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WGU C214 OA Financial Management Practice Test

1. **Trading on the NYSE is executed without a specialist (i.e. a market maker). True or False?**: False
2. **Stocks and Bonds are two types of financial instruments. True or False?-**
: True
3. **When revenue is matched with cost of sales in an Income statement it is called?**: Matching principle
4. **Basic balance sheet equation is what?**: Equity = Assets - Liabilities
5. **Why is the balance sheet known as the permanent statement?**: Because the other statements are reset at the end of the fiscal year.
6. **How do you calculate the change in retained earnings?**: Net income-divi- dends
7. **Sales - Cost of Sales - other expenses =**: Operating Income or EBiT
8. **Name four accounts that are part of total assets?**: Cash, Accounts receiv- able, inventory, long term assets
9. **Name three accounts that are part of total liabilities?**: Bonds, accounts payable and mortgage
10. **Name four accounts that are part of current assets?**: Inventory, cash, accounts receivable and short term investments.
11. **Name three accounts that are only included in cash flow from financing?-**
: Common stock, dividends paid and bonds payable
12. **Define the statement of cash flows?**: Calculated for the same period of time as the incomes statement is calculated based on the income statement and changes in the balance sheet is one of the three basic accounting statements.
13. **When fixed assets increase what happens to cash?**: Cash will decrease
14. **What is the purpose of the statement of cash flows?**: Explains the change in cash over the course of the specified time frame.

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WGU Financial Management VBC1 Sample Questions (Q35-Q40):

NEW QUESTION # 35
How does asset tangibility affect a company's capital structure?

- A. By influencing the company's ability to issue convertible bonds
- B. By influencing the company's decision to enter new markets
- C. By influencing the company's dividend payout ratio
- D. By influencing the company's ability to secure debt financing

Answer: D

Explanation:
Asset tangibility directly affects a firm's ability to obtain debt financing because lenders prefer collateral-backed loans. Firms with higher tangible assets face lower borrowing constraints and typically carry higher leverage. This relationship is well documented in capital structure research and financial management textbooks. Tangible assets reduce credit risk and expected losses in default, allowing firms to raise debt more easily and at lower cost. Option B correctly captures this core capital structure relationship.

NEW QUESTION # 36
Use Whole Pine Inc.'s financial statements for 20X3 below to answer the following question.
What is Whole Pine Inc.'squick ratiofor 20X3?

Whole Pine Inc. Income Statement—20X3	
Revenue	$10,000
– Cost of Goods Sold	(3,500)
– Expenses	(5,000)
Net Income	$ 1,500

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Whole Pine Inc. Balance Sheet—20X3			
Assets		Liabilities and Stockholder Equity	
Cash	$2,000	Accounts Payable	$1,000
Accounts Receivable	500	Long-Term Debt	4,000

Assets		Liabilities and Stockholder Equity	
Cash	$2,000	Accounts Payable	$1,000
Accounts Receivable	500	Long-Term Debt	4,000
Inventory	1,500	Common Stock	2,000
Net Property, Plant, and Equipment	4,000	Retained Earnings	1,000
Total Assets	$8,000	Total Liabilities and Stockholder Equity	$8,000

- A. 2.50
- B. 4.00
- C. 0.15
- D. 0.65

Answer: A

Explanation:
The quick ratio, also known as the acid-test ratio, measures a firm's ability to meet short-term obligations using its most liquid assets.
It is calculated as:
(Cash + Accounts Receivable + Marketable Securities) ÷ Current Liabilities.
For Whole Pine Inc., quick assets include cash of $2,000 and accounts receivable of $500, totaling
$2,500. Inventory is excluded because it is less liquid and may not be easily converted into cash.
Current liabilities consist of accounts payable of $1,000. Dividing $2,500 by $1,000 yields a quick ratio of 2.50. This indicates that the firm has $2.50 in highly liquid assets for every $1.00 of short-term obligations, suggesting strong short-term liquidity. Option C correctly reflects this calculation and interpretation.

NEW QUESTION # 37
Why might tax expense on the income statement not reflect the actual taxes paid by a firm?

- A. Because there are differences between tax and accrual accounting rules
- B. Because tax expense is never an estimation and not based on real figures
- C. Because all tax expenses on the income statement accurately reflect taxes paid
- D. Because tax expenses are always deferred to the next fiscal year

Answer: A

Explanation:
Tax expense reported on the income statement is calculated using accrual accounting, which recognizes revenues and expenses when they are earned or incurred, not necessarily when cash is paid. In contrast, actual taxes paid are based on tax laws and cash payments made to tax authorities. Differences arise due to temporary and permanent timing differences between financial reporting rules and tax regulations. Examples include depreciation methods, revenue recognition timing, loss carryforwards, and deferred tax assets or liabilities. These differences cause tax expense to diverge from cash taxes paid in a given period. Financial managers and analysts must understand this distinction to accurately assess cash flows, particularly when forecasting free cash flow or valuing firms.
Option A correctly explains this discrepancy, whereas the other options either deny the existence of differences or incorrectly characterize tax expense accounting.

NEW QUESTION # 38
Use Whole Pine Inc.'s financial statements for 20X3 below to answer the following question.
What is Whole Pine Inc.'stotal asset turnoverfor 20X3?

Whole Pine Inc. Income Statement—20X3	
Revenue	$10,000
– Cost of Goods Sold	(3,500)
– Expenses	(5,000)
Net Income	$ 1,500

Whole Pine Inc. Balance Sheet—20X3			
Assets		Liabilities and Stockholder Equity	
Cash	$2,000	Accounts Payable	$1,000
Accounts Receivable	500	Long-Term Debt	4,000
Inventory	1,500	Common Stock	2,000
Net Property, Plant, and Equipment	4,000	Retained Earnings	1,000
Total Assets	$8,000	Total Liabilities and Stockholder Equity	$8,000

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- A. 1.25
- B. 0.50
- C. 2.50
- D. 2.33

Answer: A

Explanation:
Total asset turnover measures how efficiently a firm uses its assets to generate revenue. It is calculated as Sales ÷ Total Assets. For Whole Pine Inc., sales for 20X3 are $10,000 and total assets are $8,000.
Dividing $10,000 by $8,000 yields a total asset turnover of 1.25. This means the company generates
$1.25 in sales for every $1.00 invested in assets. From a financial management perspective, this ratio is a key indicator of operating efficiency and is commonly compared across firms within the same industry or across time. A higher turnover suggests more efficient use of assets, while a lower turnover may indicate underutilized capacity or inefficient asset deployment. Asset turnover is also a component of the DuPont analysis, linking operational efficiency to return on equity. Option B correctly reflects both the calculation and interpretation consistent with standard financial analysis practice.

NEW QUESTION # 39
Why must analysts be cautious about accounting practices when analyzing ratios?

- A. Because different firms may use varying accounting methods, affecting the comparability of ratios
- B. Because ratio analysis follows a fixed rule set that eliminates judgment
- C. Because accrual accounting rules eliminate any variation in reported results
- D. Because accounting practices are identical across all firms

Answer: A

Explanation:
Accounting methods influence reported financial results and, consequently, financial ratios. Differences in depreciation methods, inventory valuation (FIFO vs. LIFO), revenue recognition, and expense capitalization can significantly alter earnings, assets, and equity. When analysts compare ratios across firms or over time, failure to account for these differences can lead to incorrect conclusions about profitability, efficiency, or risk. Financial management emphasizes adjusting or at least recognizing accounting differences to improve comparability and interpret ratios accurately. Option A correctly explains why caution is required, while the remaining options incorrectly assume uniformity or rigidity in accounting practices.

NEW QUESTION # 40
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