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PILOT PAPER – 2023-2027 SYLLABUS

ML3.1 Advanced Management Accounting

Managerial Level

ANSWER KEY

Practice Examination – Part I

Q. No	Answer
01	C
02	D
03	C
04	C
05	B
06	B
07	D
08	D
09	C
10	D

Practice Examination – Part II

Question 01 - Total 10 marks - Segment A

1. According to the optimum solution, what are the production quantities of Summer tyres and Winter tyres in the next year:

Summer tyres	**0**
Winter tyres	**16,000**

2. How much is the maximum contribution that the company can achieve with the given resource constraints:

Variable cost per unit (Rs.)	**2450**
Total monthly fixed cost (Rs.)	**1240000**
Maximum contribution (Rs' 000)	**58000**

3. Identify whether each of the following resources are binding or not.

Statement	Binding / Not Binding
Building time	**Not Binding**
Curing time	**Binding**
Finishing time	**Binding**

Binding	Not Binding

4. Which of the following is incorrect relating to the use of building time and finishing time available to the company when maximizing the contribution in the next year:

Answer C

5. Match the variables given on the left side with the solutions given on the right side if the company can obtain additional 2,000 minutes of curing time for the next year:

S3	**C**	Increases by 1,200
S1	**B**	Decreases by 800
C	**S1**	Decreases by 400
B		

Question 02 - Total 10 marks - Segment A

6. Calculate cost driver rates for allocating IT support and customer support costs to individual clients.

IT support cost (Rs)	**2300**	**(3,450,000/1,500)**
Customer support cost (Rs)	**1500**	**(1,800,000/1,200)**

7. Rank the three sub-groups of the individual clients according to the profit per client during the last year.

Individuals in employment	**2**
Professionals in practice	**1**
Businessmen	**3**

8. Which of the following is correct relating to the support cost allocation to the individual client sub-groups: **Answer B**

9. The firm is considering a revision to the billing value of the clients in the Businessmen sub-group to earn its expected profit markup of 20%. What is the revised billing value per client:

Revised billing value per client (Rs.).	**38160**

10. How much is the increase in the firm's profit if the services provided to 30 businessmen are discontinued and, new 50 professional clients are accepted to serve using the resources available in the Businessmen sub-group:

Increase in firm's profit (Rs.)	**210000**

Question 03 - Total 10 marks - Segment C

11. How Calculate the contributions earned by the two divisions and the company as a whole based on the current prices and volumes:

Division A (Rs.)	**560000**
Division B (Rs.)	**1200000**
AB PLC (Rs.)	**1760000**

12. What is the selling price per unit of "Bee" that would maximize the profits of Division B:

Selling price of "Bee". Rs. **4200**

13. Match the variables given on the left side with the solutions given on the right side if Division B of the company decided to operate at its profit maximizing output level:

External sales of Division A		**Transfer by Division A to B**	1,900 units
Transfer by Division A to B		**Sales of Division B**	950 units
Sales of Division B		**External sales of Division A**	2,100 units

14. How much is the company's contribution if Division B of the company operates at its profit maximizing output level:

Contribution of AB PLC (Rs.). **2265000**

15. AB PLC has now decided to set the transfer price so as to lead to optimal decision making for the company as a whole. Which of the following transfer pricing methods can be chosen to reflect this new policy in this situation:

Answer A

Question 04- Total 10 Marks - Segment D

16. State two non-value-added activities in the above scenario.

Non-value-added activity – 1	**Warehousing**
Non-value-added activity – 2	**Outgoing shipments**

17. Compute the cost of non-value-added activity – 1:

Cost of non-value-added activity – 1 (Rs.) **44000**

18. Compute the cost of non-value-added activity – 2:

Cost of non-value-added activity – 1 (Rs.). **7500**

19. Find out cost driver quantities of books and magazines under activities 'warehousing' and 'outgoing shipments' respectively fill out the blanks in the following table.

Activity	Cost driver quantity	Books	Magazines	Cost driver quantity: Books	Cost driver quantity: Magazines
Warehousing	9,000	80%	20%	**6650**	1,800
Outgoing shipments	15,000	25%	75%	3,750	**11000**

