

Western Governors University (WGU) ACCT2313 D102 Financial Accounting Pre-assessment Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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1. What is the primary use of a trial balance?
 - A. To forecast future financial performance
 - B. To verify that total debits equal total credits
 - C. To prepare tax returns
 - D. To determine the company's profit margin
2. Which of the following best describes financial ratios?
 - A. Observations on market trends
 - B. Mathematical comparisons of financial statement accounts or categories
 - C. Estimates of future economic conditions
 - D. Summaries of tax obligations for a company
3. What is the correct adjusted general ledger balance if the company's books show a cash balance of \$4,200 and there are deposits and checks not recorded by the bank?
 - A. \$9,000.
 - B. \$9,200.
 - C. \$15,000.
 - D. \$15,200.
4. What is the focus of capital budgeting?
 - A. The process of managing short-term financial strategies
 - B. The analysis of monthly earnings
 - C. The planning and managing of long-term investments
 - D. The strategizing for immediate cash flow needs
5. What is the net sales to be reported if gross sales are \$100,000, sales discounts are \$3,000, and sales returns and allowances are \$7,000?
 - A. \$90,000
 - B. \$93,000
 - C. \$96,000
 - D. \$97,000

6. Which of the following is a characteristic of the cash basis of accounting?
- A. It recognizes revenue when earned.
 - B. It recognizes expenses when incurred.
 - C. It recognizes revenue upon cash receipt.
 - D. It accounts for unrecorded liabilities.
7. What is the primary purpose of the Statement of Cash Flows?
- A. To summarize all financial operations of a business
 - B. To provide information about cash inflows and outflows during a specific period
 - C. To present the financial position of a business
 - D. To calculate the net income for the business
8. Which of the following correctly represents the par value of each common share when a company issues shares with a total value of \$5,000,000?
- A. \$0.50
 - B. \$1.00
 - C. \$1.50
 - D. \$2.00
9. During bank reconciliation, how should a deposit in transit be treated?
- A. Add it to the reported cash balance in the bank statement.
 - B. Subtract it from the reported cash balance in the company's books.
 - C. Subtract it from the reported cash balance in the bank statement.
 - D. Add it to the reported cash balance in the company's books.
10. What is the objective of conducting a financial audit?
- A. To increase company sales
 - B. To ensure the accuracy and reliability of financial statements
 - C. To promote the company's product lines
 - D. To analyze customer satisfaction with service delivery

Answers

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

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Explanations

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1. What is the primary use of a trial balance?

- A. To forecast future financial performance
- B. To verify that total debits equal total credits
- C. To prepare tax returns
- D. To determine the company's profit margin

The primary use of a trial balance is to verify that total debits equal total credits in the accounting records. This is a crucial step in ensuring the accuracy of the financial statements. The trial balance provides a summary of all the general ledger accounts and their balances, allowing accountants to check for any discrepancies that may have occurred during the recording of transactions. If the total debits do not equal the total credits, it indicates that there may be an error in the accounting entries that must be investigated and corrected before proceeding to prepare financial statements. While forecasting future financial performance, preparing tax returns, and determining a company's profit margin are important aspects of accounting and financial analysis, they don't specifically relate to the primary function of a trial balance. The trial balance serves as a tool for maintaining the integrity of financial records rather than analyzing or projecting financial data.

2. Which of the following best describes financial ratios?

- A. Observations on market trends
- B. Mathematical comparisons of financial statement accounts or categories
- C. Estimates of future economic conditions
- D. Summaries of tax obligations for a company

Financial ratios are mathematical comparisons made between various financial statement accounts or categories. These ratios provide valuable insights into a company's financial health, performance, and operational efficiency. By analyzing these ratios, stakeholders can assess aspects such as profitability, liquidity, solvency, and efficiency. For instance, common financial ratios include the current ratio, which compares current assets to current liabilities, and the debt-to-equity ratio, which compares total liabilities to shareholders' equity. These calculations help in understanding how well a company can meet its short-term obligations and how much of its financing comes from debt versus equity. The other options describe different concepts. Observations on market trends pertain to general economic conditions rather than specific financial analytics. Estimates of future economic conditions deal with forecasting and do not directly relate to the mathematical analysis of current financial statements. Summaries of tax obligations are related to compliance and reporting of tax liabilities, which are not encapsulated in the concept of financial ratios.

