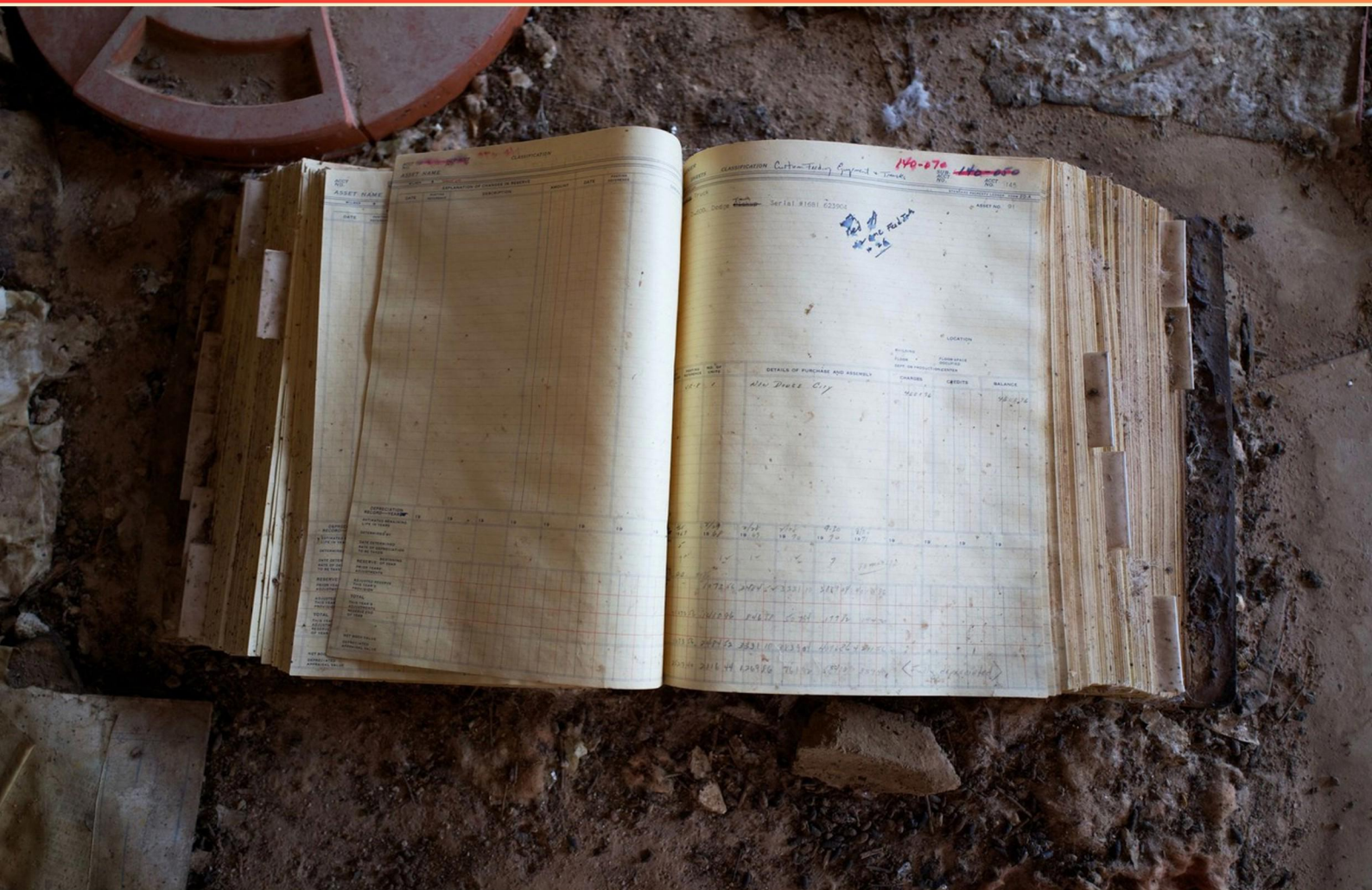


WESTERN GOVERNORS UNIVERSITY (WGU) ACCT2020 D196 PRINCIPLES OF FINANCIAL AND MANAGERIAL ACCOUNTING PRACTICE TEST (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

<https://wgu-acct2020-d196.examzify.com>



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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

