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WGU Accounting for Decision Makers C213 VAC2

WGU Accounting-for-Decision-Makers

Version Demo

Total Demo Questions: 9

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QUESTION NO: 1

The following list provides partial financial information for a company.

Financial Category | 20X3 | 20X2

Net income | $3,540 | ?

Cash from operations | $4,417 | ?

Cash paid for capital expenditures | $5,613 | ?

Cash paid for acquisitions | $5,964 | ?

Cash paid for interest | $2,782 | ?

Cash paid for income taxes | $2,860 | ?

What is the cash flow to net income ratio for this company in 20X2?

A. -0.01

B. 1.35

C. 1.80

D. 2.45

E. Cannot be determined from the information provided.

ANSWER: E

Explanation:

Cannot be determined from the information provided is correct because calculating the cash flow to net income ratio for 20X2 requires two specific 20X2 amounts: cash from operations and net income. The applicable calculation is cash from operations divided by net income. Although the table supplies amounts for 20X3, every value in the 20X2 column is shown as a question mark. Therefore, no numerical 20X2 operating-cash-flow amount or 20X2 net-income amount is available to use in the calculation.

Cash paid for capital expenditures, acquisitions, interest, and income taxes do not supply the missing numerator and denominator for this particular ratio. In particular, cash paid for capital expenditures and acquisitions are investing cash flows rather than cash from operations. A valid numerical ratio could be calculated only after the company's 20X2 cash from operations and 20X2 net income are provided. The ratio is commonly used to assess the relationship between operating cash generation and reported earnings; however, the needed data must be from the same reporting period. See the operating activities discussion in OpenStax Principles of Financial Accounting and the cash-flow-ratio overview from CFA Institute.

QUESTION NO: 2

Which financial statement is used to determine a company's income and expenses for a specific period?

A. Balance sheet

B. Statement of retained earnings

C. Statement of cash flows

D. Income statement

ANSWER: D

Explanation:

The income statement is the financial statement used to report a company's revenues (income) and expenses for a specified reporting period, such as a month, quarter, or year. It applies accrual accounting by recognizing revenue when earned and expenses when incurred, rather than merely tracking when cash is received or paid. After reporting the period's revenues and expenses, the statement calculates the resulting net income when revenues exceed expenses or net loss when expenses exceed revenues. This makes it the primary report for evaluating operating performance and profitability over time and for providing information used in business decisions such as cost control, pricing, and budgeting. The Financial Accounting Standards Board's conceptual framework identifies income and expenses as elements that describe an entity's financial performance for a period, which is presented through the income statement. The U.S. Securities and Exchange Commission also identifies the income statement as a core financial statement that presents revenues, expenses, and earnings. See the FASB Concepts Statements and the SEC's guide to reading financial statements.

QUESTION NO: 3

Given the following information:

Pairs of shoes expected to be produced = 1,950,000

Pairs of shoes produced = 2,500,000

Overhead rate = $0.75

What is the amount of applied overhead?

A. $412,500

B. $550,000

C. $1,462,500

D. $1,875,000

ANSWER: D

Explanation:

$1,875,000 is the applied overhead because applied manufacturing overhead is calculated by multiplying the predetermined overhead rate by the actual amount of the allocation base used during the period. Here, the allocation base is pairs of shoes actually produced: 2,500,000 pairs. Applying the stated overhead rate of $0.75 per pair gives 2,500,000 × $0.75 = $1,875,000. The expected production volume of 1,950,000 pairs is relevant when establishing a predetermined overhead rate, but once the rate has been provided, applied overhead is based on the actual production activity. This amount represents the overhead assigned to the shoes produced for product-costing purposes, regardless of whether the actual overhead costs incurred ultimately equal the amount applied. The distinction between actual overhead incurred and overhead applied is central to determining whether overhead is underapplied or overapplied at the end of an accounting period. For additional discussion of predetermined overhead rates and applying overhead based on actual activity, see OpenStax Principles of Managerial Accounting and AccountingCoach's standard costing explanation.

QUESTION NO: 4

A manufacturer is evaluating whether to accept a one-time special order. The company has sufficient unused production capacity, and accepting the order will not affect regular sales.

Which two costs are relevant to the decision?

