Principles of Managerial Accounting  ACC-102-TE

This TECEP® tests the material usually taught in a one-semester course in managerial accounting. It focuses on the information that managers need to make decisions and the types of analyses appropriate to each decision. Topics range from cash flow and financial statement analysis to long-term capital budget decisions.  (3 s.h.)

- Test format: 100 multiple choice questions (1 point each)
- Passing score: 60%. Your score will be reported as CR (credit) or NC (no credit).
- Time limit: 2 hours

**Topics on the test and their approximate distribution**

1. **Statement of cash flows; financial statement analysis**  (15%)
   A. Purpose and usefulnes of statement of cash flows
   B. Computation of cash flows from operating activities using direct and indirect methods
   C. Computation of cash flows from investing and financing activities
   D. Uses of dollar and percentage changes; trend percentages; component percentages; ratios
   E. Computation of ratios widely used in financial statement analysis and significance of each

2. **Global business and accounting; management accounting; accounting systems for measuring costs**  (30%)
   A. Mechanisms companies use to globalize their business activities
   B. Effect of global forces (political, legal, economic, cultural, technological) on accounting practices
   C. Currency conversion
   D. Foreign Corrupt Practices Act: effect on accounting practice
   E. Basic types of manufacturing costs; manufacturing inventory transactions; schedules
   F. Basic cost accounting methods; computation of overhead application rates for job order costing
   G. Accounting for flow of costs under job order costing and process costing
   H. Overhead-related activity cost pools
   I. Calculation of equivalent units of production

3. **Costing and the value chain; cost-volume-profit analysis; increment analysis**  (20%)
   A. Basic components of the value chain
   B. Non-value added and value-added activities
   C. Relationship of activity-based management to activity-based costing
   D. Nature and goals of a just-in-time (JIT) manufacturing system
   E. Effect of fixed, variable, semivariable costs response to changes on volume of business activity and sales volume
   F. Effect of economies of scale on unit costs
   G. Calculation of contribution margin and contribution margin ratio; effect on changes in sales volume and operating income
   H. The high-low method
   I. Opportunity costs; sunk costs; out-of-pocket costs and their effect on business decisions
   J. Incremental analysis

4. **Responsibility accounting and transfer pricing; operational budgeting**  (15%)
   A. Cost centers, profit centers, and investment centers and their use in business
   B. Responsibility accounting systems
   C. Income statement showing contribution margins and responsibility margins
   D. Traceable and common fixed costs
   E. Elements of a master budget and preparation of supporting schedules
   F. Flexible budgeting
5. **Standard cost systems; capital budgeting (20%)**
   A. Standard costing systems
   B. Computation of direct materials and direct labor variances; the meaning of each variance and usefulness in cost analysis
   C. Computing overhead variances
   D. Capital investment decision-making analysis using payback period, return on investment, discounted cash flows
   E. Relationship between net present value and required rate of return

### Outcomes assessed on the test
- Prepare and interpret the statement of cash flows
- Calculate basic financial ratios used to understand financial statements
- Explain the impact of globalization on business and accounting
- Define the relationship among cost, profit, and volume of activity and their effects on business decisions
- Prepare various incremental analysis methods to enhance short-term decision-making
- Describe the capital budgeting process, including the time value of money and the accounting input required
- Calculate the unit cost of a product or service using job order costing and process costing and prepare the related accounting journal entries
- Calculate manufacturing variances and prepare the related accounting journal entries using the standard cost system
- Prepare the master budget and the related operational budgets and supporting schedules and explain the management control process

### Study materials

The Saylor Academy open course **BUS105 — Managerial Accounting** provides excellent, free preparation for this TECEP exam. If you are interested, go to Saylor’s site to learn how their course process works.

### Sample questions
1. A comparative financial statement places
   a. the balance sheet, the income statement, and the statement of cash flows side-by-side in order to compare results
   b. two or more years of a financial statement side-by-side in order to compare results
   c. the financial statements of two or more companies side-by-side in order to compare results
   d. dollar amounts next to the percentage amounts of a given year for the income statement

2. The measures most often used in evaluating solvency—the current ratio, quick ratio, and amount of working capital—are developed from amounts appearing in the
   a. balance sheet
   b. income statement
   c. statement of retained earnings
   d. statement of cash flows
3. All of the following are advantages of an increasing cash flow from operations EXCEPT which one?
   a. A company is likely to pay its current bills with cash from operations not earnings.
   b. A company with cash is in a better position to fund growth.
   c. Large cash flows eliminate the need for borrowing.
   d. Earnings are viewed more favorably if cash flows from operations closely match net income.

