P1 Management Accounting

Cima CIMAPRO15-P01-X1-ENG

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QUESTION NO: 1

A company produces trays of pre-prepared meals that are sold to restaurants and food retailers. Three varieties of meals are sold: economy, premium and deluxe.

Extracts from the budget for last year are given below:

	Economy	*Premium*	*Deluxe*
Sales quantity (trays)	180,000	360,000	260,000
Selling price per tray	$2.80	$3.20	$4.49
Total sales revenue	$504,000	$1,152,000	$1,167,400
Direct material cost per tray	$1.00	$1.60	$2.20
Total direct material cost	$180,000	$576,000	$572,000
Direct labour cost per tray	$0.50	$0.50	$0.50
Total direct labour cost	$90,000	$180,000	$130,000

Overhead costs for the budget were estimated using the high-low method based on the total overhead costs for three previous years.

Output	720,000 trays	680,000 trays	840,000 trays
Total overheads	$1,016,000	$992,000	$1,096,000

	Economy	*Premium*	*Deluxe*
Sales quantity (trays)	186,000	396,000	278,000
Selling price per tray	$2.82	$3.21	$4.50
Total sales revenue	$524,520	$1,271,160	$1,251,000
Direct material cost per tray	$1.10	$1.50	$2.10
Total direct material cost	$204,600	$594,000	$583,800
Direct labour cost per tray	$0.52	$0.54	$0.48
Total direct labour cost	$96,720	$213,840	$133,440
Variable overhead per tray	$0.64	$0.66	$0.63
Total variable overheads	$119,040	$261,360	$175,140
Actual fixed overheads: $546,000			

The company operates a just-in-time system for purchasing and production and does not hold any inventory.

Ignore inflation.

Calculate, for the original budget, the budgeted fixed overhead costs, the budgeted variable overhead cost per tray and the budgeted total overheads costs.

A. The variable cost per tray = $0.75; The fixed cost = $ 490 000

B. The variable cost per tray = $0.65; The fixed cost = $ 550 000

C. The variable cost per tray = $0.45; The fixed cost = $ 320 000

D. The variable cost per tray = $0.85; The fixed cost = $ 530 000

ANSWER: B

QUESTION NO: 2

JL is preparing its cash budget for the next three quarters. The following data have been extracted from the operational budgets:

Sales revenue	Quarter 1	$500,000
	Quarter 2	$450,000
	Quarter 3	$480,000
Direct material purchases	Quarter 1	$138,000
	Quarter 2	$151,200
	Quarter 3	$115,600

Additional information is available as follows:

• JL sells 20% of its goods for cash. Of the remaining sales value, 70% is received within the same quarter as sale and 30% is received in the following quarter. It isestimated that trade receivables will be $125,000 at the beginning of Quarter 1. No bad debts are anticipated.

• 50% of payments for direct material purchases are made in the quarter of purchase, with the remaining 50% in the quarter following purchase. It is estimated that theamount owing for direct material purchases will be $60,000 at the beginning of Quarter 1.

• JL pays labour and overhead costs when they are incurred. It has been estimated that labour and overhead costs in total will be $303,600 per quarter. This figureincludes depreciation of $19,600.

• JL expects to repay a loan of $100,000 in Quarter 3.

• The cash balance at the beginning of Quarter 1 is estimated to be $49,400 positive.

Required:

Prepare a cash budget for each of the THREE quarters.

What will the closing balance of cash flows in quarter THREE be?

A. $100 200

B. $170 400

C. $145 000

D. $150 200

E. $130 200

F. $160 690

G. $184 900

ANSWER: E

QUESTION NO: 3

LM operates a parcel delivery service. Last year its employees delivered 15,120 parcels and travelled 120,960 kilometers. Total costs were $194,400.

LM has estimated that 70% of its total costs are variable with activity and that 60% of these costs vary with the number of parcels and the remainder vary with the distance travelled.

LM is preparing its budget for the forthcoming year using an incremental budgeting approach and has produced the following estimates:

• All costs will be 3% higher than the previous year due to inflation

• Efficiency will remain unchanged

• A total of 18,360 parcels will be delivered and 128,800 kilometers will be travelled.

Calculate the following costs to be included in the forthcoming year's budget:

(i) the total variable costs related to the number of parcels delivered. (ii) the total variable costs related to the distance travelled.

A. Parcel related cost for next year = $112,308; Distance related costs for next year = $79,590

B. Parcel related cost for next year = $109,118; Distance related costs for next year = $89,699

C. Parcel related cost for next year = $112,118; Distance related costs for next year = $59,699

D. Parcel related cost for next year = $105,306; Distance related costs for next year = $30,590

E. Parcel related cost for next year = $115,306; Distance related costs for next year = $31,590

ANSWER: C

QUESTION NO: 4

RT produces two products from different quantities of the same resources using a just-in-time (JIT) production system. The selling price and resource requirements of each of the products are shown below:

Product	R	T
Unit selling price ($)	130	160
Resources per unit: Direct labour ($8 per hour)	3 hours	5 hours
Material A ($3 per kg)	5 kgs	4 kgs
Material B ($7 per litre)	2 litres	1 litre
Machine hours ($10 per hour)	3 hours	4 hours

