Assessment

Accounting Essentials

First Edition

The objectives of this book are to help the user:

- Learn how various business transactions are reflected in the financial statements
- Identify the five cost categories and their components
- Explore the three types of costs and their effect on profitability
- Understand the concept and calculation of break-even analysis
- Learn about operating leverage and its impact on profitability
- Discover the various influences on determining the appropriate price for a product or service
- Understand the problem-solving process of identifying costs relevant to decision-making

CRISP series

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Assessment Questions for
Accounting Essentials, First Edition

Select the best response.

1. Data alone will answer all of the questions related to measuring progress.
    A. True
    B. False

2. Which of the following is an asset?
    A. Common stock
    B. Sales
    C. Inventory
    D. Advertising
    E. None of the above

3. Which of the following is an expense?
    A. Accounts payable
    B. Inventory
    C. Additional paid in capital
    D. Rent
    E. All of the above

4. The financial statement that provides the financial “position” of the company on a specific date is the:
    A. Balance sheet
    B. Income statement
    C. Statement of cash flow

5. In the accrual system of accounting, revenue is recorded:
    A. When payment is received.
    B. When a service is performed.
    C. When a product is sold.
    D. Both B and C

6. Accounting standards require that a major equipment purchase be expensed:
    A. At the time of purchase
    B. Over its useful life
    C. Either A or B

7. Manufacturing costs include:
    A. Factory overhead
    B. Cost of goods sold
    C. Marketing expenses
    D. All of the above

8. The loss of income from rejecting one alternative for another is:
    A. A Standard Cost
    B. A Sunk Cost
    C. An Opportunity Cost
    D. A Relevant Cost

9. A cost that has already been incurred is:
    A. A Standard Cost
    B. A Sunk Cost
    C. An Opportunity Cost
    D. A Relevant Cost

10. Expenses that do not change with volume are:
    A. Fixed costs
    B. Variable costs
    C. Mixed costs
    D. Both A an C

11. Examples of variable costs include:
    A. Equipment rental
    B. Depreciation expense
    C. Wage expense
    D. All of the above
    E. None of the above

12. Fixed costs per unit will decrease as the production of units increases.
    A. True
    B. False

13. Contribution margin is calculated as:
    A. Sales less expenses
    B. Sales less cost of goods sold
    C. Sales less fixed expenses
    D. Sales less variable expenses

14. Activity-based costing:
    A. Is rarely used
    B. May target areas for potential cost reduction
    C. Assigns only manufacturing costs to the product
    D. Assigns all manufacturing costs to the product
    E. Is easier to calculate in larger companies

15. Non-value-added activities include:
    A. Product inspection
    B. Free delivery
    C. Storage
    D. All of the above

16. Break-even represents the amount of money needed from revenue to cover total costs and desired profit.
    A. True
    B. False

17. Operating leverage:
    A. Refers to the percentage of variable costs a company has on the income statement
    B. Increases with the amount of fixed costs
    C. Indicates how sensitive the company is to changes is sales
    D. A and B
    E. B and C

18. Continuing to lower prices in response to competition is a long-term strategy.
    A. True
    B. False

19. Skimming the market:
    A. Is used by companies with a new product
    B. Is used by companies with little competition for very high quality products or services
    C. Involves setting prices high to cover costs, recoup research and development costs and ensure profits
    D. Produces a lower demand for units
    E. All of the above

20. Penetrating the market:
    A. Uses a higher price to increase volume
    B. Is used to quickly gain market share
    C. Results in high profit margins
    D. Is very successful in companies with a high degree of operating leverage
    E. None of the above

21. The effect that increases and decreases in price will have on demand is easy to predict with certainty.
    A. True
    B. False

22. If you are able to establish a positive brand identity, many customers will pay more for that brand even if there are other, practically identical brands available.
    A. True
    B. False

23. Relevant costs in problem-solving include:
    - A. Sunk costs
    - B. Common costs
    - C. Costs that change as a result of a decision
    - D. All of the above
    - E. None of the above

24. Activities that reduce defects during the production process are:
    - A. Prevention costs
    - B. Appraisal costs

25. For financial information to be useful in decision-making it must be:
    - A. Historically correct
    - B. Recorded consistently
    - C. Easily compared and contrasted
    - D. All of the above
    - E. None of the above

Answer Key for
Accounting Essentials, First Edition

Recommended response (Corresponding workbook page)

1. B (4)	6. B (16)	11. C (36)	16. B (57)	21. B (76)
2. C (10)	7. A (29)	12. A (40)	17. E (67)	22. A (78)
3. D (10)	8. C (31)	13. D (49)	18. B (73)	23. C (81)
4. A (10)	9. B (31)	14. B (53)	19. E (74)	24. A (83)
5. D (16)	10. A (35)	15. D (54)	20. B (75)	25. D (87)