

CIMA P1 - Management Accounting

1. TP makes wedding cakes that are sold to specialist retail outlets which decorate the cakes according to the customers' specific requirements. The standard cost per unit of its most popular cake is as follows:

		\$
Direct material:		
Ingredient A	4 kg at \$25 per kg	100
Ingredient B	3 kg at \$22 per kg	66
Ingredient C	2 kg at \$11.50 per kg	23
Direct labour	3 hours at \$12 per hour	36
Variable overhead	3 hours at \$8 per hour	<u>24</u>
Standard cost		<u>249</u>

The budgeted production for the period was 10,000 units.

Actual results for the period were as follows:

		9,000
		\$
Direct material:		
Ingredient A	35,000 kg	910,000
Ingredient B	28,000 kg	630,000
Ingredient C	27,000 kg	296,000
Direct labour	30,000 hours	385,000
Variable overhead		230,000

The general market prices at the time of purchase for Ingredient A and Ingredient B were \$23 per kg and \$20 per kg respectively. TP operates a JIT purchasing system for ingredients and a JIT production system; therefore, there was no inventory during the period.

What was the material yield variance?

A. The material yield variance was \$98 500 A

B. The material yield variance was \$175 500 A

C. The material yield variance was \$155 000 A

D. The material yield variance was \$175 000 A

E. The material yield variance was \$155 500 A

Answer(s): D

2. FG Enterprises manufactures and sells three products. There are 4,400 kg of Material X available in the next period. Material X is used in the manufacture of all three products. The following data is available for the next period.

Product	L	M	N
Demand (units)	3,000	5,000	4,000
Selling price (per unit)	\$15	\$25	\$18
Direct material cost (per unit)	\$3	\$7.50	\$6
Direct labour cost (per unit)	\$4	\$4	\$2
Fixed overhead cost (per unit)	\$2	\$8	\$3
Material X used per unit (kg)	0.20	0.50	0.40

What is the optimal production plan for the next period in order to maximise profit?

A. Product L 1,500 units Product M 5,000 units Product N 4,000 units

B. Product L 3,000 units Product M 5,000 units Product N 3,250 units

C. Product L 3,000 units Product M 4,400 units Product N 4,000 units

D. Product L 3,000 units Product M 5,000 units Product N 4,000 units

Answer(s): B

3. GH manufactures a product using skilled labour and high quality materials. The company operates a standard costing system and a just-in-time (JIT) purchasing and production system. The standard selling price and variable costs for one unit of the product are as follows:

	\$
Selling price	136
Materials (2 kg @ \$10 per kg)	20
Labour (3 hours @ \$24 per hour)	72

The budgeted sales for October were 38,000 units.

Actual results for October were as follows:

Production and sales	36,000 units
Selling price	\$134 per unit
Materials	76,000 kg costing \$754,000
Labour	114,000 hours paid costing \$2,656,000

Prepare a statement that reconciles the budgeted contribution with the actual contribution for October. Your statement should show the variances in as much detail as possible.

What was the actual contribution for October?

A. \$ 1,324,000

B. \$ 1,414,000

C. \$ 1,594,000

D. \$ 1,494,000

E. \$ 1,198,000

Answer(s): B

4. A master budget comprises the...

A. budgeted income statement and budgeted cash flow statement only.

B. budgeted income statement and budgeted balance sheet only.

C. budgeted income statement and budgeted capital expenditure only

D. budgeted income statement, budgeted balance sheet and budgeted cash flow statement only.

Answer(s): D

5. JDM is considering whether to go ahead with the launch of a new product. Profit from the new product is dependent on the level of demand.

The following table shows the estimated profits and their respective probabilities at different levels of demand.

The company could still cancel the launch of the product but would incur a cost of \$7,000.

Demand	Probability	Profit
High	15%	\$100,000
Medium	40%	\$65,000
Low	35%	\$(30,000)
Very low	10%	\$(60,000)

What is the maximum amount that the company should pay for perfect information about demand for the product?

