Certificate Level Examination

June 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

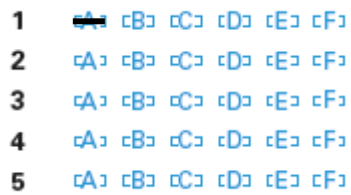
1. Record your responses only on the answer sheet provided.

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. According to the IASB's *Conceptual Framework*, if different users could reach a consensus that information provided about a financial transaction or item is a faithful representation, this means that the information is

A Comparable

B Relevant

C Understandable

D Verifiable

2. Which of the following statements are considered to be advantages of a principles based system of ethics?

(1) The system allows for variations which are found in different situations
(2) The system can accommodate a rapidly changing environment
(3) The system provides a checklist of forbidden items
(4) The system requires the preparers of financial statements to follow the spirit of the guidance

A (1) and (4)

B (2) and (4)

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

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

3. The IASB's *Conceptual Framework* states that the elements of financial statements comprise

A assets, liabilities, income and expenses

B assets, liabilities, profits and losses

C assets, liabilities, income, expenses and equity

D assets, liabilities, profits, losses and equity

4. In which book of original entry is VAT on credit purchases recorded?

A Sales day book

B Purchases day book

C Cash book

D Journal

5. At 1 March the VAT account in Hicken's nominal ledger has a credit balance of £47,567. Output VAT of £146,080 and input VAT of £139,028 are posted to the account in the month of March.

What amount is owing to or due from HMRC at 31 March?

A £54,619 owing to HMRC

B £54, 619 due from HMRC

C £40,515 owing to HMRC

D £40,515 due from HMRC

6. At 31 May Hugh ltd had petty cash on hand of £48.76, while the balance shown by the petty cash book was £54.16. Four potential errors in the petty cash book have been identified:

(1) A voucher for £2.70 has been recorded in the petty cash book but the cash has not yet been paid out
(2) A payment for postage of £2.50 has been incorrectly recorded as £5.20
(3) An amount of £2.70 has been paid out but has not been recorded
(4) A payment for stationery of £6.30 has been incorrectly recorded as £3.60

Which of these errors together explain the difference?

A (1) and (2)

B (2) and (3)

C (1) and (4)

D (3) and (4)

7. Hex plc's gross wages for the month of September total £70,583. In respect of these wages the following amounts were shown in Hex plc's statement of financial position at 30 September:

	£
PAYE payable	9,810
Employees national insurance payable	4,483
Employers national insurance payable	5,170
Employees pension contributions payable	2,665

What is the total wages expense to be included in Hex plc's statement of profit or loss for the month of September?

A £78,418

B £75,753

C £70,583

D £67,918

8. Which of the following items should be treated as revenue expenditure in an entity's financial statements?

(1) Legal fees in connection with the purchase of a machine
(2) Transportation costs of the machine from the suppliers premises to the entity's factory
(3) Costs of installing the machine
(4) Repairs to the machine

A (2) and (4)

B (4) only

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

D All of them

9. Bamber plc takes up cash discounts of £136 offered by its suppliers and posts these correctly to the payables control account. It posts them to the wrong side of the appropriate discounts account. The company's trial balance will show

A Total debits exceeding total credits by £136

B Total credits exceeding total debits by £136

C Total debits exceeding total credits by £272

D Total credits exceeding total debits by £272

10. Grueby plc has drawn up its trial balance in which credit balances exceed debit balances by £3,562.

Which of the following errors would, alone, explain the imbalance?

A A payment of £3,562 for new doors has been posted to maintenance expenses

B The sales day book has been undercast by £1,781

C A total for payments in the cash book of £1,781 has been posted to the wrong side of the payables control account

D Discounts allowed of £3,562 has been posted to the credit side of the discounts received account

11. Creakle plc's financial year ends on 31 May and it adopts the FIFO method of inventory usage and valuation. At 1 June 20X8 it held 3,200 units of material ZY321 in its inventories, which were valued at their purchase price of £35.70 each. During the year ended 31 May 20X9 it sold 7,290 units and made the following purchases:

25 August 20X8	5,340 units at £39.20 each
15 February	6,150 units at £43.40 each

What was the value of Creakle plc's closing inventory of material ZY321 at 31 May 20X9?

