment**
- D. Implementing Controls**

The evaluating step in managerial accounting primarily involves comparing actual performance against budgeted expectations. This process is essential for determining how well the organization is performing in relation to its financial goals and plans. By assessing variances between the budget and actual results, management can identify areas where performance may be lacking or exceeding forecasts. This analysis provides insight into operational efficiency and helps inform decision-making for future strategic initiatives. In this context, while creating new policies and implementing controls are important aspects of managerial accounting, they fall more under the planning and controlling functions rather than the evaluating step. Analyzing sales trends is a useful tool for understanding patterns in sales, but it does not directly address the assessment of performance against a budget. Therefore, the most accurate choice that encapsulates the essence of the evaluating step is the assessment of budget versus actual performance.

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-acct2020-d196.examzify.com>

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