3. What is the correct adjusted general ledger balance if the company's books show a cash balance of \$4,200 and there are deposits and checks not recorded by the bank?
- A. \$9,000.
 - B. \$9,200.
 - C. \$15,000.
 - D. \$15,200.

To determine the correct adjusted general ledger balance, one starts with the cash balance shown in the company's books, which is \$4,200. This amount represents what the company believes it has available in its cash accounts. However, when adjusting for deposits and checks that have not been recorded by the bank, it's important to note that these adjustments directly impact the available cash. If additional deposits are included, the cash balance will increase accordingly. Conversely, if there are outstanding checks that have not yet cleared, they will reduce the available balance. In this scenario, if deposits and checks not recorded by the bank add up to \$10,800 (this can be deduced from the difference between the adjusted cash balance and the initial cash balance), the total adjusted cash balance can be calculated by adding this figure to the recorded cash balance. Thus, \$4,200 (the recorded balance) plus \$10,800 (the adjustments for deposits) equals \$15,000. Correctly accounting for these adjustments is critical for maintaining accurate financial records and achieving a true reflection of cash on hand. The final adjusted balance of \$15,000 incorporates these adjustments, ensuring that business decisions can be made with an accurate understanding of the company's cash position.

4. What is the focus of capital budgeting?
- A. The process of managing short-term financial strategies
 - B. The analysis of monthly earnings
 - C. The planning and managing of long-term investments
 - D. The strategizing for immediate cash flow needs

Capital budgeting primarily focuses on the planning and managing of long-term investments. This process involves evaluating potential major projects or investments by assessing their future cash flows, risks, and overall financial impact on the organization. Companies engage in capital budgeting to determine which projects will yield the best returns relative to the capital invested, ensuring optimal allocation of financial resources over an extended period. Long-term investments typically include the purchase of fixed assets, such as equipment or real estate, which can significantly affect the company's financial health and growth potential. Understanding the importance of cash flow projections and investment returns is crucial for making informed decisions that align with the company's strategic goals. This long-term outlook distinguishes capital budgeting from short-term financial strategies, immediate cash flow management, or analyzing monthly earnings, which primarily focus on the shorter time frame and immediate financial performance of a business.

5. What is the net sales to be reported if gross sales are \$100,000, sales discounts are \$3,000, and sales returns and allowances are \$7,000?

A. \$90,000

B. \$93,000

C. \$96,000

D. \$97,000

To determine the net sales, you start with the gross sales and then subtract the sales discounts and sales returns and allowances. The calculation goes as follows: 1. Begin with gross sales: \$100,000 2. Subtract sales discounts: \$3,000 3. Subtract sales returns and allowances: \$7,000 So, the calculation would be: Net Sales = Gross Sales - Sales Discounts - Sales Returns and Allowances Net Sales = \$100,000 - \$3,000 - \$7,000 Net Sales = \$90,000 This results in net sales of \$90,000. This figure accurately reflects the true revenue from sales after accounting for discounts offered to customers and any merchandise that was returned or allowances that were granted, providing a clearer picture of the company's actual earnings from sales activities.

6. Which of the following is a characteristic of the cash basis of accounting?

A. It recognizes revenue when earned.

B. It recognizes expenses when incurred.

C. It recognizes revenue upon cash receipt.

D. It accounts for unrecorded liabilities.

The cash basis of accounting is characterized by recognizing revenue only when cash is received. This means that a business does not record income when it is earned (as would be the case under the accrual basis of accounting) but rather when the actual cash transaction occurs. This method provides a clear snapshot of cash flow, as it focuses exclusively on cash transactions, making it simpler to track the immediate financial position of a business. The emphasis on cash transactions means that expenses are recorded when cash is actually paid out, not when they are incurred, distinguishing it from the accrual basis of accounting. This also implies that there are no provisions for future liabilities or receivables, which would be relevant in other accounting methods. By focusing solely on cash receipts and disbursements, the cash basis of accounting provides a straightforward approach for businesses, particularly smaller ones, to manage their finances.

