Question 1
Which of the following words **DOES NOT** describe a main focus of management accounting?

A. Planning  
B. Control  
C. External  
D. Decision-making

Question 2
CIMA defines management accounting as:

“The application of the principles of accounting and financial management to create, protect, preserve and increase value for the ________________ of for-profit and not-for profit enterprises in the public and private sectors”.

A. Auditors  
B. Stakeholders  
C. Owners  
D. Customers

Question 3
Which of the following statements are true?

1. The main role of the management accountant is to produce financial accounts  
2. Management accountants always work within the finance function  
3. Management accountants always work in partnership with business managers

A. 1 and 2 only  
B. 2 and 3 only  
C. 1 and 3 only  
D. None of the above.

Question 4
Which of the following words complete the statement below?

____________ accounts are prepared for external stakeholders.  
Management accounts are prepared for _____________ stakeholders.

A. Shadow, Internal  
B. Financial, Internal  
C. Financial, External  
D. Internal, Budget
Question 5

Which THREE of the following statements about CIMA are true?

A. CIMA was established over 90 years ago  
B. CIMA members may only work in the UK  
C. CIMA members and students must comply with the CIMA code of ethics  
D. CIMA members work mainly on the production of financial accounts  
E. CIMA members are not qualified to work as finance directors  
F. CIMA members work in all areas of business

Question 6

ABC absorbs fixed production overheads in one of its departments on the basis of machine hours. There were 100,000 budgeted machine hours for the forthcoming period. The fixed production overhead absorption rate was £2.50 per machine hour.

During the period, the following actual results were recorded:

Standard machine hours 110,000  
Fixed production overheads $300,000

Which ONE of the following statements is correct?

A. Overhead was $25,000 over-absorbed  
B. Overhead was $25,000 under-absorbed  
C. Overhead was $50,000 over-absorbed  
D. No under- or over-absorption occurred

Question 7

The audit fee paid by a manufacturing company would be classified by that company as:

A. A production overhead cost  
B. A selling and distribution cost  
C. A research and development cost  
D. An administration cost

Question 8

Cost centres are

A. Units of output or service for which costs are ascertained.  
B. Functions or locations for which costs are ascertained.  
C. A segment of the organisation for which budgets are prepared.  
D. Amounts of expenditure attributable to various activities.

Question 9
A company uses the repeated distribution method to reapportion service department costs. The use of this method suggests

A. The company’s overhead rates are based on estimates of cost and activity levels, rather than actual amounts
B. There are more service departments than production cost centres
C. The company wishes to avoid under- or over-absorption of overheads in its production cost centres
D. The service departments carry out work for each other

**Question 10**

Which **ONE** of the following costs would **NOT** be classified as a production overhead cost in a food processing company?

A. The cost of renting the factory building
B. The salary of the factory manager
C. The depreciation of equipment located in the materials store
D. The cost of ingredients

**Question 11**

An engineering firm operates a job costing system. Production overhead is absorbed at the rate of $8.50 per machine hour. In order to allow for non-production overhead costs and profit, a mark up of 60% of prime cost is added to the production cost when preparing price estimates.

The estimated requirements of job number 808 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>$10,650</td>
</tr>
<tr>
<td>Direct labour</td>
<td>$3,260</td>
</tr>
<tr>
<td>Machine hours</td>
<td>140</td>
</tr>
</tbody>
</table>

The estimated price notified to the customer for job number 808 will be

A. $22,256
B. $22,851
C. $23,446
D. $24,160
Question 12

The diagram represents the behaviour of a cost item as the level of output changes.

Which ONE of the following situations is described by the graph?

A. Discounts are received on additional purchases of material when certain quantities are purchased.
B. Employees are paid a guaranteed weekly wage, together with bonuses for higher levels of production.
C. A licence is purchased from the government which allows unlimited production.
D. Additional space is rented to cope with the need to increase production.

Question 13

A hospital's records show that the cost of carrying out health checks in the last five accounting periods have been as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of patients seen</th>
<th>Total cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>650</td>
<td>17,125</td>
</tr>
<tr>
<td>2</td>
<td>940</td>
<td>17,800</td>
</tr>
<tr>
<td>3</td>
<td>1260</td>
<td>18,650</td>
</tr>
<tr>
<td>4</td>
<td>990</td>
<td>17,980</td>
</tr>
<tr>
<td>5</td>
<td>1150</td>
<td>18,360</td>
</tr>
</tbody>
</table>

Using the high-low method and ignoring inflation, the estimated cost of carrying out health checks on 850 patients in period 6 is:

A. $17,515
Question 14
Which ONE of the following statements is true?

A. The total variable cost varies with a measure of activity.
B. A variable cost is an unavoidable cost.
C. A variable cost is not relevant for decision-making.
D. A variable cost becomes fixed in the long run.

Question 15
The following data have been collected for four cost types; W, X, Y, and Z at two activity levels.

