Certificate Level Examination

December 2015

(3 hours)

FINANCIAL MANAGEMENT ACCOUNTING SKILLS AND COMPETENCE

This assessment is confidential.

There are 80 questions in this assessment worth equal marks. The pass mark is 55%.

You will have 180 minutes to complete the assessment which includes any review period.

IMPORTANT

Question papers contain confidential information and must NOT be removed from the examination hall.

You MUST submit this question paper and enter your student number in this box.

IF YOU FAIL TO DO SO YOUR SCRIPT WILL NOT BE MARKED.

DO NOT TURN OVER UNTIL YOU ARE INSTRUCTED TO BEGIN WORK.

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Instructions for recording your answers

1. Record your responses only on the answer sheet provided.

2. Use an HB pencil throughout.

3. Enter **0000** for the centre number and **003** for the test number.

4. Enter your Candidate Number and Test Date into the appropriate spaces on your answer sheet.

5. a. For each of the **80** items in this paper there are up to six options; A, B, C, D, E, F. Choose the response that appears to be the best, and indicate your choice on the answer sheet as a **horizontal** line in the box with the corresponding number and letter. For example, if you decide that the answer to item 1 is A, mark the answer sheet as shown below. For this assessment, you should disregard the boxes for options E and F on the answer sheet.

   b. Choose one or more responses for each item, as appropriate to the item. Errors should be erased carefully and the new choice marked. Make **NO** other marks on the answer sheet.

6. **ATTEMPT ALL ITEMS;** you will score equally for each correct response. There will be no deductions for incorrect responses or omissions.

7. Do not fold or crease the answer sheet.

1 The following figures have been extracted from Granger Ltd's trial balance at 31 March 20X8:

	Debit £	Credit £
8% debentures issued in 20X2		1,200,000
Debenture interest paid	48,000	
Retained profits at 1 April 20X7		3,257,068

Operating profit for the year ended 31 March 20X8 is £486,250. Tax on profits for the year has been estimated at £78,000.

What is the figure for retained profits in Granger Ltd's balance sheet at 31 March 20X8?

A £3,569,318

B £3,617,318

C £3,665,318

D £3,743,318

2 The following is an extract from the trial balance columns of Pippin plc's extended trial balance at 31 October 20X3:

	£	£
Trade receivables	559,620	
Allowance for receivables at 1 November 20X2		22,480
Irrecoverable debt expense		

Two customers whose debts total £3,270 have been identified as irrecoverable and are to be written off, and the allowance for receivables at 31 October 20X3 is to be adjusted to £19,632.

What entries should be made in the adjustments columns on the extended trial balance?

A Debit Irrecoverable debt expense £422; Debit Allowance for receivables £2,848; Credit Trade receivables £3,270

B Debit Trade receivables £3,270; Credit Irrecoverable debt expense £422; Credit Allowance for receivables £2,848

C Debit Irrecoverable debt expense £6,118; Credit Allowance for receivables £2,848; Credit Trade receivables £3,270

D Debit Allowance for receivables £2,848; Debit Trade receivables £3,270; Credit Irrecoverable debt expense £6,118

3 On 31 December 20X8 Neckett plc sold an item of machinery for £8,000. The only entry made in the accounting records for this transaction was a debit entry to the bank account. The machinery had been purchased on 1 January 20X3 for £27,000.

Neckett plc's depreciation policy for machinery is 10% straight-line with zero residual values.

Which of the following journal entries should Neckett plc record to correct this accounting?

A Debit Machinery accumulated depreciation £13,500; Debit Loss on disposal £5,500; Debit Suspense £8,000; Credit Machinery cost £27,000

B Debit Machinery cost £27,000; Credit Machinery accumulated depreciation £13,500; Credit Loss on disposal £5,500; Credit Suspense £8,000

C Debit Machinery accumulated depreciation £16,200; Debit Loss on disposal £2,800; Debit Suspense £8,000; Credit Machinery cost £27,000

D Debit Machinery cost £27,000; Credit Machinery accumulated depreciation £16,200; Credit Loss on disposal £2,800; Credit Suspense £8,000

4 Which of the following items should be treated as capital expenditure in the financial statements of a sole trader?

(1) £500 spent on legal fees in connection with the acquisition of land
(2) £300 taken by the owner to buy his wife a mobile phone
(3) £250 paid to a friend for some shelves for his office
(4) £400 on redecorating the offices

A (1) only

B (1) and (4)

C (2) and (3)

D (1) and (3)

5 Perker's business bank statement showed a credit balance of £4,360 on 28 February 20X0. When this was reconciled to the cash book, the following differences were noted:

	£
Uncredited lodgements	1,560
Unpresented cheques	2,138
Direct debit for machinery rental not recorded in the cash book	750
Correction of undercast of cash book receipts	540

What was the original balance on Perker's cash book at 28 February 20X0?

