ACCA
FREE SAMPLE
Paper F2
Management Accounting (MA)
(CBE-Style) Practice Questions & Answers
June & December 2011
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Remember ....

No snowflake in an avalanche ever feels responsible.

Voltaire
"Where shall I begin, please your majesty?" he asked. "Begin at the beginning," the king said gravely, "and go on till you come to the end: then stop."

Lewis Carroll
Through the Looking-Glass
Formulae Sheet

Regression analysis

\[ a = \frac{\sum y}{n} \times \frac{b \sum x}{n} \]

\[ b = \frac{n \sum xy - \sum x \sum y}{n \sum x^2 - (\sum x)^2} \]

\[ r = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2)(n \sum y^2 - (\sum y)^2)}} \]

Economic order quantity

\[ = \sqrt{\frac{2C_oD}{\sqrt{Ch}}} \]

Economic batch quantity

\[ = \sqrt{\frac{2C_oD}{Ch(1 - \frac{D}{R})}} \]
Management Accounting

DIAGNOSTIC TEST - 1

QUESTION PAPER

Time allowed: 2 hours

All FIFTY questions are compulsory and MUST be attempted

Do NOT attempt this test until you are ready for the test.

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1. Up to a given level of activity in each period the purchase price per unit of a raw material is constant. After that point a lower price per unit applies both to further units purchased and also retrospectively to all units already purchased.

Which of the following graphs depicts the total cost of the raw materials for a period?

2. The following breakeven chart has been drawn showing lines for total cost (TC), total variable cost (TVC), total fixed cost (TFC) and total sales revenue (TSR):

What is the margin of safety at the 1,700 units level of activity?

- A. 200 units
- B. 300 units
- C. 500 units
- D. 1,025 units
3 A company manufactures a single product with a variable cost per unit of $22. The contribution to sales ratio is 45%. Monthly fixed costs are $198,000.

What is the breakeven point (in units)?

A 4,950  
B 9,000  
C 11,000  
D 20,000

4 An organisation has the following total costs at two activity levels:

<table>
<thead>
<tr>
<th>Activity level (units)</th>
<th>17,000</th>
<th>22,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total costs ($)</td>
<td>140,000</td>
<td>170,000</td>
</tr>
</tbody>
</table>

Variable cost per unit is constant in this range of activity and there is a step up of $5,000 in the total fixed costs when activity exceeds 18,000 units.

What is the total cost at an activity level of 20,000 units?

A $155,000  
B $158,000  
C $160,000  
D $163,000

5 The following statements relate to financial accounting or to cost and management accounting:

(i) The main users of financial accounting information are external to an organisation.  
(ii) Cost accounting is part of financial accounting and establishes costs incurred by an organisation.  
(iii) Management accounting is used to aid planning, control and decision making.

Which of the statements are correct?

A (i) and (ii) only  
B (i) and (iii) only  
C (ii) and (iii) only  
D (i), (ii) and (iii)

6 The following terms relate to computers:

(i) Application package  
(ii) Operating system  
(iii) Spreadsheet

Which of the above terms are examples of computer software?

A (i) and (ii) only  
B (i) and (iii) only  
C (ii) and (iii) only  
D (i), (ii) and (iii)
7. The following assertions relate to financial accounting and to cost accounting:

(i) The main users of financial accounting information are external to an organisation.
(ii) Cost accounting is that part of financial accounting which records the cash received and payments made by an organisation.

Which of the following statements are true?

A. Assertions (i) and (ii) are both correct.
B. Only assertion (i) is correct.
C. Only assertion (ii) is correct.

8. A company uses 9,000 units of a component per annum. The component has a purchase price of $40 per unit and the cost of placing an order is $160. The annual holding cost of one component is equal to 8% of its purchase price.

What is the Economic Order Quantity (to the nearest unit) of the component?

A. 530
B. 671
C. 949
D. 1,342

9. A company determines its order quantity for a component using the Economic Order Quantity (EOQ) model.

What would be the effects on the EOQ and the total annual ordering cost of an increase in the annual cost of holding one unit of the component in inventory?