A £290,080

B £278,880

C £321,160

D £315,910

12. The following are extracts from the financial statements of Dizzy Mills at 31 December 20X8:

	20X8	**20X7**
	£	**£**
Non-current assets	181,000	156,000
Current assets	79,000	62,000
Liabilities	103,000	91,000

During the year ended 31 December 20X8, the proprietor withdrew £46,000 from the business and paid for a family holiday costing £13,000 using the business bank account.

What was the net profit made by Dizzy Mills for the year ended 31 December 20X8?

A £89,000

B £29,000

C £113,000

D £76,000

13. Tisher plc, a supermarket, is preparing its financial statements at 30 April 20X7. Its distribution costs include rent payable on its distribution centre. The rent has been £107,200 for several years, but on 1 October 20X6 the company was informed of a rise to £124,000 per annum with immediate effect. The company has not as yet increased its monthly standing order payment.

At 30 April 20X7 Tisher plc should enter a journal

A Debit Accruals £8,400; Credit Distribution costs £8,400

B Debit Distribution costs £8,400; Credit Accruals £8,400

C Debit Accruals £9,800; Credit Distribution costs £9,800

D Debit Distribution costs £9,800; Credit Accruals £9,800

14. The total of the balances in Longford plc's payables ledger at the year end is £148,974. This does not agree with the balance on the payables ledger control account. The following errors are discovered:

(1) A debit balance of £684 on the payables ledger was listed as a credit balance

(2) One month's purchases totalling £108,273 had been incorrectly posted from the purchases day book as £102,873

When these errors are corrected, the difference between the payables ledger balances and the control account is eliminated.

What was the balance on Longford plc's payables ledger control account before these errors are corrected?

A £142,206

B £144,942

C £153,006

D £155,742

15. On review of its receivables and payables ledgers at its financial year end, Boxall plc has identified the following two items which have not yet been accounted for:

(1) The credit balance of £370 in Gough's payables ledger account had been set off against her account in the receivables ledger, but no entries had been made in the receivables and payables control accounts.

(2) Bryer's account balance of £260 was irrecoverable and had been removed from the receivables ledger, but no entry had been made in the nominal ledger.

What journal entry will account for both of these adjustments?

A Debit Receivables control £630; Credit Irrecoverable debts expense £260; Credit Payables control £370

B Debit Payables control £370; Debit Irrecoverable debts expense £260; Credit Receivables control £630

C Debit Receivables control £370: Debit Irrecoverable debts expense £260; Credit Payables control £630

D Debit Payables control £630; Credit Irrecoverable debts expense £260; Credit Receivables control £370

16. The bookkeeper of Harmon plc has incorrectly recorded a cheque for £20,700, paid for the purchase of a non-current asset, by making two debit entries: one to the non-current asset account and one to the bank account. As a result the trial balance does not balance and a suspense account has been opened.

The entry that needs to be made in the suspense account is

A £20,700 debit

B £41,400 debit

C £20,700 credit

D £41,400 credit

17. The total of the list of Kedgick plc's receivables at 31 March 20X4 exceeds its receivables ledger control account balance at that date by £1,188. The company discovers that in October 20X3 it sold goods worth £1,645 to Perker plc, but by December 20X3 no payment had been received for the goods. Perker plc admitted to financial difficulties but agreed to pay the debt in five equal monthly instalments. By 31 March 20X4 three instalments had been received and correctly recorded in the control account. As the payments did not match with any invoice, they were not recorded in the receivables ledger.

Once this error is corrected, the remaining difference to be reconciled will be

A £201

B £530

C £658

D £987

18. Barbary plc has already entered its initial trial balance at 30 April 20X6 on its extended trial balance. The trial balance includes a suspense account. On investigation the following two errors are discovered:

(1) On 1 December 20X5 Barbary plc took out a loan for £150,000 with interest payable monthly at 6% per annum. Interest has been paid as due and posted only to the cash amount.

(2) During the year ended 30 April 20X6 Barbary plc received £2,534 in respect of a debt that had been written off in the year ended 30 April 20X5. The item has been posted only to the cash account.