A £3,572 debit

B £3,992 debit

C £4,728 credit

D £5,148 credit

6 Braddon plc manufactures cosmetics. The company repackaged one of its moisturiser products and discounted the selling price.

The details of the product are as follows:

	Per item
Cost of manufacture	£7.50
Repackaging cost to be incurred	£2.25
Usual selling price	£9.00
Discount on selling price	10%

At what amount should each item of the moisturiser be included in Braddon's inventory?

A £5.85

B £6.75

C £8.10

D £9.75

7 Smith purchases goods from Rogers for £420 inclusive of VAT at 20%, but posts the gross amount in the purchases column of the purchases day book, omitting to include the VAT in the appropriate column.

At the end of the month in which this transaction occurred, the balance owing by Smith to HMRC for net output VAT is

A £84 too high

B £84 too low

C £70 too high

D £70 too low

8 At 31 December 20X5 Leeford plc's payables control account and its list of payables ledger balances do not agree. The list of balances totals £54,231.

The following errors are discovered, which, when corrected, will ensure the balances agree:

(1) The total of the purchases day book for December has been recorded at £27,506. The correct figure is £25,706.
(2) A credit note from supplier Tapley for £956 has been posted to the wrong side of his account in the payables ledger.

What was the balance on the payables control account before the correction of the errors?

A £57,943

B £54,343

C £54,119

D £50,519

9 Warner Ltd's accounting records show the following balances at the end of November.

	£
Cash paid to employees	75,400
PAYE	26,800
Employer's NIC	11,300
Employees' NIC	9,700

The wages expense for November in the statement of profit or loss is

A £75,400

B £85,100

C £111,900

D £123,200

10 What transaction is represented by the entries:

Debit Sales; Debit VAT; Credit Trade receivables

A The issue of a sales invoice to a credit customer

B The writing off of a credit customer's debt as irrecoverable

C The issue of a credit note to a credit customer

D The netting off of a balance owed by a credit customer who is also a supplier with the amount owed to them

11 Gemma fixes her selling prices by adding 40% to cost. In the year ended 31 March 20X5 her financial statements show she only achieved a mark-up of 36%.

Which of the following factors could account for this?

A Purchase prices increased unexpectedly

B The value of closing inventories has been understated

C Goods which Gemma took for her own use were credited to purchases at selling price

D Closing inventories were higher than opening inventories

12 Langdale plc receives rent for subletting part of its office block. From 1 January 20X2 the company has been charging its tenant £6,000 per quarter. Rent is payable in advance on 1 January, 1 April, 1 July and 1 October each year, and Langdale plc's tenant regularly pays the rent on the due dates. From 1 July 20X3 Langdale plc increased the rent by 5%.

What are the rental income to be included in Langdale plc's statement of profit or loss for its financial year ended 31 January 20X4 and the deferred income to be included in the statement of financial position at this date?

A Rental income £24,900; Deferred income £2,100

B Rental income £24,900; Deferred income £4,200

C Rental income £24,700; Deferred income £2,100

D Rental income £24,700; Deferred income £4,200

13 Mika started business on 1 June 20X2 with cash of £6,000. At the end of his first reporting period ended 31 March 20X3 he has cash at bank of £1,709. He has received cash from sales of £25,100 during the period and paid expenses in cash of £19,391. He has no non-current assets nor outstanding receivables and payables at the end of the period but he has inventory on hand which cost £530.

During the period ended 31 March 20X3 Mika made no further capital injections and took drawings of £10,000.

Mika's net profit for the period ended 31 March 20X3 and net assets at 31 March 20X3 are

A Net profit £5,709; net assets £2,239

B Net profit £6,239; net assets £2,239

C Net profit £5,179; net assets £1,179

D Net profit £6,239; net assets £1,709

14 On 1 March 20X4 Lillian employed a new bookkeeper who has made a number of errors in postings to the receivables control account in March. The following shows the postings the bookkeeper made:

Receivables control account

20X4		£	20X4		£
1.3	Balance b/d	325,602	31.3	Credit sales	186,217
31.3	Cash from credit customers	178,205	31.3	Discounts allowed	25,406
31.3	Credit notes	2,470	31.3	Contra against suppliers	5,890
			31.3	Balance c/d	288,764
		506,277			506,277

What should the closing balance be once the posting errors are corrected?

A £299,848

B £304,788

C £311,628

D £350,660

15 Mitchell's trial balance does not balance, the totals of the columns being:

Debit: £734,042
Credit: £727,578

Which of the following errors would fully account for the difference?