<table>
<thead>
<tr>
<th>Cost type</th>
<th>Cost @ 100 units</th>
<th>Cost @ 140 units</th>
</tr>
</thead>
<tbody>
<tr>
<td>W</td>
<td>8,000</td>
<td>10,560</td>
</tr>
<tr>
<td>X</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Y</td>
<td>6,500</td>
<td>9,100</td>
</tr>
<tr>
<td>Z</td>
<td>6,700</td>
<td>8,580</td>
</tr>
</tbody>
</table>

Where V = variable, SV = semi-variable and F = fixed, assuming linearity, the four cost types W, X, Y and Z are respectively:

A. V F SV V
B. SV F V SV
C. V F V V
D. SV F SV SV

Question 16
Fixed costs are conventionally deemed to be:

A. Constant per unit of output
B. Constant in total when production volume changes
C. Outside the control of management
D. Those unaffected by inflation
Question 17

Based on the data below, what is the amount of the overhead under-/over-absorbed?

Budgeted overheads $493,200
Budgeted machine hours 10,960
Actual machine hours 10,493
Actual overheads $514,157

A. $20,957 under-absorbed
B. $21,015 over-absorbed
C. $21,015 under-absorbed
D. $41,972 under-absorbed

Question 18

The following details have been extracted from the receivables records of X:

Invoices paid in the month after sale 60%
Invoices paid in the second month after sale 20%
Invoices paid in the third month after sale 15%
Bad debts 5%

Credit sales for June to August 2011 are budgeted as follows:

June $100,000
July $150,000
August $130,000

Customers paying in the month after sale are entitled to deduct a 2% settlement discount. Invoices are issued on the last day of the month.

The amount budgeted to be received in September 2011 from credit sales is:

A. $115,190
B. $116,750
C. $121,440
D. $123,000

Question 19

A flexible budget is;

A. A budget which by recognising different cost behaviour patterns is designed to change as the volume of activity changes.
B. A budget for a defined period of time which includes planned revenues, expenses, assets, liabilities and cash flow.
C. A budget which is prepared for a period of one year which is reviewed monthly, whereby each time actual results are reported, a further forecast period is added and the intermediate period forecasts are updated.
D. A budget of semi-variable production costs only.
Question 20

The following extract is taken from the overhead budget of X:

<table>
<thead>
<tr>
<th>Budgeted activity</th>
<th>50%</th>
<th>75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted overhead</td>
<td>$100,000</td>
<td>$112,500</td>
</tr>
</tbody>
</table>

The overhead budget for an activity level of 80% would be

A. $115,000  
B. $120,000  
C. $136,000  
D. $160,000

Question 21

The term “budget slack” refers to the

A. Extended lead time between the preparation of the functional budgets and the master budget.  
B. Difference between the budgeted output and the breakeven output.  
C. Additional capacity available which can be budgeted for.  
D. Deliberate over-estimation of costs and under-estimation of revenues in a budget.

Question 22

RS is currently preparing the production budget for Product A and the material purchase budget for material X for the forthcoming year. Each unit of Product A requires 5 kgs of material X. The anticipated opening inventory for Product A is 5,000 units and the company wishes to increase the closing inventory by 30% by the end of the year.

The anticipated opening inventory for material X is 50,000 kgs and in order to avoid stock outs the required closing inventory has been increased to 60,000 kgs.

The Sales Director has confirmed a sales requirement of 70,000 units of Product A.

How many units of Product A will need to be produced?

A. 68,500 units  
B. 71,500 units  
C. 76,500 units  
D. 80,000 units

Question 23

RS is currently preparing the production budget for Product A and the material purchase budget for material X for the forthcoming year. Each unit of Product A requires 5 kgs of material X.

The anticipated opening inventory for Product A is 5,000 units and the company wishes to increase the closing inventory by 30% by the end of the year.
The anticipated opening inventory for material X is 50,000 kgs and in order to avoid stock outs the required closing inventory has been increased to 60,000 kgs.

The Sales Director has confirmed a sales requirement of 70,000 units of Product A. What will be the purchases budget for material X?

A. 347,500 kgs  
B. 350,000 kgs  
C. 357,500 kgs  
D. 367,500 kgs

**Question 24**

The principal budget factor is the

A. Factor which limits the activities of the organisation and is often the starting point in budget preparation.  
B. Budgeted revenue expected in a forthcoming period.  
C. Main budget into which all subsidiary budgets are consolidated.  
D. Overestimation of revenue budgets and underestimation of cost budgets, which operates as a safety factor against risk.

**A**-The principal budget factor can also be known as the limiting factor as this factor usually indicates which budget should be prepared first. Failure to identify the principal budgeting factor at an early stage could lead to delays at a later stage when managers realise targets that were set are not feasible.

**Question 25**

Which of the following would **NOT** be included in a cash budget?