The balance on the suspense account at 30 April 20X6 before any corrections are made is

A £1,216 debit

B £1,216 credit

C £6,284 debit

D £6,284 credit

19. Chowser plc has prepared financial statements at 30 June 20X2 which shows a suspense account with a £932 credit balance. The following errors have now been discovered:

(1) Sales of £14,730 were correctly recorded in the receivables control account but were recorded at £14,370 in the revenue account

(2) A discount allowed of £286 was debited to both the receivables control account and the discount allowed account

What effect will correction of these errors have on Chowser plc's draft net profit?

A Decrease by £932

B Decrease by £572

C Increase by £360

D Increase by £932

20. Dawkins plc has a cash book balance of £3,861 when it received its year-end bank statement. The bank statement included interest received of £81 which had not previously been recorded in the cash book, and omitted cheques for £595 that had been recorded and sent to suppliers on the last day of the reporting period.

What was the balance on Dawkins plc's bank statement?

A £3,185

B £3,347

C £4,375

D £4,537

21. Hawk plc's extended trial balance for the year ended 31 May 20X7 has been prepared. It includes a suspense account. It is discovered that the insurance expense prepayment of £3,296 has been debited to the insurance expense account, and no other entry has been made for this item.

What journal entry is required to correct the financial statements?

A Debit Prepayments £3,296; Credit Suspense £3,296

B Debit Suspense £3,296; Credit Insurance expense £3,296

C Debit Prepayments £3,296; Debit Suspense £3,296; Credit Insurance expense £6,592

D Debit Suspense £6,592; Credit Insurance expense £6,592

22. Hubble plc has drawn up draft financial statements at 28 February 20X1 which show a draft net profit of £452,930. The following errors have now been discovered:

(1) Maintenance expenditure of £4,200 incurred on 1 September 20X0 was debited to plant and machinery. Hubble plc depreciates its plant and machinery at 20% per annum on the straight-line basis.

(2) Discounts received of £1,445 have been credited to trade payables and the discounts received account.

Once these errors are corrected Hubble plc's net profit will be

A £449,570

B £449,150

C £448,730

D £446,240

23. Lizzie is a sole trader who marks up the goods she sells on average by 40%. During the year ended 31 March 20X5 Lizzie took some goods from stock for her own use. These goods would normally have sold for £490.

Which of the following journal entries should Lizzie make to record this transaction?

A Debit Drawings £490; Credit Sales £490

B Debit Drawings £294; Credit Purchases £294

C Debit Drawings £350; Credit Purchases £350

D Debit Drawings £350; Credit Sales £350

24. In preparing its financial statements for the current year, a company's closing inventory was overstated by £180,000.

What will be the effect of this error if it remains uncorrected?

A The current year's profit will be overstated by £180,000 and next year's profit will be understated by £180,000

B The current year's profit will be overstated by £180,000 and there will be no effect on next year's profit

C The current year's profit will be understated by £180,000 and next year's profit will be overstated by £180,000

D The current year's profit will be understated by £180,000 and there will be no effect on next year's profit

25. Whilst preparing its receivables control account reconciliation at its financial year end of 31 December 20X8, Maylie plc discovers the following errors:

(1) A cheque from credit customer Avon for £1,306 was recorded in the cash book as £1,036.

(2) An amount of £184 due from credit customer Trent which is deemed to be irrecoverable was correctly posted to the irrecoverable debts account, but posted to the receivables control account as £814.

To correct these errors Maylie plc should

A Debit Receivables £900: Credit Bank £270; Credit Suspense £630

B Debit Bank £270; Debit Suspense £630; Credit Receivables £900

C Debit Bank £270; Debit Receivables £360; Credit Suspense £630

D Debit Suspense £630; Credit Bank £270; Credit Receivables £360

26. Joe and Suzanne are in partnership sharing profits and losses in the ratio 4:3.

Suzanne is entitled to a salary of £7,000. Both partners are entitled to 10% interest on their fixed capital accounts, which throughout 20X4 were £21,000 each. The balances on their current accounts at 1 January 20X4 were £270 debit for Joe and £1,600 credit for Suzanne. The income statement columns on the extended trial balance include a debit entry of £98,812 for the net profit/loss for the year 20X4.

In the balance sheet columns of the extended trial balance, what will be the balance on Suzanne's current account?

