Western Governors University (WGU) ACCT3314 D101 Cost and Managerial Accounting Practice Exam (Sample)

Study Guide

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Questions

1. What is sales mix?
    A. Proportion of operating income from each operating division
    B. Proportion of sales revenue from each product
    C. Ratio between purchase cost and selling price
    D. Ratio between accounts receivable balance and total sales

2. What does the contribution margin per unit represent?
    A. The selling price of a product
    B. Total fixed costs incurred
    C. Sales revenue minus total variable costs
    D. Sales revenue minus fixed costs

3. Which element does not directly impact contribution margin?
    A. Selling price per unit
    B. Variable cost per unit
    C. Fixed costs
    D. Sales volume

4. The cost of electricity to operate machines in a factory is an example of which type of ABC support activity?
    A. Facility support activity
    B. Batch activity
    C. Product line activity
    D. Unit activity

5. What key element should be tracked in job order costing?
    A. Only direct materials used
    B. Each labor hour worked on product jobs
    C. The cost flows for each specific job
    D. Market prices of similar products

6. What defines a price maker?

A. A firm that is unable to influence market prices

B. A firm that sets the price within the market

C. A company that has rigid pricing policies

D. A company that must follow market prices

7. Which term is used for direct materials and conversion costs associated with items started but not finished?

A. Finished goods inventory

B. Work-in-process inventory

C. Cost of goods sold

D. Direct labor

8. What does an overhead variance represent?

A. The relationship between fixed and variable costs

B. The difference between actual overhead incurred and the overhead applied based on the standard rate

C. The total indirect costs for the production period

D. The change in overhead costs over time

9. What is a cost center?

A. A department or unit within an organization that does not directly generate revenue but incurs costs

B. A division responsible for generating revenue through sales

C. A financial unit that oversees company profit margins

D. A project team tasked with cost-saving initiatives

10. Which of the following best describes work-in-process inventory?

A. Products that are completed and ready for sale

B. Raw materials waiting to be manufactured

C. Products that are in the manufacturing process but not yet complete

D. Finished goods that have not yet been sold

Answers

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

Explanations

1. What is sales mix?

A. Proportion of operating income from each operating division

B. Proportion of sales revenue from each product

C. Ratio between purchase cost and selling price

D. Ratio between accounts receivable balance and total sales

The concept of sales mix refers to the proportion of sales revenue contributed by each product within a company's total sales. Understanding sales mix is crucial for managers because it directly affects the company's profitability and resource allocation. Each product may have different profit margins, and analyzing the sales mix can help identify which products are performing well and contributing most to the overall profitability. By focusing on the sales mix, management can make informed decisions regarding product promotion, pricing strategies, and inventory management. This analysis enables businesses to maximize their profitability by prioritizing products that yield higher contributions to overall sales revenue. The other options do not accurately capture the essence of sales mix, as they either address different aspects of financial performance or metrics not directly related to product sales proportions.

2. What does the contribution margin per unit represent?

A. The selling price of a product

B. Total fixed costs incurred

C. Sales revenue minus total variable costs

D. Sales revenue minus fixed costs

The contribution margin per unit represents the amount of revenue that remains after all variable costs have been subtracted from sales revenue for each unit sold. This means it indicates how much of the sales price contributes to covering fixed costs and generating profit. The contribution margin is crucial for decision-making in cost and managerial accounting, as it helps businesses determine the impact of their sales on profitability. By analyzing contribution margins, management can assess the profitability of individual products and make informed decisions on pricing, production, and sales strategies. Understanding this concept is vital, as it illustrates how effectively a company is using its sales to cover costs and contribute to profit. The other options do not accurately capture this definition: selling price refers to the total price paid by customers; total fixed costs relate to expenses that remain constant regardless of production volume; while sales revenue minus fixed costs looks at overall profitability rather than the contribution margin's focus on variable costs.

3. Which element does not directly impact contribution margin?

A. Selling price per unit

B. Variable cost per unit

C. Fixed costs

D. Sales volume

Contribution margin is defined as the selling price per unit minus the variable cost per unit. This metric is crucial for understanding how much revenue from sales contributes to covering fixed costs and generating profit. Selling price per unit and variable cost per unit are both directly involved in calculating contribution margin. An increase in the selling price per unit raises the contribution margin, while an increase in variable costs reduces it. Sales volume also affects the overall contribution margin in that as more units are sold, the total contribution margin increases, assuming constant prices and costs. Fixed costs, on the other hand, do not affect the contribution margin directly. While they are important for understanding overall profitability and break-even points, they remain constant regardless of the number of units sold or the prices/variable costs associated with those units. Thus, while fixed costs impact overall profit, they do not influence the calculation of contribution margin itself.

4. The cost of electricity to operate machines in a factory is an example of which type of ABC support activity?

A. Facility support activity

B. Batch activity

C. Product line activity

D. Unit activity

The cost of electricity to operate machines in a factory is categorized as a unit activity in Activity-Based Costing (ABC). Unit activities are those costs that are incurred each time a unit of product is produced. Since the electricity is necessary for the operation of machines as they produce products, it directly ties to the volume of production. Therefore, the more units that are produced, the more electricity is consumed, making it a cost that varies directly with production levels. In ABC, it is essential to identify how costs behave with respect to production to accurately allocate costs to products. Recognizing electricity as a unit activity helps ensure that the overhead costs are appropriately assigned based on actual production levels, leading to more precise product costing and profitability analysis. This understanding aids in effective decision-making about pricing, production levels, and operational efficiencies.

