Business Level - II

Management Accounting (BL 6)

Model Paper

Instruction to candidates

1) Time Allowed 2 Hours

2) Total 100 marks

3) 50 Questions. All Questions are compulsory.

4) Select the most suitable answer

Prepared By: Amila Sampath Mudalige

Model Questions

01. Information relating to two processes (F and G) was as follows:

Process	Normal loss as % of output	Input (Liters)	Output (Liters)
F	8	65,000	58,900
G	5	37,500	35,700

For each process, was there an abnormal loss or an abnormal gain?

Process F	Process G
A Abnormal gain	Abnormal gain
B Abnormal gain	Abnormal loss
C Abnormal loss	Abnormal gain
D Abnormal loss	Abnormal loss

02. The following budgeted information relates to a manufacturing company for next period:

Production 14,000 units

Sales 12,000 units

Fixed production costs 63,000 $

Fixed selling costs 12,000 $

The normal level of activity is 14,000 units per period. Using absorption costing the profit for next period has been calculated as $36,000.

What would be the profit for next period using marginal costing?

A $25,000

B $27,000

C $45,000

D $47,000

03. A Company manufactures and sells one product which requires 8 kg of raw material in its manufacture. The budgeted data relating to the next period are as follows:

Sales 19,000 units
Opening inventory of finished goods 4,000 units
Closing inventory of finished goods 3,000 units
Opening inventory of raw materials 50,000 kg
Closing inventory of raw materials 53,000 kg

What is the budgeted raw material purchases for next period (in kg)?

A 141,000

B 147,000

C 157,000

D 163,000

04. Which of the following are benefits of budgeting?
1 It helps coordinate the activities of different departments
2 It fulfils legal reporting obligations
3 It establishes a system of control
4 It is a starting point for strategic planning

A 1 and 4 only
B 1 and 3 only
C 2 and 3 only
D 2 and 4 only

05. The following statements relate to the participation of junior management in setting budgets:
1. It speeds up the setting of budgets
2. It increases the motivation of junior managers
3. It reduces the level of budget padding

Which statements are true?

A 1 only
B 2 only
C 2 and 3 only
D 1, 2 and 3

06. A company has calculated a $10,000 adverse direct material variance by subtracting its flexed budget direct material cost from its actual direct material cost for the period. Which of the following could have caused the variance?
(1) An increase in direct material prices
(2) An increase in raw material usage per unit
(3) Units produced being greater than budgeted
(4) Units sold being greater than budgeted

A 2 and 3 only
B 3 and 4 only
C 1 and 2 only
D 1 and 4 only

07. A company has recorded the following variances for a period:

Sales volume variance $10,000 adverse
Sales price variance $5,000 favourable
Total cost variance $12,000 adverse
Standard profit on actual sales for the period was $120,000

What was the fixed budget profit for the period?
A $137,000
B $103,000
C $110,000
D $130,000

08. Which of the following are feasible values for the correlation coefficient?

1 +1·40
2 +1·04
3 0
4 –0·94

A 1 and 2 only
B 3 and 4 only
C 1, 2 and 4 only
D 1, 2, 3 and 4

09. A company's operating costs are 60% variable and 40% fixed.

Which of the following variances' values would change if the company switched from standard marginal costing to standard absorption costing?

A Direct material efficiency variance
B Variable overhead efficiency variance
C Sales volume variance
D Fixed overhead expenditure variance

10. Using an interest rate of 10% per year the net present value (NPV) of a project has been correctly calculated as $50. If the interest rate is increased by 1% the NPV of the project falls by $20. What is the internal rate of return (IRR) of the project?

A 7·5%   B 11·7%   C 12·5%   D 20·0%

11. A factory consists of two production cost centres (P and Q) and two service cost centres (X and Y). The total allocated and apportioned overhead for each is as follows:

P	Q	X	Y
95,000	82,000	46,000	30,000

It has been estimated that each service cost centre does work for other cost centres in the following proportions:

	P	Q	X	Y
X	50%	50%	-	-
Y	30%	60%	10%	-

The reapportionment of service cost centre costs to other cost centres fully reflects the above proportions.

