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Exam : **Accounting for Decision Makers**

Title : WGU Accounting for
Decision Makers C213
VAC2

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1.Which statement best describes accounting?

- A. A system for entertainment reporting
- B. A system for identifying, recording, and communicating financial information
- C. A method used only for tax filing
- D. A process used only by banks

Answer: B

2.Which group is most likely an external user of accounting information?

- A. Production supervisor
- B. Department manager
- C. Creditor
- D. Store clerk

Answer: C

3.Which group is the primary internal user of accounting information?

- A. Investors
- B. Government agencies
- C. Management
- D. Customers

Answer: C

4.What does GAAP stand for?

- A. General Accounting Application Policies
- B. Generally Accepted Accounting Principles
- C. Global Accounting Approval Procedures
- D. Governmental Accepted Audit Practices

Answer: B

5.Which organization develops accounting standards for the private sector in the United States?

- A. IRS
- B. SEC
- C. FASB
- D. PCAOB

Answer: C

6.Which organization has legal authority over accounting standards for publicly traded U.S. companies?

- A. SEC
- B. FASB
- C. AICPA
- D. IASB

Answer: A

7.The standards issued by the IASB are known as:

- A. SOX

- B. IFRS
- C. GAAS
- D. PCAOB Rules

Answer: B

8. Which of the following is not usually a service provided by public accounting firms?

- A. Auditing financial statements
- B. Tax preparation
- C. Consulting
- D. Making management decisions for clients

Answer: D

9. CPA stands for:

- A. Certified Professional Analyst
- B. Certified Public Accountant
- C. Corporate Public Auditor
- D. Certified Planning Associate

Answer: B

10. Financial accounting focuses primarily on the needs of:

- A. Internal production teams
- B. Investors and creditors
- C. Inventory clerks
- D. Human resources staff

Answer: B

11. Managerial accounting focuses primarily on the needs of:

- A. External lenders
- B. Potential stockholders
- C. Internal decision makers
- D. Regulatory agencies only

Answer: C

12. Which of the following is a basic purpose of accounting information?

- A. To eliminate all business risk
- B. To support economic decisions
- C. To guarantee higher profits
- D. To replace management judgment

Answer: B

13. The accounting equation is:

- A. Assets = Revenues + Expenses
- B. Assets = Liabilities + Owners' Equity
- C. Cash = Liabilities – Equity

D. Revenue = Assets – Liabilities

Answer: B

14. Which of the following is an asset?

- A. Accounts payable
- B. Common stock
- C. Equipment
- D. Rent expense

Answer: C

15. Which of the following is a liability?

- A. Notes payable
- B. Land
- C. Sales revenue
- D. Retained earnings

Answer: A

16. Which of the following is part of owners' equity?

- A. Accounts receivable
- B. Mortgage payable
- C. Retained earnings
- D. Unearned revenue

Answer: C

17. Which of the following is normally the most liquid asset?

- A. Inventory
- B. Equipment
- C. Cash
- D. Land

Answer: C

18. A company's economic resources are called:

- A. Expenses
- B. Assets
- C. Revenues
- D. Liabilities

Answer: B

19. Obligations owed to outside parties are called:

- A. Equity
- B. Revenues
- C. Liabilities
- D. Gains

Answer: C

20. Residual interest in the assets of a business after deducting liabilities is called:

- A. Revenue
- B. Owners' equity
- C. Expense
- D. Gross profit

Answer: B

21. Which financial statement reports resources, obligations, and owners' claims at a point in time?

- A. Income statement
- B. Statement of cash flows
- C. Balance sheet
- D. Statement of retained earnings

Answer: C

22. Which financial statement reports revenues and expenses for a period of time?

- A. Balance sheet
- B. Income statement
- C. Cash budget
- D. Audit report

Answer: B

23. Which financial statement reports cash inflows and outflows by category?

- A. Statement of retained earnings
- B. Balance sheet
- C. Statement of cash flows
- D. Income statement

Answer: C

24. Which statement explains changes in retained earnings during a period?

- A. Statement of retained earnings
- B. Statement of financial position
- C. Trial balance
- D. Bank reconciliation

Answer: A

25. Revenues generally cause:

- A. A decrease in net assets
- B. An increase in net assets
- C. No change in equity
- D. A decrease in liabilities only

Answer: B

26. Expenses generally cause:

- A. An increase in net assets
- B. A decrease in net assets
- C. A decrease in liabilities only
- D. An increase in contributed capital

Answer: B

27.Dividends generally:

- A. Increase net income
- B. Decrease retained earnings
- C. Increase liabilities
- D. Increase revenues

Answer: B

28.The cost principle means assets are generally recorded at:

- A. Estimated market value
- B. Historical exchange price
- C. Replacement cost
- D. Future cash value

Answer: B

29.The process of formally recording an item in the accounting records is called:

- A. Disclosure
- B. Recognition
- C. Comparison
- D. Verification

Answer: B

30.The process of determining the dollar amount assigned to an item is called:

- A. Valuation
- B. Articulation
- C. Relevance
- D. Materiality

Answer: A

31.Reporting additional details in notes to the financial statements is called:

- A. Recognition
- B. Valuation
- C. Disclosure
- D. Allocation

Answer: C

32.Which of the following best describes relevance?

