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Exam : **P1**

Title : **Management Accounting**

Vendor : **CIMA**

Version : **DEMO**

QUESTION NO: 1

Which THREE of the following are advantages of activity-based costing (ABC), in a multi-product environment, when compared with traditional absorption costing?

- A. ABC provides more accurate product costs in a complex business environment.
- B. ABC is cheaper to operate.
- C. ABC leads to better product pricing decisions.
- D. ABC provides a better understanding of overhead costs.
- E. ABC results in increased unit profit for each product.

Answer: A,C,D

QUESTION NO: 2

A company is considering two mutually exclusive projects.

The returns on each project, at both high and low demand, have been multiplied by the estimated probabilities to calculate the expected values shown in the table below:

	Probability	Project 1	Project 2
Demand high	60%	1,200	1,800
Demand low	40%	500	(800)
Expected value		1,700	1,000

Market research would be able to determine with certainty what the level of demand will be. What is the maximum amount that the company should pay for this certainty?

- A. \$2,300
- B. \$600
- C. \$700
- D. \$360

Answer: B

QUESTION NO: 3

EF manufactures and sells three products, X, Y and Z. The following production overhead costs are budgeted for next year:

Activity	\$
Set up	560,000
Material handling	242,000
Inspection	<u>386,000</u>
Total production overheads	<u>1,188,000</u>

Budgeted details for each of the products for next year are as follows:

	Product X	Product Y	Product Z
Production units	10,000	16,000	18,000
Batch size	100	200	300
Number of set ups per batch	2	3	6
Number of material movements	16,530	20,938	17,632
Number of inspections	1,188	1,782	2,430

Required:

Calculate the total budgeted production overhead cost for each product using activity based budgeting.

- A. The total budgeted production overhead cost was \$ 1 258 000
- B. The total budgeted production overhead cost was \$ 1 305 000
- C. The total budgeted production overhead cost was \$ 2 195 000
- D. The total budgeted production overhead cost was \$ 1 285 000
- E. The total budgeted production overhead cost was \$ 1 188 000

Answer: E

QUESTION NO: 4

A company manufactures a machine. The machine is made from two types of raw material and is assembled in a factory using skilled labour. The engine for the machine is purchased from an outside supplier.

The following costs relate to the manufacture of one machine:

	\$
Direct material A	2.00
Direct material B	4.00
Engine	18.00
Direct labour assembly	14.00
Variable production overhead	10.00

What is the finished goods inventory valuation for one machine using throughput costing?

- A. \$24.00
- B. \$38.00

- C. \$6.00
- D. \$48.00

Answer: A

QUESTION NO: 5

The inventory level of Product Y has reduced by 40 units over a single period. The cost card for Product Y is as follows:

	\$/unit
Direct material	50
Direct labour	90
Variable production overhead	50
Fixed production overhead	35
General fixed overhead	20
Total cost	245

The profit for Product Y using marginal costing is \$26,000.
If the company used absorption costing, what would the profit for Product Y be?
Give your answer to the nearest whole \$.

Answer: \$24600

QUESTION NO: 6

The cost card for one unit of Product G is as follows:

	\$
Direct material S	60.00
Direct material J	20.00
Direct labour	40.00
Variable production overhead	20.00
Fixed production overhead	44.00
Total unit cost	184.00

The opening and closing inventories of Product G for month 5 are budgeted to be 10 units and 60 units respectively.

Profit for month 5 using absorption costing is budgeted to be \$15,000.

What is the budgeted profit for month 5 using throughput costing?

- A. \$17,200
- B. \$9,800
- C. \$20,200
- D. \$12,800

Answer: B

QUESTION NO: 7

A decision tree is being evaluated back to a decision point.

There are two alternatives at this point:

1. To abandon the project and generate a return of \$435,000;
2. To continue with the project and generate the following possible returns:

\$720,000	20% probability
\$350,000	35% probability
\$410,000	45% probability

What value should be included at the decision point?

- A. \$435,000
- B. \$720,000
- C. \$443,000
- D. \$451,000

Answer: D

QUESTION NO: 8

A master budget comprises the...

- A. budgeted income statement and budgeted capital expenditure only
- B. budgeted income statement and budgeted balance sheet only.
- C. budgeted income statement and budgeted cash flow statement only.
- D. budgeted income statement, budgeted balance sheet and budgeted cash flow statement only.

Answer: D

QUESTION NO: 9

A manager has not yet used all of his budget. He is worried that his budget may be reduced next year if he is not seen to have needed all the funds. He decides to spend the remaining £1,580 on another team building exercise as well as a catered lunch for his department. This example falls under which behavioural aspect of budgetary control?

- A. Short term focus
- B. Irrational spending
- C. Motivation
- D. Budget negotiation

Answer: B

QUESTION NO: 10

A company's markets are affected by fluctuating exchange rates. It is difficult to forecast more than two or three months ahead.

Which of the following budgeting systems would be most useful in this company's circumstances?

- A. Flexed budgets
- B. Zero-based budgets

- C. Rolling budgets
- D. Activity-based budgets

Answer: C

QUESTION NO: 11

Which of the following, regarding costing methods, is true?

- A. A company which has introduced technology to reduce labour costs now incurs a greater proportion of non volume-related support activities. Activity based costing would be more appropriate than traditional absorption costing in this environment.
- B. A company produces two products which undergo similar processes. The company has very low overhead costs. This company should consider activity based costing rather than traditional absorption costing to ensure that its pricing decisions are more accurate.
- C. In traditional absorption costing, overheads are charged to a product by absorbing them at the cost driver rate for an activity based on their usage of the activity.
- D. A company is making short term decisions based on the contribution per unit of its different products.