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- 1. What is the primary purpose of cost accounting?**
 - A. To calculate taxes owed
 - B. To ensure compliance with regulations
 - C. To provide internal management with information for decision-making
 - D. To track sales revenue
- 2. According to the accounting equation, what must the sum of liabilities and equity equal?**
 - A. Cash
 - B. The sum of revenues and expenses
 - C. Assets
 - D. The sum of expenses and dividends
- 3. How does the payment of \$5,000 in advertising costs affect the company's accounting equation?**
 - A. Assets increase by \$5,000; expenses increase by \$5,000.
 - B. Assets decrease by \$5,000; expenses increase by \$5,000.
 - C. Assets decrease by \$5,000; revenues increase by \$5,000.
 - D. Assets decrease by \$5,000; liabilities increase by \$5,000.
- 4. What does operating capital refer to?**
 - A. Funds available for long-term investments
 - B. Cash reserves for emergencies
 - C. Funds available for day-to-day activities
 - D. Debt financing from creditors
- 5. How does the accounting cycle contribute to financial reporting?**
 - A. It allows for investor input
 - B. It ensures accuracy in financial statements
 - C. It determines budget allocations
 - D. It streamlines payroll processing

- 6. How is fixed cost per unit calculated?**
- A. Total fixed cost divided by total sales revenue
 - B. Total fixed cost divided by level of activity
 - C. Total variable cost divided by total units produced
 - D. Total costs divided by variable costs
- 7. Which overhead allocation method should be used for a business that mass-produces breakfast cereal?**
- A. Job order costing.
 - B. Process costing.
 - C. Product-line costing.
 - D. ABC costing.
- 8. Which aspect does vertical analysis primarily assist understand regarding a company's performance?**
- A. Overall revenue growth
 - B. Comparative industry analysis
 - C. Expense changes related to specific income statement line items
 - D. Long-term financial stability
- 9. What is an essential activity in the managerial accounting workflow?**
- A. Public Communication
 - B. Information Preparation for Internal Decision Making
 - C. Sales Forecasting
 - D. Research and Development Planning
- 10. Who is considered a lender?**
- A. Buys shares in the company
 - B. Lends money with the intent to receive it back with interest
 - C. Analyzes profits and potential growth
 - D. Provides financial advice for business growth

Answers

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

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Explanations

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1. What is the primary purpose of cost accounting?

- A. To calculate taxes owed
- B. To ensure compliance with regulations
- C. To provide internal management with information for decision-making**
- D. To track sales revenue

The primary purpose of cost accounting is to provide internal management with information for decision-making. Cost accounting focuses on the detailed analysis of costs associated with the production of a company's goods or services. By tracking and analyzing costs, management can identify areas of inefficiency, make informed pricing decisions, and enhance overall operational effectiveness. This internal perspective is crucial because it enables managers to assess the cost structures and profitability of different products or services. Having accurate and detailed cost information allows for better budgeting, performance evaluation, and strategic planning, which ultimately supports informed decision-making that can improve the organization's competitiveness and financial health. In contrast, calculating taxes owed primarily relates to financial accounting and tax compliance rather than internal management decisions. Similarly, ensuring compliance with regulations involves adhering to laws and standards, which, while important, does not focus on internal managerial tools. Lastly, tracking sales revenue is an important aspect of financial performance but is separate from the detailed cost assessments that cost accounting provides for management purposes.

2. According to the accounting equation, what must the sum of liabilities and equity equal?

- A. Cash
- B. The sum of revenues and expenses
- C. Assets**
- D. The sum of expenses and dividends

The accounting equation is a fundamental principle in accounting that states that assets must equal the sum of liabilities and equity. This forms the core of the double-entry accounting system, ensuring that every financial transaction maintains a balance within the ledger. When you consider that assets represent resources owned by a business, while liabilities represent obligations to outside parties, and equity reflects the owner's claim after all liabilities are settled, it becomes clear that the total amount of resources (assets) available to a business must be financed either through debts (liabilities) or through the owners' investment (equity). Therefore, the relationship articulated in the accounting equation confirms that liabilities and equity together are exactly equivalent to assets. This foundational concept allows accountants to maintain accurate financial records and provides a clear picture of a company's financial health. In contrast, cash, the sum of revenues and expenses, and the sum of expenses and dividends do not encapsulate this accounting principle and do not denote the total resources or economic value of what a business owns. Thus, the correct answer is that the sum of liabilities and equity must equal assets.