- A. Information can be verified
- B. Information is useful in making decisions

- C. Information always favors lower income
- D. Information is only cash-based

Answer: B

33. Which qualitative characteristic means information can be checked and trusted?

- A. Relevance
- B. Reliability
- C. Timeliness
- D. Conservatism

Answer: B

34. Materiality refers to whether information:

- A. Is expressed in cash
- B. Is large enough to influence decisions
- C. Is audited
- D. Is reported monthly

Answer: B

35. Conservatism suggests that when in doubt, accountants should avoid:

- A. Understating liabilities
- B. Overstating assets and income
- C. Recording expenses
- D. Preparing notes

Answer: B

36. Comparability allows users to:

- A. Ignore accounting differences
- B. Relate information to benchmarks or other companies
- C. Eliminate all judgment
- D. Replace analysis with estimates

Answer: B

37. The idea that financial statements are connected and help explain one another is called:

- A. Liquidity
- B. Articulation
- C. Recognition
- D. Allocation

Answer: B

38. Which of the following is a current asset?

- A. Land
- B. Patent
- C. Inventory
- D. Bonds payable

Answer: C

39. Which of the following is a long-term asset?

- A. Cash
- B. Accounts receivable
- C. Land
- D. Supplies

Answer: C

40. Which of the following is typically a current liability?

- A. Mortgage payable due in 15 years
- B. Accounts payable
- C. Common stock
- D. Land held for investment

Answer: B

41. Current assets are usually listed on a balance sheet in:

- A. Random order
- B. Alphabetical order
- C. Decreasing order of liquidity
- D. Increasing order of profitability

Answer: C

42. If assets equal \$500,000 and liabilities equal \$300,000, owners' equity equals:

- A. \$200,000
- B. \$300,000
- C. \$500,000
- D. \$800,000

Answer: A

43. If a business owner invests cash into the company, the effect is:

- A. Cash decreases and equity decreases
- B. Cash increases and equity increases
- C. Liability increases and cash decreases
- D. Expense increases and equity decreases

Answer: B

44. If a company borrows cash from a bank, the effect is:

- A. Cash increases and liability increases
- B. Cash decreases and liability increases
- C. Equity increases and cash increases
- D. Expense decreases and cash increases

Answer: A

45.If a company buys equipment on credit, the effect is:

- A. Equipment increases and liability increases
- B. Equipment decreases and cash decreases
- C. Cash increases and revenue increases
- D. Liability decreases and equity decreases

Answer: A

46.If a company pays cash for a building, the effect is:

- A. Cash increases and building decreases
- B. Building increases and cash decreases
- C. Liability increases and cash decreases
- D. Revenue increases and building increases

Answer: B

47.Which of the following decreases owners' equity?

- A. Owner investment
- B. Revenue earned
- C. Operating loss
- D. Borrowing cash

Answer: C

48.Which of the following is not an external user of financial statements?

- A. Supplier
- B. Investor
- C. Creditor
- D. Operations manager

Answer: D

49.A borrower may benefit from providing reliable financial information because it can lead to:

- A. Higher uncertainty for lenders
- B. Lower interest rates
- C. Automatic tax refunds
- D. No need for collateral ever again

Answer: B

50.Which of the following best describes net income?

- A. Assets minus liabilities
- B. Revenues minus expenses
- C. Cash receipts minus cash payments
- D. Contributed capital minus dividends

Answer: B

51.Gross profit is calculated as:

- A. Sales – Operating expenses

- B. Sales – Cost of goods sold
- C. Net income + Interest expense
- D. Sales – Taxes

Answer: B

52. Operating income is generally calculated as:

- A. Gross profit – Operating expenses
- B. Sales – Dividends
- C. Net income + Taxes
- D. Cash from operations – Investing activities

Answer: A

53. Which item appears on the income statement rather than the balance sheet?

- A. Accounts receivable
- B. Revenue
- C. Notes payable
- D. Retained earnings

Answer: B

54. Which item appears on the balance sheet rather than the income statement?

- A. Depreciation expense
- B. Sales revenue
- C. Inventory
- D. Cost of goods sold

Answer: C

55. Which activity would be classified as an operating cash inflow?

- A. Issuance of common stock
- B. Sale of land
- C. Collection from customers
- D. Borrowing from a bank