5. What key element should be tracked in job order costing?

A. Only direct materials used

B. Each labor hour worked on product jobs

C. The cost flows for each specific job

D. Market prices of similar products

In job order costing, the primary focus is on tracking the cost flows for each specific job. This method is used when products are manufactured based on specific customer orders, and each job can have different requirements and costs associated with it. By tracking the cost flows for each job, businesses can accurately assign the costs of materials, labor, and overhead to individual jobs, which is crucial for determining profitability and pricing. This tracking allows for a clear understanding of how much each job costs, helping managers make informed decisions about pricing, budgeting, and resource allocation. It ensures that all costs are accounted for specific jobs rather than aggregated across the entire production process, which is essential for analyzing performance and controlling costs on a per-job basis.

6. What defines a price maker?

A. A firm that is unable to influence market prices

B. A firm that sets the price within the market

C. A company that has rigid pricing policies

D. A company that must follow market prices

A price maker is a firm that has the ability to set the price for its products or services within the market. This is typically characteristic of monopolies or firms in a market with limited competition, where they have enough market power to influence the price rather than simply accepting the market price. When a firm is defined as a price maker, it indicates that the company has control over its pricing strategy, allowing it to adjust prices based on its perceived value, demand, and other market factors. In contrast, a firm that is unable to influence market prices would be classified as a price taker, meaning it must accept the prevailing market price without the power to change it. Rigid pricing policies suggest that a company has predetermined prices which they do not adjust in response to market fluctuations, indicating a lack of flexibility rather than a proactive approach to setting prices. Lastly, a company that must follow market prices similarly indicates a lack of pricing power, further confirming that option does not align with the definition of a price maker. Therefore, identifying a firm as a price maker revolves around its ability to actively set and influence the prices in the marketplace.

7. Which term is used for direct materials and conversion costs associated with items started but not finished?

A. Finished goods inventory

B. Work-in-process inventory

C. Cost of goods sold

D. Direct labor

The term that refers to direct materials and conversion costs associated with items that have been started but are not yet finished is known as work-in-process inventory. This represents the costs that have already been incurred for products that are still in the manufacturing process but have not been completed. In a manufacturing environment, work-in-process inventory captures the value of materials that have entered the production process, as well as the labor and overhead costs that are being applied to those goods as they are transformed into finished products. This is critical for understanding the overall cost structure of production and is a key component of determining the total costs associated with goods manufactured. The concept of finished goods inventory refers to completed products that are ready for sale; cost of goods sold pertains to the costs attributable to goods that have already been sold during a period; and direct labor specifically refers to labor costs directly associated with production, but does not encompass materials or overhead costs, nor does it explicitly represent work that is still ongoing. Thus, work-in-process inventory is the most accurate choice for representing costs tied to items started but not finished.

8. What does an overhead variance represent?

A. The relationship between fixed and variable costs

B. The difference between actual overhead incurred and the overhead applied based on the standard rate

C. The total indirect costs for the production period

D. The change in overhead costs over time

An overhead variance represents the difference between the actual overhead incurred and the overhead applied based on the standard rate. This concept is crucial for managers and accountants as it helps in understanding how well the business is managing its overhead costs. When a company applies overhead costs to products, it uses a predetermined overhead rate, often based on direct labor hours or machine hours. Once the actual overhead costs are determined at the end of the period, comparing these to the applied overhead allows organizations to identify variances. If actual overhead costs exceed the applied overhead, it indicates that the company spent more on overhead than anticipated, which can signify inefficiencies or unexpected expenses. Conversely, if actual overhead is less than applied, it suggests better-than-expected cost management or lower usage of resources. This variance analysis is important as it helps management make informed decisions to control costs and optimize operations.

9. What is a cost center?

A. A department or unit within an organization that does not directly generate revenue but incurs costs

B. A division responsible for generating revenue through sales

C. A financial unit that oversees company profit margins

D. A project team tasked with cost-saving initiatives

A cost center is defined as a department or unit within an organization that does not directly generate revenue but incurs costs. This concept is central to cost accounting and managerial accounting because it allows organizations to track and manage expenses by identifying specific areas where costs are incurred. The focus for a cost center is on controlling and reducing costs rather than generating sales or revenue. Cost centers play a crucial role in budgeting and financial planning since they help organizations understand where and how resources are being utilized. By analyzing the costs associated with various cost centers, management can make informed decisions about resource allocation, cost control measures, and operational efficiency. In contrast, options that refer to generating revenue, overseeing company profit margins, or addressing cost-saving initiatives do not align with the definition of a cost center, as they focus more on revenue generation and financial outcomes rather than purely managing and analyzing costs. Understanding the role of cost centers helps in evaluating departmental performance and implementing effective cost management strategies within an organization.

10. Which of the following best describes work-in-process inventory?

A. Products that are completed and ready for sale

B. Raw materials waiting to be manufactured

C. Products that are in the manufacturing process but not yet complete

D. Finished goods that have not yet been sold

Work-in-process inventory refers specifically to the items that are in the manufacturing process but have not yet been completed. This includes all costs incurred to date for those products, such as materials, labor, and overhead, that are still in the production phase. In a manufacturing context, work-in-process inventory is crucial for understanding production efficiency and operational costs. It captures the value of all partially finished goods, which can provide insights into production timelines and financial metrics related to manufacturing. The other options describe different stages of inventory. Products that are completed and ready for sale relate to finished goods, while raw materials waiting to be manufactured are categorized as raw materials inventory. Finished goods that have not yet been sold are also in a separate category, distinct from work-in-process. Thus, option C accurately identifies the nature of work-in-process inventory.