ACCA MA Management Accounting

Mock exam: 35 questions in 63 minutes, with an answer key and explanations

How to use this mock

- Set a timer for **63 minutes** and answer every question without notes. Write your answers in the grid on the next page.
- Mark your answers using the answer key, then read the explanation for every question you got wrong or guessed.
- The questions cover every section of the syllabus, in proportion to the GoQualified question bank for MA.
- Prefer to sit it on screen? The **Exam Sim** on **goqualified.co.uk/ma/** times you, marks the paper and shows your weakest section.
- All questions are original GoQualified practice questions, not past exam questions.

Free from GoQualified. Questions start on page 3; the answer key and explanations follow them. Download the latest version from goqualified.co.uk/ma/.

Your answers

1 _____	8 _____	15 _____	22 _____	29 _____
2 _____	9 _____	16 _____	23 _____	30 _____
3 _____	10 _____	17 _____	24 _____	31 _____
4 _____	11 _____	18 _____	25 _____	32 _____
5 _____	12 _____	19 _____	26 _____	33 _____
6 _____	13 _____	20 _____	27 _____	34 _____
7 _____	14 _____	21 _____	28 _____	35 _____

Questions

Question 1

Which of the following best describes a key difference between financial accounting and management accounting?

A Management accounting reports are produced for internal use and are not subject to external regulation
B Financial accounting focuses on future planning while management accounting focuses on historical reporting
C Management accounting is legally required for all limited companies
D Financial accounting reports are prepared only for the tax authorities

Question 2

Which of the following represents a limitation of using spreadsheets as a primary management accounting tool in a large organisation?

A Spreadsheets are prone to manual input errors and version control issues, and do not scale well to complex multi-user environments
B Spreadsheets cannot perform mathematical calculations and are therefore unsuitable for financial analysis
C Spreadsheets automatically update all linked reports when source data changes, creating audit trail problems
D Spreadsheets are only accessible to users with advanced programming knowledge, limiting their usefulness

Question 3

Which of the following best describes the characteristics of strategic information used by senior management?

A Detailed, precise, internally generated, and focused on daily operational activities
B Internally generated from the accounting system and used to produce quarterly management accounts
C Primarily external, often estimated, long-term in focus, and in summary form — providing a broad view of the organisation's competitive position
D Specifically related to direct costs and used to control production efficiency

Question 4

Total costs are £18,000 at 1,500 units and £25,000 at 2,500 units. One supervisor costing £3,000 is needed per 1,000 units of production. What is the variable cost per unit?

A 7.00
B 4.00
C 10.00
D 3.50

Question 5

A time series analysis of quarterly sales shows an underlying upward trend. Quarter 3 consistently shows sales significantly above the trend line. Which component of time series analysis does this quarterly variation represent?

A Cyclical variation — a long-term wave pattern linked to economic cycles
B Random variation — unpredictable fluctuations with no identifiable pattern
C Seasonal variation — a regular, predictable pattern that repeats over a consistent time period
D The underlying trend — the general direction of the time series over the long term

Question 6

The following quarterly sales data is given (£'000): Q1: 120, Q2: 140, Q3: 180, Q4: 160, Q1 next year: 130. What is the 4-point moving average centred on Q3 of the first year?

A 151.25
B 150.00
C 145.00
D 155.00

Question 7

A company spent £240,000 on materials in 2024, when the relevant price index stood at 120. The index is expected to be 150 in 2026. If the quantity of materials used does not change, what will the materials cost be in 2026?

A £192,000
B £312,000
C £360,000
D £300,000

Question 8

A regression analysis produces the equation Y = 50 + 3.5X with a correlation coefficient (r) of 0.92. Which of the following correctly interprets both outputs?

A Y increases by 50 for every unit increase in X; r=0.92 means 92% of variation is explained
B For every unit increase in X, Y increases by 3.5; the correlation coefficient of 0.92 indicates a strong positive linear relationship
C The fixed cost is 3.5 and the variable cost is 50 per unit; r=0.92 is the coefficient of determination
D The regression is perfectly accurate as r=0.92 is close to 1.0

Question 9

A business uses FIFO to value its inventory. Prices have been rising steadily throughout the year. Compared to using the AVCO method, which of the following statements about the effect on reported profit and closing inventory is correct?