A £48,248 credit

B £48,448 credit

C £50,548 credit

D £51,448 credit

27. Numan Ltd has had financial problems and is planning to cease trading on 30 June 20X7. Numan Ltd owns a building that it purchased for £500,000 on 1 July 20X2, and that it estimated had a 20 year useful life and a residual value of £40,000. Numan Ltd estimates it could sell the building for £334,000. An identical building was recently purchased near Numan Ltd's premises for £391,000.

At what value should the building be measured in Numan ltd's statement of financial position at 30 June 20X7?

A £385,000

B £334,000

C £391,000

D £375,000

28. On 1 January 20X0 Drood plc purchased a lorry for £103,800. The lorry was originally depreciated straight-line over its useful life of six years with a residual value of £5,100. On 30 June 20X2 the company carried out an impairment review of its non-current assets and decided that, at that date, it should have a new value of £50,000. The remaining useful life of the lorry was revised to two years from 30 June 20X2 with a revised residual value of £8,000.

What figures will appear in Drood plc's statement of profit or loss for the year ended 31 December 20X2?

A Impairment loss £20,900; Depreciation expense £21,000

B Impairment loss £20,900; Depreciation expense £18,725

C Impairment loss £12,675; Depreciation expense £18,725

D Impairment loss £12,675; Depreciation expense £29,225

29. Bubbles Ltd has the following trading information for January 20X2:

	£
Revenues	741,000
Inventories 1 January	79,000
Purchases for resale	283,000
Carriage inwards	16,000
Inventories 31 January	86,000
Discounts received	11,000
Marketing costs	57,000

What is Bubbles Ltd's gross profit for January 20X2?

A £460,000

B £392,000

C £449,000

D £465,000

30. Civil plc has plant and machinery at 1 January 20X4 that cost £760,000 and had accumulated depreciation of £194,000. On 1 January 20X4 a machine that originally cost £80,000 on 1 January 20X1 was destroyed in a fire. Plant and machinery is depreciated at 20% per annum on a reducing balance basis.

What is the depreciation charge in the statement of profit or loss for the year ended 31 December 20X4?

A £105,008

B £113,200

C £121,392

D £106,800

31. Wardour Ltd purchased a motor vehicle on 1 July 20X2 for £64,000. Depreciation is charged at 25% per annum on a straight line basis. On 1 January 20X5 Wardour Ltd acquired a new vehicle, which has a list price of £70,000, by trading in the old vehicle and paying cash of £49,000.

What was the profit or loss on disposal of the original motor vehicle which would be included in the statement of profit or loss for the year ended 30 June 20X5?

A £3,000 profit

B £3,000 loss

C £5,000 loss

D £5,000 profit

32. Tolhurst Ltd has an accrual for telephone expenses of £31,500 at 31 December 20X7. The company pays a standing order of £28,000 per month to the telephone company. Due to a bank error, the payment for November 20X8 was paid twice. In January 20X9 Tolhurst Ltd receives a statement from the telephone company to say that there was an amount due for telephone costs at 31 December 20X8 of £11,200.

What is the total telephone expense in the statement of profit or loss for Tolhurst Ltd for the year ended 31 December 20X8?

A £356,300

B £384,300

C £343,700

D £364,000

33. Cocteau plc has just prepared its draft financial statements revealing a gross profit of £681,000. The company subsequently discovers that some of the closing inventories of grain, which have a cost of £67,800, have been contaminated. It usually sells grain at cost plus 30%. A customer has agreed to buy the contaminated grain for half the usual selling price.

What is Cocteau plc's revised gross profit figure?

A £660,660

B £704,730

C £636,930

D £657,270

34. At 31 March 20X4 Marr plc has the following nominal ledger account balances:

Irrecoverable debts expense £18,930
Allowance for receivables £24,600

Marr plc subsequently discovers the following in relation to two customers:

(1) Morrissey, who had previously had a debt of £5,900 written off, paid the outstanding amount.

(2) Rourke, who owed Marr plc £4,360, and whose debt was included in the allowance for receivables, was declared bankrupt with no assets to pay creditors.

What will be the revised figures for irrecoverable debts expense and allowance for receivables in Marr plc's financial statements at 31 March 20X4 after taking into account the above information?