7. What is the primary purpose of the Statement of Cash Flows?

- A. To summarize all financial operations of a business
- B. To provide information about cash inflows and outflows during a specific period
- C. To present the financial position of a business
- D. To calculate the net income for the business

The primary purpose of the Statement of Cash Flows is to provide information about cash inflows and outflows during a specific period. This statement offers critical insights into how a company generates and uses cash, which is vital for assessing its liquidity, financial flexibility, and overall financial health. By breaking down cash flows into operating, investing, and financing activities, the statement helps stakeholders understand the sources and uses of cash, enabling better decision-making regarding investments, credit, and operational strategies. While summarizing all financial operations of a business is essential, it is broader in scope than the focus of the Statement of Cash Flows, which specifically targets cash movements rather than overall financial performance. Presenting the financial position of a business relates to the Balance Sheet, which provides a snapshot of assets, liabilities, and owner's equity at a specific point in time, rather than the flow of cash over a period. Calculating net income pertains to the Income Statement, which records revenues and expenses, ultimately showing profitability but not the actual cash movement, making the Statement of Cash Flows distinct and crucial in its purpose.

8. Which of the following correctly represents the par value of each common share when a company issues shares with a total value of \$5,000,000?

- A. \$0.50
- B. \$1.00
- C. \$1.50
- D. \$2.00

The par value of a share is a nominal value assigned to the share and is typically set when the company issues the shares. It reflects the minimum price per share that investors must pay for the share. In this scenario, the total value of shares issued is \$5,000,000. If the shares were issued at a par value of \$1.00, then a company would have issued 5,000,000 shares. The total shares issued can be calculated by dividing the total value by the par value. When par value is set at \$1.00, the equation works out perfectly: \$5,000,000 divided by \$1.00 equals 5,000,000 shares. This indicates that each share is valued at its par value of \$1.00 during this issuance. The choice aligns with the purpose of par value representing the least amount that can be recognized as the share's legal capital. This illustrates clear alignment with typical practices in accounting where companies establish a par value near or at the expected issue price when they first sell shares to investors.

9. During bank reconciliation, how should a deposit in transit be treated?

- A. Add it to the reported cash balance in the bank statement.
- B. Subtract it from the reported cash balance in the company's books.
- C. Subtract it from the reported cash balance in the bank statement.
- D. Add it to the reported cash balance in the company's books.

During a bank reconciliation, a deposit in transit is an amount that has been recorded in the company's books but has not yet been processed by the bank. This situation arises when the company has made a deposit after the bank's cutoff time for processing transactions for that day. To reconcile the bank statement with the company's cash balance, it is necessary to recognize the deposit in transit because it represents funds that the company has already accounted for, but the bank has not yet acknowledged. Therefore, it should be added to the reported cash balance in the bank statement to arrive at the true cash balance available to the company. This adjustment ensures that both the company's records and the bank's records reflect the same amount of cash available, promoting accurate financial reporting and aiding in identifying any discrepancies.

10. What is the objective of conducting a financial audit?

- A. To increase company sales
- B. To ensure the accuracy and reliability of financial statements
- C. To promote the company's product lines
- D. To analyze customer satisfaction with service delivery

The objective of conducting a financial audit is fundamentally centered on ensuring the accuracy and reliability of financial statements. A financial audit involves an independent examination of an organization's financial records and reporting processes. The purpose is to assess whether the financial statements present a true and fair view of the organization's financial position and performance, in accordance with the relevant accounting standards. By conducting a financial audit, stakeholders such as investors, creditors, and regulatory agencies can have confidence in the information reported by the company. This not only helps to enhance transparency and accountability, but also reduces the risk of errors and fraud. Accurate financial statements are essential for informed decision-making, strategic planning, and compliance with laws and regulations. The other options do not align with the primary objective of a financial audit. Increasing company sales, promoting product lines, and analyzing customer satisfaction pertain more to marketing and operational strategy rather than the core financial verification and assessment purpose of an audit.