These decisions are based upon full absorption costing data.

Answer: A

QUESTION NO: 12

Where sales volume is the principal budget factor, which of the following is the correct order in which budgets have to be prepared?

- A. Sales budget, production budget, materials purchases budget, material usage budget
- B. Sales budget, production budget, material usage budget, material purchases budget
- C. Production budget, sales budget, material usage budget, material purchases budget
- D. Production budget, material usage budget, material purchases budget, sales budget

Answer: B

QUESTION NO: 13

Forecast sales demand of product W next period is 6,800 units. Product W requires 5 kg of material Y, seven hours of skilled labour and six hours of semi-skilled labour.

Availability of resources for next period is forecast as follows:

Resource	Maximum availability
Material Y	40,000 kg
Skilled labour	45,000 hours
Semi-skilled labour	42,000 hours

No inventories are held.

What is the principal budget factor for next period?

- A. Availability of semi-skilled labour
- B. Sales demand
- C. Availability of skilled labour
- D. Availability of material Y

Answer: C

QUESTION NO: 14

FGH used to manufacture components that required raw material Q.

Currently there are 80 kg of material Q in inventory.

The company has no use for the material in the foreseeable future and intends to sell it for scrap.

A potential new customer has asked for a price for a large order.

This order would require 100 kg of material Q.

The company management has decided to quote a price for this work on a relevant cost basis.

Details of costs for material Q are as follows:

	Cost per kg
Current market price	\$2.30
Scrap value	\$0.80
Original purchase price of Inventory	\$1.90

What would be the relevant cost of Material Q to use in this order?

- A. \$110
- B. \$230
- C. \$198
- D. \$46

Answer: A

QUESTION NO: 15

A company is forecasting sales volume using time series analysis. The following equation has been derived from past data and is considered to be a reliable predictor of future sales volume:

$$y = 20,000 + 80x$$

Where y is the total sales units each quarter and x is the time period (the first quarter of year 1 is time period 1).

Quarter 1	+1000
Quarter 2	+400
Quarter 3	-200
Quarter 4	-1200

The following set of seasonal variations for each quarter has been calculated using the additive model.

What is the forecast sales units for the second quarter of year 3?

- A. 20,720
- B. 20,400
- C. 21,200
- D. 21,520

Answer: C

QUESTION NO: 16

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:

Production (units)		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.

Discuss the usefulness of the planning and operational variances calculated for TP's management.

Select ALL the TRUE statements.

- A.** If planning and operational variances are not distinguished, there is potential for dysfunctional behavior especially where the manager has been operating efficiently and performance is being judged by factors outside the manager's control. In the case of TP it became evident during the period that the prevailing market prices for materials were significantly less than those set during the budget process.
- B.** Standards that failed to anticipate known market trends when they were set will reflect faulty standard setting.
- C.** The use of planning and operational variances will enable TP's management to draw a distinction between variances caused by factors extraneous to the business and planning errors (planning variances) and variances caused by factors that are within the control of management (operational variances).
- D.** The purchasing manager's performance can't be compared with the adjusted standards that reflect the conditions the manager actually operated under during the reporting period.

E. Where a revision of standards is required due to environmental changes that were not foreseeable at the time the budget was prepared, the planning variances are controllable.

Answer: A,B,C

QUESTION NO: 17

A manufacturing company sells 5 different products.

The company holds no inventories and has a high level of fixed cost.

Place against the statements below the comment "needed" or "not needed" to select ALL of the information required to calculate the total number of units to break-even.

The product mix ratio	<input type="text"/>	<input type="text" value="Needed"/>
The variable cost of each product	<input type="text"/>	<input type="text" value="Not needed"/>
The selling price of each product	<input type="text"/>	
The fixed overhead absorption rate for each product	<input type="text"/>	
The total fixed costs	<input type="text"/>	
The basis of apportioning the fixed costs	<input type="text"/>	

Answer:

The product mix ratio	<input type="text" value="Needed"/>
The variable cost of each product	<input type="text" value="Needed"/>
The selling price of each product	<input type="text" value="Needed"/>
The fixed overhead absorption rate for each product	<input type="text" value="Not needed"/>
The total fixed costs	<input type="text" value="Needed"/>
The basis of apportioning the fixed costs	<input type="text" value="Not needed"/>

QUESTION NO: 18

For a company that does not have any production resource limitations, what would be the correct sequence for budget preparation?

1st		Production budget
2nd		Materials usage budget
3rd		Materials purchases budget
4th		Sales budget
5th		Finished goods inventory budget
6th		Materials inventory budget

Answer:

Materials purchases budget
Sales budget
Materials inventory budget
Production budget
Materials usage budget
Finished goods inventory budget

QUESTION NO: 19

A company reports planning and operational variances to its managers. The following data are available concerning the price of direct material M in the last period. Material M is the only material used by the company. The company operates a just-in-time (JIT) purchasing system.

Original (ex ante) standard price	\$4.00 per kg
Revised (ex post) standard price	\$5.00 per kg
Actual price	\$4.80 per kg

Which TWO of the following statements about last period are definitely correct based on this information?

The direct material price operational variance was adverse.

- A. The direct material price planning variance was favourable.
- B. The direct material usage operational variance was adverse.
- C. The direct material price planning variance was adverse.
- D. The direct material price operational variance was favourable.

Answer: A,D

QUESTION NO: 20

Sales volumes reported for the latest period are used by managers as the basis to forecast sales for the forthcoming period. The forecasts are compared with the budgeted sales and plans are adjusted to ensure that the budgeted sales are achieved.

This is an example of:

- A. Feedback control
- B. Flexed budgets
- C. Feedforward control
- D. Incremental budgeting

Answer: C