A Irrecoverable debts expenses £24,830
Allowance for receivables £20,240

B Irrecoverable debts expense £23,290
Allowance for receivables £20,240

C Irrecoverable debts expense £23,290
Allowance for receivables £26,140

D Irrecoverable debts expense £24,830
Allowance for receivables £26,140

35. Hook plc issued £2 million 6% debentures on 1 February 20X3 on which interest is payable on 31 July and 31 January each year. On 1 October 20X3 Hook plc redeemed £400,000 of these debentures.

What is the interest expense shown in Hook plc's statement of profit or loss for the year ended 31 December 20X3?

A £96,000

B £88,000

C £114,000

D £104,000

36. Chambers plc had a trial balance with the following totals at 31 March 20X7:

Tax expense £110,700
Tax payable £21,460

The balance on the tax payable account was due to an overestimate of tax for the year ended 31 March 20X6. The balance on the tax expense account represents tax payments on account for the year ended 31 March 20X7.

At 31 March 20X7 Chambers plc estimates its total tax charge for the year ended 31 March 20X7 as £139,200.

What will be Chambers plc's statement of profit or loss account income tax charge and statement of financial position tax balance at 31 March 20X7?

A Income tax charge £117,740; Tax payable £28,500

B Income tax charge £117,740; Tax receivable £28,500

C Income tax charge £160,660; Tax payable £28,500

D Income tax charge £160,660; Tax receivable £28,500

37. Drampress Ltd is a magazine publisher. At 1 January 20X3 it has received subscriptions in advance from customers of £46,800. During 20X3 Drampress Ltd sells 19,800 subscriptions to customers at an average selling price of £30 each. At 31 December 20X3 there are subscriptions paid for in advance by customers totalling £51,700.

How much should be shown as revenue in the statement of profit or loss for Drampress Ltd for the year ended 31 December 20X3 and what should appear in the company's statement of financial position at 31 December 20X3?

A Revenue £589,100; Statement of financial position asset £51,700

B Revenue £598,900; Statement of financial position asset £51,700

C Revenue £598,900; Statement of financial position liability £51,700

D Revenue £589,100; Statement of financial position liability £51,700

38. At 31 March 20X4 the equity section of Sumner plc's statement of financial position showed the following totals:

Share capital (£1 equity shares) £200,000
Retained earnings £842,300

In the year ended 31 March 20X5 Sumner plc made profits after tax of £341,600. The company also made a bonus issue of two new shares for every share in issue, and paid dividends of £90,000.

What were the balances for share capital and retained earnings in Sumner plc's financial statements at 31 March 20X5?

A Share capital £600,000; Retained earnings £1,093,900

B Share capital £600,000; Retained earnings £693,900

C Share capital £300,000; Retained earnings £993,900

D Share capital £300,000; Retained earnings £693,900

39. The following balances are included in Vanian plc's statement of financial position at 31 March 20X5 and 20X4:

	20X5	**20X4**
	£	**£**
Current assets		
Inventories	62,350	49,750
Trade receivables	81,900	84,600
Current liabilities		
Trade payables	47,770	54,890

Vanian plc has neither bank overdraft nor long-term borrowings, and its profit before tax for the year ended 31 March 20X5 was £84,000. Depreciation expense for this year was £31,800 and the company sold a non-current asset which gave rise to a loss on sale of £3,700.

In the company's statement of cash flows for the year ended 31 March 20X5 what figure would be shown as cash generated from operations?

A £95,080

B £116,720

C £111,320

D £102,480

40. Which of the following statements about a statement of cash flows is/are correct?

(1) Tax paid will be included as a financing activity
(2) The gain on sale of an asset will appear as an inflow under investing activities
(3) The issue of debentures will appear as an inflow under financing activities
(4) A decrease in inventories will be deducted in the reconciliation of profit before tax to cash generated from operations

A (1) and (3)

B (3) only

C (2) and (4)

D (3) and (4)

41 Which of the following cost items would **NOT** be the concern of the supervisor in a manufacturing department?

A Material costs

B Labour idle time

C Dividend payments

D Labour costs

42 A factory's electricity bill consists of two parts: a standing charge of £240 per annum for the electric meter and a unit charge of £0.17 per unit of electricity used.

Which of the following equations correctly describes the total monthly cost of electricity, E, if the factory uses U units of electricity in a month?