A Discounts allowed of £3,232 have been debited to the discounts received account

B Interest received of £6,464 has been recorded only in the bank account

C The bank balance of £3,232 has been included in the trial balance as an overdraft

D The prepayments asset account of £6,464 has been omitted from the trial balance

16 If an invoice for repairs is debited to the machinery cost account this will result in

A An overstatement of profit and an overstatement of non-current assets

B An understatement of profit and an overstatement of non-current assets

C An overstatement of profit and an understatement of non-current assets

D An understatement of profit and an understatement of non-current assets

17 Discounts received of £1,638 have been debited to both the payables control account and the discounts received account.

The journal required to correct this is

A Debit Suspense £1,638; Credit Payables control £1,638

B Debit Suspense £3,276; Credit Payables control £3,276

C Debit Suspense £1,638; Credit Discounts received £1,638

D Debit Suspense £3,276; Credit Discounts received £3,276

18 Omer plc's draft statement of profit or loss for the year ended 30 November 20X8 shows a gross profit of £124,060. Omer plc has discovered that at both the beginning and the end of the year, one line of inventory has been included at its selling price. The value of the inventory at selling price was £2,460 at 30 November 20X7 and at £3,680 at 30 November 20X8. This particular line of inventory yields a gross profit of 25%.

After correcting this error, Omer plc's gross profit for the year ended 30 November 20X8 will be

A £124,365

B £124,304

C £123,816

D £123,755

19 Allen received a statement from its supplier Turner Tools at 30 June 20X4, showing a balance to be paid of £5,844. Allen's payables ledger account for Turner Tools shows a balance due to Turner Tools of £4,968.

Investigations reveal the following:

(1) Goods costing £456 returned by Allen have not been recorded by Turner Tools
(2) Allen has not adjusted the ledger account for £48 of cash discount disallowed by Turner Tools

What discrepancy remains between Allen's and Turner Tools' records after allowing for these items?

A £36

B £96

C £372

D £504

20 The net assets of Fraser's business decreased by £5,087 over the year to 30 September 20X2. During the year he had paid in additional capital of £15,000, drawn £775 in cash each month and paid £2,445 for some personal expenses using the business's bank account.

The net loss made by the business for the year ended 30 September 20X2 was

A £1,832

B £3,058

C £8,342

D £13,232

21 The debit and credit statement of profit or loss columns on Betty's extended trial balance total £376,254 and £402,573 respectively. What final entry does Betty need to make in these columns?

A Debit £26,319 net profit

B Debit £26,319 net loss

C Credit £26,319 net profit

D Credit £26,319 net loss

22 In performing a company's bank reconciliation, which of the following items would give rise to amendments to the cash book?

(1) Lodgements not credited
(2) Error by the bank
(3) Cheque paid in by the company dishonoured
(4) Bank charges

A (1) and (2)

B (3) and (4)

C (1), (3) and (4)

D All of them

23 Froome plc's trading account from its statement of profit or loss for the month of July 20X7 is as follows:

	£	£
Revenue		436,208
Opening inventories	20,908	
Purchases	345,012	
Closing inventories	(43,126)	
		322,794
		113,414

What average mark-up did Froome plc apply during the month of July?

A 20.9%

B 26.0%

C 26.4%

D 35.1%

24 Durgan and Helford are in partnership sharing profits in the ratio 3:2 and preparing their accounts to 30 June each year.

On 1 April 20X7 Murphy joined the partnership, and from that date the profit sharing ratio became Durgan 50%, Helford 30% and Murphy 20%, after providing for salaries for Helford and Murphy of £20,000 and £15,000 per annum respectively.

The partnership profit for the year ended 30 June 20X7 was £405,000 and this accrued evenly over the year.

What is Helford's share of the total profits for the year ended 30 June 20X7?

A £156,875

B £154,250

C £151,875

D £149,250

25 A business's petty cash float has an imprest amount of £100. At 31 January vouchers in the petty cash box totalled £93 and cash in the box amounted to £17.

Which of the following explains the difference?

A A voucher for £10 was put in the petty cash box but no payment was made to the employee

B An employee was given £10 too much when making a claim

C £10 was taken out of the petty cash box for an item of expenditure and no voucher was completed

D £15 was taken for an item of expenditure and the completed voucher showed £5

26 Which of the following statements best indicates that a company may not be a going concern?

A Projections show the company is not profitable as profits will continue to fall

B Projections show the company is not growing as revenue will continue to fall

C Projections show the company is not able to pay its debts as cash balances will continue to fall

D Projections show that profits will continue to fall as the company's costs will increase substantially

27 At 30 September 20X1 Squod plc's trial balance failed to balance and a suspense account was opened. When the following errors were discovered and corrected, the suspense account balance was eliminated.