<table>
<thead>
<tr>
<th>EOQ</th>
<th>Total annual ordering cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td>Higher</td>
<td>Lower</td>
</tr>
<tr>
<td>Lower</td>
<td>No effect</td>
</tr>
<tr>
<td>Higher</td>
<td>No effect</td>
</tr>
</tbody>
</table>

A. Lower, Higher
B. Higher, Lower
C. Lower, No effect
D. Higher, No effect

10. Consider the following statements:

(i) Job costing is only applicable to service organisations.
(ii) Batch costing can be used when a number of identical products are manufactured together to go into finished inventory.

Is each statement TRUE or FALSE?

<table>
<thead>
<tr>
<th>Statement (i)</th>
<th>Statement (ii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: False</td>
<td>B: False</td>
</tr>
<tr>
<td>B: False</td>
<td>C: True</td>
</tr>
<tr>
<td>C: True</td>
<td>D: True</td>
</tr>
<tr>
<td>D: True</td>
<td></td>
</tr>
</tbody>
</table>
11. An organisation absorbs overheads on a machine hour basis. The planned level of activity for last month was 30,000 machine hours with a total overhead cost of $247,500. Actual results showed that 28,000 machine hours were recorded with a total overhead cost of $238,000.

What was the total under absorption of overheads last month?

A $7,000  
B $7,500  
C $9,500  
D $16,500

12. The following information relates to a manufacturing company for next period:

<table>
<thead>
<tr>
<th>Units</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>14,000</td>
</tr>
<tr>
<td>Sales</td>
<td>12,000</td>
</tr>
</tbody>
</table>

Using absorption costing the profit for next period has been calculated as $36,000.

What would the profit for next period be using marginal costing?

A $25,000  
B $27,000  
C $45,000  
D $47,000

13. Information relating to two processes (F and G) was as follows:

<table>
<thead>
<tr>
<th>Process</th>
<th>Normal loss as % of input</th>
<th>Input litres</th>
<th>Output litres</th>
</tr>
</thead>
<tbody>
<tr>
<td>F</td>
<td>8</td>
<td>65,000</td>
<td>58,900</td>
</tr>
<tr>
<td>G</td>
<td>5</td>
<td>37,500</td>
<td>35,700</td>
</tr>
</tbody>
</table>

For each process, was there an abnormal loss or an abnormal gain?

A Abnormal gain  
B Abnormal gain  
C Abnormal loss  
D Abnormal loss

14. Last month 27,000 direct labour hours were worked at an actual cost of $236,385 and the standard direct labour hours of production were 29,880. The standard direct labour cost per hour was $8·50.

What was the labour efficiency variance?

A $17,595 Adverse  
B $17,595 Favourable  
C $24,480 Adverse  
D $24,480 Favourable
15 Last month a company’s budgeted sales were 5,000 units. The standard selling price was $6 per unit with a standard contribution to sales ratio of 60%. Actual sales were 4,650 units with a total revenue of $30,225.

What were the favourable sales price and adverse sales volume contribution variances?

<table>
<thead>
<tr>
<th>Sales price</th>
<th>Sales volume contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>A</td>
<td>2,325</td>
</tr>
<tr>
<td>B</td>
<td>2,500</td>
</tr>
<tr>
<td>C</td>
<td>2,325</td>
</tr>
<tr>
<td>D</td>
<td>2,500</td>
</tr>
</tbody>
</table>

16 Which of the following is an initial requirement of a management control system?

A. Establishing the standard to be achieved
B. Measuring the actual performance
C. Setting organisational objectives
D. Taking appropriate corrective action

17 Which one of the following would be classified as indirect labour?

A. Assembly workers on a car production line
B. Bricklayers in a house building company
C. Machinists in a factory producing clothes
D. Forklift truck drivers in the stores of an engineering company

18 The following statements relate to the calculation of the regression line $y = a + bx$ using the information on the formulae sheet at the end of this examination paper:

(i) $n$ represents the number of pairs of data items used
(ii) $(\Sigma x)^2$ is calculated by multiplying $\Sigma x$ by $\Sigma x$
(iii) $\Sigma xy$ is calculated by multiplying $\Sigma x$ by $\Sigma y$

Which statements are correct?