After the reapportionment of service cost centre costs has been carried out, what is the total overhead for production cost centre P?

A $124,500
B $126,100
C $127,000
D $128,500

12. A company always determines its order quantity for a raw material by using the Economic Order Quantity (EOQ) model. What would be the effects on the EOQ and the total annual holding cost of a decrease in the cost of ordering a batch of raw material?

	EOQ	Annual holding cost
A.	Higher	Lower
B.	Higher	Higher
C.	Lower	Higher
D.	Lower	Lower

13. A company which operates a process costing system had work-in-progress at the start of last month of 300 units (valued at $1,710) which were 60% complete in respect of all costs. Last month a total of 2,000 units were completed and transferred to the finished goods warehouse. The cost per equivalent unit for costs arising last month was $10. The company uses the FIFO method of cost allocation.

    What was the total value of the 2,000 units transferred to the finished goods warehouse last month?

    A $19,910
    B $20,000
    C $20,510
    D $21,710

14. A manufacturing company operates a standard absorption costing system. Last month 25,000 production hours were budgeted and the budgeted fixed production cost was $125,000. Last month the actual hours worked were 24,000 and standard hours for actual production were 27,000

    What was the fixed production overhead capacity variance for last month?
    A $5,000 Adverse
    B $5,000 Favourable
    C $10,000 Adverse
    D $10,000 Favourable

15. Under which of the following labour remuneration methods will direct labour cost always be a variable cost?

    A Day rate B Piece rate C Differential piece rate D Group bonus scheme

16. The selling price variance can be described as;

(i) The price difference multiplied by the budgeted sales quantity.
(ii) The difference between actual profit per unit (actual price less standard cost) and standard profit per unit (standard price less standard cost), multiplied by actual quantity sold.

Which of the above statements is/are correct?

A. (i) only B. (ii) only C. Both (i) and (ii) D. None of (i) and (ii)

17. The following statements were made by a student;

(i) All direct costs are variable.

(ii) Variable costs are controllable whereas fixed costs are not.

(iii) Sunk costs are irrelevant when making decisions.

Which of the above statements is/are correct?

A.(i) and (iii) only B. (ii) and (iii) only C. (iii) only D. None of (i), (ii) and (iii)

18. You are given the following assumptions in relation to the Economic Order Quantity (EOQ) model.

(i) Demand is constant over time.
(ii) The time period consists of a complete number of inventory cycles.
(iii) Lead time is zero.
(iv) Sufficient resources are available to accommodate EOQ.

Which of the above are not assumptions associated with EOQ model?
A. (i) and (iv) only B. (ii) and (iii) only C. (iii) and (iv) only D. (i), (iii) and (iv) only

19. The budgets will;
(i) Help management to set targets for each department of the organisation.
(ii) Communicate ideas and plans to all divisions of the organisation.
(iii) Motivate employees to improve their performance.
(iv) Assist in the allocation of organisational resources among divisions.

Which of the above statements are correct?

A. (i) and (ii) only

B. (i) and (iii) only

C. (i), (ii) and (iii) only

D. All of (i),(ii),(iii) and (iv)

20. Which of the source documents could be used in obtaining the following information with regard to a procurement process? C

(i) Unit prices of the items bought for the purpose of processing the payment to a supplier.
(ii) Quantities of items received at the warehouse for the purpose of updating inventory records.
(iii) Quantities of items returned to the supplier.

	(i)	(ii)	(iii)
A.	Supplier Invoice	Supplier Delivery Note	Debit Note
B.	Supplier Quotation	Purchase Order	Goods Returned Note
C.	Purchase Order	Goods Received Note	Goods Returned Note
D.	Supplier Invoice	Goods Received Note	Debit Note

21. Consider the following statements with regard to measurement of value of inventory.

(i) FIFO method would reflect both cost of sales and closing inventory at the most recent prices.
(ii) When the prices have been consistently increasing the closing inventory values under each method would be such that: FIFO > Cumulative weighted average (AVCO) > LIFO.
(iii) When the inventory is moving fast, the value of closing inventory under FIFO and AVCO methods would be close to each other.

