

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

Study Guide



Everything you need from our exam experts!

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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. 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.

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. 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!

Questions

- 1. What is retained earnings?**
 - A. Earnings distributed to shareholders**
 - B. Business earnings that have been retained and reinvested**
 - C. Total sales revenue of a company**
 - D. Debt obligations of a business**
- 2. What is Form 10-K?**
 - A. A summary of daily transactions**
 - B. An annual filing that details a company's operations and financial performance**
 - C. A quarterly report on company sales**
 - D. A form used for tax submissions**
- 3. What does vertical analysis help determine about a company's expenses?**
 - A. The proportion of income generated**
 - B. The overall trend in sales**
 - C. The relationship of expenses to sales**
 - D. The effectiveness of cost control measures**
- 4. What information does a balance sheet offer to a decision maker?**
 - A. Summary of the operating performance of a company during a period**
 - B. Summary of the operating performance of a company at a particular date**
 - C. Summary of the cash flows of a company during a period**
 - D. Summary of the financial position of a company at a particular date**
- 5. A capital budget is used for planning which of the following?**
 - A. Operational expenses**
 - B. Acquisition of current inventory**
 - C. Acquisition of property, plant, and equipment**
 - D. Marketing initiatives**

- 6. What type of cost is categorized as being past and unchangeable?**
- A. Opportunity cost**
 - B. Direct cost**
 - C. Sunk cost**
 - D. Variable cost**
- 7. What is the formula for calculating cash payments to suppliers?**
- A. Current period payments only**
 - B. Current payments multiplied by payment rate**
 - C. (Current period payments * current period payment rate) + cash paid on previous purchases**
 - D. Total expenses incurred during the period**
- 8. The difference between total revenue for a segment and its direct costs is known as what?**
- A. Gross profit**
 - B. Segment margin**
 - C. Operating income**
 - D. Net profit**
- 9. How is the hurdle rate utilized by analysts in project evaluation?**
- A. It is added to the net present value to find total project viability**
 - B. It serves as a benchmark against the internal rate of return to evaluate acceptance**
 - C. It indicates the average cost of capital for the firm**
 - D. It defines the optimal capital structure for investments**
- 10. Which cost is recognized as a potential loss due to not taking an alternative action?**
- A. Sunk cost**
 - B. Opportunity cost**
 - C. Indirect cost**
 - D. Direct cost**

Answers

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

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Explanations

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1. What is retained earnings?

- A. Earnings distributed to shareholders
- B. Business earnings that have been retained and reinvested**
- C. Total sales revenue of a company
- D. Debt obligations of a business

Retained earnings represent the portion of a company's profits that is not distributed to shareholders as dividends but is instead reinvested back into the business. This can be used for various purposes, such as funding research and development, purchasing new equipment, or paying down debt. Retained earnings are a vital indicator of a company's financial health and are reflected on the balance sheet in the equity section. By choosing to retain earnings, a company can enhance its growth potential while providing a buffer against possible economic downturns. Over time, retained earnings can contribute significantly to the overall value of a business, as they can help finance operations and investments without the need to incur additional debt or equity financing. This concept emphasizes the importance of not only generating profits but also strategically reinvesting them for future growth.

2. What is Form 10-K?

- A. A summary of daily transactions
- B. An annual filing that details a company's operations and financial performance**
- C. A quarterly report on company sales
- D. A form used for tax submissions

Form 10-K is a comprehensive annual report that publicly traded companies must file with the Securities and Exchange Commission (SEC). This document provides a detailed overview of a company's financial performance and operational activities over the past fiscal year. It includes essential information such as audited financial statements, management's discussion and analysis of financial condition and results of operations, market risk factors, and disclosures about the company's executive compensation practices, among others. The significance of Form 10-K lies in its extensive detail, which helps investors and analysts evaluate a company's performance and make informed decisions. It is a crucial tool for transparency and accountability in financial reporting, allowing stakeholders to gain insights into a company's health and business strategy. In contrast to other forms of reporting, such as daily transaction summaries, quarterly reports, or tax submissions, the Form 10-K provides a yearly overview that is much more thorough and focuses on a wide range of relevant financial and operational metrics rather than just a snapshot of profits or losses.

3. What does vertical analysis help determine about a company's expenses?

- A. The proportion of income generated**
- B. The overall trend in sales**
- C. The relationship of expenses to sales**
- D. The effectiveness of cost control measures**

Vertical analysis is a financial analysis technique that expresses each line item in a financial statement as a percentage of a base item for the same period. In the context of a company's income statement, vertical analysis allows for the assessment of each expense as a percentage of total sales revenue. By using vertical analysis, one can effectively determine the relationship of expenses to sales, which is crucial for understanding how much of the revenue is consumed by each expense category. This analytical approach helps managers and analysts evaluate cost structure efficiency, compare performance across different periods, and benchmark with other firms or industry standards. It provides insightful information about how well the company is managing its expenses relative to its sales volume, allowing for informed decision-making regarding operations and financial strategies.

4. What information does a balance sheet offer to a decision maker?

- A. Summary of the operating performance of a company during a period**
- B. Summary of the operating performance of a company at a particular date**
- C. Summary of the cash flows of a company during a period**
- D. Summary of the financial position of a company at a particular date**

A balance sheet provides a summary of the financial position of a company at a particular date. This financial statement outlines the company's assets, liabilities, and equity, offering a snapshot of what the company owns and owes at that moment in time. Decision-makers, such as investors and creditors, rely on this information to assess the company's current financial health. By examining the balance sheet, they can determine the company's liquidity, leverage, and overall stability. This is crucial for making informed decisions about investment, lending, and other financial considerations. While a balance sheet does not summarize operating performance over a period or cash flows—those functions are served by the income statement and cash flow statement respectively—it is essential for understanding the company's overall net worth and financial structure at a specific point in time.