(i) Depreciation  
(ii) Provisions for doubtful debts  
(iii) Wages and salaries

A. (i) and (ii) only  
B. (ii) and (iii) only  
C. (iii) only  
D. (i) only

**Question 26**

Overtime premium is

A. The additional amount paid for hours worked in excess of the basic working week.  
B. The additional amount paid over and above the normal hourly rate for hours worked in excess of the basic working week.  
C. The additional amount paid over and above the overtime rate for hours worked in excess of the basic working week.  
D. The overtime rate.
Question 27

A standard cost is

A. The planned unit cost of a product, component or service in a period.
B. The budgeted cost ascribed to the level of activity achieved in a budget centre in a control period.
C. The budgeted production cost ascribed to the level of activity in a budget period.
D. The budgeted non-production cost for a product, component or service in a period.

Question 28

X operates a standard marginal costing system. The following budgeted and standard cost information is available:

Budgeted production and sales 10,000 units
Direct material cost – 3 kg x $10 $30 per unit

Actual results for the period were as follows:
Production and sales 11,500 units
Direct material – 36,000 kg $342,000

The direct material price variance is

A. $18,000 adverse
B. $3,000 adverse
C. $3,000 favourable
D. $18,000 favourable

Question 29

Y operates a standard marginal costing system. The following budgeted and standard cost information is available:

Budgeted production and sales 10,000 units
Direct material cost – 3 kg x $10 $30 per unit

Actual results for the period were as follows:
Production and sales 11,500 units
Direct material – 36,000 kg $342,000

The direct material usage variance is

A. $15,000 adverse
Question 30
Which ONE of the following factors could explain a favourable direct material usage variance?

A. More staff were recruited to inspect for quality, resulting in a higher rejection rate.
B. When estimating the standard product cost, usage of material had been set using ideal standards.
C. The company had reduced training of production workers as part of a cost reduction exercise.
D. The material price variance was adverse.

Question 31
G repairs electronic calculators. The wages budget for the last period was based on a standard repair time of 24 minutes per calculator and a standard wage rate of $10.60 per hour.

Following the end of the budget period, it was reported that:

- Number of repairs: 31,000
- Labour rate variance: $3,100 (A)
- Labour efficiency variance: Nil

Based on the above information, the actual wage rate during the period was:

A. $10.35 per hour
B. $10.60 per hour
C. $10.85 per hour
D. $11.10 per hour

Question 32
P operates a standard marginal costing system. The following budgeted and standard cost information is available:

Budgeted production and sales: 10,000 units
Variable production overheads – 5 hours x $4: $20 per unit

Actual results for the period were as follows:
Production and sales: 11,500 units
Variable production overheads – 52,000 hours: $195,000

The variable production overhead expenditure variance is

A. $35,000 adverse
B. $13,000 adverse
C. $13,000 favourable
D. $35,000 favourable
Question 33

XYZ operates an integrated accounting system. The material control account at 31 March 2011 shows the following information:

<table>
<thead>
<tr>
<th>Material control account</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
</tr>
<tr>
<td>Balance b/d</td>
</tr>
<tr>
<td>50,000</td>
</tr>
<tr>
<td>Creditors</td>
</tr>
<tr>
<td>100,000</td>
</tr>
<tr>
<td>Bank</td>
</tr>
<tr>
<td>25,000</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>175,000</td>
</tr>
</tbody>
</table>

The $125,000 credit entry represents the value of the transfer to the

A. Cost of sales account
B. Finished goods account
C. Profit and loss account
D. Work-in-progress account

Question 34

R makes one product, which passes through a single process. Details of the process account for period 1 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material cost – 20,000 kg</td>
<td>26,000</td>
</tr>
<tr>
<td>Labour cost</td>
<td>12,000</td>
</tr>
<tr>
<td>Production overhead cost</td>
<td>5,700</td>
</tr>
<tr>
<td>Output</td>
<td>18,800 kg</td>
</tr>
<tr>
<td>Normal losses</td>
<td>5% of input</td>
</tr>
</tbody>
</table>

There was no work-in-progress at the beginning or end of the period. Process losses have no value.

The cost of the abnormal loss (to the nearest $) is

A. $437
B. $441
C. $460
D. $465

Question 35

In a standard cost bookkeeping system, when the actual material usage has been greater than the standard material usage, the double entry to record this is:

A. Debit the material usage variance account, Credit the raw material control account
B. Credit the material usage variance account, Debit the raw material control account
C. Debit the material usage variance account, Credit the work-in-progress account
D. Credit the material usage variance account, Debit the work-in-progress account

Question 36
A company produces a single product that passes through two processes. The details for process 1 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials input</td>
<td>20,000 kg at $2.50 per kg</td>
</tr>
<tr>
<td>Direct labour</td>
<td>$15,000</td>
</tr>
<tr>
<td>Production overheads</td>
<td>150% of direct labour</td>
</tr>
</tbody>
</table>

Normal losses are 15% of input in process 1 and without further processing any losses can be sold as scrap for $1 per kg.
The output for the period was 18,500 kg from process 1.
There was no work-in-progress at the beginning or end of the period.

What value (to the nearest $) will be credited to the process 1 account in respect of the normal loss?