Choose 2 answers.

A. Direct materials required for the special-order units

B. Monthly factory rent that will remain unchanged

C. Additional shipping cost required by the order

D. Depreciation on existing equipment with unused capacity

E. Original cost of equipment purchased in a prior year

ANSWER: A C

Explanation:

The direct materials required for the special-order units and the additional shipping cost required by the order are relevant because both costs will be incurred only if the company accepts the order. Relevant costs are future costs that differ between the available alternatives.

Factory rent is not relevant when it remains unchanged whether or not the order is accepted. Likewise, depreciation on equipment already owned is generally not relevant if the equipment has sufficient unused capacity and no additional depreciation or replacement cost will result from the order. The original cost of equipment is a sunk cost and cannot be changed by the current decision.

QUESTION NO: 5

Which two item subtotals are included in a multi-step income statement?

Choose 2 answers.

A. Gross profit

B. Income from operations

C. Current liabilities

D. Total assets

ANSWER: A B

Explanation:

Gross profit and **Income from operations** are standard intermediate subtotals presented in a multi-step income statement. Gross profit measures the amount of net sales remaining after deducting cost of goods sold. It is a useful indicator of the profitability of a company's merchandising or production activities before considering the costs of running the business overall. Income from operations is calculated after operating expenses, such as selling and administrative expenses, are deducted from gross profit. This subtotal focuses on profit generated through the company's primary, ongoing business activities, separate from peripheral gains, losses, interest, and income taxes. Presenting these stages separately is the defining purpose of the multi-step format: it helps decision-makers assess margins and operating performance with more detail than a single-step statement provides. The Financial Accounting Standards Board's accounting codification is the authoritative source of U.S. GAAP, while educational guidance illustrating the multi-step format and these subtotals is available from OpenStax Principles of Financial Accounting. The U.S. Securities and Exchange Commission also describes financial-statement reporting concepts and requirements in its reporting guidance.

QUESTION NO: 6

Which two internal-control procedures would most effectively reduce the risk that cash receipts are stolen before they are recorded?

Choose 2 answers.

A. Separate cash-handling duties from accounts receivable recording duties

B. Require daily deposits and independent reconciliation of deposit records

C. Allow the employee receiving cash to reconcile the bank account

D. Hold customer payments until the end of each month before depositing them

E. Compare current-period sales with sales from the prior year

ANSWER: A B

Explanation:

Separating responsibility for opening mail and handling cash from responsibility for recording customer payments reduces the opportunity for one employee to conceal a theft. Requiring daily deposits and having someone independent reconcile the deposit records to accounting records also creates timely evidence that collections were deposited completely.

Allowing the same employee to receive, record, and reconcile payments eliminates segregation of duties. Delaying deposits increases the time cash is exposed to loss. Comparing current sales with prior-year sales may support analysis, but it does not directly control custody and recording of individual cash receipts.

QUESTION NO: 7

Which two costs would be used to calculate inventory overhead?

Choose 2 answers.

A. Factory electricity costs

B. Administrative office electricity costs

C. Production employee benefits

D. Administrative employee benefits

ANSWER: A C

Explanation:

Factory electricity costs and production employee benefits are included in inventory overhead, also called manufacturing overhead, when they support the production process rather than being directly traceable to one particular unit. Under U.S. GAAP, inventory cost includes the costs incurred to bring inventory to its present location and condition. For a manufacturer, this includes indirect factory costs that are necessary for production, allocated systematically to the goods produced.