(1) A cheque payment of £406 had been entered in the cash book in the total column only and not in any of the analysis columns
(2) The credit balances in the trial balance were undercast by £930

What was the original balance on the suspense account?

A £524 debit

B £1,336 debit

C £524 credit

D £1,336 credit

28 A 31 January 20X8 Badger plc's draft financial statements include the following figures:

	£
Trade receivables	343,046
Allowance for receivables	1,540
Irrecoverable debts expense	4,187

The allowance for receivables is the balance carried forward from 1 February 20X5 and is in respect of the balance of one customer, Dingo plc.

During the year ended 31 January 20X6 the following occurred for which adjustments are required.

(1) Dingo plc settled its debt in full
(2) An allowance of £860 is considered necessary against the debt of Prosser plc
(3) A cheque for £126 was received in respect on a debt which was written off two years previously

At 31 January 20X6 Badger plc's financial statements will include the following figures:

A Irrecoverable debts expense £3,381; Trade receivables net of allowance £342,060

B Irrecoverable debts expense £3,507; Trade receivables net of allowance £342,060

C Irrecoverable debts expense £4,867; Trade receivables net of allowance £340,646

D Irrecoverable debts expense £3,381; Trade receivables net of allowance £340,646

29 Padstow plc is preparing its financial statements for the year ended 30 June 20X1. Its initial trial balance shows the following balances:

	£	£
Tax payable at 1 July 20X0		209,100
Tax paid	303,040	

Tax paid during the year ended 30 June 20X1 comprises £189,450 paid to completely settle the 20X0 liability, plus tax paid on account for the year ended 30 June 20X1. The total estimated tax due on the profits for the year ended 30 June 20X1 is £246,300.

In Padstow plc's statement of profit or loss for the year ended 30 June 20X1 the figure for income tax will be

A £113,590

B £226,650

C £246,300

D £340,240

30 According to the IASB's *Conceptual Framework*, which four qualitative characteristics enhance the usefulness of financial information?

A Relevance, comparability, understandability, timeliness

B Consistency, reliability, measurability, understandability

C Comparability, timeliness, verifiability, understandability

D Relevance, consistency, timeliness, verifiability

31 On 1 April 20X4 Milverton plc purchased a new machine at a cost of £116,064. Delivery costs of £4,396 and internal administration costs of £11,340 were incurred at this date. Milverton plc also estimated the expected life of the machine as 10 years with £6,000 residual value.

Due to technological advances, on 1 October 20X7 Milverton plc assesses that the machine will only be used for a further three years, and will be scrapped with no residual value after this time.

What is the depreciation expense in respect of this machine in Milverton plc's statement of profit or loss for the year ended 30 September 20X8?

A £25,847

B £26,100

C £26,800

D £29,257

32 Which of the following assertions about statements of cash flows is/are correct?

(1) The profit or loss on the disposal of property, plant and equipment is included within investing activities
(2) An increase in payables is an addition in the reconciliation of profit before tax to cash generated from operations
(3) Dividends paid are an investing activity
(4) A bonus issue of shares will be included in financing activities

A (2) only

B (1), (2) and (4)

C (2) and (3)

D (1), (3) and (4)

33 At 30 September 20X8 Chadband plc's equity balances included the following:

	£
250,000 equity shares of 25p each	62,500
Share premium	50,000

During the year ended 30 September 20X9 Chadband plc made a 1 for 2 rights issue at £1 per share and this is taken up in full. Later in the year the company made a 1 for 5 bonus issue, using the share premium for the purpose.

What were Chadband plc's equity balances at 30 September 20X9?

	Equity share capital	**Share premium**
A	£275,000	£31,250
B	£168,750	£125,000
C	£112,500	£131,250
D	£112,500	£125,000

34 A business incurs bank charges and records them incorrectly in its nominal ledger by the journal

Debit Bank; Credit Bank charges

This is known as an error of

A Compensation

B Commission

C Original entry

D Principle

35 On 26 September 20X6 Ruby plc paid £38,640 for its insurance premium for the year to 30 September 20X7.

At Ruby plc's financial year end of 31 May 20X7, an inexperienced bookkeeper has made the following entries in the adjustments columns of the trial balance:

Debit: Prepayments £16,100
Credit: Insurance expense £16,100

If these entries are left uncorrected, in Ruby plc's financial statements

A Insurance expense will be overstated; Prepayments will be overstated

B Insurance expense will be understated; Prepayments will be understated

C Insurance expense will be overstated; Prepayments will be understated

D Insurance expense will be understated; Prepayments will be overstated

36 Alex sells goods on credit to Higgs for £650. £150 of these goods are damaged and Higgs returns them to Alex. What document would Alex issue to Higgs in respect of the returned goods?