A. Nil
B. $3,000
C. $4,070
D. $5,250

Question 37
A company has been asked to quote for a job. The company aims to make a net profit of 30% on sales. The estimated cost for the job is as follows:

Direct materials 10 kg @ £10 per kg
Direct labour 20 hours @ £5 per hour

Variable production overheads are recovered at the rate of £2 per labour hour.
Fixed production overheads for the company are budgeted to be £100,000 each year and are recovered on the basis of labour hours.

There are 10,000 budgeted labour hours each year. Other costs in relation to selling, distribution and administration are recovered at the rate of £50 per job.

The company quote for the job should be

A. £572
B. £637
C. £700
D. £833
Question 38

A company produces a single product that passes through two processes. The details for process 1 are as follows:

- Materials input: 20,000 kg at $2.50 per kg
- Direct labour: $15,000
- Production overheads: 150% of direct labour

Normal losses are 15% of input in process 1 and without further processing any losses can be sold as scrap for £1 per kg.

The output for the period was 18,500 kg from process 1.

There was no work-in-progress at the beginning or end of the period.

What is the value (to the nearest $) of the output to process 2?

A. $88,813  
B. $90,604  
C. $91,956  
D. $94,063

Question 39

In an integrated bookkeeping system, when the actual production overheads exceed the absorbed production overheads, the accounting entries to close off the production overhead account at the end of the period would be:

A. Debit the production overhead account and credit the work-in-progress account.  
B. Debit the work-in-progress account and credit the production overhead account.  
C. Debit the production overhead account and credit the profit and loss account.  
D. Debit the profit and loss account and credit the production overhead account.

Question 40

In a standard cost bookkeeping system, when the actual material price exceeds the standard price, the double entry to record the difference in price is:

A. Debit the material price variance account and credit the raw material control account  
B. Credit the material price variance account and debit the raw material control account  
C. Debit the material price variance account and debit the work-in-progress account  
D. Credit the material price variance account and credit the work-in-progress account

Question 41

Which of the following are characteristics of service costing?

(i) High levels of indirect costs as a proportion of total cost  
(ii) Use of composite cost units  
(iii) Use of equivalent units

A. (i) only  
B. (ii) only
C. (i) and (ii) only
D. All of them

Question 42

The incomplete process account relating to period 4 for a company which manufactures paper is shown below:

| Process account               | Units | $   | | Units | $   |
|-------------------------------|-------|------| |       |     |
| Material                      | 4,000 | 16,000| | Finished goods | 2,750 |
| Labour                        | 8,125 | Normal loss | 400 | 700 |
| Production overhead           | 3,498 | Work in progress | 700 |

There was no opening work in process (WIP). Closing WIP, consisting of 700 units, was complete as shown:

Material 100%
Labour 50%
Production overhead 40%

Losses are recognised at the end of the production process and are sold for $1.75 per unit.

The total value of the units transferred to finished goods was

A. $21,052.50
B. $21,587.50
C. $22,122.50
D. $22,656.50

Question 43

Point K on the graph indicates the value of

A. Semi-variable cost
B. Total cost
C. Variable cost
D. Fixed cost
Question 44

This graph is known as a

A. Conventional breakeven chart  
B. Contribution breakeven chart  
C. Semi-variable cost chart  
D. Profit volume chart

Question 45

W Ltd makes leather purses. It has drawn up the following budget for its next financial period:

- Selling price per unit $11.60  
- Variable production cost per unit $3.40  
- Sales commission 5% of selling price  
- Fixed production costs $430,500  
- Fixed selling and administration costs $198,150  
- Sales 90,000 units

The margin of safety represents

A. 5.6% of budgeted sales  
B. 8.3% of budgeted sales  
C. 11.6% of budgeted sales  
D. 14.8% of budgeted sales

Question 46

ZK has been asked to quote a price for a special job that must be completed within one week.

The job requires a total of 100 skilled labour hours and 50 unskilled labour hours. The current employees are paid a guaranteed minimum wage of $525 for skilled workers and $280 for unskilled workers for a 35-hour week.

Currently, skilled labour has spare capacity amounting to 75 labour hours each week and unskilled labour has spare capacity amounting to 100 labour hours each week. Additional skilled workers and unskilled workers can be employed and paid by the hour at rates based on the wages paid to the current workers.
The materials required for the job are currently held in inventory at a book value of $5,000. The materials are regularly used by ZK and the current replacement cost for the materials is $4,500. The total scrap value of the materials is $1,000.

What is the total relevant cost to ZK of using skilled and unskilled labour on this job?

A. Nil  
B. $375  
C. $775  
D. $1,540

**Question 47**

ZK has been asked to quote a price for a special job that must be completed within one week. The job requires a total of 100 skilled labour hours and 50 unskilled labour hours. The current employees are paid a guaranteed minimum wage of $525 for skilled workers and $280 for unskilled workers for a 35-hour week.

Currently, skilled labour has spare capacity amounting to 75 labour hours each week and unskilled labour has spare capacity amounting to 100 labour hours each week. Additional skilled workers and unskilled workers can be employed and paid by the hour at rates based on the wages paid to the current workers.