5. A capital budget is used for planning which of the following?

- A. Operational expenses**
- B. Acquisition of current inventory**
- C. Acquisition of property, plant, and equipment**
- D. Marketing initiatives**

A capital budget is specifically designed to help organizations plan for investments in long-term assets known as property, plant, and equipment. This includes tangible items such as machinery, buildings, and vehicles that are expected to provide benefits over a period extending beyond one year. The purpose of a capital budget is to ensure that sufficient funding is allocated for these significant expenditures, as they require careful evaluation and often represent a substantial outlay of resources. In contrast, operational expenses, acquisition of current inventory, and marketing initiatives relate to short-term financial planning. Operational expenses involve the day-to-day costs necessary to run a business, acquisition of current inventory pertains to stock that will be sold in the shorter term, and marketing initiatives typically focus on current promotional efforts to enhance immediate sales. These elements do not fall under the long-term investment criteria that a capital budget addresses. Therefore, the focus on planning for property, plant, and equipment makes the selection of that option the most accurate representation of what a capital budget is used for.

6. 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.

7. What is the formula for calculating cash payments to suppliers?

- A. Current period payments only**
- B. Current payments multiplied by payment rate**
- C. (Current period payments * current period payment rate) + cash paid on previous purchases**
- D. Total expenses incurred during the period**

The formula for calculating cash payments to suppliers is important for understanding how much cash a business is actually disbursing to settle its debts with suppliers for goods and services received. The correct answer involves both current payments and cash that has been paid on previous purchases. The rationale behind this calculation is that cash payments to suppliers are not just determined by the current period's expenses or the rate at which payments are made; they also have to account for any payments that may have been due from previous periods. By taking the current period payments and adjusting for the payment rate, you effectively capture only part of the cash movement. Adding in the cash paid on previous purchases ensures that all cash outflows related to supplier obligations are accounted for, giving a complete picture of cash payments. This option accurately reflects the comprehensive nature of cash management in accounting and allows businesses to ensure they are meeting their obligations to suppliers without unintentionally misstating cash flow. It incorporates both current obligations and history, which is crucial for precise cash flow management.

8. The difference between total revenue for a segment and its direct costs is known as what?

- A. Gross profit**
- B. Segment margin**
- C. Operating income**
- D. Net profit**

The difference between total revenue for a segment and its direct costs is referred to as the segment margin. This concept is important in managerial accounting as it helps organizations assess the profitability of different segments or divisions within the company. The segment margin focuses on the direct revenue and costs associated with a specific segment, allowing management to evaluate how well that segment generates profit from its operations. Gross profit calculates total revenue minus the cost of goods sold, but it does not take into account other direct costs specific to a segment. Operating income includes all revenues and expenses related to operations, which means it considers both direct and indirect costs. Net profit goes further by including all revenues and expenses, including taxes and interest, resulting in a broader view of profitability. By isolating the segment margin, managers can make more informed decisions about the viability and strategic direction of specific business areas. This analysis is vital for optimizing resource allocation and operational efficiency. Thus, the segment margin provides a clearer picture of a segment's financial performance than any of the other terms.

9. How is the hurdle rate utilized by analysts in project evaluation?
- A. It is added to the net present value to find total project viability
 - B. It serves as a benchmark against the internal rate of return to evaluate acceptance**
 - C. It indicates the average cost of capital for the firm
 - D. It defines the optimal capital structure for investments

The hurdle rate is primarily utilized by analysts as a critical benchmark in project evaluation to assess whether a project should be accepted or rejected based on its potential return. It represents the minimum acceptable return that investors expect on an investment, which is typically influenced by the company's cost of capital and the risks associated with the project. When analysts calculate a project's internal rate of return (IRR), they compare it to the hurdle rate. If the IRR exceeds the hurdle rate, it suggests that the project is expected to generate returns that justify the risks taken, making it a viable investment option. Conversely, if the IRR is below the hurdle rate, it indicates that the project may not meet the required return threshold, leading to a potential rejection. This approach helps companies prioritize their investments in projects that align with their financial goals and risk tolerance, ensuring that resources are allocated to initiatives that are likely to enhance shareholder value.

10. Which cost is recognized as a potential loss due to not taking an alternative action?
- A. Sunk cost
 - B. Opportunity cost**
 - C. Indirect cost
 - D. Direct cost

Opportunity cost is the correct choice because it represents the potential benefits an individual or business misses out on when choosing one alternative over another. This concept is critical in decision-making, as it emphasizes the value of the next best option that is foregone when a particular action is taken. By evaluating opportunity costs, businesses can better assess the profitability and efficiency of their choices. Sunk costs, on the other hand, are expenses that have already been incurred and cannot be recovered. They should not factor into future economic decisions since they no longer represent potential cash inflows or outflows. Indirect costs refer to expenses that are not directly attributable to a specific project or product, while direct costs are those that can be directly linked to a product or service. While understanding these terms is important, they do not pertain to the concept of potential loss from not choosing an alternative action as opportunity cost does.

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!