

WGU C213 Final Exam Study Questions and Answers

1. The following financial information is available for the year 2012:

Operating activities

\$ 309,800

Investing activities

(\$118,000)

Financing activities

(\$190,000)

Ending cash balance

\$ 5,600

Given this information, what is the beginning cash balance **Correct Answer:**

\$3,800

Beginning cash balance:

$$x + \$309,800 - \$118,000 - \$190,000 = \$5,600$$

$$x = \$3,800$$

2. What is typically viewed as the fundamental measure of a company's profitability, but there are also a variety of other measures of "income." The best measure of sustainable profitability is income from continuing operations

ANS - Net Income

3. Income statement items that do not relate to a company's continuing operations are income from what **ANS** Income from continuing operations and extraordinary items

4. When revenue and expense items are arranged to highlight important profit relationships, the resulting income statement format is called a **ANS** Multi-step Income Statement

5. Revenue should be recognized when value has been delivered to customers which is typically only after the required work has been performed and after the collection of cash is reasonably assured. What method is used to decide when to recognize expenses **ANS** The Matching Concept

6. Individual transactions impacting income can be analyzed using the expanded accounting equation, which is:: $Assets = Liabilities + Paid-in Capital + (Revenues - Expenses - Dividends)$

7. What is an important use of an income statement? It requires an understanding of what underlying factors determine the level of a revenue or an expense **ANS** Forecast income for future periods.

8. What is the process that accountants use in adjusting raw transaction data into refined measures of a firm's economic performance **ANS** Accrual Accounting

9. A concept that states that income exists when the dollar amount of a company's net assets (assets - liabilities, or owners' equity) increases during the year, after excluding the effects of new owner investment or payment of dividends to owners. What is this approach called **ANS** Financial Capital Maintenance

10. What equals sales revenues minus the cost of goods sold. This is the money you take in from selling goods and how much those good cost you to make **ANS** Gross Profit

11. What is equal to gross profit minus fixed costs. Start with gross profit and subtract fixed costs (rent, salaries, taxes, utilities, fees, amortization,

depreciation: Net Profit

12. **Why is Gross Profit an important number** **ANS** Gross profit is an important number. If a company is not generating enough from the sale of a product or service to cover the costs directly associated with that product or service, that company will not be able to stay in that line of business for long.

13. **What measures the performance of the fundamental business operations conducted by a company and is computed as gross profit minus operating expenses** **ANS** Operating Income

14. **What does Operating Income tell a business** **ANS** Operating income tells users how well a business is performing in the activities unique to that business, separate from the financing and income tax management policies that are handled at the corporate headquarters level.

15. **What is a key purpose of financial accounting** **ANS** Provides interested parties with information that can be used to predict how a company will perform in the future.

16. **What is a desired income number that reflects the aspects of a company's performance that is expected to continue into the future** **ANS** Income from Continuing Operations

17. **How is Income from Continuing Operations Computed** **ANS** It is