A $E = 240 + 0.17U$

B $E = 240 + 0.17U/12$

C $E = 20 + 0.17U/12$

D $E = 20 + 0.17U$

43 A company uses an average price system for managing inventory where it is required to keep prices up to date.

In which of the following situations is it necessary to recalculate the average price of the inventory?

(i) Each time an issue is made
(ii) Each time excess material is returned from the factory floor to the stores
(iii) Each time a purchase is made
(iv) Each time an item is transferred into inventory from work in progress

A (ii) and (iv) only

B (i) only

C (i) and (iii) only

D (ii), (iii) and (iv) only

44 A wholesaler buys and resells a range of car accessories, one of which is a Hubcap. Each Hubcap is resold for £15 per unit and opening inventory for July was 100 units valued at £9 per unit. The wholesaler purchased a further 50 units on 10 July for £10 per unit, and sold 140 units on 20 July.

What gross profit would be recorded for the sale of Hubcaps during July, using the FIFO method of inventory valuation?

A £700

B £800

C £840

D £1,300

45 A company manufactures three products in its factory and data for January is as follows:

	Quantity (units)	**Labour hours per unit**
Product Alpha	100	3
Product Beta	300	5
Product Gamma	200	4
Total	600	

The company's overheads for the period are £52,000 and they are absorbed on the basis of labour hours.

What is the fixed overhead cost absorbed by a unit of Product Gamma?

A £100

B £80

C £60

D £20

46 Which of the following is/are typical aspects of a just-in-time (JIT) system for operating raw material inventory?

(i) The use of large infrequent deliveries of raw materials
(ii) Small production batches run on a frequent basis
(iii) High levels of raw material inventory
(iv) Low levels of raw material inventory

A (iii) only

B (iv) only

C (i) and (iii) only

D (ii) and (iv) only

47 A retail company sets it selling prices by adding a mark-up of 40% to the variable cost per unit.

The directors of the company believe that if the selling prices are increased by 10%, the quantity sold each period is expected to reduce by 20% but the variable cost per unit will remain unchanged.

Which of the following statements are correct?

(i) The sales revenue will increase
(ii) The sales revenue will decrease
(iii) The total contribution will decrease
(iv) The total contribution will increase

A (i) and (iv) only

B (ii) and (iii) only

C (i) and (iii) only

D (ii) and (iv) only

48 A garage workshop calculates the prices of repairs by adding overheads to the prime cost and then adding 20% to total costs as a profit mark up. The repair of a Ford car was charged out at £300 and incurred overheads of £40.

What was the prime cost of the repair?

A £200

B £210

C £250

D £260

49 A food ingredients company manufactures Product F at a total cost of £25 per kg. Product F is sold to external customers in a perfectly competitive market at a price of £32 per kg, which represents a mark-up of 60% on variable cost.

The company also transfers Product F to its restaurant division. For internal transfers the company does not incur variable selling costs which amount to 10% of the total variable cost.

Assuming that the total demand for Product F exceeds the manufacturing capacity, calculate the optimum transfer price per kg to the restaurant division.

A £32.00

B £30.72

C £30.00

D £29.50

50 John is responsible for analysing total monthly costs in the manufacturing division where he works. John's line manager has asked him to carry forward certain costs to the next period to make the division's performance look better at head office. The line manager has indicated he would give John a poor yearly appraisal if he doesn't do this.

What threat does this represent?

A Intimidation

B Familiarity

C Advocacy

D Self-interest

51 The following data have been extracted from the budget of a manufacturing company.

Production volume	5,000	10,000
	£/unit	**£/unit**
Variable materials	8.50	8.50
Variable labour	14.50	14.50
Production overhead	14.50	12.50

The total fixed cost and variable cost per unit is:

	Total fixed cost £	**Variable cost per unit £**
A	20,000	23.00
B	72,500	23.00
C	20,000	33.50
D	72,500	33.50

52 A company's monthly costs (£C) were plotted against production levels (P) for the last year and a regression line calculated to be C = 355 + 255P.

Which of the following statements about the breakdown of monthly costs is true?