Which of the above statements are correct?

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

22. The following statements are given in respect of marginal costing and absorption costing:

(i) Standard cost per output unit is higher in absorption costing than in marginal costing.
(ii) Marginal costing generates profits during periods in which there are no sales.
(iii) Fixed overheads are irrelevant when calculating operating profit based on marginal costing.

Which of the above statement/s is/are true?

A. (i) only;

B. (i) and (ii) only;
C. (i) and (iii) only;
D. All of (i), (ii) and (iii)

23. A firm had an opening and a closing output stock of 12,000 units and 15,000 units, respectively, for the month just ended. The profit for the month based on marginal costing and absorption costing was Rs. 550,000 and Rs. 850,000 respectively.

The fixed overhead absorption rate per unit is:

A. Rs. 20
B. Rs. 25
C. Rs. 100
D. Rs. 125

24. Consider the following statements with regard to a project where NPV = 0
(i) Pay-back period is the same as the project duration.
(ii) Internal Rate of Return (IRR) = Discount rate
(iii) If Discount rate was less than IRR, the NPV would have been positive

Which of the above statements are correct?

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

25. The following information is extracted from the variance analysis of a firm for the quarter

Variance	**Amount (Rs.)**
Selling price	180 Favourable
Sales volume contribution	60 Adverse
Total material cost	350 Favourable
Material price	150 Favourable
Total labour cost	310 Adverse
Total variable overhead cost	50 Adverse
Fixed overhead expenditure	40 Favourable

just ended.
The firm operates a standard marginal costing system and recorded an actual profit of Rs. 2,500 for the quarter. The budgeted profit for the quarter was:

A. Rs. 2,200 B. Rs. 2,350 C. Rs. 2,650 D. Rs. 2,800

26. Given below are four statements in relation to job costing and batch costing;

(i) A job is undertaken for a single order whereas a batch could be used to produce a number of articles of different specifications.
(ii) The cost of a job is the total attributable costs together with overheads absorbed to the job.
(iii) The cost of one unit of output of a batch is the total cost of the batch divided by the number of units of output in the batch.
(iv) The units of output in a batch are homogeneous whereas the jobs are not.

Which of the above statements are true?

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

27. The following statements have been made with respect to appraisal of projects with conventional cash flows;

(i) Two projects with equal payback periods will have equal net present values (NPVs).
(ii) When the IRR of a project is greater than the discount rate its NPV is positive.
(iii) Both ARR and payback calculations are based on cash flows.
(iv) IRR does not consider project cash flows beyond the payback period.

Which of the above statements are incorrect?

A. (i) and (ii) only. B. (iii) and (iv) only. C. (i), (iii) and (iv) only . D. All of (i), (ii), (iii) and (iv).

28. A long term infrastructure project will have its net cash flows growing each year by Rs. 3 million. Its first year net cash flow is Rs. 1 million. If the payback period is 30 years, the initial investment of the project is (Rs. million):

A. 1,335 B. 1,200 C. 930 D. 900

29. The following statement which reconciles the actual profit with the budgeted profit has been prepared by a firm which operates a standard marginal costing system;

	Rs.' 000
Budgeted profit	8,000
Total material cost variance	Zero
Total labour cost variance	Zero
Fixed overhead expenditure variance	Zero
Total sales margin variance (Adverse)	(1,000)
Actual profit	**7,000**

Which of the following gives the correct interpretation of the information in the above reconciliation?

A. The standard material price and the actual material price were equal.
B. The actual labour time utilised per unit is equal to the standard labour time per unit.
C. The budgeted fixed overheads were equal to the actual fixed overheads.
D. The actual quantity sold is less than the budgeted sales quantity.

30. Given below are four statements relating to classification of costs.

(i) Classification as production, administration and selling is classification by function.
(ii) Costs that vary with the activity level are variable costs, whereas costs that are unaffected by the activity level are fixed costs.
(iii) Costs that can be traced in full to a product are relevant costs, whereas other costs are irrelevant costs.
(iv) Costs identified with the goods produced are production costs, whereas costs expensed in the period in which they are incurred are period costs.