Market research shows that the maximum demand for products R and T during June 2010 is 500 units and 800 units respectively. This does not include an order that RT has agreed with a commercial customer for the supply of 250 units of R and 350 units of T at selling prices of $100 and $135 per unit respectively. Although the customer will accept part of the order, failure by RT to deliver the order in full by the end of June will cause RT to incur a $10,000 financial penalty. At a

recent meeting of the purchasing and production managers to discuss the production plans of RT for June, the following resource restrictions for June were identified:

Direct labour hours 7,500 hours

Material A 8,500 kgs

Material B 3,000 litres

Machine hours 7,500 hours

Assuming that RT completes the order with the commercial customer, prepare calculations to show, from a financial perspective, the optimum production plan for June 2010 and the contribution that would result from adopting this plan.

The optimum production plan will be:

A. Contract: R = 250, T = 360 and Market: R = 500 T = 710

B. Contract: R = 250, T = 360 and Market: R = 600 T = 710

C. Contract: R = 250, T = 360 and Market: R = 650 T = 710

D. Contract: R = 250, T = 360 and Market: R = 500 T = 700

E. Contract: R = 250, T = 360 and Market: R = 660 T = 720

ANSWER: D

QUESTION NO: 5

A company produces trays of pre-prepared meals that are sold to restaurants and food retailers. Three varieties of meals are sold: economy, premium and deluxe.

Extracts from the budget for last year are given below:

	Economy	*Premium*	*Deluxe*
Sales quantity (trays)	180,000	360,000	260,000
Selling price per tray	$2.80	$3.20	$4.49
Total sales revenue	$504,000	$1,152,000	$1,167,400
Direct material cost per tray	$1.00	$1.60	$2.20
Total direct material cost	$180,000	$576,000	$572,000
Direct labour cost per tray	$0.50	$0.50	$0.50
Total direct labour cost	$90,000	$180,000	$130,000

Overhead costs for the budget were estimated using the high-low method based on the total overhead costs for three previous years.

Output	720,000 trays	680,000 trays	840,000 trays
Total overheads	$1,016,000	$992,000	$1,096,000

Actual results for last year were as follows:

	Economy	*Premium*	*Deluxe*
Sales quantity (trays)	186,000	396,000	278,000
Selling price per tray	$2.82	$3.21	$4.50
Total sales revenue	$524,520	$1,271,160	$1,251,000
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Direct labour cost per tray	$0.52	$0.54	$0.48
Total direct labour cost	$96,720	$213,840	$133,440
Variable overhead per tray	$0.64	$0.66	$0.63
Total variable overheads	$119,040	$261,360	$175,140
Actual fixed overheads: $546,000			

The company operates a just-in-time system for purchasing and production and does not hold any inventory.

Ignore inflation.

Discuss the benefits of flexible budgeting for planning and control purposes. Select all the true statements.

A. A fixed budget will provide meaningful control information when actual activity differs from budget and variable costs are significant.

B. If actual sales revenue is compared to a fixed budget it is possible to tell whether a favourable sales variance is due to an increase in units sold or an increase in sales price.

C. If sales volumes were well above budget, adverse variable cost variances will probably be reported, against the fixed budget, since more variable costs have to be incurred to support the higher level of activity.

D. Reporting against a fixed budget tells management nothing about the efficiency of operations.

E. If a flexible budget is prepared then the budget variances calculated will provide a better indication of performance since actual results will be compared against an appropriate benchmark.

F. The fixed budget however provides more insight into actual performance.

ANSWER: C D E

QUESTION NO: 6

'Public sector organizations are often judged by their economy, efficiency and effectiveness. Consequently, they should use an approach to budgeting other than incremental budgeting.' Required:

Explain ONE advantage and TWO disadvantages of public sector organizations using incremental budgeting. Select all true statements.

A. An incremental; approach is not as easy and fast to implement than other forms of budgeting approaches e.g. zero based budgeting.

B. Public sector organizations tend to be fairly complex and in many cases outputs cannot be measured in monetary terms therefore the link between inputs and outputs is difficult to establish. An incremental approach can therefore provide a cost effective approach to budgeting.

C. Under an incremental approach to budgeting, existing operations and the current budgeted allowance for these existing activities are taken as the base level for preparing the budget.

D. The main advantage of incremental budgeting is that the cost of past activities becomes fixed and any inefficiencies or wastage is perpetuated.

E. The incremental approach means that budget holders in public sector organizations will be encouraged to use up this year's budget will be as high as possible.

F. The incremental approach encourages managers in public sector organizations to look at the efficiency and effectiveness of activities undertaken.