A Profit will be lower and closing inventory will be lower under FIFO
B Profit will be higher but closing inventory will be lower under FIFO
C Profit will be higher and closing inventory will be higher under FIFO
D Profit will be lower but closing inventory will be higher under FIFO

Question 10

Demand for a component is constant at 250 units per day and the supplier's lead time is 6 days. The company also holds a buffer inventory of 400 units. At what inventory level should the component be reordered?

A 1,500 units
B 1,900 units
C 1,100 units
D 650 units

Question 11

A printing company quotes for a job requiring: direct materials £850, direct labour 12 hours at £15/hour, and overheads absorbed at £8 per direct labour hour. The company adds a 25% mark-up on total cost for profit. What is the quoted price?

A £1,407.50
B £1,126.00
C £1,287.50
D £1,501.33

Question 12

A hospital calculates its cost per patient day as £380. Which costing method is being applied, and what is the 'cost unit' in this context?

A Job costing — each patient is a separate job with its own cost card
B Process costing — patient care flows through a series of treatment processes
C Batch costing — patients are treated in groups of similar cases
D Service costing — the cost unit is one patient day

Question 13

Which of the following describes how target costing differs from a traditional cost-plus approach for a new product?

A It adds a required profit margin to the expected cost to set the selling price
B It starts from a price the market will accept and works back to the cost to be achieved
C It reduces costs gradually once production has started, through small improvements
D It charges overheads to products using several cost drivers instead of one rate

Question 14

Annual demand for an item is 12,000 units. The purchase price is £10 per unit, ordering costs are £60 per order and holding costs are £2 per unit per year. The supplier offers a 2% discount on all units for orders of 2,000 units or more; holding cost per unit is not affected. What is the lowest total annual cost of purchasing, ordering and holding the item, to the nearest £?

A £121,697
B £117,960
C £121,960
D £119,960

Question 15

Which of the following businesses would most appropriately use batch costing?

A A builder constructing an extension designed for one customer's house
B A hotel calculating its cost per occupied room night
C An oil refinery operating a continuous refining process
D A bakery producing 2,000 identical loaves in each production run

Question 16

A process produces three outputs. Which of the following would lead one of the outputs to be treated as a by-product rather than a joint product?

A It is produced in a smaller physical quantity than the other outputs
B It needs further processing after the split-off point before it can be sold
C It is produced deliberately as one of the main aims of the process
D It has a low sales value compared with the main products of the process

Question 17

Annual demand: 18,000 units. Ordering cost: £25 per order. Holding cost: £2 per unit per year. What is the Economic Order Quantity (EOQ)?

A 671 units
B 949 units
C 474 units
D 54 units

Question 18

A business budgeted to produce 5,000 units with total costs of £35,000 (fixed costs £15,000, variable costs £20,000). Actual production was 6,000 units with actual costs of £37,000. What is the total cost variance against the flexed budget?

A £4,000 adverse
B £2,000 favourable
C £2,000 adverse
D £4,000 favourable

Question 19

Budgeted sales are 15,000 units. Opening finished goods inventory is 2,000 units and the company wants closing inventory of 3,500 units. What is the budgeted production volume?

A 13,500 units
B 15,000 units
C 16,500 units
D 17,000 units

Question 20

Budgeted production is 20,000 units, each requiring 3 kg of material. Opening raw materials inventory is 8,000 kg and target closing inventory is 12,000 kg. Material costs £4 per kg. What is the budgeted material purchases cost?

A £240,000
B £248,000
C £260,000
D £256,000

Question 21

Budgeted production is 4,000 units. Each unit requires 2.5 hours of direct labour. The standard wage rate is £13.50 per hour. What is the budgeted direct labour cost?

A £54,000
B £108,000
C £270,000
D £135,000

Question 22

Which type of budget target is most likely to motivate managers to achieve the highest performance?