A Delivery note

B Credit note

C Invoice

D Remittance advice

37 Dombey plc has a financial year end of 30 June 20X7. It received the following electricity bills on the dates indicated:

Date received	£	Period covered by bill	Date paid
2.8.X6	1,050	1.5.X6 – 31.7.X6	29.8.X6
1.11.X6	1,125	1.8.X6 – 31.10.X6	30.11.X6
3.2.X7	1,160	1.11.X6 – 31.1.X7	7.3.X7
5.5.X7	1,270	1.2.X7 – 30.4.X7	29.5.X7
3.8.X7	1,320	1.5.X7 – 31.7.X7	31.8.X7

What amounts will be included in Dombey plc's administrative expenses for electricity for the year ended 30 June 20X7 and in the company's accruals at 30 June 20X7?

A Administrative expenses £5,135; Accruals £880

B Administrative expenses £4,785; Accruals £880

C Administrative expenses £4,695; Accruals £440

D Administrative expenses £4,345; Accruals £440

38 Fizkin plc has the following balances relating to motor vehicles in its financial statements at 31 December:

	20X5	**20X4**
	£	**£**
Cost	325,200	287,600
Accumulated depreciation	184,710	168,420
Depreciation expense	86,230	
Loss on disposal of motor vehicles	11,610	

During the year ended 31 December 20X5 Fizkin plc purchased motor vehicles costing £120,400.

What figure will be included as proceeds from the disposal of motor vehicles in Fizkin plc's statement of cash flows for the year ended 31 December 20X5?

A £67,090

B £43,870

C £24,470

D £1,250

39 Claypole plc carried out its physical inventory count on 4 January 20X1 for its financial year end of 31 December 20X0, and valued its inventories at their cost of £580,440 at 4 January 20X1.

Between 31 December 20X0 and 4 January 20X1 the following transactions took place:

(1) Goods costing £46,080 were received from suppliers
(2) Goods that had cost £17,760 were sold for £24,000
(3) A customer returned, in good condition, some goods which had been sold to him in December for £720. The cost of these goods was £480.
(4) Claypole plc returned goods that had cost £2,160 in December to the supplier, and received a credit note for them.

What figure should appear in Claypole plc's financial statements at 31 December 20X0 for closing inventories?

A £610,440

B £607,080

C £553,800

D £550,440

40 Which of the following statements are included in IFAC's *Code of Ethics for Professional Accountants*?

(1) A professional accountant should never disclose confidential client information
(2) A professional accountant's client should receive a competent, professional service
(3) A professional account should always act in the best interests of the client
(4) A professional accountant should rank public interest above maintaining the reputation of the accounting profession

A (1) and (4)

B (2) only

C (1), (2) and (4)

D (1), (2) and (3)

41 Which of the following costs would be the concern of the supervisor of a production department?

A Interest payments to lenders

B Dividend payments to shareholders

C Labour overtime costs

D Lease payments on a photocopier

42 SendIt plc makes a number of deliveries each week of electrical goods to its customers.

The cost of these deliveries each week is:

A A fixed selling overhead

B A variable selling and distribution overhead

C A variable production overhead

D A variable prime cost

43 Freddie is a highly skilled production worker. Details of his gross pay for the week are as follows:

	£
Basic pay for normal hours worked: 36 hours at £14 per hour	504
Overtime: 9 hours at time and a half	189
Gross pay	693

Freddie was paid for his normal hours in full, even though he had been idle for 12 hours during the week because of a machine breakdown.

Indirect labour costs included in his total gross pay of £693 are:

A £63

B £168

C £231

D £357

44 Harry is responsible for preparing the management accounts of Fortran. All of Fortran's employees receive a bonus if monthly sales revenue exceeds forecast. Harry is tempted to overstate monthly sales revenue in the latest set of management accounts to ensure that he receives a bonus.

What threat does this represent?

A Advocacy

B Familiarity

C Intimidation

D Self-interest

45 Which of the following statements is always true?

A Direct costs are usually overheads

B Fixed costs per unit decrease as production levels increase

C Variable costs per unit decrease as production levels increase

D Total indirect costs are always greater than total direct costs

46 Pear Ltd uses the Pip to manufacture one of its products. The following information on receipts and issues of Pips has been recorded for September:

Date		**Units**	**Receipts price per unit £**	**Value £**
1 September	Opening inventory	100	24.00	2,400
4 September	Receipts	300	23.04	6,912
6 September	Issues	(220)		
13 September	Receipts	170	24.96	4,244
25 September	Issues	(310)		

Using the cumulative weighted average price method of inventory valuation, the value of closing inventory on 30 September was:

A £998

B £964

C £960

D £951

47 Adam Ltd's production budget for its first year of trading, during which 2,500 units are expected to be manufactured, is as follows:

	£
Variable production costs	229,200
Fixed production costs	61,920

The unit selling price is £300 and budgeted sales are 2,200 units.