4. Equivalent units are usually computed for
   a. direct materials only
   b. direct labor only
   c. factory overhead costs only
   d. direct materials, direct labor, and factory overhead costs

5. Process costing would be suitable for
   a. automobile repair
   b. production of television sets
   c. boat building
   d. kitchen and bathroom remodeling

6. Costs that are traceable to a particular unit and are inventoriable are called
   a. product costs
   b. period costs
   c. overhead costs
   d. job costs

7. The account Work-in-Process Inventory consists of
   a. completed goods that have not yet been sold
   b. goods being manufactured that are incomplete
   c. materials to be used in the production process
   d. the cost of new materials used and labor but not overhead

8. When the exchange rate for a foreign currency (stated in dollars) rises, a dollar will purchase
   a. more of that currency
   b. the same amount of that currency
   c. less of that currency
   d. an undetermined amount of that currency

9. Overhead costs are assigned to production using an overhead application rate, but no such application rate is used to assign the costs of direct materials and direct labor to production. What is the reason for this difference in procedures?
   a. Overhead is an indirect cost which cannot be traced easily and directly to specific units of product.
   b. Overhead is always larger in dollar amount than either direct materials or direct labor.
   c. The amounts of direct material and direct labor applicable to each unit of production cannot be determined as easily as the amount of overhead.
   d. Overhead is always equal to a constant percentage of direct labor costs.

10. What are the four categories of costs associated with product quality?
    a. External failure, internal failure, prevention, and carrying
    b. External failure, internal failure, prevention, and appraisal
    c. External failure, internal failure, training, and appraisal
    d. Warranty, product liability, prevention, and training
11. Which of the following is true of a semi-variable cost?
   a. It increases and decreases directly and proportionately with changes in volume.
   b. It changes in response to a change in volume, but not proportionately.
   c. It increases if volume increases, but remains constant if volume decreases.
   d. It changes inversely in response to a change in volume.

12. If all other things are held constant, how will an increase in selling price affect the break-even point measured in units?
   a. The break-even point will decrease.
   b. The break-even point will increase.
   c. The break-even point will remain constant.
   d. The effect on the break-even point cannot be predicted with certainty.

13. All of the following components of the value chain EXCEPT
   a. research and design activities
   b. obtaining raw materials
   c. supporting the product after it is sold
   d. maintaining large inventories

14. The responsibility margin is equal to revenue less
   a. contribution margin and traceable fixed costs
   b. variable costs
   c. variable costs and traceable fixed costs
   d. variable fixed costs, traceable fixed costs, and common costs

15. Why do many companies view performance margin as a more useful tool than responsibility margin for evaluating segment managers?
   a. Because managers have no control over traceable fixed costs.
   b. Because performance margin is not affected by the size of the department.
   c. Because performance margin indicates the change in operating income that would result from closing the department.
   d. Because performance margin includes only those revenue and costs under the manager’s direct control.

16. Which element of master budget is normally prepared last?
   a. A budgeted balance sheet
   b. A cash budget
   c. A budgeted income statement
   d. A production budget

17. The use of inexpensive, low quality materials often results in a(n)
   a. favorable materials quantity variance
   b. favorable labor rate variance
   c. unfavorable materials quantity variance
   d. unfavorable materials price variance

18. If fewer units are produced than were estimated when standard unit costs were determined, there would normally be a(n)
   a. favorable labor efficiency (usage) variance
   b. unfavorable overhead volume variance
   c. favorable materials quantity variance
   d. unfavorable overhead spending variance
19. An unfavorable volume variance in a factory is generally
   a. the responsibility of the production manager
   b. treated as part of the controllable factory overhead variance
   c. the result of actual volume exceeding normal volume
   d. viewed as an idle capacity loss

20. What term describes the minimum rate of return used by investors to bring future cash flows to their present value?
   a. The investment rate
   b. The prime rate
   c. The discount rate
   d. The present rate

### Answers to sample questions

1. b  
2. a  
3. c  
4. d  
5. b  
6. a  
7. b  
8. c  
9. a  
10. b  
11. b  
12. a  
13. d  
14. c  
15. d  
16. a  
17. c  
18. b  
19. d  
20. c