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Institute of Certified Management Accountants of Sri Lanka
Foundation Level
November 2014 Examination

Examination Date : 22nd November 2014 **Number of Pages :** 11
Examination Time: 9.30 a.m. – 11.30 a.m. **Number of Questions:** 50

Instructions to Candidates

1. Time allowed is **two (2) hours**.
2. Total: **100 Marks**.
3. Answer **all** questions.
4. You will need to write your **index number** on the question paper as instructed. Please ensure that your index number is written on each page and that you collate and secure your script at the end of the assessment.
5. **Please indicate your answers in the question paper itself.** Strictly prohibited to take out your question paper / working sheets from the Examination Centre.
6. **Encircle** the correct answer in relation to **Multiple Choice Questions**. **Provide a concise answer in the space provided in relation to questions that require short answers.**
7. Candidates are allowed to use non-programmable calculators.
8. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
Management Accounting Fundamentals	(MAF / FL 1 - 101)

- (1) Which of the following is/are function(s) of management accounting?
- (i) Allocate cost between cost of goods sold and inventories for inventory valuation.
 - (ii) Assist in managerial decision making.
 - (iii) Provide information for planning, control and performance measurement.

Which of the above are correct?

- (a) (i) & (ii) only
- (b) (i) & (iii) only
- (c) (ii) & (iii) only
- (d) All of the above

- (2) Management accounting is different from financial accounting because:

- (i) it is not a legal requirement.
- (ii) it provides information to external parties.
- (iii) it deals with financial and non-financial information.

Which of the above are correct?

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i) & (iii) only
- (d) All of the above

(3) Which of the following is **NOT** a part of the decision-making and planning process?

- (i) Gathering data about alternatives.
- (ii) Respond to divergences from plan.
- (iii) Identifying objectives.
- (iv) Select alternative courses of action.

Which of the above are correct?

- (a) (i) & (iv) only
- (b) (ii) & (iii) only
- (c) (iii) only
- (d) (ii) only

(4) Which of the following statements are **TRUE**?

- (i) Shareholders require accounting information to ensure that their investments are safe and profitable.
- (ii) Employees require accounting information to ensure that their wage demands are being met.
- (iii) Creditors and lenders require accounting information to ensure the adequate provision of taxes.

Which of the above are correct?

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i) & (iii) only
- (d) All of the above.

Question Nos. (5) & (6): Fill in the blanks.

For accounting purposes, departments are termed (5) _____ and the product produced by an organization is termed as the (6) _____.

(7) An example/examples for instance/instances where a Cost unit may be made out of two parts is/are:

- (i) Meals served in a restaurant
- (ii) Chargeable hours in an accounting firm
- (iii) Audits performed by an audit firm

Which of the above are correct?

- (a) (i) only
- (b) (ii) only
- (c) (i) & (iii) only
- (d) None of the above

(8) Composite cost units are:

- (i) Mostly used in service organizations
- (ii) Helpful in improving cost control

Which of the above are correct?

- (a) (i) & (ii) are true
- (b) only (i) is true
- (c) only (ii) is true
- (d) (i) & (ii) are not true

- (9) Which of the following statement(s) is/are correct in relation to direct cost?
- (i) Direct cost cannot be identified with the item being cost.
 - (ii) Direct cost is a responsibility of the shop floor level staff members.
 - (iii) Direct cost is all the cost incurred in the manufacturing process.

Which of the above are correct?

- (a) (i) & (ii) only
- (b) (ii) & (iii) only
- (c) (i) & (iii) only
- (d) None of the above

Questions 10 & 11 are based on the following information.

ABC Company manufactures toys and the costs for two levels of output are as follows:

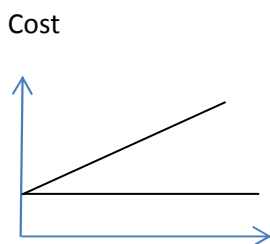
<u>Output</u>	<u>Cost (Rs.)</u>
1,000	50,000
1,200	60,000

If the company increases the output from 1,000 units to 1,200 units:

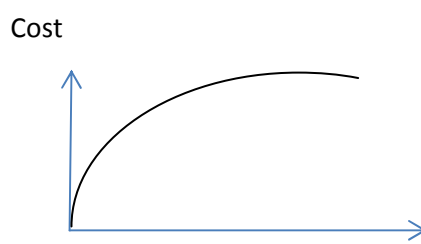
- (10) Calculate the marginal cost

- (11) Calculate the incremental cost

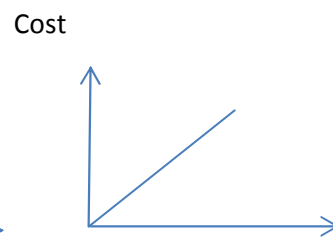
- (12) Match the following graphs with the most suitable situation from options given below:



Volume of output



Volume of output

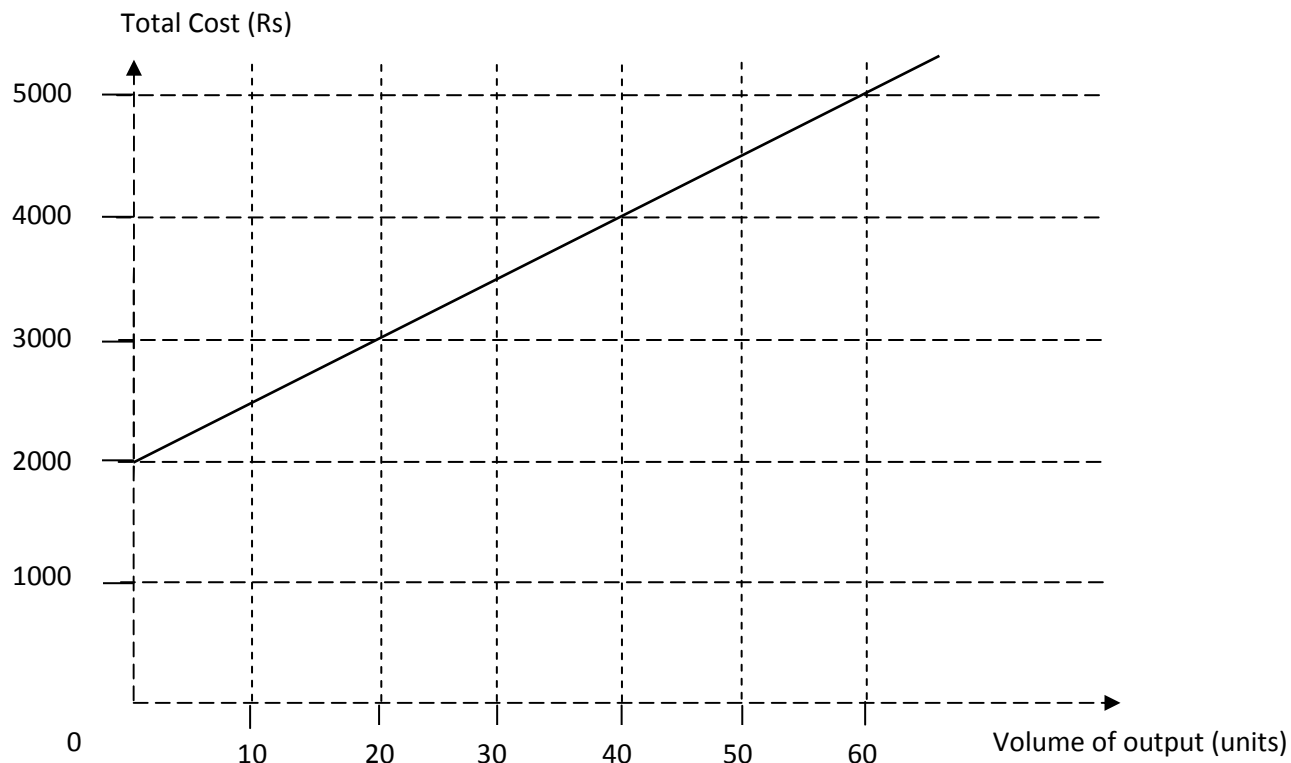


Volume of output

- (a) Telephone bill, Cost of direct materials with quantity discounts, Salary of the Accountant
 - (b) Cost of direct materials with quantity discounts, Salary of the Accountant, Telephone bill
 - (c) Telephone bill, Cost of direct materials with quantity discounts, Total variable cost of a product
 - (d) Cannot be matched
- (13) Which of the following is NOT a semi-fixed cost or a semi-variable cost?
- (a) Machinery maintenance
 - (b) Advertising cost
 - (c) Plant electricity
 - (d) Supervisors payments

Questions 14, 15 & 16 are based on the following information.

Calculate the fixed cost, Total variable cost at 20 units and the variable cost per unit of the product which is graphically presented below:



- (14) Fixed Cost : _____
- (15) Total variable cost : _____
- (16) Variable cost per unit : _____

Questions 17 & 18 are based on the following information.