The materials required for the job are currently held in inventory at a book value of $5,000. The materials are regularly used by ZK and the current replacement cost for the materials is $4,500. The total scrap value of the materials is $1,000.

What is the relevant cost to ZK of using the materials in inventory on this job?

A. $1,000  
B. $3,500  
C. $4,500  
D. $5,000

**Question 48**

For decision-making purposes, which of the following are relevant costs?

(i) Avoidable cost  
(ii) Future cost  
(iii) Opportunity cost  
(iv) Differential cost

A. (i), (ii), (iii) and (iv)  
B. (i) and (ii) only  
C. (ii) and (iii) only  
D. (i) and (iv) only
Question 49

A project requires an initial investment of $300,000. The following cash inflows have been estimated for the life of the project:

<table>
<thead>
<tr>
<th>Year</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50,000</td>
</tr>
<tr>
<td>2</td>
<td>120,000</td>
</tr>
<tr>
<td>3</td>
<td>200,000</td>
</tr>
</tbody>
</table>

Using a discount rate of 8%, the net present value of the project to the nearest $'000 is $

Yr 0: $300,000 \times 1 = $300,000
Yr 1: $50,000 \times .926 = 46,300$
Yr 2: $120,000 \times .857 = 102,840$
Yr 3: $200,000 \times .794 = 158,800$

7,940 rounds to $8,000

Note: Discount rates can be found within the maths tables that will be available onscreen in exam.

Question 50

Which THREE of the following statements are advantages of the internal rate of return (IRR) method of investment appraisal?

A. It is a measure of absolute profitability
B. It considers the time value of money
C. It is an easy to understand percentage measure
D. It is based on accounting profits
E. It considers the whole life of a project
F. It is a simple measure of risk
### C01 – Answers

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>C</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
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<tr>
<td>3</td>
<td>D</td>
</tr>
<tr>
<td>4</td>
<td>B</td>
</tr>
<tr>
<td>5</td>
<td>A, C, F</td>
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<td>6</td>
<td>B</td>
</tr>
<tr>
<td>7</td>
<td>D</td>
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<td>8</td>
<td>B</td>
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<td>10</td>
<td>D</td>
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<td>11</td>
<td>C</td>
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</tr>
<tr>
<td>27</td>
<td>A</td>
</tr>
<tr>
<td>28</td>
<td>D</td>
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<tr>
<td>29</td>
<td>A</td>
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<tr>
<td>30</td>
<td>D</td>
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<td>31</td>
<td>A</td>
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<td>32</td>
<td>C</td>
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<td>33</td>
<td>D</td>
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<tr>
<td>34</td>
<td>C</td>
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<td>35</td>
<td>A</td>
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<td>36</td>
<td>B</td>
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<td>37</td>
<td>C</td>
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<tr>
<td>38</td>
<td>C</td>
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<tr>
<td>39</td>
<td>D</td>
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<tr>
<td>40</td>
<td>A</td>
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<td>41</td>
<td>C</td>
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<tr>
<td>42</td>
<td>B</td>
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<tr>
<td>43</td>
<td>D</td>
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<tr>
<td>44</td>
<td>D</td>
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<td>45</td>
<td>B</td>
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<tr>
<td>46</td>
<td>B</td>
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<td>47</td>
<td>C</td>
</tr>
<tr>
<td>48</td>
<td>A</td>
</tr>
<tr>
<td>49</td>
<td>$8,000</td>
</tr>
<tr>
<td>50</td>
<td>BCE</td>
</tr>
</tbody>
</table>
C01 – Explanations

1. External; Management accounting focuses on the business needs, therefore you should decide what management accounting is and eliminate that most obvious.

2. Stakeholders; These can include shareholders, customers, suppliers, employees or anyone that could be affected by the company internally or externally. For a more detailed explanation of management accountants please visit the website.

3. None of the above; Management accountants can work in a variety of roles and also across a range of departments. To find out more about what CIMA students and members do please visit their profiles on the global website.

4. Financial, Internal; Financial accounts of companies are publicly available to any stakeholders who may need to view financial accounts and are usually created annually or bi-annually. Management accounts are used internally for planning and control and are usually developed monthly.

5. A, C, F; for a detailed history of CIMA, students can visit the global homepage in about us section.

6. Overhead was $25,000 under-absorbed.

| Budget hrs | 100,000 |
| Standard hrs | 110,000 |
| Difference | 10,000 x $2.50 = $25,000 |

7. Administration cost; it cannot be allocated under any of the other costs as audit fees are for the whole company, therefore it must be an admin cost.

8. Functions or locations for which costs are ascertained; a cost centre is a production or service location, a function, an activity or an item of equipment for which costs are accumulated e.g. canteen within a company.

9. When relating overheads to end units it is difficult to relate service centre overheads due to the very nature of the name service, so attempt is made to re-apportion such cost to production centres making it eventually convenient to relate to end units, but when there are two or more service centres giving each other services (reciprocal) getting the service centre cost fully related to each production centre becomes problematic, hence a repeated distribution.