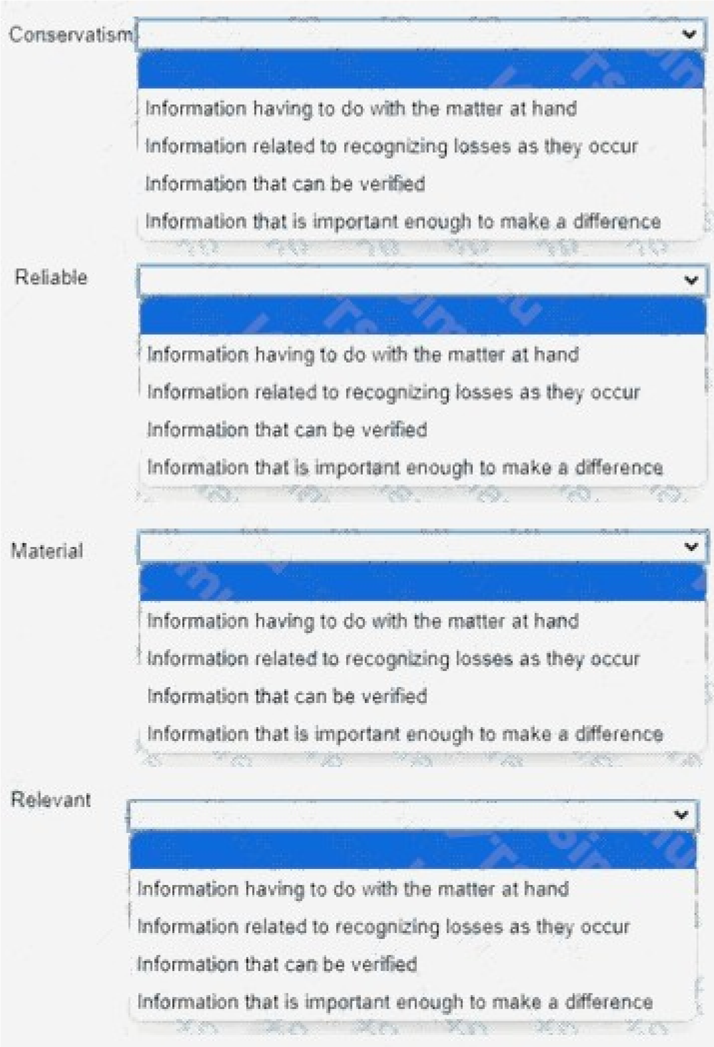
Factory electricity is a typical indirect manufacturing cost because electricity used for factory lighting, machinery, and other production operations benefits multiple products and cannot usually be economically traced to individual units. Production employee benefits, such as employer-paid payroll taxes, health insurance, or retirement contributions for indirect production personnel, are similarly factory costs. These benefits support manufacturing activity and are included in the indirect cost pool used to calculate manufacturing overhead. Once allocated, manufacturing overhead becomes part of product cost and remains in inventory until the related goods are sold, at which point it is recognized in cost of goods sold. See FASB's Inventory glossary entry and the IRS overview of inventory costs and uniform capitalization rules.

QUESTION NO: 8 - (SIMULATION)

Match each accounting term with its definition.

Answer options may be used more than once or not at all.

Select your answer from the pull-down list.



ANSWER: Check the explanation for the answer

Explanation:

Select the following definitions from the pull-down lists:

Conservatism — *Information related to recognizing losses as they occur*
Reliable — *Information that can be verified*
Material — *Information that is important enough to make a difference*
Relevant — *Information having to do with the matter at hand*

Reliability concerns verifiability, materiality concerns whether information could affect a user's decision, relevance concerns connection to the decision at hand, and conservatism reflects caution by recognizing expected losses promptly.

QUESTION NO: 9

Which source of cash is the best indicator of a firm's viability as an ongoing concern?

A. Cash from operating activities

B. Cash from financing activities

C. Cash from investing activities

D. Cash from production activities

ANSWER: A

Explanation:

Cash from operating activities is the best indicator of a firm's viability as an ongoing concern because it measures whether the company's normal, recurring business activities generate enough cash to sustain the enterprise. Operating cash flow reflects cash collected from customers and cash paid for core costs such as inventory, wages, suppliers, and other operating expenses. A business that consistently produces positive cash from its core operations is better positioned to pay obligations as they come due, maintain capacity, and continue conducting business without depending primarily on outside financing or asset sales.

This focus is especially important in a going-concern assessment because ongoing viability depends on the ability to generate cash on a continuing basis. The statement of cash flows classifies cash receipts and payments from the entity's principal revenue-producing activities as operating activities. The Financial Accounting Standards Board's cash-flow guidance describes operating activities as those that are not investing or financing activities, and educational accounting guidance emphasizes operating cash flows as a key measure of the cash-generating ability of normal operations. See the FASB Accounting Standards Codification topic on the statement of cash flows and OpenStax's discussion of uses of the statement of cash flows.