A A target that is easy to achieve, so managers are confident of success
B A target set well above what managers believe is achievable, to push maximum effort
C A target that is challenging but seen by managers as achievable
D No specific target, so managers can perform without budget pressure

Question 23

A bank quotes a nominal interest rate of 8% a year, compounded quarterly. What is the effective annual interest rate, to two decimal places?

A 8.00%
B 8.16%
C 8.24%
D 2.00%

Question 24

Which of the following would be treated as capital (asset) expenditure rather than revenue (expense) expenditure?

A Repainting the factory walls as part of routine maintenance
B Paying the annual insurance premium on the delivery fleet
C Buying a new delivery van that will be used for five years
D Replacing the worn tyres on an existing delivery van

Question 25

What is the primary role of a budget committee in the budgeting process?

A To prepare all the detailed functional budgets on behalf of departmental managers
B To set the company's strategic objectives from which the budget is derived
C To coordinate the preparation of functional budgets, resolve conflicts between departments, and review and approve the master budget
D To conduct the external audit of the budgeting process for compliance purposes

Question 26

Budgeted fixed overheads: £90,000. Actual fixed overheads incurred: £86,000. What is the fixed overhead expenditure variance and its direction?

A £4,000 adverse
B £90,000 favourable
C £86,000 adverse
D £4,000 favourable

Question 27

A product has the following standard costs per unit: direct materials £18, direct labour £12, variable production overhead £5, fixed production overhead absorbed £9 and variable selling cost £3. What is the standard production cost per unit under marginal costing and under absorption costing?

A Marginal £35; absorption £44
B Marginal £38; absorption £47
C Marginal £30; absorption £44
D Marginal £35; absorption £47

Question 28

Standard: 4 kg at £6/kg per unit. Actual production: 500 units. Actual: 2,200 kg purchased and used at £6.50/kg. What is the total material cost variance?

A £1,100 adverse
B £1,200 adverse
C £3,400 adverse
D £2,300 adverse

Question 29

A company changes from standard absorption costing to standard marginal costing. Which of the following changes will appear in its operating statement reconciling budgeted and actual results?

A The fixed overhead expenditure variance no longer appears, and the sales volume variance is valued at standard profit per unit
B The fixed overhead volume variance no longer appears, and the sales volume variance is valued at standard profit per unit
C All fixed overhead variances disappear, and the sales volume variance is valued at standard contribution per unit
D The fixed overhead volume variance no longer appears, and the sales volume variance is valued at standard contribution per unit

Question 30

A company absorbs fixed production overhead at £6 per standard labour hour. It budgeted 10,000 labour hours, based on 5,000 units at 2 standard hours each. Actual output was 4,800 units and 9,400 hours were worked. What is the fixed overhead capacity variance?

A £1,200 favourable
B £2,400 adverse
C £3,600 adverse
D £3,600 favourable

Question 31

A company reports: revenue £2,400,000; gross profit £720,000; operating profit £360,000; capital employed £3,000,000. What is the return on capital employed (ROCE)?

A 30%
B 24%
C 15%
D 12%

Question 32

A division with capital employed of £800,000 earns profit of £112,000. The company's cost of capital is 12%. A new investment of £200,000 would generate additional profit of £26,000. Using ROI, would the manager accept the project? Using residual income, would the manager accept?

A ROI: accept (project ROI 13% > cost of capital 12%); RI: reject (negative RI)
B ROI: reject (project ROI 13% < divisional ROI 14%); RI: accept (positive RI of £2,000)
C ROI: accept; RI: accept — both methods always agree
D ROI: reject; RI: reject — both methods always agree

Question 33

What is the role of a mission statement in performance measurement?

A It provides the detailed targets used to calculate variances each month
B It is a legal requirement used by auditors to assess the organisation's performance
C It replaces the need for financial measures such as return on investment
D It sets out the organisation's purpose, which objectives and performance measures should support

Question 34

A divisional manager is assessed against a profit report that includes a share of head office costs allocated to the division. Which of the following best explains why this may be unfair?