A. (i) and (ii) only
B. (i) and (iii) only
C. (ii) and (iii) only
D. (i), (ii) and (iii)
19. The correlation coefficient \( r \) for measuring the connection between two variables (\( x \) and \( y \)) has been calculated as 0·6.

How much of the variation in the dependent variable \( y \) is explained by the variation in the independent variable \( x \)?

A 36%  
B 40%  
C 60%  
D 64%  

20. The following statements relate to relevant cost concepts in decision making:

(i) Materials can never have an opportunity cost whereas labour can.
(ii) The annual depreciation charge is not a relevant cost.
(iii) Fixed costs would have a relevant cost element if a decision causes a change in their total expenditure.

Which statements are correct?

A (i) and (ii) only  
B (i) and (iii) only  
C (ii) and (iii) only  
D (i), (ii) and (iii)  

21. A company is evaluating a project that requires 4,000 kg of a material that is used regularly in normal production. 2,500 kg of the material, purchased last month at a total cost of $20,000, are in inventory. Since last month the price of the material has increased by 2½%.

What is the total relevant cost of the material for the project?

A $12,300  
B $20,500  
C $32,300  
D $32,800  

22. In a process where there are no work-in-progress inventories, two joint products (J and K) are created.

Information (in units) relating to last month is as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Sales</th>
<th>Opening inventory of finished goods</th>
<th>Closing inventory of finished goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>J</td>
<td>6,000</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>K</td>
<td>4,000</td>
<td>400</td>
<td>200</td>
</tr>
</tbody>
</table>

Joint production costs last month were $110,000 and these were apportioned to joint products based on the number of units produced.
What were the joint production costs apportioned to product J for last month?

A $63,800  
B $64,000  
C $66,000  
D $68,200

23 A company manufactures two products (L and M) using the same material and labour. It holds no inventory.

Information about the variable costs and maximum demands are as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Material ($4 per litre)</th>
<th>Labour ($7 per hour)</th>
<th>Maximum monthly demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>L</td>
<td>13</td>
<td>35</td>
<td>6,000</td>
</tr>
<tr>
<td>M</td>
<td>19</td>
<td>28</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Each month 50,000 litres of material and 60,000 labour hours are available.

Which one of the following statements is correct?

A Material is a limiting factor but labour is not a limiting factor.  
B Material is not a limiting factor but labour is a limiting factor.  
C Neither material nor labour is a limiting factor.  
D Both material and labour are limiting factors.

24 The purchase price of a stock item is $25 per unit. In each three month period the usage of the item is 20,000 units. The annual holding costs associated with one unit equate to 6% of its purchase price. The cost of placing an order for the item is $20.

What is the Economic Order Quantity (EOQ) for the stock item to the nearest whole unit?

A 730  
B 894  
C 1,461  
D 1,633

25 A company uses an overhead absorption rate of $3.50 per machine hour, based on 32,000 budgeted machine hours for the period. During the same period the actual total overhead expenditure amounted to $108,875 and 30,000 machine hours were recorded on actual production.

By how much was the total overhead under or over absorbed for the period?
26 Which of the following is a feasible value for the correlation coefficient?

A $-2.0$
B $-1.2$
C $0$
D $+1.2$

27 When total purchases of raw material exceed 30,000 units in any one period then all units purchased, including the initial 30,000, are invoiced at a lower cost per unit.

Which of the following graphs is consistent with the behaviour of the total materials cost in a period?

A [Graph A]
B [Graph B]
C [Graph C]
D [Graph D]
28. A break-even chart for a company is depicted as follows:

Which one of the following statements is consistent with the above chart?

A. Both selling price per unit and variable cost per unit are constant.
B. Selling price per unit is constant but variable cost per unit increases for sales over 4,000 units.
C. Variable cost per unit is constant but the selling price per unit increases for sales over 4,000 units.
D. Selling price per unit increases for sales over 4,000 units and there is an increase in the total fixed costs at 4,000 units.

29. An organisation has the following total costs at two activity levels:

<table>
<thead>
<tr>
<th>Activity level (units)</th>
<th>16,000</th>
<th>22,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total costs ($)</td>
<td>135,000</td>
<td>170,000</td>
</tr>
</tbody>
</table>

Variable cost per unit is constant within this range of activity but there is a step up of $5,000 in the total fixed costs when the activity exceeds 17,500 units.