A. \$13,350

B. \$41,000

C. \$16,500

D. \$37,850

Answer(s): A

6. A company's management is considering investing in a project with an expected life of 4 years. It has a positive net present value of \$180,000 when cash flows are discounted at 8% per annum. The project's cash flows include a cash outflow of \$100,000 for each of the four years. No tax is payable on projects of this type.

The percentage increase in the annual cash outflow that would cause the company's management to reject the project from a financial perspective is, to the nearest 0.1%:

A. 54.3%

B. 45.0%

C. 55.6%

D. 184.0%

Answer(s): A

7. What type of budget is prepared on an annual basis taking current year operating results and adjusting them for expected growth and inflation?

A. Rolling budget

B. Incremental budget

C. Flexed budget

D. Zero-based budget

Answer(s): B

8. Which of the following would help to explain a favourable material price variance?

A. A decision to reduce the raw materials inventory during the period led to a reduced level of material purchases.

B. An increase in the quantity of material purchased resulted in unexpected bulk discounts.

C. The material purchased was of a higher quality than standard.

D. Improved processing methods meant that material purchases were lower than standard for the output achieved.

Answer(s): B

9. A master budget comprises which of the following?

A. The budgeted income statement and the budgeted cash flow statement only.

B. The budgeted income statement and the budgeted statement of financial position only.

C. The budgeted income statement and budgeted capital expenditure only.

D. The budgeted income statement, the budgeted statement of financial position and the budgeted cash flow statement only.

Answer(s): D

10. A company makes and sells three products A, B and C.

The selling prices and costs of the three products, using a traditional absorption costing system, are shown in the table below.

	A	B	C
	\$	\$	\$
Selling Price	40	60	100
Direct Material	10	12	13
Direct labour	22	13	34
Overheads	16	28	35
Profit	(8)	7	18

The company has undertaken an analysis of overhead costs using activity-based costing (ABC).

The revised overhead costs for products A, B and C are \$6, \$32 and \$55 respectively.

When comparing the figures obtained under the two costing methods, which of the following statements are true?

Select ALL that apply.

A. Product B makes a profit under both methods, but the profit is lower using ABC.

B. The product that is the most profitable under traditional absorption costing makes a loss under the ABC methodology.

C. Product C is currently overpriced based on cost plus pricing and the selling price should be reduced.

D. Activity-based costing results in a lower level of overhead costs for the company.

E. Product A shows a profit under ABC but had appeared loss making under traditional absorption costing.

Answer(s): A B E

11. Which of the following would lead to a favourable variance?

A. The standard material price was set too low.

B. The standard material usage was set too low.

C. Actual labour cost was higher than standard.

D. Labour hours worked were lower than standard.

Answer(s): D

12. In short-term decision making, which TWO of the following are relevant costs?

A. Sunk costs

B. Avoidable costs

C. Committed costs

D. Opportunity costs

E. Notional costs

Answer(s): B D

13. CORRECT TEXT

A manufacturing company is preparing the production budget for the forthcoming year.

The following budgeted information has already been obtained:

Sales demand	20,000 units
Opening inventory	2,500 units
Required closing inventory	15% higher than opening inventory
Proportion of finished production scrapped	10%

How many units will need to be produced for the forthcoming year?

Give your answer to the nearest whole number.

A. 22639

B. 24039

Answer(s): A

14. A major company sells a range of electrical, clothing and homeware products through a chain of department stores. The main administration functions are provided from the company's head office. Each department store has its own warehouse which receives goods that are delivered from a central distribution center.

The company currently measures profitability by product group for each store using an absorption costing system. All overhead costs are charged to product groups based on sales revenue. Overhead costs account for approximately one-third of total costs and the directors are concerned about the arbitrary nature of the current method used to charge these costs to product groups.

A consultant has been appointed to analyse the activities that are undertaken in the department stores and to establish an activity based costing system.