Following information pertaining to Ranil Manufacturers Ltd, are given to you for first six months of the year 2014:

Month	Output (units)	Semi-Variable Cost (Rs.)
January	100	5,000
February	120	5,400
March	160	6,200
April	190	6,800
May	180	6,600
June	200	7,000

- (17) Calculate the fixed cost using high-low method.

(18) Calculate the variable cost per unit using high-low method.

(19) “A logical pricing method represents the exact situation that physically happens, stock valuation can be near to the replacement cost”. This statement explains the:

- (a) Advantages of LIFO method
- (b) Disadvantages of FIFO method
- (c) Advantages of FIFO method
- (d) None of the above

(20) There are various motives for holding stocks by firms. Which of the following is not a motive that can be considered in this regard?

- (i) Transaction motive
- (ii) Precautionary motive
- (iii) Speculative motive

Which of the above are correct?

- (a) (i) only
- (b) (ii) only
- (c) (ii) & (iii) only
- (d) All of the above

Questions 21 & 22 are based on the following information.

Using the details given below, calculate the value of stock at the end of the month in units and Rupees, if the firm is using First In First Out method.

Date	Receipts			Issues		
	Quantity (units)	Price (Rs.)	Total Value (Rs.)	Quantity (units)	Price (Rs.)	Total Value (Rs.)
01/02/2014	200	100	20,000			
05/02/2014	300	125	37,500			
08/02/2014				300		
19/02/2014	600	140	84,000			
26/02/2014				200		

(21) Month-end stock (in units)

(22) Month-end stocks value (in Rupees)

(23) An order is placed to replenish the stocks when the _____ is reached.

- (a) Minimum Level
- (b) Daily Average Usage Level
- (c) Re-order Level
- (d) Buffer Stock

(24) Re-order level + _____ – (minimum usage × minimum lead time) = Maximum Stock Level

- (a) Re-order quantity
- (b) Economic order quantity
- (c) Minimum stock level
- (d) Re-order level

(25) An organization has five departments and among the five one is the cutting department, where the manager's salary cannot be identified with one unit produced in the department. Therefore it is an overhead cost and this salary amount is directly attributed to the cutting department. This process is called:

- (a) Apportionment of overheads
- (b) Allocation of overheads
- (c) Re-apportionment of overheads
- (d) None of the above

Questions 26 & 27 are based on the following information.

Sunil Plc has the following details relating to their three production departments.

	Department I	Department II	Department III
Budgeted overheads (Rs.)	500,000	250,000	300,000
Budgeted direct machine hours	100,000	200,000	100,000

(26) Calculate the single factory overhead absorption rate of the above firm.

(27) Calculate the overhead absorption rate of Department III of the above firm .

(28) When the overheads that are charged to the cost of production is lesser than the overheads being actually incurred, it is known as:

- (a) Under absorption
- (b) Over absorption
- (c) Fixed absorption
- (d) None of the above

(29) Which of the following are reasons for under/over absorption of overheads?

- (i) Actual overhead costs are different from budgeted overheads.
- (ii) Actual activity level is different from the budgeted activity level.
- (iii) Both actual overhead costs and actual activity level are different from budget.

Which of the above are correct?

- (a) (i) only.
- (b) (ii) only.
- (c) (ii) & (iii) only.
- (d) (iii) only.

(30) When an organization is using marginal costing and when they sell one extra unit of a product/service which of the following would occur?

- (i) Revenue will increase by the sale value of the item sold.
- (ii) Cost will decrease by the variable cost per unit.
- (iii) Profit will increase by the amount of contribution earned from the extra item.

Which of the above are correct?

- (a) (i) & (ii) only.
- (b) (i) & (iii) only.
- (c) (ii) & (iii) only.
- (d) All of the above

(31) Which of the following statements are **TRUE** about absorption costing?

- (i) Closing stocks are valued at full production cost.
- (ii) Closing stock includes a share of the production costs.
- (iii) Fixed cost is charged in full against the profit of the period in which they were incurred.

Which of the above are correct?

- (a) (i) & (ii) only.
- (b) (i) & (iii) only.
- (c) (ii) & (iii) only.
- (d) All of the above

- (32) If the selling price of a product is Rs.112/- and the unit variable cost is Rs.59/-, what would be the per unit contribution when the firm sells 2,000 units?

- (33) A set of accounting data which provides both financial and cost accounting details, using a common input of data for all accounting purposes is called:

- (a) Consolidated accounts
- (b) Interlocking accounts
- (c) Integrated accounts
- (d) Inter-dependent accounts

- (34) Which of the following statement are **TRUE**?