Question 05 - Total 10 Marks - Segment D

20. You Calculate throughput per unit for Large panels and Small panels.

Large panel (Rs.)	**8300**	Small panel (Rs.)	**2540**

21. Calculate throughput return per factory hour for Large panels and Small panels.

Large panel (Rs.)	**5928.57**	Small panel (Rs.)	**4400**

22. Find out the cost per factory hour. Rs. **4444.44**

23. Find out throughput accounting ratio for Large panels and Small panels.

Large panel (Rs.)	**1.33**	Small panel (Rs.)	**0.99**

Practice Examination – Part III

Question 01 - Total 10 Marks - Segment B

1. You are required to Evaluate the viability of the project:

(Rs)							
Year	0	1	2	3	4	5	6
Initial Capital	(700,000)						60,000
Working Capital	(150,000)						150,000
Net Cash Inflows (W1)		262,500	275,625	289,406	303,877	319,070	
(Minus) Tax 24%			(63,000)	(66,150)	(69,458)	(72,930)	(76,577)
Tax Relief on Capital Allowance (W2)		42,000	31,500	23,625	17,719	13,289	25,467
Net Cash Flow	(850,000)	304,500	244,125	246,881	252,138	259,429	158,890
Discounting Factor 12%	1	0.893	0.797	0.712	0.636	0.567	0.507
Present Value	(850,000)	271,919	194,568	175,779	160,360	147,096	80,557
NPV							**180,272**
	The NPV is Positive and the investment should be accepted						
Working 01		250,000	250,000	250,000	250,000	250,000	
(Net Cash Inflow)		(1+0.05)^1	(1+0.05)^2	(1+0.05)^3	(1+0.05)^4	(1+0.05)^5	
		262,500	275,625	289,406	303,877	319,070	
Working 2							
Tax Relief							
Purchase	700,000	525,000	393,750	295,313	221,484	166,113	106,113
Tax Depreciation -25%	(175,000)	(131,250)	(98,438)	(73,828)	(55,371)	(60,000)	
Tax Relief - 24%	42,000	31,500	23,625	17,719	13,289		25,467
Timing (Year)	1	2	3	4	5		6

Question 02 - Total 10 Marks - Segment C

2. You are required to calculate the Return on Investment (ROI) and Residual Income (RI) of the Keyboard factory without considering the special order.

ROI	Operating profit	57,500
	Capital employed (215,000+53,000)	268,000
		21.45%
RI	Operating profit	57,500
(Rs'000)	(-) Imputed cost of capital (268,000 x 10%)	(26,800)
		30,700

3. Calculate the Return on Investment (ROI) and Residual Income (RI) of the special order.

ROI	Operating profit ((430 – 250)x140,000) – 14,000,000)	11,200
	Capital employed	95,000
		11.79%
RI	Operating profit	11,200
(Rs'000)	(-) Imputed cost of capital (95,000,000 x 10%)	(9,500)
		1,700

4. Briefly discuss the possible reaction of the Factory Manager with regard to the acceptance or rejection of the special order.

Decision making criterion	**ROI**
Factory Manager's decision	**The special order is rejected**

5. Discuss the use of ROI as a performance evaluation criterion in the above scenario.

Advantages	Disadvantages
ROI facilitates comparisons between performance of investment centres as it relates the size of the centre's profit to the size of the investment.	ROI is short term measures and only consider one year's of operations.
ROI ensures goal congruence between the investment centres and the firm. Any increase in divisional ROI will bring	It has a motivational problem. When it is used for performance evaluation, any decision which benefits the company in the long-term but which reduces ROI in the

improvement in overall ROI of the entire organization.	short-term would reflect negatively on the manager's performance.

Question 03 - Total 10 Marks – Segment E

6. You are required to discuss two risk management strategies that the company could use to address the risk of earthquake damage to the building.

Risk management strategy 1 **Transfer**

Explanation

The company could transfer the risk by purchasing earthquake insurance. By doing so, the company can transfer the financial burden of any earthquake damage to the insurance company.

Risk management strategy 2 **Mitigate**

Explanation

The company could take extra precautionary actions (e.g., Seismic Retrofitting) to strengthen the building's structure and minimize the damage in case of an earthquake. By doing so, the company can reduce the probability and impact of earthquake damage to the building.

7. Analyze the advantages and disadvantages of each risk management strategy identified in part A, and recommend which strategy the company should use.

Risk management strategy 1

Advantages	Disadvantages
Transfers the financial burden of any earthquake damage to the insurance company.	Can be costly, as earthquake insurance premiums can be high.
Provides a sense of security to the company's stakeholders.	May not cover all types of earthquake damage.

Risk management strategy 2

Advantages	Disadvantages
Reduces the probability and impact of earthquake damage to the building.	Can be costly, strengthening the building structure can be expensive.
Provides a long-term solution to the risk of earthquake damage.	May require significant construction and retrofitting work, which may delay the project timeline.

Recommendation:

The company should take extra precautionary actions as a risk management strategy to address the risk of earthquake damage to the building. These techniques (such as seismic retrofitting) provide a long-term solution to the risk of earthquake damage, and reduces the probability and impact of damage. While it may be costly and time-consuming, it is a more effective long-term strategy than simply transferring the risk to an insurance company.

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