A The manager cannot control the level of head office costs — assessing them on costs they cannot influence reduces the usefulness of the performance report for motivational purposes
B Head office costs are genuine costs of the business but should not be recharged as they artificially reduce divisional profit
C Allocated costs should only appear in reports sent to head office, not in the divisional manager's own performance report
D Divisional performance should be measured on contribution only; all fixed costs are irrelevant to short-term decisions

Question 35

A managing director is considering implementing a balanced scorecard. Which of the following would be a valid criticism of the balanced scorecard approach?

A The balanced scorecard focuses only on financial measures and ignores non-financial performance
B The balanced scorecard cannot be used by service organisations or not-for-profit entities
C It can become overly complex with too many measures, diluting management focus — the key is selecting a limited number of truly strategic KPIs
D Once implemented, the balanced scorecard does not need to be updated as strategy evolves

Answer key

1 A	**8** B	**15** D	**22** C	**29** D
2 A	**9** C	**16** D	**23** C	**30** C
3 C	**10** B	**17** A	**24** C	**31** D
4 B	**11** A	**18** B	**25** C	**32** B
5 C	**12** D	**19** C	**26** D	**33** D
6 A	**13** B	**20** D	**27** A	**34** A
7 D	**14** D	**21** D	**28** D	**35** C

Score: count your correct answers out of 35. Then work through the explanations below.

Answers and explanations

Question 1: A Management accounting reports are produced for internal use and are not subject to external regulation

Management accounting information is prepared for internal users — managers and decision-makers — and is not governed by external regulations or accounting standards. Financial accounting, by contrast, produces statutory reports (such as the statement of profit or loss and statement of financial position) for external users, governed by IFRS or local GAAP. Option B reverses the correct distinction — financial accounting is primarily historical, while management accounting includes forward-looking budgets and forecasts.

Section A, Financial vs management accounting · Ref A1b · ma001

Question 2: A Spreadsheets are prone to manual input errors and version control issues, and do not scale well to complex multi-user environments

Spreadsheets are flexible and powerful for small-scale analysis but become problematic in large organisations due to version control (multiple people maintaining different versions), manual input errors, lack of audit trails, and poor scalability. They can perform calculations (B is wrong). Automatic linking (C) is actually a feature, though managing it can create complexity. They are broadly accessible (D is wrong).

Section A, Spreadsheets and databases · Ref A3b · ma025

Question 3: C Primarily external, often estimated, long-term in focus, and in summary form — providing a broad view of the organisation's competitive position

Strategic information supports long-term decisions (market entry, major capital investment, corporate restructuring). It draws heavily on external sources (market data, competitor intelligence, economic forecasts), is often approximate rather than precise, and is presented in summary form. Detailed, precise, internally generated data (A) describes operational information. Quarterly management accounts (B) are tactical management information. Direct cost data (D) is operational-level information.

Section A, Planning levels — strategic information · Ref A2b · ma099

Question 4: B 4.00

This involves stepped fixed costs which must be stripped out before applying the high-low method. Supervisor cost at 1,500 units = 2 × £3,000 = £6,000. Supervisor cost at 2,500 units = 3 × £3,000 = £9,000. Variable costs only: Low = £18,000 − £6,000 = £12,000. High = £25,000 − £9,000 = £16,000. Variable cost per unit = (£16,000 − £12,000) ÷ (2,500 − 1,500) = £4,000 ÷ 1,000 = £4.00. Option A is the error of not stripping out supervisor costs.

Section B, High-low method — stepped fixed costs · Ref B2b · ma006

Question 5: C Seasonal variation — a regular, predictable pattern that repeats over a consistent time period

Seasonal variation is the regular, predictable fluctuation that repeats within a year (or other consistent cycle). A consistently higher Q3 is a seasonal pattern. Cyclical variation (A) operates over multiple years linked to economic cycles, not regular quarters. Random variation (B) is unpredictable by definition. The trend (D) is the overall long-run direction, not the regular quarterly deviation from it.