Adam's accountant calculates the profit for its first year of trading using both the marginal cost basis and the absorption cost basis and this shows that the profit under the marginal cost basis is:

A £34,934 lower

B £34,934 higher

C £7,430 lower

D £7,430 higher

48 Merlin Ltd (Merlin) sets its selling prices by adding a mark-up of 30% to the variable cost per unit.

Merlin carried out market research that indicated that if its selling prices were increased by 25% then the quantity sold each period would reduce by 10% with the variable cost per unit remaining unchanged.

Which of the following statements is correct?

A Sales revenue will decrease and the total contribution will increase

B Sales revenue will increase and the total contribution will decrease

C Sales revenue will increase and the total contribution will increase

D Sales revenue will decrease and the total contribution will decrease

49 Details from a lorry producer's records concerning its MegaVan for the latest period are as follows:

	£'000
Sales revenue	288,000
Purchases	192,000
Opening inventory	57,600
Closing inventory	9,600

The profit margin for the MegaVan is:

A 50.0%

B 33.3%

C 20.0%

D 16.7%

50 A company has two divisions, P and Q. Division P costs amount to £15 per unit and the budgeted total output for the period is 300 units.

Division P transfers one third of its output to Q and sells the remainder to the external market for £21 per unit. The transfers to division Q are made at a transfer price of cost plus 30%.

Division Q incurs costs of £6 per unit in converting the transferred units before selling them to external customers for £30 per unit.

There is no budgeted change in inventories for either division.

The reported profits for the period will be:

	Division P	**Division Q**
A	£2,325 profit	£2,400 profit
B	£1,650 profit	£450 profit
C	£1,650 profit	£2,400 profit
D	£2,325 profit	£450 profit

51 The following data have been extracted from the budget of a manufacturing company that only makes one product.

Production volume (units)	8,000	4,000
	£/unit	£/unit
Variable materials	9.60	9.60
Variable labour	8.40	8.40
Production overhead – department A	10.08	14.40
Production overhead – department B	4.80	9.60

The total fixed cost and variable cost per unit is:

	Variable cost per unit	**Total fixed cost**
	£	**£**
A	18.00	34,560
B	18.00	72,960
C	23.76	72,960
D	23.76	34,560

52 Which of the following is an underlying assumption of forecasts made using regression analysis:

A There is no linear relationship between the two variables

B What has happened in the past has no bearing on what will happen in the future

C There is a perfect linear relationship between the two variables

D The value of one variable can be predicted or estimated from the value of one other variable

53 Which of the following is not true concerning a 'top-down' budgeting process?

A The budget sets out the board's targets for the forthcoming period

B Senior management prepare a budget with little or no input from middle management

C The time taken to produce the budget is reduced

D The budget process starts with sales, then progresses to production, materials usage and other functional budgets

54 Which of the following is not a characteristic of rolling budgets?

A The budget is more realistic and certain as there is a shorter period between the preparation of budgets

B A new accounting period, such as a month or a quarter, is added as each old one expires

C Each item of expenditure has to be justified in its entirety in order to be included in the next year's budget

D Budgets are re-assessed on a regular basis

55 Graham plc has budgeted sales of its dog biscuits for 20X8 at 36,000,000 units.

At the end of the production process for biscuits, 20% of production units are scrapped as they do not pass the quality control testing.

Opening inventories of biscuits on 1 January 20X8 are 830,000 units and closing inventories on 31 December 20X8 will be 1,200,000 units. All inventories of finished goods must have successfully passed the quality control check.

The production budget for biscuits for 20X8, in units, is:

A 27,277,500

B 36,370,000

C 43,200,000

D 45,462,500

56 At the beginning of February, a company has an opening balance of £600,000 on its receivables ledger. Sales of £960,000 have been budgeted for February and 60% of these are for cash for which a cash discount of 3% can be taken.

If 32% of the opening receivables are still outstanding at the end of February, what will be the budgeted receivables figure at that date?

A £576,000

B £556,800

C £499,200

D £667,200

57 Which of the following actions is appropriate if a short-term cash surplus is identified in the cash budget?

A Replace or update non-current assets

B Increase inventories to improve customer service

C Encourage credit customers to pay sooner

D Redeem the company's debentures

58 Arcane plc is considering increasing the period of credit allowed to customers to 40 days from the current 30 days. It is anticipated that allowing extended credit would increase sales by 20%, while pre-interest profit margins would be unchanged.