Which of the above statement/s is/are incorrect?

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

31. Which of the following statements is false with respect to budgeting?

A. The cost and time consumption in incremental budgeting is comparatively less than zero based budgeting.
B. Zero based budgeting is better for budgeting discretionary types of expenditure and income.
C. Top-down budgeting is prepared based on the information collected from all levels of employees of the organisation.

D. Employee motivation is comparatively high in bottom-up budgeting since they play a major role in preparing budgets.

32. Given below is the past 5 months' information of an apparel manufacturing company.

Month	Production cost (Rs.)	Number of units produced
August	20,000	1,000
September	15,000	750
October	10,000	500
November	22,500	1,250
December	30,000	1,750

If the company expects to produce 1,500 units in the month of January, which of the following would be the variable cost under the high-low method?

A. Rs. 22,500 B. Rs. 24,000 C. Rs. 25,715 D. Rs. 30,000

33. Sentra Printers is a well-known annual report printing company. The following details were made available to its proof reading and editing section. The total budgeted fixed production overhead cost for the month was Rs. 180,000 for 900 consultant hours. The actual cost incurred was Rs. 205,000. During the month, six consultants worked 10 hours a day for 20 days.

Which of the following shows the amount of under or over absorbed overheads?
A. Over absorption of Rs. 35,000
B. Under absorption of Rs. 25,000
C. Over absorption of Rs. 68,333
D. Under absorption of Rs. 26,250

34. The following statements have been made with respect to the Activity-Based Costing (ABC) method.
(i) ABC method charges support overheads to products on the basis of their usage of the activity.
(ii) ABC is a more realistic method to absorb overheads since it uses simple allocation bases like labour hours or machine hours.
(iii) Absorption rates under ABC method is more closely linked to the causes of the overhead costs.
(iv) ABC method recognises that many overhead costs arise due to the diversity and complexity of operations.

Which of the above statement/s does/do not correctly explain the appropriateness of the ABC method?

A. (i) and (iv) only B. (ii) only C. (iii) only D. None of the above

35. The following undiscounted payback periods were computed for two mutually exclusive projects with conventional cash flows.

	Project X	Project Y
Payback period	2 years	3 years

The following statements were then made based on the above results:
(i) The net present values (NPVs) of both projects are favourable.
(ii) Project X has a higher NPV than Project Y.
(iii) Project Y has a higher NPV than Project X.
Which of the above statement/s is/are correct?

A. (i) and (iii) only B. (i) only C. (iii) only D. None of the above

36. A company applies the first in first out (FIFO) method in inventory valuation. Its material prices have been continuously increasing during the last year. If the company switches to the last in first out (LIFO) method in inventory valuation, compared to the results that could have been obtained with the FIFO method, it would result in:

A. A higher profit and a higher closing inventory value
B. A lower profit and a lower closing inventory value
C. A higher profit and a lower closing inventory value
D. A lower profit and a higher closing inventory value

37. 1 A company has spent Rs. 2 million on the development of a new product for the market. A marketing survey performed recently has shown positive feedback from the potential market. The directors of the company have shown firm commitment in launching the product to the market and have requested an evaluation of the launching decision.

For the purpose of evaluating the launching decision, the above development cost should be recognised as:

A. Incremental cost B. Opportunity cost C. Sunk cost D. Direct cost

38. A company having commenced business recently in its first period of operation has manufactured 20,000 units at a cost of Rs. 500 per unit. 70% of the unit cost was variable while the balance was fixed. 15,000 units were sold at a price of Rs. 700 each.

Which of the following is correct with respect to the profit of the company based on the absorption costing (AC) system and marginal costing (MC) system?

A. AC profit is Rs. 2.25 million higher than MC profit.
B. AC profit is Rs. 2.25 million lower than MC profit.
C. AC profit is Rs. 0.75 million lower than MC profit.