Section B, Time series — trend and seasonality · Ref B1c · ma027

Question 6: A 151.25

A 4-point moving average must be centred because 4 is an even number — each MA falls between quarters, not on one. First 4-point MA (Q1–Q4): (120 + 140 + 180 + 160) ÷ 4 = 150.0, centred between Q2 and Q3. Second 4-point MA (Q2–Q1 next year): (140 + 180 + 160 + 130) ÷ 4 = 152.5, centred between Q3 and Q4. Centred MA for Q3 = (150.0 + 152.5) ÷ 2 = 151.25 — option A. Option B (150.0) is the first uncentred moving average; forgetting the centring step is the most common error in time series questions.

Section B, Moving averages — centred · Ref B1f · ma079

Question 7: D £300,000

Costs rise in line with the index: £240,000 × 150 ÷ 120 = £300,000, a 25% increase. Option A turns the ratio upside down (£240,000 × 120 ÷ 150), which would restate the cost into lower prices. Option B treats the 30-point rise in the index as a 30% increase (£240,000 × 1.30), but the rise must be measured against 120, not 100. Option C reads the index of 150 as a 50% increase on the 2024 cost, which would only be right if 2024 were the base year with an index of 100.

Section B, Adjusting data for price movements · Ref B2g · ma119

Question 8: B For every unit increase in X, Y increases by 3.5; the correlation coefficient of 0.92 indicates a strong positive linear relationship

In Y=a+bX: 'a' (50) is the intercept (fixed element); 'b' (3.5) is the slope — for each unit increase in X, Y increases by 3.5. The correlation coefficient r=0.92 indicates a strong positive relationship (r near +1 = strong positive, near −1 = strong negative, near 0 = no relationship). Option A misidentifies the slope and intercept. Option C reverses a and b and confuses r with r^2. Option D — r=0.92 means strong but not perfect correlation; r=1.0 would be perfect.

Section B, Regression — interpretation of output · Ref B2i · ma134

Question 9: C Profit will be higher and closing inventory will be higher under FIFO

When prices are rising, FIFO issues the oldest (cheaper) inventory first, so cost of sales is lower and closing inventory is valued at more recent (higher) prices. Compared to AVCO — which uses an average price — FIFO produces lower cost of sales, higher profit, and higher closing inventory value. This is a classic exam scenario: the direction of the price movement determines which method gives higher profit and inventory figures.

Section C, Inventory valuation — FIFO vs AVCO · Ref C1a · ma007

Question 10: B 1,900 units

With constant demand, reorder level = (demand per day × lead time) + buffer inventory = (250 × 6) + 400 = 1,900 units. When the new order arrives, the buffer of 400 units is still in hand. Option A ignores the buffer inventory, so the company would run down to zero just as the delivery arrived. Option C deducts the buffer instead of adding it. Option D adds the buffer to one day's demand, ignoring the 6-day lead time.

Section C, Reorder level · Ref C1a(viii) · ma009

Question 11: A £1,407.50

Direct materials: £850. Direct labour: 12 × £15 = £180. Overheads absorbed: 12 × £8 = £96. Total cost = £850 + £180 + £96 = £1,126. Mark-up of 25% on cost: £1,126 × 1.25 = £1,407.50 — option A. Option B (£1,126) is the total cost before any mark-up is applied. Option C (£1,287.50) omits the overhead element: (£850 + £180) × 1.25 = £1,287.50. Option D (£1,501.33) confuses a 25% mark-up on cost with a 25% profit margin on selling price — dividing by 0.75 rather than multiplying by 1.25.

Section C, Job costing · Ref C3a · ma037

Question 12: D Service costing — the cost unit is one patient day

Service costing is used by service organisations (hospitals, hotels, transport companies) where the output is a service rather than a tangible product. The cost unit must be defined appropriately — for a hospital, a patient day (one patient receiving care for one day) is the standard cost unit. Job costing (A) applies where each job is unique and separately costed — possible for individual patients but 'per patient day' suggests service costing. Process and batch costing (B, C) apply to continuous production and identical batch production respectively.

Section C, Service costing · Ref C3d · ma068

Question 13: B It starts from a price the market will accept and works back to the cost to be achieved

Target costing begins with the selling price customers will pay, deducts the required profit to give a target cost, and then the product and process are designed to meet that cost. Option A describes traditional cost-plus pricing, which target costing reverses. Option C describes continuous cost reduction during production, which comes after the design stage where target costing does most of its work. Option D describes activity-based costing.