Answer: C

56. Which activity would be classified as an investing cash outflow?

- A. Payment of wages
- B. Purchase of equipment
- C. Payment of dividends
- D. Repayment of a loan

Answer: B

57. Which activity would be classified as a financing cash inflow?

- A. Collection from customers
- B. Sale of inventory
- C. Borrowing from a bank

D. Sale of equipment

Answer: C

58. Which activity would be classified as a financing cash outflow?

- A. Purchase of land
- B. Payment of dividends
- C. Collection of accounts receivable
- D. Payment for inventory

Answer: B

59. Which of the following is not an investing activity?

- A. Purchase of land
- B. Sale of equipment
- C. Purchase of inventory
- D. Purchase of a building

Answer: C

60. A major source of operating cash inflow is:

- A. Owner investment
- B. Borrowing
- C. Sale of goods or services
- D. Sale of land

Answer: C

61. The notes to financial statements often include:

- A. Only totals already shown on the balance sheet
- B. Significant accounting policies
- C. Daily employee time records
- D. Customers' private passwords

Answer: B

62. Which of the following would most likely be disclosed in the notes?

- A. Cash balance
- B. Accounts payable total
- C. Method used to estimate depreciation
- D. Share price chart only

Answer: C

63. An uncertain lawsuit is most likely reported through:

- A. Immediate revenue recognition
- B. Note disclosure
- C. Inventory write-up
- D. Dividend declaration only

Answer: B

64.The independent audit report is usually issued by:

- A. Management
- B. A certified public accountant
- C. The SEC
- D. Shareholders

Answer: B

65.Auditors are primarily responsible for:

- A. Preparing management's budgets
- B. Guaranteeing no fraud exists
- C. Providing assurance that statements are not materially misleading
- D. Managing the company's internal controls daily

Answer: C

66.Who is primarily responsible for the accuracy of financial statements?

- A. External auditors
- B. Management
- C. Creditors
- D. Stock exchanges

Answer: B

67.Which of the following best explains why society can trust independent auditors?

- A. They work for free
- B. Reputation and risk of lawsuits
- C. They guarantee all future profits
- D. They are always government employees

Answer: B

68.A classified balance sheet separates:

- A. Revenues and expenses
- B. Current and long-term items
- C. Cash and accrual items
- D. Notes and schedules

Answer: B

69.A common-size balance sheet expresses each item as a percentage of:

- A. Sales revenue
- B. Net income
- C. Total assets
- D. Current liabilities

Answer: C

70.A common-size income statement expresses each item as a percentage of:

- A. Total assets
- B. Sales revenue
- C. Equity
- D. Cash flow from operations

Answer: B

71.If current assets are \$180,000 and current liabilities are \$120,000, the current ratio is:

- A. 0.67
- B. 1.20
- C. 1.50
- D. 2.00

Answer: C

72.If cash is \$30,000, accounts receivable is \$40,000, inventory is \$50,000, and current liabilities are \$60,000, the quick ratio is:

- A. 0.50
- B. 0.83
- C. 1.17
- D. 2.00

Answer: C

73.If total liabilities are \$400,000 and total assets are \$500,000, the debt ratio is:

- A. 40%
- B. 60%
- C. 80%
- D. 125%

Answer: C

74.If net income is \$50,000 and sales revenue is \$500,000, return on sales is:

- A. 5%
- B. 10%
- C. 20%
- D. 50%

Answer: B

75.If sales are \$900,000 and average total assets are \$600,000, asset turnover is:

- A. 0.67
- B. 1.00
- C. 1.50
- D. 2.00

Answer: C

76.If net income is \$72,000 and average owners' equity is \$360,000, return on equity is:

- A. 10%

- B. 15%
- C. 20%
- D. 25%

Answer: C

77.If market value of shares is \$480,000 and net income is \$40,000, the price-earnings ratio is:

- A. 8
- B. 10
- C. 12
- D. 15

Answer: C

78.Which ratio is most closely related to short-term liquidity?

- A. Debt ratio
- B. Current ratio
- C. Return on equity
- D. Price-earnings ratio

Answer: B

79.Which ratio measures the proportion of assets financed by liabilities?

- A. Return on sales
- B. Asset turnover
- C. Debt ratio
- D. Gross profit ratio

Answer: C

80.Which ratio measures how efficiently assets are used to generate sales?

- A. Current ratio
- B. Asset turnover
- C. Debt ratio
- D. P/E ratio

Answer: B

81.Which ratio measures profitability relative to stockholders' investment?

- A. Return on equity
- B. Current ratio
- C. Debt ratio
- D. Quick ratio

Answer: A

82.The DuPont approach breaks return on equity into:

- A. Current ratio \times debt ratio
- B. Profit margin \times asset turnover \times equity multiplier
- C. Sales \times expenses \times taxes

D. Assets × liabilities × dividends

Answer: B

83.If beginning retained earnings are \$120,000, net income is \$35,000, and dividends are \$10,000, ending retained earnings are:

- A. \$85,000
- B. \$145,000
- C. \$155,000
- D. \$165,000

Answer: B

84.If gross profit declines while cost of goods sold remains the same, which is most likely true?

