



# QUESTION & ANSWER

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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**