10. The cost of ingredients; Ingredients would be classified as the raw material and not a production overhead.

11. Production cost equals;

| Direct Materials | $10,650 |
| Direct Labour | $3,260 |
| Machine Cost (140 x $8.5) | $1,190 |
| Total Production Cost | $15,100 |
| Plus 60% of prime cost | $8,346 | ($10,650+$3,260=$13,910x60%) |
12. If at higher production bonuses are paid the line should increase at a faster trajectory at higher output.

13. $17,625;

<table>
<thead>
<tr>
<th>Patients</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>(650)</td>
</tr>
<tr>
<td>High</td>
<td>1,260</td>
</tr>
</tbody>
</table>

Obtain variable cost per patient as $1,525/610 = $2.5 per patient
Therefore fixed cost is $17,125 - $1,625 ($2.50 x 650) = $15,500

Variable cost for 850 patients would be $2.5 x 850 = $2,125
Therefore total cost for 850 patients = $17,625 ($15,500 + $2,125)

14. Understand the difference between a variable and fixed cost. Variable costs will always change dependent on level of activity.

15. You need to adopt the high low method for each cost type to understand whether the cost is variable, semi-variable or fixed.

**W:**

<table>
<thead>
<tr>
<th>Units</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>8,000</td>
</tr>
<tr>
<td>140</td>
<td>10,560</td>
</tr>
<tr>
<td>40</td>
<td>2,560</td>
</tr>
</tbody>
</table>

$2,560/40 = $64 per unit; $8,000 - (100x$64) $6,400 = $1,600 fixed cost

140 x $64 = $8,960 + $1,600 = $10,560, therefore semi-variable so either answer B or D

**Y:**

<table>
<thead>
<tr>
<th>Units</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>6,500</td>
</tr>
<tr>
<td>140</td>
<td>9,100</td>
</tr>
<tr>
<td>40</td>
<td>2,600</td>
</tr>
</tbody>
</table>

$2,600/40 = $65 per unit; $6,500 – (100x$65) $6,500 = $0 fixed cost, therefore variable cost and answer is B.

**Hint:** The reason I choose to calculate Y after W as the answer could only have been B or D, you would have noticed with product X and Z the answers were the same for B and D.

16. As said previously it is important to understand the difference between a fixed and variable costs, fixed costs will always remain fixed regardless of production volume changes.
17. Budgeted machine hours 10,960  
   Actual machine hours (10,493)  
   Variance 467  

   Budgeted overheads $493,200 / budgeted machine hours of 10,960 = $45 budgeted machine hr  
   467 x $45 = $21,015  

   Budgeted overheads $493,200  
   Actual overheads $514,157  
   Variance $20,957  

   Total under-absorption = $21,015 + $20,957 = $41,972  

18. June sales $100,000x15% = $15,000  
   July sales $150,000x20% = $30,000  
   August sales $130,000x60% = $78,000 less 2% discount $1,560 = $76,440  

   Total = $15,000 + $30,000 + $76,440 = $121,440  

19. A flexible budget can help managers to make more valid comparisons. It is designed to show the allowed expenditure for the actual number of units produced and sold. Comparing this flexible with the actual expenditure, it is possible to distinguish genuine efficiencies.  

20.  
<table>
<thead>
<tr>
<th>Activity</th>
<th>$ Overhead</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>100,000</td>
</tr>
<tr>
<td>75%</td>
<td>112,500</td>
</tr>
<tr>
<td>25%</td>
<td>12,500</td>
</tr>
</tbody>
</table>

   $12,500/25 = $500 increase as activity increases by 1%  

   Therefore an increase of 5% activity would be $112,500 + (500x5) $2,500 = $115,000  

21. The argument is if you are responsible for cost you will keep the target high even if you spend a lot you are still within the target, and as for revenue, keep the target lower making it easy to achieve.  

22.  
   Product A  
   Opening Inventory 5,000  
   Production  
   Closing Inventory 6,500 (5,000+ 30% of 5,000)
Need sales of 70,000 units, therefore production in units is 70,000+6,500-5,000= 71,500 units

23. Product A:

<p>| | |</p>
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Opening inventory</td>
<td>5,000</td>
</tr>
<tr>
<td>Production required</td>
<td></td>
</tr>
<tr>
<td>Closing inventory</td>
<td>6,500 (5000 + (5000 x 30%))</td>
</tr>
</tbody>
</table>

Sales required = 70,000 units therefore production of 71,500 units required (70,000+6,500-5,000)

Mat X requirements;

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening inventory</td>
<td>50,000kgs</td>
</tr>
<tr>
<td>Production required</td>
<td></td>
</tr>
<tr>
<td>Closing inventory</td>
<td>60,000kgs</td>
</tr>
</tbody>
</table>

71,500 units x 5gs = 357,500kgs
Therefore need to purchase = 367,500kgs (357,500+60,000-50,000)

24. The principal budget factor can also be known as the limiting factor as this factor usually indicates which budget should be prepared first. Failure to identify the principal budgeting factor at an early stage could lead to delays at a later stage when managers realise targets that were set are not feasible.