- A. Sales increased
- B. Sales decreased
- C. Interest expense increased
- D. Dividends increased

Answer: B

85.Earnings per share is calculated as:

- A. Net income ÷ total assets
- B. Net income ÷ shares outstanding
- C. Sales ÷ shares issued during the year
- D. Gross profit ÷ common stock

Answer: B

86.If a company has revenues of \$800,000 and expenses of \$620,000, net income is:

- A. \$180,000
- B. \$620,000
- C. \$800,000
- D. \$1,420,000

Answer: A

87.A company has sales of \$528,000 and net income of \$158,400. Total expenses were:

- A. \$211,200
- B. \$316,800
- C. \$369,600
- D. \$686,400

Answer: C

88.Which item affects retained earnings directly but not net income?

- A. Sales revenue
- B. Cost of goods sold
- C. Dividends
- D. Operating expense

Answer: C

89. Which financial statement is most useful for evaluating cash adequacy?

- A. Balance sheet
- B. Income statement
- C. Statement of cash flows
- D. Statement of retained earnings

Answer: C

90. In a multiple-step income statement, which subtotal appears before operating income?

- A. Comprehensive income
- B. Gross profit
- C. Retained earnings
- D. EPS

Answer: B

91. A company with strong profits but weak operating cash flows may need to closely examine:

- A. Revenue collection and working capital
- B. The company logo
- C. Only long-term debt ratings
- D. Only dividends per share

Answer: A

92. Which would increase operating cash flow under the indirect method?

- A. Increase in accounts receivable
- B. Increase in inventory
- C. Depreciation expense
- D. Decrease in accounts payable

Answer: C

93. Under the indirect method, an increase in inventory is:

- A. Added to net income
- B. Deducted from net income
- C. Financing cash inflow
- D. Investing cash outflow

Answer: B

94. Under the indirect method, an increase in accounts payable is:

- A. Added to net income
- B. Deducted from net income
- C. Ignored
- D. Classified as financing

Answer: A

95. A gain on sale of equipment is usually treated in the operating section of the indirect cash flow statement by:

- A. Adding it to net income
- B. Deducting it from net income
- C. Ignoring it entirely
- D. Reporting it as dividends paid

Answer: B

96. Why are note disclosures important?

- A. They make recognition unnecessary
- B. They can provide essential context not visible in totals alone
- C. They eliminate uncertainty
- D. They replace audit reports

Answer: B

97. If current assets are \$240,000 and total assets are \$600,000, current assets are what percent of total assets?

- A. 20%
- B. 30%
- C. 40%
- D. 60%

Answer: C

98. If total liabilities are \$300 million, total owners' equity is \$100 million, and current assets are \$50 million, long-term assets equal:

- A. \$250 million
- B. \$300 million
- C. \$350 million
- D. \$400 million

Answer: C

99. Which of the following is most consistent with strong financial analysis?

- A. Looking at one number in isolation
- B. Comparing ratios across time and against competitors
- C. Ignoring accounting policies
- D. Focusing only on cash balances

Answer: B

100. Which statement best describes prognosis in financial statement analysis?

- A. It means recording journal entries
- B. It means predicting future performance
- C. It means auditing tax returns
- D. It means preparing bank reconciliations

Answer: B

101. Managerial accounting differs from financial accounting because managerial accounting:

- A. Must follow GAAP in all internal reports
- B. Focuses only on past transactions
- C. Can include both financial and nonfinancial information
- D. Is intended primarily for investors

Answer: C

102. Which of the following is a product cost in manufacturing?

- A. Advertising expense
- B. Direct materials
- C. Office rent
- D. Sales commission

Answer: B

103. Which of the following is normally a period cost?

- A. Direct labor
- B. Manufacturing overhead
- C. Advertising
- D. Raw materials used in production

Answer: C

104. Direct materials are materials that:

- A. Are too small to trace to products
- B. Are traceable to specific products
- C. Are used only in administration
- D. Are never inventoried

Answer: B

105. Direct labor refers to labor that:

- A. Can be traced directly to products
- B. Includes all office salaries
- C. Is always fixed
- D. Is always indirect

Answer: A

106. Manufacturing overhead includes:

- A. Direct materials only
- B. Direct labor only
- C. Indirect manufacturing costs
- D. Selling and administrative expenses only

Answer: C

107. Which of the following is most likely an indirect manufacturing cost?

- A. Lumber used in furniture production
- B. Wages of assembly line workers
- C. Factory supervisor salary
- D. Sales commission