3. How does the payment of \$5,000 in advertising costs affect the company's accounting equation?

- A. Assets increase by \$5,000; expenses increase by \$5,000.
- B. Assets decrease by \$5,000; expenses increase by \$5,000.**
- C. Assets decrease by \$5,000; revenues increase by \$5,000.
- D. Assets decrease by \$5,000; liabilities increase by \$5,000.

The payment of \$5,000 in advertising costs impacts the accounting equation by decreasing assets and increasing expenses. When the company pays for advertising, it typically uses cash or another form of payment that falls under current assets. As a result, the cash account, which is an asset, is reduced by \$5,000. At the same time, the advertising expense account increases by the same amount, reflecting the cost incurred for the advertising service. This increase in expenses ultimately affects net income, impacting retained earnings in the equity section of the accounting equation, but does not directly affect revenues or liabilities. Thus, the change can be summarized as a decrease in assets due to the cash payment and an equivalent increase in expenses, demonstrating how an outflow of cash for services rendered affects the financial position of the company.

4. What does operating capital refer to?

- A. Funds available for long-term investments
- B. Cash reserves for emergencies
- C. Funds available for day-to-day activities**
- D. Debt financing from creditors

Operating capital refers to the funds available for day-to-day activities of a business. This vital financial metric indicates the liquidity a company has to cover its short-term operational needs, ensuring that it can continue to function smoothly and meet its obligations. It essentially represents the capital necessary for a company to manage its ongoing expenses, such as payroll, rent, and utility bills. Having sufficient operating capital allows a business to maintain its operations without interruptions, making it a critical aspect for both financial health and stability. In contrast, funds for long-term investments relate to capital that is allocated for assets that will benefit the company over an extended period, rather than for immediate operational needs. Cash reserves for emergencies are set aside for unexpected expenses and do not directly contribute to day-to-day business operations. Debt financing pertains to borrowed funds that must be repaid over time, which is a separate consideration from operating capital, as it does not represent immediate funds available for operations. Thus, the focus on daily functioning is what makes the correct answer about operating capital distinctly appropriate.

5. How does the accounting cycle contribute to financial reporting?

- A. It allows for investor input
- B. It ensures accuracy in financial statements**
- C. It determines budget allocations
- D. It streamlines payroll processing

The accounting cycle plays a crucial role in contributing to financial reporting by ensuring accuracy in financial statements. This cyclical process involves a series of steps that begin with the identification and recording of financial transactions and continue through to the preparation of financial statements. Each step in the accounting cycle, such as journal entries, posting to ledgers, and adjusting entries, is designed to maintain detailed and accurate records. As these records are meticulously compiled, the risk of errors diminishes, and financial statements reflect a true and fair view of the organization's financial position. This accuracy is essential because stakeholders—including investors, creditors, and management—rely on these financial statements to make informed decisions. The other options, while related to various aspects of financial management, do not directly address the primary function of the accounting cycle in the context of financial reporting. Although investor input and budget allocations are important in broader financial planning, they do not specifically illustrate how the accounting cycle ensures accuracy and integrity in financial reporting. Similarly, payroll processing, while a part of overall financial management, is not the core focus of the accounting cycle in terms of financial statement accuracy.

6. How is fixed cost per unit calculated?

- A. Total fixed cost divided by total sales revenue
- B. Total fixed cost divided by level of activity**
- C. Total variable cost divided by total units produced
- D. Total costs divided by variable costs

Fixed cost per unit is calculated by dividing the total fixed cost by the level of activity, which is typically expressed in terms of units produced or sold. This calculation provides insight into how much of the total fixed costs contributes to each unit produced. Since fixed costs do not change with the level of production, spreading these costs across the total number of units helps in understanding the cost structure of production. As the number of units produced increases, the fixed cost per unit decreases, which is known as spreading the overhead. This approach allows businesses to analyze their cost behavior and helps in decision-making processes such as pricing and budgeting. Understanding the fixed cost per unit is essential for managers to determine how costs will affect profitability as production levels change.