Annual sales are currently £600,000 and annual pre-interest profits are £50,000.

Working capital is financed using an overdraft costing 8% per annum.

Assuming that there is no change in the absolute level of inventory or accounts payable and a 360 day year, what is the total financial effect of the proposal on net profit?

A Increase of £10,000

B Increase of £7,600

C Increase of £8,667

D Reduction of £10,000

59 A company with a positive cash balance sells damaged inventory for cash to a customer, at a selling price that is below the cost of the inventory items.

How will this transaction affect the company's current ratio and its quick (liquidity) ratio immediately after the transaction?

	Quick (liquidity) ratio	**Current ratio**
A	Stay the same	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

60 The following information relates to a XCD plc:

Debt collection period	8 weeks
Raw material inventory holding period	5 weeks
Suppliers' credit period	7 weeks
Production period	2 weeks
Finished goods inventory holding period	5 weeks

What is the cash operating (working capital) cycle of the business?

A 6 weeks

B 13 weeks

C 20 weeks

D 27 weeks

61 Which of the following statements about management control reports is incorrect?

A Reports should be completely accurate before they are issued

B Reports should be as accurate as possible when they are issued

C Reports would be more useful if they were to include information about uncontrollable items

D Based on the information contained in reports, managers may decide to do nothing

62 A company is considering an investment that will increase its annual profit by £12,500. The investment will require working capital to increase by £100,000. The company currently earns a return on investment (ROI) of 10%. The company is part of an international group and its parent company has a target ROI of 12% and the cost of capital is 13%.

Would the performance measures of ROI and residual income (RI) motivate the manager of the company to act in the interest of the group as a whole?

	ROI	**RI**
A	Yes	No
B	Yes	Yes
C	No	No
D	No	Yes

63 Omega Division currently earns an average return on investment (ROI) of 22% from a number of projects. The division's target ROI is 20% and the cost of capital is 15%.

Which of the following statements is correct?

A The division's residual income can be increased by discontinuing a project that currently earns a ROI of 16%

B The division's average ROI can be increased by discontinuing a project that currently earns a ROI of 20%

C The division's average ROI can be increased by investing in a project earning a ROI of 22%

D The division's residual income can be increased by investing in a project earning a ROI of 15%

64 Which of the following statements regarding budgets is correct?

A A company must involve all its managers before setting its budget

B A fixed budget may be useful for control purposes where activity levels are not prone to change

C Managers do not need to know which costs are fixed and which are variable when setting budgets

D Budgetary control procedures are only useful in monitoring sales and contribution and are not relevant to maintain control over a company's expenditure

65 Peanut plc (Peanut) is a food manufacturing company. In January it used 22,000 litres of material at a total standard cost of £154,000. The material usage variance was £4,200 favourable.

Calculate the standard allowed volume of material for the actual production achieved by Peanut in January.

A 33,576 litres

B 33,840 litres

C 21,400 litres

D 22,600 litres

66 Bat plc operates a pest control company and during its first year 10,500 staff hours were worked at a standard cost of £15 per hour. The labour efficiency variance was £4,500 favourable.

How many standard hours should have been worked?

A 300

B 10,200

C 10,500

D 10,800

67 Extracts from a company's records for August are as follows:

	Budget	**Actual**
Production (units)	22,000	23,205
Variable production overhead cost	£440,000	£442,000
Labour hours worked	12,000	11,500

The company's variable production overhead total variance for August is:

A £22,100 (Favourable)

B £42,433 (Favourable)

C £22,100 (Adverse)

D £42,433 (Adverse)

68 Pendrive Ltd is a manufacturer of computer components and its actual output for 20X5 was 33,000 units. Variable overhead costs per unit were in line with Pendrive's budget which included budgeted output of 34,000 units and budgeted variable overhead cost per unit of £12. Pendrive's actual total overhead expenditure in 20X5 was £835,000 and its fixed overheads were £5,000 over budget.

Calculate Pendrive's budgeted level of fixed overheads for 20X5.

A £444,000

B £434,000

C £432,000

D £422,000

69 Assuming unit variable costs and fixed costs are constant, then when a company compares the profits calculated under absorption and marginal costing when inventory levels decrease,

A absorption costing profits will be lower and closing inventory valuations lower than those under marginal costing

B absorption costing profits will be lower and closing inventory valuations higher than those under marginal costing

C absorption costing profits will be higher and closing inventory valuations higher than those under marginal costing

D absorption costing profits will be higher and closing inventory valuations lower than those under marginal costing

70 Jointpain Ltd (Jointpain) manufactures herbal remedies and its budgeted sales revenue for December is £67,002 with a standard selling price of £1.50 per unit and a standard variable cost per unit of £0.80. Actual sales for the period were 53,310 units, generating sales revenue of £85,296 and a contribution of £47,979.