Answer: C

108. Which of the following is most likely a variable cost?

- A. Raw materials
- B. Factory rent
- C. Straight-line depreciation
- D. CEO salary

Answer: A

109. Which of the following is most likely a fixed cost?

- A. Shipping cost per unit
- B. Direct labor paid per piece
- C. Factory lease
- D. Packaging cost per item

Answer: C

110. Within the relevant range, total fixed cost:

- A. Changes in direct proportion to volume
- B. Remains constant
- C. Decreases with higher volume
- D. Equals total variable cost

Answer: B

111. Within the relevant range, variable cost per unit:

- A. Remains constant
- B. Increases with output
- C. Decreases with output
- D. Becomes zero at break-even

Answer: A

112. Within the relevant range, fixed cost per unit:

- A. Remains constant
- B. Increases as volume rises
- C. Decreases as volume rises
- D. Equals variable cost per unit

Answer: C

113. A mixed cost contains:

- A. Only fixed elements
- B. Only variable elements

- C. Both fixed and variable elements
- D. Neither fixed nor variable elements

Answer: C

114.The high-low method is used to:

- A. Calculate current ratio
- B. Separate mixed costs into fixed and variable parts
- C. Estimate return on equity
- D. Prepare the statement of cash flows

Answer: B

115.If cost is \$90,000 at 20,000 units and \$66,000 at 12,000 units, variable cost per unit is:

- A. \$2
- B. \$3
- C. \$4
- D. \$5

Answer: B

116.Using the data in Question 115, total fixed cost is:

- A. \$18,000
- B. \$24,000
- C. \$30,000
- D. \$36,000

Answer: C

117.A sunk cost is:

- A. A future cost that differs between choices
- B. A past cost that cannot be changed
- C. A cost that is always avoidable
- D. A cost of raising equity capital

Answer: B

118.For decision making, sunk costs are generally:

- A. Relevant
- B. Irrelevant
- C. Classified as revenues
- D. Always treated as fixed assets

Answer: B

119.An opportunity cost is:

- A. A bookkeeping entry only
- B. The benefit sacrificed when choosing one alternative over another
- C. A cash payment already made
- D. A tax-deductible expense only

Answer: B

120. Which of the following is most relevant to a short-term decision?

- A. Historical cost of equipment already purchased
- B. Future costs that change across alternatives
- C. Book value of common stock
- D. Accumulated depreciation only

Answer: B

121. Activity-based costing (ABC) is most useful when:

- A. Overhead is low and products are very similar
- B. Products consume overhead activities differently
- C. A company has only one product
- D. Direct materials are the only significant cost

Answer: B

122. Traditional overhead allocation often uses:

- A. Multiple activity cost pools only
- B. Direct labor hours or machine hours
- C. Market value per share
- D. Debt ratio

Answer: B

123. Which of the following is typically a batch-level activity in ABC?

- A. Factory security
- B. Machine setups
- C. Product design
- D. Plant depreciation

Answer: B

124. Which of the following is typically a unit-level activity in ABC?

- A. Assembling each unit
- B. Redesigning a product line
- C. Maintaining the plant
- D. Scheduling a production run

Answer: A

125. Which of the following is typically a product-line-level activity in ABC?

- A. Factory rent
- B. Number of units produced
- C. Engineering support for a product family
- D. Plant insurance

Answer: C

126.Which of the following is typically a facility-level activity in ABC?

- A. Quality testing per batch
- B. Product-specific design work
- C. Factory property taxes
- D. Direct labor hours per unit

Answer: C

127.The cost driver in an ABC system should ideally:

- A. Be random
- B. Cause or closely relate to the cost incurred
- C. Always equal sales revenue
- D. Be chosen only by auditors

Answer: B

128.Which of the following is most likely to be overcosted under a simple traditional system?

- A. High-volume simple product
- B. Low-volume complex product
- C. Product with many setups and special handling
- D. Product that uses many engineering hours

Answer: A

129.Contribution margin equals:

- A. Sales – Fixed costs
- B. Sales – Variable costs
- C. Net income + Taxes
- D. Gross profit – Operating expenses

Answer: B

130.Contribution margin ratio equals:

- A. Contribution margin ÷ Fixed costs
- B. Contribution margin ÷ Sales
- C. Net income ÷ Sales
- D. Gross profit ÷ Assets

Answer: B

131.If selling price per unit is \$50 and variable cost per unit is \$30, contribution margin per unit is:

- A. \$10
- B. \$20
- C. \$30
- D. \$80

Answer: B

132.If sales are \$400,000 and variable costs are \$240,000, contribution margin is:

- A. \$160,000

- B. \$240,000
- C. \$400,000
- D. \$640,000

Answer: A

133.If contribution margin is \$160,000 and sales are \$400,000, the contribution margin ratio is:

- A. 20%
- B. 30%
- C. 40%
- D. 60%

Answer: C

134.Break-even point in units is calculated as:

- A. Fixed costs ÷ contribution margin per unit
- B. Sales ÷ fixed costs
- C. Net income ÷ units sold
- D. Contribution margin ÷ variable costs

Answer: A

135.A product sells for \$60, has variable cost of \$36, and fixed costs total \$120,000.