7. Which overhead allocation method should be used for a business that mass-produces breakfast cereal?

- A. Job order costing.
- B. Process costing.**
- C. Product-line costing.
- D. ABC costing.

For a business that mass-produces breakfast cereal, process costing is the most suitable overhead allocation method. This approach is designed for industries where production occurs in continuous processes, and the products created are indistinguishable from one another, which aligns with the characteristics of mass production. In a process costing system, costs are accumulated by department or by process over a period of time. This allows businesses to spread out costs across large quantities of uniform products, such as different varieties of breakfast cereal being produced in extensive quantities. The allocation of overhead costs, labor, and materials is averaged over all units produced, making it efficient for tracking costs and pricing in high-volume operations. This method contrasts with job order costing, which is used for customized production where costs are tracked individually for specific jobs. Product-line costing is not a standard accounting method, and while ABC (Activity-Based Costing) can provide detailed insights into specific overhead costs, it may be more complex than necessary for a straightforward mass production scenario. Therefore, for mass production environments like those in the breakfast cereal industry, process costing effectively addresses the unique production and cost structure of the operation.

8. Which aspect does vertical analysis primarily assist understand regarding a company's performance?

- A. Overall revenue growth
- B. Comparative industry analysis
- C. Expense changes related to specific income statement line items**
- D. Long-term financial stability

Vertical analysis is primarily a technique used in financial statement analysis that expresses each item in the income statement as a percentage of total revenue. This approach allows for a clear view of how individual expenses relate to the overall structure of the income statement. By analyzing expenses as a percentage of revenue, it becomes easier to identify trends in cost management and assess how effectively a company is controlling its expenses relative to its income. Understanding expense changes related to specific income statement line items is crucial for evaluating the cost structure of the business. For instance, if a company's cost of goods sold is increasing as a percentage of revenue, it may indicate potential issues with pricing, supplier costs, or operational efficiencies. This insight enables stakeholders to make informed decisions regarding budgeting, financial forecasting, and strategic planning. While overall revenue growth, comparative industry analysis, and long-term financial stability are important aspects of financial analysis, they do not provide the same detailed insight into the composition of expenses as vertical analysis does. This makes vertical analysis particularly useful for management in their efforts to optimize operations and enhance profitability.

9. What is an essential activity in the managerial accounting workflow?

- A. Public Communication
- B. Information Preparation for Internal Decision Making**
- C. Sales Forecasting
- D. Research and Development Planning

In managerial accounting, the primary focus is on providing information that is useful for internal decision-making processes. This involves preparing various financial and non-financial data that managers require to plan, control, and make informed business decisions. Information preparation for internal decision making encompasses tasks such as budgeting, cost analysis, performance measurement, and variance analysis, all of which support managers in evaluating operational efficiency and implementing strategies to achieve organizational goals. This makes it an essential activity in the workflow of managerial accounting, as it directly impacts the effectiveness and efficiency of management practices within the organization. While public communication is important for financial accounting, it is not a core function of managerial accounting, which is intended exclusively for internal stakeholders. Sales forecasting and research and development planning are also valuable activities, but they represent broader operational functions that may not be exclusively tied to the managerial accounting process itself.

10. Who is considered a lender?

- A. Buys shares in the company
- B. Lends money with the intent to receive it back with interest**
- C. Analyzes profits and potential growth
- D. Provides financial advice for business growth

The term 'lender' specifically refers to an individual or institution that provides funds to borrowers with the expectation of being repaid with interest. This financial relationship is built on the premise that the lender assumes the risk of loaning money, while the borrower agrees to repay the borrowed amount plus interest over an agreed period. This practice is fundamental to the functioning of credit markets, where lending is essential for business operations, personal finance, and economic growth. In contrast, the other choices describe different roles within the financial landscape but do not fit the definition of a lender. Individuals who buy shares in a company are investors, not lenders, as they purchase equity rather than extending debt. Those who analyze profits and potential growth are typically financial analysts or consultants who assess company performance without providing funding directly. Similarly, those who provide financial advice for business growth are consultants or advisors, helping businesses strategize and manage their finances, but they do not lend money directly. Therefore, option B accurately defines the role of a lender in the financial ecosystem.

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!

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