D. AC profit is Rs. 0.75 million higher than MC profit.

39. The internal rate of return (IRR) for two mutually exclusive projects with conventional cash flows is given in the following table.

	Project X	Project Y
IRR	20%	22%

The following statements were then made based on the above results.
(i) Project Y should have a net present value (NPV) higher than that of Project X.
(ii) Net present values (NPVs) of both projects should be favourable.
(iii) Project Y should have a shorter undiscounted payback period than Project X.

If the cost of capital of the company is 18%, which of the above statement/s is/are always correct?
A. (i) and (ii) only. B. (ii) only. C. (i) only. D. (ii) and (iii) only.

40. Which of the following is true when comparing the standard material cost with budgeted material cost?
A. Both are always equal in value.
B. Budgeted material cost is the actual material utilisation at standard material cost.
C. Budgeted material cost is the standard material utilisation at standard material cost.
D. Standard material cost is greater in value than budgeted material cost.

41. The tea blending division of a company has completed 950 kg of tea blends using 1,600 labour hours and incurring Rs. 345,000 as actual fixed overhead cost. However, the budgeted fixed overhead cost to blend 1,000 kg was Rs. 330,000 using 1,500 labour hours.

Which of the following is the fixed overhead volume variance for the period, if labour hours are used as the base for the fixed overhead cost allocation?

A. Rs. 16,500 Favourable
B. Rs. 27,500 Favourable
C. Rs. 16,500 Adverse
D. Rs. 27,500 Adverse

42. Which of the following statements made in connection with the budgeting process, is accurate?

A. Preparation of the master budget is a prerequisite for the preparation of functional budgets.
B. Identification of the principal budget factor is a prerequisite for the preparation of functional budgets.
C. If the production capacity lies below the demand, the principal budget factor should be the demand.
D. The material purchases budget is prepared once the cash budget is made.

43. Which of the following best describes the term "cost object"?
(i) A unit of product or service to which costs can be related.
(ii) A collecting place for costs before they are further analysed.
(iii) Any activity for which a separate measurement of costs is desired.

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

44. Which of the following would be classified as an indirect labour cost?

A. Salary cost of sewing machine operators in an apparel factory.
B. Salary cost of production supervisors in a bag-making company.
C. Salary cost of lawyers in a legal advisory company.
D. Salary cost of storekeepers in a warehousing company.

45. Which of the following statements is true with regard to the material price variance?

A. Material price variance is always favourable when the material usage variance is adverse.
B. Excessive wastage and careless handling of materials will cause material price variance to be adverse.
C. In the first-in, first-out (FIFO) method of inventory valuation, the material price variance should be computed based on the materials issued for production.
D. If inventory is valued at standard cost, the material price variance should be computed based on the materials issued for production.

46. XYZ factory working for 50 hours per week employs hundred workers on a job work.

The standard output is 200 units per gang hour and standard rate is Rs 1 per hour.

During a week in June, five employees were paid @ Rs 1.20 per hour and ten employees were paid @ 80 paise per hour. Rest of the employees were paid @ standard hour rate.

The actual number of units produced was 10,200. Determine labour cost variance

A) Rs 100 favourable

B) Rs 150 unfavourable

C) Rs 150 favourable

D) Rs 100 unfavourable

47. During the month of December actual direct labour cost amounted to $39,550, the standard direct labour rate was $10 per hour and the direct labour rate variance amounted to $450 favourable. The actual direct labour hours worked were:

A) 3,955 hours

B) 4,000 hours

C) 3,910 hours

D) 4,500 hours

48. When margin of safety is 20% and P/V ratio is 60%, the profit will be :

A) 30%

B) 33 1/3 %

C) 12%

D) None of these

49. When profit-volume ratio is 40 % and sales value Rs.10,000, the variable costs will be :

A) Rs. 4,000

B) Rs. 6,000

C) Rs. 10,000

D) None of these

50. Determine Contribution if Fixed cost is Rs 50,000 and loss is Rs 20,000.

A) Rs 60,000

B) Rs 70,000

C) Rs 30,000

D) None of the above