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PRACTICE QUESTIONS

Institute of Certified Management Accountants (ICMA)

FMAA

Financial and Managerial Accounting Associate (Arabic)

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Institute of Certified Management Accountants (ICMA) `FMAAA`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `FMAAA`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 SINGLE CHOICE

A company purchases office equipment for $5,000 on account. According to the basic accounting equation (Assets = Liabilities + Owner's Equity), what is the effect of this transaction?

- A Assets increase by $5,000 and Owner's Equity increases by $5,000
- B **Assets increase by $5,000 and Liabilities increase by $5,000**
- C Liabilities decrease by $5,000 and Assets increase by $5,000
- D Assets decrease by $5,000 and Liabilities decrease by $5,000

ANSWER B

WHY Purchasing equipment on account increases the Equipment asset by $5,000 and simultaneously increases Accounts Payable (a liability) by $5,000. The accounting equation remains balanced, and Owner's Equity is unaffected because no revenue, expense, or owner investment/withdrawal occurred.

QUESTION 2 SINGLE CHOICE

A merchandising company had sales revenue of $200,000, sales returns and allowances of $10,000, sales discounts of $5,000, cost of goods sold of $120,000, and operating expenses of $40,000. What is the company's gross profit?

- A **$65,000**
- B $75,000
- C $25,000
- D $80,000

ANSWER A

WHY Net sales = $200,000 − $10,000 − $5,000 = $185,000. Gross profit = Net sales − Cost of goods sold = $185,000 − $120,000 = $65,000. Operating expenses are deducted from gross profit to arrive at operating income, not gross profit.

QUESTION 3 SINGLE CHOICE

Under the FIFO (First-In, First-Out) inventory costing method, which inventory items are assumed to be sold first?

A The most recently purchased items

B The oldest items in inventory

C An average of all items in inventory

D The items with the highest unit cost

ANSWER B

WHY FIFO assumes that the items purchased or produced first are the ones sold first, so the cost of goods sold reflects the cost of the oldest inventory, while ending inventory reflects the most recent costs.

QUESTION 4 SINGLE CHOICE

Which of the following would be classified as a long-term liability on the balance sheet?

A Accounts payable

B Salaries payable

C Notes payable due in 5 years

D Accrued utilities

ANSWER C

WHY Long-term (non-current) liabilities are obligations not due within one year. Notes payable due in 5 years is a long-term liability. Accounts payable, salaries payable, and accrued utilities are all current liabilities expected to be settled within one year.

QUESTION 5 SINGLE CHOICE

A company has current assets of $150,000 and current liabilities of $75,000. What is the company's current ratio?

A 0.5

B **2.0**

C $75,000

D 1.0

ANSWER **B**

WHY The current ratio = Current Assets ÷ Current Liabilities = $150,000 ÷ $75,000 = 2.0. A current ratio of 2.0 means the company has $2 of current assets for every $1 of current liabilities, generally indicating strong short-term liquidity.

QUESTION 6 SINGLE CHOICE

A manufacturing company's rental cost for its factory building is $20,000 per month regardless of production volume. Which type of cost is this?

A Variable cost

B Mixed cost

C **Fixed cost**

D Step cost

ANSWER **C**

WHY A fixed cost remains constant in total regardless of the level of activity or production volume within the relevant range. The factory rent of $20,000 per month does not change with production output, so it is a fixed cost.

QUESTION 7 SINGLE CHOICE

A product sells for $50 per unit, variable cost is $30 per unit, and total fixed costs are $40,000. What is the break-even point in units?

A. 800 units

B. 1,333 units

C. **2,000 units**

D. 1,000 units

ANSWER C

WHY Contribution margin per unit = Selling price − Variable cost = $50 − $30 = $20. Break-even point in units = Fixed costs ÷ Contribution margin per unit = $40,000 ÷ $20 = 2,000 units.

QUESTION 8 SINGLE CHOICE

Which of the following best describes a key difference between financial accounting and managerial accounting?

A. Financial accounting focuses on internal decision-making while managerial accounting focuses on external reporting

B. Managerial accounting is regulated by GAAP while financial accounting is not

C. **Financial accounting reports to external users while managerial accounting serves internal decision-makers**

D. Managerial accounting must be audited annually while financial accounting does not

ANSWER C

WHY Financial accounting produces financial statements for external users such as investors, creditors, and regulators and is governed by GAAP/IFRS. Managerial accounting provides internal reports for managers' planning, controlling, and decision-making and is not bound by GAAP.

QUESTION 9 SINGLE CHOICE

A company pays $12,000 on October 1 for a one-year insurance policy that runs from October 1 through September 30 of the following year. Under the matching principle, what amount should be reported as insurance expense on the annual income statement for the calendar year ending December 31?

- A $0
- **B $3,000**
- C $9,000
- D $12,000

ANSWER **B**

WHY Under the matching principle, the $12,000 prepaid policy must be allocated to the periods it covers. Three months (October, November, December) fall in the current calendar year, so expense recognized is $12,000 × 3/12 = $3,000. The remaining $9,000 is reported as a prepaid asset at year-end.