25. Items excluded from a cash budget are book items and are non-cash related. Depreciation is a book value and has no cash value. A provision for doubtful debts is also a book transaction and does not become a cash issue until the bad debt is realised. Wages and Salaries are cash transactions.

26. Overtime premium may include time and a half, double time, or triple time pay etc

27. A standard cost is a carefully predetermined unit cost which is prepared for each cost unit. It contains details of the standard amount and price of each resource that will be utilised in providing the service or manufacturing the product.

28.  

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Budget costs</td>
<td>$360,000 (36,000kgs x $10)</td>
</tr>
<tr>
<td>Actual costs</td>
<td>$342,000</td>
</tr>
<tr>
<td>Favourable variance</td>
<td>$18,000</td>
</tr>
</tbody>
</table>

29.  

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget usage</td>
<td>34,500kgs (11,500 x 3kg)</td>
</tr>
<tr>
<td>Actual usage</td>
<td>36,000kgs</td>
</tr>
</tbody>
</table>
30. Adverse Variance 1,500kgs x $10 = $15,000 direct material usage variance

31. By buying higher quality material than originally planned will be higher priced than expected but with high quality usage would be more efficient and effective.

32. Calculate the actual cost based on current labour rate:

$$\frac{60 \text{ mins}}{24 \text{ mins}} = 2.5 \text{ calculators fixed per hour}$$

$$\frac{31,000}{2.5} = 12,400 \text{ hrs worked} \times 10.60 = 131,440 \text{ budgeted cost}$$

$$($131,440+ $3,100) = $134,540 \text{ actual cost}$$

$$\frac{134,540}{12,400} = $10.85 \text{ per hour}$$

33. Budget cost = 52,000 hrs x $4 = $208,000

Actual cost = $195,000

$13,000 favourable variance

34. Material control A/C in credit side can indicate items used directly (which should go to WIP A/C and once completed will go to FG A/C), indirectly (should go to production overhead A/C), remaining to be used in the next period (balance c/d). So the missing item is the first explanation.

$$\text{Normal loss} = 20,000 \times 5\% = 1,000, \text{ therefore expected output is} 19,000 \text{ kg}$$

$$\text{Abnormal loss} = 19,000 \text{ kg} - 18,800 \text{ kg} = 200 \text{ kg}$$

$$\text{Abnormal cost} = \frac{\text{Total costs less scrap value}}{\text{Expected output}}$$

$$\frac{43,700 ($26,000+ $12,000+ $5,700)}{19,000} = 2.3$$

$$200 \text{ kg} \times 2.3 = $460$$

35. This would mean there has been an adverse variance in terms of material usage, therefore you need to reduce the raw material account as you have used more than budgeted for.

36. Normal loss = 20,000 kg x 15% = 3,000kg x $1 = $3,000

37. Direct Mat = 10kg x $10 = $100

Direct Lab = 20hrs x $5 = $100

Var prod o/head = 20hrs x $2 = $40

Fixed o/head = $200 (($100,000/10,000budgeted hrs)x 20 actual hrs))
Other costs = $50
Total costs = $490

Net profit is 30% of sales, therefore total costs represent 70%
($490 x 100)/70 = $700 - price to quote for job.

To check answer is correct; profit achieved will be $210 ($700-$490) $210/$700 = 30%

38. Cost per unit is calculated to decide what cost to be transferred to customers, and if there are normal losses (and anything to do with normal losses like scrap or disposal values) those are adjusted for. So the formula used is:

\[
\text{Cost per unit} = \frac{\text{Total process cost} \ - \ \text{scrap value of normal loss}}{\text{input} \ - \ \text{NL}}
\]

\[
= \frac{50000+15000+22500}{20000-3000} = 4.97 \text{ approx}
\]

FG value = 18500*4.97 = C

39. Account extraction comes from the following:

40. With variances: Ledger account is kept for each variance, and whichever the type open a new account under that variance name and Debit when adverse variance / Credit when favorable variances.
And the other corresponding entries (as part of double entry): Material price variance recorded in Raw materials control account, Labour rate variance reordered in Wages control account. Quantity variances (material usage, labour efficiency and variable overhead efficiency) are recorded in Work in progress control account. Variable overhead expenditure and Fixed O/H expenditure & volume are usually recorded in production overhead control account.

Sales are usually recorded at actual amounts in the ledger accounts, so sales variances are not applicable.

41. Equivalent units are used in Process costing, Services more indirect cost and unit measure is generally a creative one like lecture-hours (composite cost units)

See calculations below

**Statement of Equivalent Units**

<table>
<thead>
<tr>
<th></th>
<th>M</th>
<th></th>
<th>L</th>
<th></th>
<th>O/H</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Output</td>
<td>%</td>
<td>Qty</td>
<td>%</td>
<td>Qty</td>
<td>%</td>
<td>Qty</td>
</tr>
<tr>
<td>FG</td>
<td>100</td>
<td>2,750</td>
<td>100</td>
<td>2,750</td>
<td>100</td>
<td>2,750</td>
</tr>
<tr>
<td>NL</td>
<td>400</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>WIP</td>
<td>100</td>
<td>700</td>
<td>50</td>
<td>350</td>
<td>40</td>
<td>280</td>
</tr>
<tr>
<td>AL</td>
<td>100</td>
<td>150</td>
<td>100</td>
<td>150</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>4,000</td>
<td>3,600</td>
<td>3,250</td>
<td>3,180</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

42.