What is the total cost at an activity of 20,000 units?

A. $155,000
B. $158,000
C. $160,000
D. $163,000
30 The total cost of production for two levels of activity is as follows:

<table>
<thead>
<tr>
<th>Production (units)</th>
<th>Level 1</th>
<th>Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost ($)</td>
<td>6,750</td>
<td>9,250</td>
</tr>
</tbody>
</table>

The variable production cost per unit and the total fixed production cost both remain constant in the range of activity shown.

What is the variable production cost per unit?

A $0.80  
B $1.25  
C $1.85  
D $2.25  

31 Monthly variance reports are an example of which one of the following types of management information?

A Tactical  
B Strategic  
C Planning  
D Operational  

32 A company uses a standard absorption costing system. Last month budgeted production was 8,000 units and the standard fixed production overhead cost was $15 per unit. Actual production last month was 8,500 units and the actual fixed production overhead cost was $17 per unit.

What was the total adverse fixed production overhead variance for last month?

A $ 7,500  
B $16,000  
C $17,000  
D $24,500  

The following information relates to questions 33 and 34:

A company operating a standard costing system has the following direct labour standards per unit for one of its products:

4 hours at $12.50 per hour

Last month when 2,195 units of the product were manufactured, the actual direct labour cost for the 9,200 hours worked was $110,750.
33. What was the direct labour rate variance for last month?

A. $4,250 favourable
B. $4,250 adverse
C. $5,250 favourable
D. $5,250 adverse

34. What was the direct labour efficiency variance for last month?

A. $4,250 favourable
B. $4,250 adverse
C. $5,250 favourable
D. $5,250 adverse

35. A cost centre has an overhead absorption rate of $4.25 per machine hour, based on a budgeted activity level of 12,400 machine hours.

In the period covered by the budget, actual machine hours worked were 2% more than the budgeted hours and the actual overhead expenditure incurred in the cost centre was $56,389.

What was the total over or under absorption of overheads in the cost centre for the period?

A. $1,054 over absorbed
B. $2,635 under absorbed
C. $3,689 over absorbed
D. $3,689 under absorbed

36. A company which operates a process costing system had work in progress at the start of last month of 300 units (valued at $1,710) which were 60% complete in respect of all costs.

Last month a total of 2,000 units were completed and transferred to the finished goods warehouse. The cost per equivalent unit for costs arising last month was $10. The company uses the FIFO method of cost allocation.

What was the total value of the 2,000 units transferred to the finished goods warehouse last month?

A. $19,910
B. $20,000
C. $20,510
D. $21,710
37. A company has recorded its total cost for different levels of activity over the last five months as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>Activity level (units)</th>
<th>Total cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>300</td>
<td>17,500</td>
</tr>
<tr>
<td>8</td>
<td>360</td>
<td>19,500</td>
</tr>
<tr>
<td>9</td>
<td>400</td>
<td>20,500</td>
</tr>
<tr>
<td>10</td>
<td>320</td>
<td>18,500</td>
</tr>
<tr>
<td>11</td>
<td>280</td>
<td>17,000</td>
</tr>
</tbody>
</table>

The equation for total cost is being calculated using regression analysis on the above data. The equation for total cost is of the general form \( y = a + bx \) and the value of \( b \) has been calculated correctly as 29.53.

What is the value of ‘a’ (to the nearest $) in the total cost equation?

A. 7,338  
B. 8,796  
C. 10,430  
D. 10,995

38. A company operates a job costing system. Job number 1012 requires $45 of direct materials and $30 of direct labour.

Direct labour is paid at the rate of $7.50 per hour. Production overheads are absorbed at a rate of $12.50 per direct labour hour and non-production overheads are absorbed at a rate of 60% of prime cost.

What is the total cost of job number 1012?

A. $170  
B. $195  
C. $200  
D. $240

39. Data relating to a particular stores item are as follows:

- Average daily usage: 400 units
- Maximum daily usage: 520 units
- Minimum daily usage: 180 units
- Lead time for replenishment of inventory: 10 to 15 days
- Reorder quantity: 8,000 units

What is the reorder level (in units) which avoids stock outs?