ANSWER: B C E

QUESTION NO: 7

RFT, an engineering company, has been asked to provide a quotation for a contract to build a new engine. The potential customer is not a current customer of RFT, but the directors of RFT are keen to try and win the contract as they believe that this may lead to more contracts in the future. As a result, they intend pricing the contract using relevant costs. The following information has been obtained from a two-hour meeting that the Production Director of RFT had with the potential customer. The Production Director is paid an annual salary equivalent to $1,200 per 8-hour day. 110 square meters of material A will be required. This is a material that is regularly used by RFT and there are 200 square meters currently in inventory. These were bought at a cost of $12 per square meter. They have a resale value of $10.50 per square meter and their current replacement cost is $12.50 per square meter. 30 liters of material B will be required. This material will have to be purchased for the contract because it is not otherwise used by RFT. The minimum order quantity from the supplier is 40 liters at a cost of $9 per liter. RFT does not expect to have any use for any of this material that remains after this contract is completed. 60 components will be required. These will be purchased from HY. The purchase price is $50 per component. A total of 235 direct labour hours will be required. The current wage rate for the appropriate grade of direct labour is $11 per hour. Currently RFT has 75 direct labour hours of spare capacity at this grade that is being paid under a guaranteed wage agreement. The additional hours would need to be obtained by either (i) overtime at a total cost of $14 per hour; or (ii) recruiting temporary staff at a cost of $12 per hour. However, if temporary staff are used they will not be as experienced as RFT's existing workers and will require 10 hours supervision by an existing supervisor who would be paid overtime at a cost of $18 per hour for this work. 25 machine hours will be required. The machine to be used is already leased for a weekly leasing cost of $600. It has a capacity of 40 hours per week. The machine has sufficient available capacity for the contract to be completed. The variable running cost of the machine is $7 per hour. The company absorbs its fixed overhead costs using an absorption rate of $20 per direct labour hour.

Select ALL the true statements.

A. The cost for the production director meeting was a relevant cost.

B. Material A was a relevant cost.

C. Material B was a relevant cost.

D. The components are to be purchased from HY at a cost of $50 each. This is a relevant cost because it is future expenditure that will be incurred as a result of the work being undertaken.

E. The machine is currently being leased and it has spare capacity so it will either stand idle or be used on this work. The lease cost will be a relevant cost or $10 per hour.

F. The company absorbs its fixed overhead costs using an absorption rate of $20 per direct labour hour. This is a relevant cost.

G. The relevant cost is $7010

H. The relevant cost is $7080

I. The relevant cost is $7100

ANSWER: B C D G

QUESTION NO: 8

'A zero-based budgeting system involves establishing decision packages that are then ranked in order of their relative importance in meeting the organization's objectives'.

Which of the following is true regarding he difficulties that a not-for-profit organization may experience when trying to rank decision packages.

Select ALL true statements.

A. The activities that are being proposed in a budget are described in variable packages. There will often be more less than one decision package proposed for an activity.

B. The activities that are being proposed in a budget are described in decision packages. There will often be more than one decision package proposed for an activity.

C. Some of these packages will be inclusive and will require operations to select the best solution to the issue involved.

D. Some of these packages will be mutually inclusive and will require management to select the best solution to the issue involved.

E. Each decision package is evaluated. Its costs are compared to its benefits and net present values or other measures calculated.

F. Management may decide to reject packages even though the activity was done last year. In this way the organization is said to be starting from a zero base with each package given due consideration.

G. Management may decide to accept packages even though the activity was done last year. In this way the organization is said to be starting from a 100% cost base with each package given due consideration.

H. In a public sector body, for example, decision packages will relate profit making activities.

I. In a public sector body, for example, decision packages will relate to very disparate activities.

ANSWER: B D E F I

QUESTION NO: 9

A medium-sized manufacturing company, which operates in the electronics industry, has employed a firm of consultants to carry out a review of the company's planning and control systems. The company presently uses a traditional incremental budgeting system and the inventory management system is based on economic order quantities (EOQ) and reorder levels. The company's normal production patterns have changed significantly over the previous few years as a result of increasing demand for customized products. This has resulted in shorter production runs and difficulties with production and resource planning. The consultants have recommended the implementation of activity based budgeting and a manufacturing resource planning system to improve planning and resource management.

What are the benefits for the company that could occur following the introduction of an activity based budgeting system?

Select ALL the correct answers.

A. Under an activity based budgeting system, resource allocation is linked to the strategic plan and is prepared after considering alternative strategies. This approach ensures that new activities that are required to meet the company's strategic objectives are included in the budget.

B. Under a traditional incremental budgeting system the focus is on existing resources and operations. Adjustments are then made for changes in activity and price which results in past inefficiencies being perpetuated. Under an activity based budgeting system, only resources that are needed to perform activities required to meet the budgeted production and sales volumes are included.

C. Activity based techniques including activity based budgeting focus on the outputs of a process rather than the input to the process. This approach provides a clear framework for understanding the link between costs and the level of activity. It allows the ranking of activities and the determination of how limited resources should be allocated across competing activities.

D. Activity Based Budgeting Systems present costs under functional headings i.e. the emphasis is on the nature of the cost. The weakness if this approach is that it gives little indication of the link between the level of activity and the cost incurred.

E. The approach under an Activity based Budgeting System is to make arbitrary cuts in order to meet overall financial targets.

ANSWER: A B C

QUESTION NO: 10

A decision maker that makes decisions using the minimax regret criterion would be classified as:

A. Risk averse

B. Risk seeking

C. Risk neutral

D. Risk spreading

ANSWER: A