**Statement of Cost**

<table>
<thead>
<tr>
<th></th>
<th>M</th>
<th>L</th>
<th>O/H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input Cost</td>
<td>16,000</td>
<td>8,125</td>
<td>3,498</td>
</tr>
<tr>
<td>Less: scrap sale value of NL</td>
<td>-700</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15,300</td>
<td>8,125</td>
<td>3,498</td>
</tr>
<tr>
<td>Cost per Equivalent unit</td>
<td>4.25</td>
<td>2.5</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**Statement of Evaluation**

- FG: 
  
  \[(4.25+2.5+1.1) \times 2,750 = 21,587.50\]

- WIP: 
  
  \[4.25 \times 700 + (2.5 \times 350) + (1.1 \times 280) = 4,158\]

- AL: 
  
  \[(4.25+2.5+1.1) \times 150 = 1,177.50\]
43. Even at zero units we have fixed costs without any revenue that becomes a full loss to the organisation

44. The two axis’s show profit and activity/volume/units

45.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$11.60</td>
</tr>
<tr>
<td>Variable costs</td>
<td>$3.40</td>
</tr>
<tr>
<td>Commission</td>
<td>$0.58</td>
</tr>
<tr>
<td>Contribution per unit</td>
<td>$7.62</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>$628,650</td>
</tr>
<tr>
<td>B/E point</td>
<td>82,500 units</td>
</tr>
<tr>
<td>Margin of safety</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

46.

Skilled labour capacity = 75 hrs
Requirement = 100 hrs
Relevant cost = 25 hrs @ rate of ($525/35hrs) = 25 hrs x $15 = $375
Unskilled labour is not a relevant cost as there is spare capacity.

47.

In a Relevant costing question like this, if materials are regularly used then they are to be replaced. Hence we have to purchase it from outside. The replacement cost here is 4500 which should be considered as the relevant cost for the job

(Net Book value is immaterial since decision making uses relevance concept)

(Scrap value will not be considered since this is a regularly used material)

48.

(i) Avoidable costs are relevant because they get affected by the decision e.g. We are currently paying rent and for the decision of putting up our own work place this rent becomes a cost saving (Avoidable cost/relevant cost)

(ii) Due to any decision we make if there are any costs incurred into the future, then they come under relevant costs of the decision (However Future committed costs are irrelevant)
e.g. The new supervisor's salary for the new building is future relevant cost. However if we were to anyway recruit a new supervisor in 6 months time (future) and we were to use him in the new project then his salary becomes irrelevant because its future committed cost.

(iii) Opportunity costs are the next best alternatives forgone due to the decision we make so we must consider them as relevant.

e.g. Currently a MA giving up his job to start up his own business (MA's salary is opportunity cost in this decision)

(iv) This is another name for incremental costs (at the moment we are paying a rent of $6,000 and due to the expansion we have to pay $8500 as rent differential cost of $2500 is relevant to the decision of expanding)

49.

A project requires an initial investment of $300,000.

The following cash inflows have been estimated for the life of the project:

<table>
<thead>
<tr>
<th>Year</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50,000</td>
</tr>
<tr>
<td>2</td>
<td>120,000</td>
</tr>
<tr>
<td>3</td>
<td>200,000</td>
</tr>
</tbody>
</table>

Using a discount rate of 8%, the net present value of the project to the nearest $'000 is $

\[
\begin{align*}
\text{Yr 0:} & \quad 300,000 \times 1 = (300,000) \\
\text{Yr 1:} & \quad 50,000 \times 0.926 = 46,300 \\
\text{Yr 2:} & \quad 120,000 \times 0.857 = 102,840 \\
\text{Yr 3:} & \quad 200,000 \times 0.794 = 158,800 \\
& \quad 7,940 \text{ rounds to } 8,000
\end{align*}
\]

*Note: Discount rates can be found within the maths tables that will be available onscreen in exam.*

50.

**B, C, E:**

B) DCF is used to calculate NPV so that this method believes that today's money is more worth than tomorrow's (This TVM concept is considered to be essential in long term decision making)

C) NPV is difficult to be understood by managers but % is not. The decision criteria using IRR is that if the project's IRR is more than the COC then it should be accepted. If mutually exclusive projects are there then the highest MOS giving project should be chosen (MOS = IRR-COC)
E) Unlike Payback which only considers the point which recovers the initial investment this is a better measure of risk which looks at the whole life of the project. (To calculate IRR we calculate NPV for the same project at 2 different COCs. So the entire project will be considered)