A. 5,000  
B. 6,000  
C. 7,800  
D. 8,000
40 Which one of the following statements correctly describes the shadow price of a resource in linear programming?

A The maximum sum payable for one more unit of the scarce resource.
B The minimum sum payable for one more unit of the scarce resource.
C The increase in total contribution if one extra unit of a binding constraint is made available.
D The increase in total contribution if one extra unit of a non-binding constraint is made available.

41 Last month, when a company had an opening inventory of 16,500 units and a closing inventory of 18,000 units, the profit using absorption costing was $40,000. The fixed production overhead rate was $10 per unit.

What would the profit for last month have been using marginal costing?

A $15,000
B $25,000
C $55,000
D $65,000

42 The following terms relate to computers:

(i) application packages
(ii) operating systems
(iii) point-of-sale devices

Which of these terms are categorised as software?

A (i) and (ii) only
B (i) and (iii) only
C (ii) and (iii) only
D (i), (ii) and (iii)

43 A company is evaluating a project that requires two types of material (T and V).

Data relating to the material requirements are as follows:

<table>
<thead>
<tr>
<th>Material type</th>
<th>Quantity needed for project</th>
<th>Quantity currently in inventory</th>
<th>Original cost of quantity in inventory</th>
<th>Current purchase price $/kg</th>
<th>Current resale price $/kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
<td>500 kg</td>
<td>100 kg</td>
<td>$40/kg</td>
<td>$45/kg</td>
<td>$44/kg</td>
</tr>
<tr>
<td>V</td>
<td>400 kg</td>
<td>200 kg</td>
<td>$55/kg</td>
<td>$52/kg</td>
<td>$40/kg</td>
</tr>
</tbody>
</table>

Material T is regularly used by the company in normal production. Material V is no longer in use by the company and has no alternative use within the business.
What is the total relevant cost of materials for the project?

A $40,400  
B $40,900  
C $43,400  
D $43,900

A machine owned by a company has been idle for some months but could now be used on a one year contract which is under consideration. The net book value of the machine is $1,000. If not used on this contract, the machine could be sold now for a net amount of $1,200. After use on the contract, the machine would have no saleable value and the cost of disposing of it in one year’s time would be $800.

What is the total relevant cost of the machine to the contract?

A $400  
B $800  
C $1,200  
D $2,000

An organisation launching a new product has set a relatively high initial selling price.

Which one of the following pricing policies is this an example of?

A Premium pricing  
B Price differentiation  
C Penetration pricing  
D Price skimming

Which of the following best describes a flexible budget?

A A budget which shows variable production costs only.  
B A monthly budget which is changed to reflect the number of days in the month.  
C A budget which shows sales revenue and costs at different levels of activity.  
D A budget that is updated halfway through the year to incorporate the actual results for the first half of the year.

Information relating to two processes (F and G) was as follows:

<table>
<thead>
<tr>
<th>Process</th>
<th>Normal loss as % of input</th>
<th>Input litres</th>
<th>Output litres</th>
</tr>
</thead>
<tbody>
<tr>
<td>F</td>
<td>8</td>
<td>65,000</td>
<td>58,900</td>
</tr>
<tr>
<td>G</td>
<td>5</td>
<td>37,500</td>
<td>35,700</td>
</tr>
</tbody>
</table>

For each process, was there an abnormal loss or an abnormal gain?
48 A company sells a single product which has a contribution of $27 per unit and a contribution to sales ratio of 45%. This period it is forecast to sell 1,000 units giving it a margin of safety of $13,500 in sales revenue terms.

What are the company’s total fixed costs per period?