Section C, Target costing compared with traditional costing · Ref C4b · ma075

Question 14: D £119,960

EOQ = √(2 × 60 × 12,000 ÷ 2) = 849 units. Total cost at the EOQ = purchases £120,000 + ordering (12,000 ÷ 849 × £60) £848 + holding (849 ÷ 2 × £2) £849 = £121,697. Total cost at 2,000 units = purchases £117,600 + ordering (6 × £60) £360 + holding (2,000 ÷ 2 × £2) £2,000 = £119,960. Taking the discount is cheaper, so the lowest cost is £119,960. Option A is the cost at the EOQ, which ignores the discount. Option B leaves out the holding cost of the larger order. Option C charges holding cost on the whole order of 2,000 units instead of the average inventory of 1,000.

Section C, EOQ with a quantity discount · Ref C1a(vi) · ma080

Question 15: D A bakery producing 2,000 identical loaves in each production run

Batch costing suits a group of identical items made together, where the batch is the cost unit and the cost per item is the batch cost divided by the number produced. Option A is a one-off piece of work to the customer's specification, so job costing applies. Option C is continuous production of homogeneous output, so process costing applies. Option B uses a composite cost unit for a service, so service costing applies.

Section C, Choosing job, batch, process or service costing · Ref C3a(ii) · ma095

Question 16: D It has a low sales value compared with the main products of the process

A by-product is an output with a relatively low sales value, produced incidentally alongside the main products. Joint products each have a significant sales value. Option A is wrong because the distinction rests on relative value, not physical quantity: a small output of high value would be a joint product. Option B is wrong because both joint products and by-products may or may not need further processing. Option C describes a joint product.

Section C, By-products and joint products · Ref C3b(iv) · ma108

Question 17: A 671 units

EOQ = √(2 × annual demand × ordering cost ÷ holding cost per unit) = √(2 × 18,000 × £25 ÷ £2) = √(900,000 ÷ 2) = √450,000 = 670.8 ≈ 671 units. Option B (949) forgets to divide by the holding cost (√900,000). Option C (474) omits the 2 in the formula (√(18,000 × £25 ÷ £2)). Option D (54) swaps the ordering cost and the holding cost (√(2 × 18,000 × £2 ÷ £25)). The EOQ minimises the sum of ordering and holding costs, balancing fewer large orders against higher average inventory.

Section C, Inventory management — EOQ · Ref C2i · ma117

Question 18: B £2,000 favourable

The budget must be flexed to the actual activity level before comparing. Variable cost per unit = £20,000 ÷ 5,000 = £4. Flexed budget for 6,000 units = variable £24,000 (6,000 × £4) + fixed £15,000 (unchanged) = £39,000. Actual costs = £37,000. Total cost variance = £39,000 − £37,000 = £2,000 favourable (actual spending was below the flexed allowance). Option C (£2,000 adverse) is the classic error of comparing actual £37,000 with the original fixed budget of £35,000 — forgetting to flex. Options A and D (£4,000) result from other budget-base errors. Always flex the budget to actual volume before calculating a cost variance.

Section D, Flexible budgets · Ref D3d · ma014

Question 19: C 16,500 units

Production budget = Sales + Closing inventory − Opening inventory = 15,000 + 3,500 − 2,000 = 16,500 units. This formula is fundamental to production budgeting. Option A deducts closing inventory and adds opening (inverted formula). Option B ignores inventory movements. Option D adds opening inventory and ignores closing inventory (15,000 + 2,000).

Section D, Production budget · Ref D1c · ma043

Question 20: D £256,000

Materials needed for production = 20,000 × 3 kg = 60,000 kg. Purchases = Production needs + Closing inventory − Opening inventory = 60,000 + 12,000 − 8,000 = 64,000 kg. Cost = 64,000 × £4 = £256,000. Option A ignores inventory movements (60,000 × £4). Option B uses 62,000 kg. Option C uses 65,000 kg.

