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Question: 1

Which events represent financial information recorded in the accounting system of a business?

- A. Business events that are likely to occur in the future
- B. Business events that have already occurred
- C. Personal events of each business owner that are likely to occur in the future
- D. Personal events of each business owner during a year

Answer: B

Explanation:

Accounting systems record business events that have already occurred, not events that may happen in the future and not the personal activities of owners. This is why Option B is correct. In financial accounting, recorded information must be based on identifiable, measurable, and supportable transactions or events, such as sales made, expenses incurred, assets purchased, liabilities created, or cash received and paid. Accounting information is primarily historical in nature, which improves reliability and allows users to evaluate what actually happened in the business.

Option A is incorrect because future business events are forecasts or estimates, not recorded transactions unless a present accounting event already exists, such as an accrued expense. Options C and D are also incorrect because personal events of the owners are not part of the business accounting records unless they directly affect the business entity, for example, owner investment or owner withdrawals. Under the business entity concept, the business is accounted for separately from its owners. Therefore, only completed business transactions and relevant economic events belonging to the business are recorded in the accounting system.

Question: 2

Which information does a balance sheet provide about a company?

- A. Revenues and expenses for a period of time
- B. Cash collections and cash expenditures at a specific point in time
- C. Assets and liabilities for a specific point in time
- D. Cash collections and cash expenditures for a period of time

Answer: C

Explanation:

A balance sheet shows the company's financial position at a specific point in time, so Option C is correct. It reports what the business owns (assets), what it owes (liabilities), and usually owners' or stockholders' equity as of a particular date. This is why the balance sheet is often described as a snapshot rather than a report covering a span of time. Authoritative accounting learning materials describe the balance sheet as presenting assets, liabilities, and equity "as of" a date or at a specific moment.

Option A is incorrect because revenues and expenses for a period of time belong to the income statement, not the balance sheet. Option D is incorrect because cash collections and cash expenditures for a period of time are presented in the statement of cash flows. Option B is also incorrect because cash inflows and outflows are not reported only at a single point in time; they are summarized over a period. Therefore, the best answer is the one identifying the balance sheet as a statement of assets and liabilities at a specific point in time.

Question: 3

Which user group of financial statements evaluates the ability to repay loans?

- A. Management
- B. Investors
- C. Lenders
- D. Suppliers

Answer: C

Explanation:

The correct answer is C. Lenders because lenders use financial statements primarily to assess whether a company can repay borrowed money and meet interest and principal obligations. They focus heavily on liquidity, solvency, debt levels, and cash-generating ability before deciding whether to extend credit or approve loans. Accounting learning materials note that lenders often study ratios and financial statement relationships to determine whether a company can cover short-term and long-term obligations.

Management does use financial statements, but mainly for planning, controlling, and decision-making inside the business. Investors are more focused on profitability, growth, dividends, and return on investment. Suppliers may review financial information when offering trade credit, but the group most directly concerned with the company's ability to repay loans is lenders. In practical terms, lenders analyze items such as current assets, current liabilities, total liabilities, operating cash flow, and interest coverage to judge repayment capacity. That makes them the user group most closely linked to evaluating loan repayment ability. Therefore, among the four options given, Lenders is the most accurate and best-supported answer from accounting theory and financial statement analysis.

Question: 4

Which organization establishes rules U.S. companies use to record and report accounting transactions?

- A. Accounting Principles Board
- B. Securities and Exchange Commission
- C. Financial Accounting Standards Board
- D. Internal Revenue Service

Answer: C

Explanation:

The correct answer is C. Financial Accounting Standards Board (FASB). The FASB is the private-sector standard-setting body whose accounting and financial reporting standards are recognized as authoritative U.S. generally accepted accounting principles (GAAP) for purposes of the federal securities laws. The SEC has explicitly recognized FASB standards as “generally accepted,” which is why U.S. companies rely on FASB guidance when recording and reporting accounting transactions.

Option A is incorrect because the Accounting Principles Board (APB) was a former standard-setting body that was replaced by the FASB. Option B, the SEC, does have legal authority over public company reporting, but it does not serve as the primary day-to-day accounting standard setter in the same way FASB does. Option D, the IRS, is responsible for tax administration, not financial accounting standards for general-purpose financial statements. For exam purposes, when the question asks which organization establishes the accounting rules U.S. companies use to record and report transactions, the best and most accurate answer is FASB.

Question: 5

Which body regulates a certified public accounting firm’s audit practices when the firm is auditing a large, publicly traded company?

- A. The Financial Accounting Standards Board (FASB)
- B. The Financial Accounting Standards Advisory Council (FASAC)
- C. The Internal Revenue Service (IRS)
- D. The Public Company Accounting Oversight Board (PCAOB)

Answer: D

Explanation:

The correct answer is D. The Public Company Accounting Oversight Board (PCAOB). The PCAOB was created to oversee the audits of public companies and SEC-registered brokers and dealers in order to protect investors and support the public interest in accurate, independent audit

reports. Its responsibilities include registration of audit firms, inspections, enforcement, and audit-related standard-setting. Because the question refers to a CPA firm auditing a large, publicly traded company, PCAOB oversight is the correct regulatory answer.

Option A is incorrect because FASB sets accounting standards, not audit practice regulation for public company auditors. Option B, FASAC, is an advisory council to FASB and does not regulate audit firms. Option C, the IRS, administers tax laws and does not oversee external audit practices for public companies. In accounting and auditing, it is essential to distinguish between those who set accounting rules and those who supervise auditors. For publicly traded companies, that audit oversight role belongs to the PCAOB, making Option D the only accurate choice.

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