The consultant has identified the following data for the latest period for each of the product groups for the X Town store:

	<i>Product Group</i>		
	<i>Clothing</i>	<i>Electrical</i>	<i>Homeware</i>
Sales revenue	\$4,400k	\$3,300k	\$1,100k
Cost of sales	\$2,800k	\$2,300k	\$600k
Number of deliveries	104	52	26
Number of pallets per delivery	50	20	10
Number of inventory items	20,000	14,000	6,000
Number of customers	2,100k	1,050k	350k
Number of requisitions	522	243	135

The consultant has also obtained the following information about the support activities:

<i>Activity</i>	<i>Cost driver</i>	<i>Overheads</i> <i>\$000</i>
Customer service	Number of customers	1,100
Warehouse receiving	Number of pallets delivered	700
Warehouse issuing	Number of requisitions	300
In-store merchandising	Number of inventory items	400
Central administration	Sales revenue	316

Calculate the total profit for each of the product groups:

.... using the current absorption costing system;

A. The profit or loss in \$ was.... Clothing 122; Electrical 56; Homeware (178)

B. The profit or loss in \$ was.... Clothing (175); Electrical 86; Homeware 22

C. The profit or loss in \$ was.... Clothing 85; Electrical 36; Homeware (28)

D. The profit or loss in \$ was.... Clothing 192; Electrical (56); Homeware 148

Answer(s): D

15. A company operates a customer complaints department.

How will the cost of the customer complaints department be classified in a system focussed on quality related costs?

A. External failure cost

B. Internal failure cost

C. Prevention cost

D. Appraisal cost

Answer(s): A

16. Company X is deciding which of Projects A, B or C to undertake. The profit earned from each of the projects is dependent on economic conditions.

The table below details the profit for each of the possible outcomes and the expected value of each of the projects.

Economic Conditions	Probability	Project A	Project B	Project C
Good	0.2	\$500	\$600	\$750
Average	0.45	\$450	\$460	\$400
Poor	0.35	\$400	\$320	\$200
Expected Value		\$442.50	\$439	\$400

What is the maximum amount that should be paid for perfect information about the economic conditions?

A. \$442.50

B. \$497

C. \$54.50

D. \$57.50

Answer(s): C

17. CORRECT TEXT

TDM edits, prints and publishes three magazines, Mag A, Mag B and Mag C. The company operates an activity-based costing system.

The following information has been obtained.

	Mag A	Mag B	Mag C
Number published	90,000	120,00	135,00
Machine hours per unit	0.6	0.70	0.40
Software and design set-ups	6	5	4
Distribution outlets	25	32	23

Details of activities, overhead costs and cost drivers are given in the table below:

Activities	Overhead cost	Cost driver
Machine maintenance	\$72,000	No. of machine hours
Set-ups	\$84,000	No. of set-ups
Distribution	\$68,000	No. of distribution outlets

What is the overhead cost attributable for each Mag A publication?
Give your answer to the nearest whole cent.

A. 83 cents

B. 80 cents

Answer(s): A

18. CORRECT TEXT

A company produces and sells two products, product A and product B.

What are the total fixed costs when the weighted average contribution per unit is \$5 and the breakeven points for product A and product B are 10,000 units and 5,000 units respectively?

Give your answer as a whole number (in 000's).

A. \$75000

B. \$50000

Answer(s): A

19. CORRECT TEXT

The following details are available for a company's production overhead costs at different levels of activity:

Output (units)	6,000	10,000
Production overhead costs (\$/unit)	3.20	3.00

The company uses the high-low method to calculate its budgeted production overhead costs. What is the budget for production overhead costs at an activity level of 8,500 units? Give your answer as a whole number.

A. \$25950

B. \$25000

Answer(s): A

20. A company makes a product using two materials, X and Y. The standard materials required for one unit of the product are:

	\$
Material X 6kg @ \$6 per kg	36
Material Y 4kg @ \$8 per kg	32
Total	68

In the period just ended, the company produced 500 units of the product using the following material:

Material X	2,950kg
Material Y	2,100kg

What is the direct material mix variance for Material X, using the individual valuation basis?

A. \$480F

B. \$300F

C. \$160A

D. \$640A

Answer(s): A