A Fixed costs are £255. Variable costs per unit are £3.55

B Fixed costs are £355. Variable costs per unit are £2.55

C Fixed costs are £355. Variable costs per unit are £255

D Fixed costs are £255. Variable costs per unit are £355

53 Which of the following is a step in the preparation of a budget?

A Arrange working capital facilities

B Identify the principal budget factor

C Agree the organisation's reporting structure

D Agree the product distribution channels

54 Which of the following is a characteristic of rolling budgets?

A Each item of expenditure has to be justified in its entirety in order to be included in the next budget

B Budgets are re-assessed every 12 months

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

D The budget is approved by the board each year

55 A service company has annual sales of £3.2 million and a gross profit margin of 15%. The company has no inventory. The company is currently experiencing short-term cash flow difficulties and the accountant has decided to delay its payments to trade suppliers by one month.

Calculate the amount by which the cash balance will benefit in the short term from this change in policy, assuming sales are spread evenly over the year. Round your answer to the nearest £.

A £206,227

B £226,667

C £231,884

D £266,667

56 Which of the following statements concerning incremental budgeting is true?

A It is time consuming because it involves starting each budget from scratch

B It does not allow any slack

C It includes past inefficiencies in cost levels

D It is the same as zero-based budgeting

57 Using the following extracts from a company's balance sheet, calculate the current ratio:

	£'000
Non-current assets	425
Inventories	85
Receivables	120
Cash in hand	22
Trade payables	(220)
Other short-term payables	(150)
Loan repayable in three years	(145)

A 0.44

B 0.55

C 0.61

D 1.27

58 Which of the following does not normally form part of a company's master budget?

A A budgeted balance sheet

B A summary of key financial ratios

C A budgeted income statement

D A cash budget

59 A manufacturing company has budgeted the following figures for the coming year:

Sales	£3,250,000
Gross margin	40%
Average trade receivables	£195,000

The company's inventory levels are budgeted to remain constant throughout the year.

To the nearest day, the company's receivables collection period is budgeted to be:

(Use 365 days for a year)

A 13 days

B 22 days

C 33 days

D 37 days

60 A company wishes to improve its operational cash flows. You have been provided with the following data:

Trade receivables – £300,000, representing 30 days sales
Inventory - £240,000, representing 36 days sales
Trade payables - £240,000, representing 24 days purchases

The accountant has suggested increasing trade payables by 6 days (to 30 days), reducing inventory by 6 days (to 30 days) but no adjustment is proposed to trade receivables.

Calculate the anticipated benefit to working capital if these changes are implemented.

A £100,000

B £80,000

C £40,000

D £20,000

61 Which of the following is an example of budget bias?

A A manager uses her best estimate of likely costs when setting the budget

B A manager consults with her team to try to establish an appropriate production volume target

C A manager's marketing budget is disproportionately large in comparison with the budgeted revenue to be generated

D A manager underestimates revenues when setting the budget to ensure that the budget target can be easily exceeded

62 Division R is considering a project that will increase annual profit by £75,000 but will require the average working capital investment to increase by £500,000. The division currently earns a return on investment (ROI) of 17%. The Group's target ROI is 11% and the imputed interest cost of capital is 13%.

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

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

63 Division A currently earns a return on investment (ROI) of 17%. The company's target ROI is 14% and the imputed interest cost of capital is 13%.

Which of the following statements is correct?

A The division ROI can be increased by discontinuing a project that currently earns an annual return of 18%

B The division residual income can be increased by discontinuing a project that currently earns an annual return of 15%

C The division residual income can be increased by investing in a project earning an annual return of 16%

D The division ROI can be increased by investing in a project earning an annual return of 16%

64 Which of the following is a feature of effective feedback reports?

A Distributed to everyone in the company

B Contain at least thirty pages of information

C Produced on a six-monthly basis

D Sufficiently accurate for the purpose intended

65 Ahab Ltd is a manufacturing company. In June Ahab used 33,840 kg of material at a total standard cost of £245,340. The material usage variance was £1,914 adverse.

Calculate the standard allowed weight of material for the actual production achieved by Ahab in June.

A 33,576 kg

B 33,840 kg

C 34,104 kg

D 31,926 kg

66 Wanru plc operates a cleaning company and during its first quarter 7,700 staff hours were worked at a standard cost of £12.50 per hour. The labour efficiency variance was £22,800 adverse.

How many standard hours should have been worked?

A 9,524

B 7,700

C 5,876

D 1,824

67 Enro's actual output for the period was 52,600 units and variable overhead costs per unit were in line with budget. The budgeted output was 54,000 units and the budgeted variable overhead cost per unit was £4.50. The actual total overhead expenditure of £269,200 meant that fixed overheads were £29,200 under budget.