A $6,075  
B $7,425  
C $13,500  
D $20,925

49 Which one of the following groups of workers would be classified as indirect labour?

A Machinists in an organisation manufacturing clothes  
B Bricklayers in a house building company  
C Maintenance workers in a shoe factory  
D Assembly workers in a vehicle manufacturing business

50 A factory consists of two production cost centres (P and Q) and two service cost centres (X and Y). The total allocated and apportioned overhead for each is as follows:

<table>
<thead>
<tr>
<th></th>
<th>P</th>
<th>Q</th>
<th>X</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$95,000</td>
<td>$82,000</td>
<td>$46,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

It has been estimated that each service cost centre does work for the other cost centres in the following proportions:

<table>
<thead>
<tr>
<th></th>
<th>P</th>
<th>Q</th>
<th>X</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of service cost centre X to</td>
<td>40</td>
<td>40</td>
<td>–</td>
<td>20</td>
</tr>
<tr>
<td>Percentage of service cost centre Y to</td>
<td>30</td>
<td>60</td>
<td>10</td>
<td>–</td>
</tr>
</tbody>
</table>

After the reapportionment of service cost centre costs has been carried out using a method that fully recognises the reciprocal service arrangements in the factory, what is the total overhead for production cost centre P?

A $122,400  
B $124,716  
C $126,000  
D $127,000
THE END OF DIAGNOSTIC TEST 1
### Summary of correct answers:

<table>
<thead>
<tr>
<th>Q</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>D</td>
</tr>
<tr>
<td>2</td>
<td>C</td>
</tr>
<tr>
<td>3</td>
<td>C</td>
</tr>
<tr>
<td>4</td>
<td>C</td>
</tr>
<tr>
<td>5</td>
<td>B</td>
</tr>
<tr>
<td>6</td>
<td>D</td>
</tr>
<tr>
<td>7</td>
<td>B</td>
</tr>
<tr>
<td>8</td>
<td>C</td>
</tr>
<tr>
<td>9</td>
<td>A</td>
</tr>
<tr>
<td>10</td>
<td>B</td>
</tr>
</tbody>
</table>

1. **D**  
   The new total cost line for ‘D’ is less steep and has an angle that passes through the origin (‘0’).

2. **C**  
   1,700 units – Breakeven level units (1,200) = 500 units  
   (Note: breakeven is where the total sales revenue (TSR) crosses the total cost (TC).)

3. **C**  
   Workings:
   
   Variable cost to sales ratio is 55% (i.e. 100% - 45%)
   
   Hence:
   
   Sales price = $22/0.55 = $40 per unit
   
   and
   
   Contribution = $40 x 0.45 = $18 per unit
   
   Breakeven = Fixed cost / Contribution per unit
   
   = $198,000 / $18
   
   = 11,000 units

4. **C**  
   Workings:
   
<table>
<thead>
<tr>
<th>Units</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>22,000</td>
</tr>
<tr>
<td>Low</td>
<td>17,000</td>
</tr>
<tr>
<td>5,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

   Therefore: Variable cost per unit = $25,000 / 5,000 = $5 per unit
When the numerator (ch) increases, Q reduces.

Total annual ordering cost

When the numerator (ch) increases, Q reduces.

Total annual ordering cost = \( \frac{D}{Q} \times Co \)

So when Q reduces, the ordering cost increases.
11 A Workings:

OAR = \frac{247,500}{30,000 \text{ hrs}} = $8.25 \text{ per hour}

Actual overhead $238,000
Absorbed: 28,000 units x $8.25 = $231,000
Under absorbed overheads $7,000

(Note: OAR is ‘Overhead absorption rate’.)

12 B Workings:

Profit in absorption costing $36,000
Fixed overhead in closing inventory:

\begin{align*}
14,000 - 12,000 &= 2,000 \times \frac{63,000}{14,000} = (9,000) \\
\text{Profit in marginal costing} &= 27,000
\end{align*}

13 C Workings:

\begin{tabular}{|c|c|c|c|}
\hline
\textbf{PROCESS F} & \\
\textbf{Litres} & \\
Input & 65,000 & Output & 58,900 \\
Normal loss & (65,000 x 0.08) & 5,200 \\
Abnormal loss & 900 (balancing) & 900 & 900 \\
\hline
\textbf{PROCESS G} & \\
\textbf{Litres} & \\
Input & 37,500 & Output & 35,700 \\
Abnormal gain & 75 & Normal loss & (37,500 x 0.05) & 1,875 \\
\hline
\end{tabular}
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Managing Director
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