Break-even sales in units are:

- A. 2,000
- B. 3,000
- C. 4,000
- D. 5,000

Answer: D

136.A company has fixed costs of \$200,000 and a contribution margin ratio of 40%.

Break-even sales in dollars are:

- A. \$80,000
- B. \$200,000
- C. \$500,000
- D. \$800,000

Answer: C

137.If fixed costs are \$150,000, selling price is \$80, and variable cost is \$50, the break-even point in units is:

- A. 3,000
- B. 5,000
- C. 6,000
- D. 7,500

Answer: B

138.Target profit sales in units are calculated as:

- A. Fixed costs ÷ variable cost per unit
- B. (Fixed costs + target profit) ÷ contribution margin per unit
- C. Target profit ÷ sales price per unit
- D. Net income ÷ units sold

Answer: B

139.If fixed costs are \$180,000, target profit is \$60,000, selling price is \$70, and variable cost is \$42, required sales units are:

- A. 6,000
- B. 7,500
- C. 8,571
- D. 10,000

Answer: C

140.Margin of safety equals:

- A. Actual sales – break-even sales
- B. Fixed costs – variable costs
- C. Net income – taxes
- D. Assets – liabilities

Answer: A

141.If actual sales are \$700,000 and break-even sales are \$520,000, margin of safety is:

- A. \$120,000
- B. \$180,000
- C. \$220,000
- D. \$520,000

Answer: B

142.Cost-volume-profit analysis is most useful for:

- A. Tax audits
- B. Short-term planning decisions
- C. Recording depreciation
- D. Estimating stock price directly

Answer: B

143.Which assumption is common in CVP analysis?

- A. Variable cost per unit is constant within the relevant range
- B. Fixed costs vary directly with volume
- C. Sales price changes every unit sold
- D. Product mix never matters

Answer: A

144.If sales mix shifts toward products with lower contribution margins, break-even sales will generally:

- A. Decrease

- B. Increase
- C. Remain unchanged
- D. Become negative

Answer: B

145. A company sells a product for \$100 and variable costs are 55% of sales.
The contribution margin ratio is:

- A. 35%
- B. 45%
- C. 55%
- D. 65%

Answer: B

146. A company's fixed costs are \$300,000 and contribution margin ratio is 25%.
To earn a target profit of \$75,000, required sales in dollars are:

- A. \$900,000
- B. \$1,200,000
- C. \$1,500,000
- D. \$1,800,000

Answer: C

147. Which of the following would most likely increase the break-even point?

- A. Lower fixed costs
- B. Higher contribution margin per unit
- C. Lower sales price with costs unchanged
- D. Lower variable cost per unit

Answer: C

148. Which of the following would most likely decrease the break-even point?

- A. Increase in fixed costs
- B. Decrease in selling price
- C. Increase in variable cost per unit
- D. Increase in contribution margin per unit

Answer: D

149. When a company has high fixed costs and low variable costs, profits are typically:

- A. Less sensitive to changes in sales volume
- B. More sensitive to changes in sales volume
- C. Completely unrelated to volume
- D. Always lower

Answer: B

150. Which statement best captures the role of managerial accounting in decision making?

- A. It replaces management judgment

- B. It provides structured information for planning and control
- C. It is used only after year-end
- D. It is intended only for external auditors

Answer: B

151. Internal control is designed primarily to:

- A. Guarantee profits
- B. Eliminate all fraud
- C. Safeguard assets and improve reliability of information
- D. Replace audits

Answer: C

152. A strong internal control system generally includes:

- A. One employee handling authorization, custody, and recordkeeping
- B. Segregation of duties
- C. No documentation
- D. Informal verbal approvals only

Answer: B

153. Which of the following best illustrates segregation of duties?

- A. The cashier also records customer payments
- B. The purchasing manager also signs checks
- C. Different employees authorize, record, and handle assets
- D. One trusted employee controls the entire cycle

Answer: C

154. Which of the following would weaken internal control over cash?

- A. Daily deposits
- B. Bank reconciliations
- C. Independent review of records
- D. Letting one person open mail, record receipts, and deposit cash

Answer: D

155. Bank reconciliations are useful because they help:

- A. Increase sales
- B. Detect timing differences and possible errors or irregularities
- C. Eliminate all receivables
- D. Replace the statement of cash flows

Answer: B

156. Which document usually starts the budgeting process?

- A. Cash budget
- B. Production budget
- C. Sales budget

D. Capital expenditure budget

Answer: C

157. Why does the budgeting process usually begin with the sales budget?

- A. Sales drive many other planned activities
- B. Sales budgets are easiest to audit
- C. Sales are always fixed
- D. Cash is unrelated to sales