Section D, Materials purchases budget · Ref D1d · ma044

Question 21: D £135,000

Total labour hours = 4,000 × 2.5 = 10,000 hours. Budgeted labour cost = 10,000 × £13.50 = £135,000. Option A ignores the hours per unit (4,000 × £13.50). Option B uses 8,000 hours (4,000 × 2). Option C uses 20,000 hours (4,000 × 5).

Section D, Labour budget · Ref D1e · ma076

Question 22: C A target that is challenging but seen by managers as achievable

A target that stretches managers but that they accept as achievable tends to produce the best performance. Option A tends to cause managers to aim only for the easy target, so performance is lower than it could be. Option B tends to demotivate: once managers believe the target cannot be reached, they stop trying to reach it. Option D gives no clear aim, and research suggests a specific target usually produces better performance than none.

Section D, Budget targets and motivation · Ref D6c · ma106

Question 23: C 8.24%

The quarterly rate is 8% ÷ 4 = 2%. The effective annual rate = $(1.02)^4 - 1 = 8.24\%$, which is higher than the nominal rate because interest is earned on interest within the year. Option A is the nominal rate, which ignores compounding. Option B assumes compounding twice a year ($(1.04)^2 - 1$). Option D is the quarterly rate, not an annual rate.

Section D, Nominal and effective interest rates · Ref D4d · ma122

Question 24: C Buying a new delivery van that will be used for five years

Capital expenditure buys or improves a non-current asset that will benefit the business over more than one period, such as a van used for five years. Options A and D maintain existing assets in their current condition, so they are revenue expenditure. Option B is a running cost that benefits only the period covered, so it is also revenue expenditure.

Section D, Asset and expense items · Ref D4b · ma127

Question 25: C To coordinate the preparation of functional budgets, resolve conflicts between departments, and review and approve the master budget

The budget committee coordinates the overall budgeting process — it sets the timetable, resolves interdepartmental conflicts (e.g. production capacity vs sales targets), reviews submissions for consistency, and approves the final master budget. It does not prepare budgets for departments (A) — that is line management's responsibility. Strategic objectives (B) come from the board, not the budget committee. External audit (D) is a governance function unrelated to the budget committee.

Section D, Budget committee · Ref D2t · ma147

Question 26: D £4,000 favourable

Fixed overhead expenditure (or spending) variance = Budgeted fixed overhead − Actual fixed overhead = £90,000 − £86,000 = £4,000 favourable. Actual overheads were less than budgeted — a favourable outcome (spent less than planned). Adverse would mean actual exceeded budget. This is distinct from the volume variance (which compares absorbed OH to budgeted OH).

Section E, Fixed overhead expenditure variance · Ref E3a · ma072

Question 27: A Marginal £35; absorption £44

Standard production cost includes production costs only. Marginal costing: £18 + £12 + £5 = £35. Absorption costing adds fixed production overhead: £35 + £9 = £44. Option B includes the £3 variable selling cost in both, but selling costs are not production costs. Option C leaves variable production overhead out of the marginal cost, giving prime cost (£30), even though its absorption figure is right. Option D gets the marginal cost right but adds the selling cost to the absorption cost.

Section E, Standard cost per unit: marginal and absorption · Ref E1c · ma104

Question 28: D £2,300 adverse

Standard material cost for actual production = 500 × 4 × £6 = £12,000. Actual material cost = 2,200 × £6.50 = £14,300. Total material variance = £12,000 − £14,300 = −£2,300 adverse. This comprises: Price variance = (£6.00 − £6.50) × 2,200 = −£1,100 adverse. Usage variance = (2,000 − 2,200) × £6.00 = −£1,200 adverse. Total = −£1,100 − £1,200 = −£2,300 ✓. Option A is the price variance only. Option B is the usage variance only. Option C adds incorrectly.