Which of the following shows the correct combination of the favourable sales volume and sales price variances?

	Sales volume variance	**Sales price variance**
A	£7,778	£5,331
B	£7,778	£18,294
C	£6,049	£18,294
D	£6,049	£5,331

71 A manufacturer of light fittings produces a single product and in doing so incurs fixed costs of £38,250 per month. The variable cost per light fitting is £23 and each unit sells for £33. The monthly sales demand is 5,600 light fittings.

The number of light fittings to be sold to break even each month is:

A 3,825

B 1,775

C 1,663

D 1,159

72 The margin of safety is best described by which of the following?

A The difference in actual unit selling price and budget unit selling price

B The difference in units between the actual number of units sold and the budgeted number of units to be sold

C The difference in units between the actual number of units sold and the breakeven number of units to be sold

D The difference in units between the budgetted or expected number of units sold and the breakeven number of units to be sold

73 Laptop Ltd (Laptop) manufactures portable computers with standard cost details per computer as follows.

	£
Variable material (£14/kg)	28
Variable skilled labour (£12/hour)	15
Production overhead	25
Total production cost	68

Laptop sells all the computers it produces and holds no inventories.

Demand for next year will be 2,000 computers. Laptop's director of operations has ascertained that skilled labour will be restricted to 2,500 hours. Laptop's procurement director has only been able to locate 3,000 kg of the right quality of raw material.

What will be the limiting factor next period?

A Sales demand only

B Material only

C Labour only

D Sales demand and labour

74 Net plc (Net) has decided to start using limiting factor analysis in order to calculate maximum profit.

Net's accountant has been asked which of the following statements concerning limiting factor analysis is most likely incorrect?

A Fixed costs per unit are changed by increases or decreases in production volume

B Contribution per unit remains constant despite changes in production volumes

C Variable costs per unit are not changed by increases or decreases in production volume

D Total costs are not changed by increases or decreases in production volume

75 Which of the following is not an advantage of using discounted cash flows (DCF) as a method of investment appraisal?

A DCF uses all the cash flows relating to an investment project

B DCF is simple to calculate

C DCF quantifies the effect of the timing of cash flows through the investment

D There are generally accepted methods for calculating net present values and internal rates of return

76 Heavyengineering Ltd (HEL) is considering investing in a new manufacturing facility at a budgeted cost of £45 million, including land, buildings, plant and machinery. The board of HEL are confident that the new facility will generate the following positive cash flows in years 2 to 4 and the facility will be sold at the end of year 5 generating a further £40 million.

Year	**Cash flow**
	£
2	5 million
3	20 million
4	15 million

The net present value of the cash flows, at a cost of capital of 12%, is:

A (£0.3m)

B £0.3m

C £5.45m

D £11.1m

77 A company is considering a new project that will require an initial investment of £525,000. The project will generate equal annual inflows of £52,500 in perpetuity with the first inflow from the investment a year after the initial investment.

What is the internal rate of return (IRR) of the project?

A 1000%

B 900%

C 11%

D 10%

78 Buytolet Ltd (Buytolet) intends to purchase a new investment property at a cost of £75,000. A new tenant will take up occupation in the property under a ten-year lease and under the terms of the lease will pay an initial rent of £8,500 pa for a five-year period increasing to £17,000 pa for a further five years. Rents are to be paid annually in advance at the start of each of year.

At the end of year 10 the directors of Buytolet believe they could then sell the property for the initial purchase price.

Calculate the discounted payback period of the investment using a cost of capital of 10%.

A 6.9 years

B 8.4 years

C 9.3 years

D 10 years

79 Sweepit plc has invested in a project that has an initial outflow followed by several years of inflows.

What would be the effects on the internal rate of return (IRR) of the project and its discounted payback period (DPP) of an increase in the company's cost of capital?

	IRR	DPP
A	Increase	Decrease
B	No change	Increase
C	Increase	Increase
D	No change	Decrease

80 A company has the opportunity to make an investment that has a net present value (NPV) of £15,000 at 5% and a NPV of (£15,000) at 10%. The company currently achieves an average internal rate of return (IRR) on all its other projects of 7.5%.

If the company were to take on the new investment what would be the effect on the average IRR?

A A small increase

B No change

C A small decrease

D A large decrease

ITEM 80 COMPLETES THIS TEST