Answer: A

158. A production budget for a manufacturing company is usually based on:

- A. Only last year's production
- B. Expected sales and desired ending inventory
- C. Only available cash
- D. Dividend policy

Answer: B

159. If budgeted sales for next month are 8,000 units, desired ending inventory is 1,500 units, and beginning inventory is 1,000 units, budgeted production is:

- A. 7,500 units
- B. 8,000 units
- C. 8,500 units
- D. 9,500 units

Answer: C

160. The direct materials purchases budget is influenced by:

- A. Sales manager salaries only
- B. Production needs and desired materials inventory
- C. Long-term debt only
- D. Retained earnings only

Answer: B

161. A cash budget includes:

- A. Only cash receipts
- B. Only cash payments
- C. Expected cash receipts, cash disbursements, and financing needs
- D. Only depreciation expense

Answer: C

162. If beginning cash is \$25,000, expected cash receipts are \$90,000, and expected cash payments are \$105,000, ending cash before financing is:

- A. \$10,000
- B. \$20,000
- C. \$25,000

D. \$40,000

Answer: A

163.If the minimum desired cash balance is \$30,000 and ending cash before financing is \$10,000, the company needs financing of:

A. \$10,000

B. \$15,000

C. \$20,000

D. \$30,000

Answer: C

164.A company expects cash sales of \$50,000 and credit sales of \$120,000 in June.

If 60% of credit sales are collected in June, total June cash collections from June sales are:

A. \$50,000

B. \$72,000

C. \$122,000

D. \$170,000

Answer: C

165.A company with rapid sales growth often needs more cash because it may need more:

A. Working capital

B. Historical cost data

C. Audit fees only

D. Depreciation expense only

Answer: A

166.Which of the following is most likely to increase with sales in the short term?

A. Factory building cost

B. Land held for investment

C. Accounts receivable

D. Common stock

Answer: C

167.Which of the following is most likely to increase with purchases in the short term?

A. Accounts payable

B. Patent value

C. Long-term bonds

D. Treasury stock

Answer: A

168.Capital budgeting is concerned primarily with:

A. Day-to-day cash collections

B. Long-term investment decisions

C. Audit planning

D. Tax withholding tables

Answer: B

169. Which of the following is a capital budgeting decision?

- A. Whether to purchase a new production line
- B. Whether to pay this month's utility bill
- C. Whether to collect receivables faster
- D. Whether to reconcile the bank account weekly

Answer: A

170. A decision maker choosing between two alternatives should focus mainly on:

- A. Historical costs only
- B. Relevant future revenues and costs
- C. Only total assets
- D. Only net income from the past year

Answer: B

171. If a company is deciding whether to accept a special order at a lower price, which cost is most relevant?

- A. Book value of old equipment
- B. Future variable production cost
- C. Last year's advertising expense
- D. Sunk research cost

Answer: B

172. If a company has idle capacity, accepting a special order at a price above variable cost will usually:

- A. Reduce contribution margin
- B. Increase contribution margin
- C. Always reduce net income
- D. Have no effect at all

Answer: B

173. If accepting a special order would force the company to give up regular sales, the lost contribution from regular sales is a(n):

- A. Sunk cost
- B. Opportunity cost
- C. Fixed asset
- D. Irrelevant cost

Answer: B

174. When evaluating whether to discontinue a segment, which cost is most important?

- A. Allocated common fixed cost that will remain anyway
- B. Avoidable costs linked to the segment
- C. Historical acquisition cost

D. Share price volatility

Answer: B

175. A company should generally discontinue a segment only if:

- A. The segment has any allocated cost
- B. The segment's lost contribution margin is less than avoidable fixed costs saved
- C. Sales are below last year's sales
- D. Gross profit is positive

Answer: B

176. A company can make a component for \$18 variable cost per unit. It can buy the component for \$20. Unavoidable fixed costs allocated to the component are \$6 per unit. Ignoring qualitative factors, the company should:

- A. Buy, because total allocated cost is \$24
- B. Make, because relevant cost is lower
- C. Buy, because fixed costs always matter
- D. Be indifferent

Answer: B

177. A company can make a part for \$22 variable cost per unit. It can buy the part for \$19. If making the part also avoids no fixed cost and frees no capacity, the company should:

- A. Make
- B. Buy
- C. Increase price
- D. Ignore the analysis

Answer: B

178. In a make-or-buy decision, unavoidable fixed costs are generally:

- A. Relevant
- B. Irrelevant
- C. Treated as revenues
- D. Added to purchase price only

Answer: B

179. A company is considering selling a product at the split-off point or processing it further. The joint cost incurred before split-off is:

- A. Relevant to the sell-or-process-further decision
- B. Irrelevant to the decision
- C. Always avoidable
- D. Classified as an opportunity cost

Answer: B

180. For a sell-or-process-further decision, the company should process further only if:

- A. Total joint cost is large

- B. Incremental revenue exceeds incremental processing cost
- C. Sales volume increases
- D. Inventory decreases

Answer: B

181. Which of the following best describes a flexible budget?

- A. A budget prepared for only one level of activity
- B. A budget adjusted for actual volume or activity
- C. A budget used only by auditors
- D. A budget containing only fixed costs

Answer: B

182. A static budget differs from a flexible budget because a static budget:

- A. Changes automatically with activity
- B. Is prepared for one planned level of activity
- C. Excludes revenues
- D. Is only for capital projects

Answer: B

183. A favorable revenue variance means:

- A. Actual revenue is less than budgeted revenue
- B. Actual revenue is greater than budgeted revenue
- C. Actual costs exceed budget
- D. Budgeted profit is negative

Answer: B

184. An unfavorable cost variance means:

- A. Actual cost is lower than budgeted cost
- B. Actual cost is higher than budgeted cost
- C. Actual revenue is higher than budgeted revenue
- D. Total assets increased

Answer: B

185. Responsibility accounting works best when managers are evaluated on:

- A. Costs and revenues they cannot influence
- B. Items they can control
- C. Only company-wide stock price
- D. Only GAAP net income

Answer: B

186. Which of the following is most likely a controllable cost for a department manager?

- A. Corporate income tax expense
- B. Salaries of the manager's direct staff
- C. Interest on corporate bonds

D. Depreciation on a building managed by headquarters

Answer: B

187. Which of the following is usually the weakest basis for evaluating a manager?

- A. Controllable contribution margin
- B. Relevant performance measures
- C. Costs outside the manager's authority
- D. Flexible budget comparison

Answer: C

188. The ethical use of accounting information requires managers to:

- A. Manipulate numbers to meet bonus targets
- B. Report information honestly and objectively
- C. Omit unfavorable facts whenever possible
- D. Ignore internal controls

Answer: B

189. If a manager intentionally delays recording expenses to improve current-period profit, the behavior is best described as:

- A. Conservative accounting
- B. Ethical budgeting
- C. Earnings management with ethical concerns
- D. Strong internal control

Answer: C

190. If a company wants to improve cash collections, which action is most directly helpful?

- A. Slower billing
- B. Tighter credit and collection procedures
- C. Higher depreciation
- D. Lower factory utilization

Answer: B

191. A company's cash flow adequacy is generally stronger when operating cash flow consistently:

- A. Falls below required debt and dividend payments
- B. Exceeds major cash commitments
- C. Equals depreciation expense
- D. Is less than net income every year

Answer: B

192. A company may show positive net income but still face cash problems because:

- A. Accrual accounting differs from cash timing
- B. Revenues are always cash
- C. Expenses are never paid in cash
- D. Balance sheets ignore liabilities

Answer: A

193.If sales grow faster than collections, which account is most likely to rise?

- A. Accounts receivable
- B. Accumulated depreciation
- C. Treasury stock
- D. Bonds payable

Answer: A

194.If inventory grows faster than sales, cash may become strained because:

- A. More funds are tied up in working capital
- B. Inventory always increases equity automatically
- C. Liabilities disappear
- D. Gross profit becomes irrelevant

Answer: A

195.Which of the following is most likely to improve short-term liquidity?

- A. Purchasing more equipment with cash
- B. Paying dividends in cash
- C. Collecting receivables faster
- D. Increasing inventory levels

Answer: C

196.Which statement best describes the relationship between planning and control?

- A. They are unrelated
- B. Planning sets goals and control compares actual results to those goals
- C. Planning is for external users and control is only for auditors
- D. Control replaces budgeting

Answer: B

197.A company with a contribution margin ratio of 30% needs additional contribution margin of \$90,000 to cover extra fixed costs. Required additional sales are:

- A. \$27,000
- B. \$90,000
- C. \$270,000
- D. \$300,000

Answer: D

198.A product sells for \$75, variable cost is \$45, fixed costs are \$240,000, and target profit is \$60,000. Required sales units are:

- A. 6,000
- B. 8,000
- C. 10,000
- D. 12,000

Answer: C

199. A company has sales of \$1,000,000, variable costs of \$650,000, and fixed costs of \$280,000. Net income is:

- A. \$35,000
- B. \$70,000
- C. \$280,000
- D. \$350,000

Answer: B

200. Which statement best summarizes "Accounting for Decision Makers"?

- A. It is only about memorizing journal entries
- B. It combines financial statement understanding, cost behavior, control, and planning to support better decisions
- C. It is only about tax law
- D. It eliminates the need for management judgment

Answer: B