Section E, Standard costing — materials — total variance · Ref E3c · ma120

Question 29: D The fixed overhead volume variance no longer appears, and the sales volume variance is valued at standard contribution per unit

Under marginal costing, fixed overheads are not absorbed into units, so there is no fixed overhead volume variance; the only fixed overhead variance is the expenditure variance. The sales volume variance is valued at standard contribution per unit, not standard profit. Option A removes the wrong variance and uses the wrong valuation. Option B removes the right variance but values sales volume at standard profit, which is the absorption costing approach. Option C is wrong because the fixed overhead expenditure variance still appears.

Section E, Operating statement under marginal costing · Ref E3b · ma135

Question 30: C £3,600 adverse

The capacity variance compares actual hours worked with budgeted hours: (9,400 − 10,000) × £6 = £3,600 adverse. Fewer hours were worked than planned, so less overhead was absorbed. Option A is the efficiency variance ((4,800 × 2 − 9,400) × £6 = £1,200 favourable). Option B is the total volume variance ((9,600 − 10,000) × £6), which is the capacity and efficiency variances combined. Option D has the right figure but the wrong direction: working fewer hours than budgeted is adverse.

Section E, Fixed overhead capacity variance · Ref E2e · ma148

Question 31: D 12%

ROCE = Operating profit ÷ Capital employed × 100 = £360,000 ÷ £3,000,000 × 100 = 12%. ROCE uses profit before interest and tax (operating profit) divided by capital employed (total assets less current liabilities). Option B uses gross profit (£720,000 ÷ £3,000,000). Option A (30%) is the gross profit margin (£720,000 ÷ £2,400,000), not ROCE. Option C (15%) is the operating profit margin (£360,000 ÷ £2,400,000), not ROCE.

Section F, Performance measurement — financial ratios · Ref F1a · ma056

Question 32: B ROI: reject (project ROI 13% < divisional ROI 14%); RI: accept (positive RI of £2,000)

Current ROI = £112,000÷£800,000 = 14%. Project ROI = £26,000÷£200,000 = 13%. Since 13% < 14%, accepting the project dilutes divisional ROI — a manager assessed on ROI would reject it. RI approach: Additional RI = £26,000 − (£200,000 × 12%) = £26,000 − £24,000 = £2,000 positive. Positive RI means the project exceeds the cost of capital — a manager assessed on RI would accept it. This conflict illustrates why RI may be preferred as it aligns divisional decisions with company-wide value creation.

Section F, Residual income vs ROI · Ref F2c · ma058

Question 33: D It sets out the organisation's purpose, which objectives and performance measures should support

A mission statement describes the organisation's purpose and values. Objectives and performance measures are then set to show progress towards it. Option A is wrong because a mission statement is broad and long-term; variances come from detailed budgets and standards. Option C is wrong because financial measures remain part of measuring progress. Option B is wrong because there is no general legal requirement to have one, and auditors do not use it to assess performance.

Section F, Mission statements and performance measurement · Ref F1a · ma073

Question 34: A The manager cannot control the level of head office costs — assessing them on costs they cannot influence reduces the usefulness of the performance report for motivational purposes

Option A is correct: the controllability principle holds that managers should only be assessed on costs they can influence. Head office costs are controlled centrally — the divisional manager cannot reduce or increase them, so including them in the performance report is demotivating and reduces the report's usefulness. Option B is superficially plausible but wrong: the issue is not that the costs are artificial, but that the manager cannot control them. Option C incorrectly implies the costs should be hidden from the manager rather than reported separately. Option D is too extreme — divisional managers are legitimately responsible for controllable fixed costs; the problem is uncontrollable costs, not fixed costs per se.

Section F, Controllable vs uncontrollable costs · Ref F1d · ma093

Question 35: C It can become overly complex with too many measures, diluting management focus — the key is selecting a limited number of truly strategic KPIs

A practical limitation of BSC is the risk of measure proliferation — organisations can end up tracking dozens of KPIs across four perspectives, overwhelming managers. The remedy is disciplined selection of a small number of genuinely strategic measures. Option A is the opposite of the BSC's purpose — it explicitly includes non-financial perspectives. Option B is wrong — BSC was quickly adapted for services and not-for-profits. Option D is wrong — BSC measures should evolve as strategy changes.

Section F, Balanced scorecard implementation · Ref F4a · ma123