What was the budgeted level of fixed overheads for the period?

A £61,700

B £55,400

C £32,500

D £3,300

68 Extracts from Elpice plc's records for November are as follows

	Budget	**Actual**
Production	1,344 units	1,248 units
Variable production overhead cost	£7,392	£7,677
Labour hours worked	3,744	5,376

The variable production overhead total variance for November is:

A £813 (A)

B £813 (F)

C £285 (A)

D £285 (F)

69 The following information relates to product Gregr.

	Standard		Actual	
	£ per unit	**£ per unit**	**£ per unit**	**£ per unit**
Selling price		52		58
Variable material and labour	12		10	
Variable overhead	4		6	
		16		16
		36		42

Budgeted sales volume for the latest period was 1,870 units. The actual sales volume achieved was 2,000 units.

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

	Sales volume variance	**Sales price variance**
A	£4,680	£12,000
B	£4,680	£11,220
C	£5,460	£12,000
D	£6,760	£11,220

70 When comparing the profits reported under marginal and absorption costing when the levels of inventories increased, and assuming that unit variable costs and fixed costs are constant;

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

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

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

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

71 The contribution per unit required to breakeven is best given by which of the following?

A (Unit selling price less unit variable cost) × number of units sold

B Total fixed costs / number of units sold

C Total fixed costs

D Unit contribution × number of units sold

72 Desret plc makes a single product and incurs fixed costs of £250,000 per month. Variable cost per unit is £110 and each unit sells for £210. Monthly sales demand is 6,000 units.

The breakeven point in terms of monthly sales is:

A 3,500 units

B 2,500 units

C 2,273 units

D 1,190 units

73 When using limiting factor analysis in order to calculate maximum profit, which of the following assumptions should be made?

A Fixed costs per unit are not changed by increases or decreases in production volume

B Contribution in total is not changed by increases or decreases in production volume

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

74 Preacher Ltd is a manufacturing company that makes and sells a single product, for which standard cost details are as follows.

	£ per unit
Variable material (£22 per kg)	880
Variable labour (£9 per hour)	180
Production overhead	120
Total production cost	1,180

Preacher Ltd holds no inventories.

Demand for next year will be 26,000 units but only 500,000 hours of labour and 1,100,000 kg of material will be available.

What will be the limiting factor next period?

A Material only

B Labour only

C Material and labour

D Sales demand

75 Daimer plc is considering investing £450,000 in new plant and machinery that will generate the following positive cash flows.

Year	Cash flow
1	£76,080
2	£429,600
3	£117,360

The Net Present Value of the project's cash flows, at a cost of capital of 18%, is:

A £444,365

B £74,351

C £(4,775)

D £(5,635)

76 Which of the following is an advantage of the payback method of investment appraisal?

A It is useful as an initial screening device

B Investment risk is reduced if the payback period is longer

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

D It takes into account all inflows beyond the payback period

77 Flower Ltd is considering investing in a two-year project. The initial investment in machinery and set-up costs will be £720,000 payable immediately. In addition, working capital of £48,000 is required at the beginning of the contract that will be released at the end of the two years.

Flower has a cost of capital of 15%.

In order for the project to have a positive NPV, what is the minimum acceptable contract price to be received at the end of the contract?

A £720,000

B £731,712

C £967,873

D £1,015,873

78 Susan Ltd wishes to undertake a project requiring an investment of £366,000 that will generate equal annual inflows of £73,200 in perpetuity.

If the first inflow from the investment is a year after the initial investment, what is the IRR of the project?

A 500%

B 400%

C 25%

D 20%

79 A company has invested in a project that has a normal pattern of cash flows (ie 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 a decrease in the company's cost of capital?

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

80 Drogba plc is currently evaluating a project that requires investments of £12,000 now and £4,800 at the end of year 1.

The cash inflow from the project will be £16,800 at the end of year 2 and £14,400 at the end of year 3. The cost of capital is 15%.

Calculate the Payback Period (PP) and the Net Present Value (NPV).

	PP	**NPV**
A	2.0 years	£6,000
B	2.36 years	£4,440
C	2.0 years	£4,440
D	2.36 years	£6,000