- (i) Specific order costing methods refer to those methods which can be used whenever the produced cost units are different from each other.
 - (ii) Job costing is the costing method used where the work is undertaken to customer's specific requirements.
 - (iii) Specific order costing methods refer to situations where the work is done for customer's specific requirements.
- (a) (i) & (ii) only.
 - (b) (i) & (iii) only.
 - (c) (ii) & (iii) only.
 - (d) All of the above

- (35) Which of the following are disadvantages of cost plus pricing?

- (i) No incentives for controlling costs.
- (ii) Ineffective handling of waste.
- (iii) Do not take into account the significant differences in actual and estimated volumes of activity.

Which of the above are correct?

- (a) (i) & (ii) only.
- (b) (i) & (iii) only.
- (c) (ii) & (iii) only.
- (d) All of the above

- (36) In contract accounting, when materials are returned the double entry would be:

- | | |
|------------------------------|---------------------------|
| (a) Debit - Contract Account | Credit - Stores Account |
| (b) Debit - Stores Account | Credit - Contract Account |
| (c) Debit - Cash Account | Credit - Stores Account |
| (d) None of the above | |

- (37) The invoices of a the subcontractors will be treated as:

- (a) Cost of administration of contracts
- (b) Direct expenses to contracts
- (c) Indirect expenses to contracts
- (d) None of the above

- (38) When using Plant and Equipment in contracts the Plant is either hired or owned. When it is hired, the cost will be:
- (a) Charge the contract with the book value of the plant
 - (b) Depreciation on the plant will be charged to the contract
 - (c) Considered as a direct expense of the contract
 - (d) None of the above

- (39) Which of the following are characteristics of services?

- (i) Intangibility
- (ii) Simultaneity
- (iii) Perishability
- (iv) Heterogeneity

Which of the above are correct?

- (a) (i), (ii) & (iii) only
 - (b) (i), (iii) & (iv) only
 - (c) (ii), (iii) & (iv) only
 - (d) All of the above
- (40) In process accounts revenue from scrap is treated as:
- (a) An addition to sales revenue
 - (b) A reduction in costs
 - (c) An increase in costs
 - (d) None of the above

- (41) Using the below information calculate the breakeven point of the firm.

Variable cost per unit Rs.200/-

Fixed cost of the firm Rs.1,000,000/-

Expected sales is 20,000 units at a rate of Rs.290/- per unit

- (42) $[(\text{Projected Sales} - \text{Break-even Point}) \div \text{Projected Sales}] \times 100 = \underline{\hspace{2cm}}$

- (43) Which of the following statements are **TRUE** about the fixed cost line in a breakeven chart?

- (i) It runs parallel to the horizontal axis.
 - (ii) Meets the vertical axis at a point which represents total fixed cost.
 - (iii) Meets the vertical axis at a point which represents total variable cost.
 - (iv) Meets the Horizontal axis at a point which represents total fixed cost.
- (a) (i) & (ii) only
 - (b) (i) & (iii) only
 - (c) (ii) & (iii) only
 - (d) None of the above

- (44) Which of the following is/are **TRUE** about limiting factor decisions?
- (i) Contribution will be maximized by earning the biggest possible contribution per limiting factor.
 - (ii) The fixed costs are assumed to be the same for all product or service mix.
- (a) (i) only
 - (b) (ii) only
 - (c) All of the above
 - (d) None of the above

Questions 45 & 46 are based on the following information.

Product X has the following information.

- The standard direct labour hour content of the product is 3 hours and 1,000 units are produced.
- The budgeted productivity ratio for direct labour is 90%.
- The firm has 20 employees directly handling the production of X and they are expected to work 125 working hours each in the 1st period.

Calculate the

- (45) Direct labour budget

- (46) Shortfall/Excess labour hours

- (47) Which of the following are likely principal budget factors?

- (i) The availability of key raw material
- (ii) Machine capacity
- (iii) Availability of cash
- (iv) Distribution and selling resources

Which of the above are correct?

- (a) (i), (ii) & (iii) only
- (b) (i), (ii) & (iv) only
- (c) (ii), (iii) & (iv) only
- (d) All of the above

- (48) Material usage variance = (_____ × Actual units produced – Actual raw material used) × Standard raw material price per unit of input

- (49) What is the variance explained by the following formula?
(Budgeted sales units – Actual sales units) × Standard contribution per unit

(50) Which of the following statements are **TRUE**?

- (i) Standard hour is a useful measure that can be used to monitor output in a budgeting or standard costing system.
 - (ii) Standard hour can be used to measure output when a number of dissimilar products are manufactured.
- (a) (i) only
 - (b) (ii) only
 - (c) None of the above
 - (d) All of the above

(50 × 2 Marks = Total 100 Marks)

End of Question Paper
