

Subject BA2

**Fundamentals of Management
Accounting**

EXAM PRACTICE KIT



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SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

A THE CERTIFICATE IN BUSINESS ACCOUNTING (CERT BA)

The Cert BA provides a foundation in the essential elements of accounting and business. This includes the Fundamentals of Business Economics. There are four subject areas, which are all tested by computer-based assessment (CBA). The four subjects are:

- BA1: Fundamentals of Business Economics
- BA2: Fundamentals of Management Accounting
- BA3: Fundamentals of Financial Accounting
- BA4: Fundamentals of Ethics, Corporate Governance and Business Law

The Cert BA is both a qualification in its own right and an entry route to the next stage in CIMA's examination structure.

The examination structure after the Certificate comprises:

- Operational Level
- Managerial Level
- Strategic Level

The CIMA Qualification includes more advanced topics in Accounting and Business. It is therefore very important that you apply yourself to Fundamentals of Business Economics, not only because it is part of the Certificate, but also as a platform for more advanced studies. It is thus an important step in becoming a qualified member of the Chartered Institute of Management Accountants.

B AIMS OF THE SYLLABUS

The aims of the syllabus are

- to provide for the Institute, together with the practical experience requirements, an adequate basis for assuring society that those admitted to membership are competent to act as management accountants for entities, whether in manufacturing, commercial or service organisations, in the public or private sectors of the economy;
- to enable the Institute to examine whether prospective members have an adequate knowledge, understanding and mastery of the stated body of knowledge and skills;
- to complement the Institute's practical experience and skills development requirements.

C STUDY WEIGHTINGS

A percentage weighting is shown against each topic in the syllabus. This is intended as a guide to the proportion of study time each topic requires.

All topics in the syllabus must be studied, since any single examination question may examine more than one topic, or carry a higher proportion of marks than the percentage study time suggested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

D CIMA'S HIERARCHY OF LEARNING OBJECTIVES

CIMA places great importance on the definition of verbs in structuring Objective Test Examinations. It is therefore crucial that you understand the verbs in order to appreciate the depth and breadth of a topic and the level of skill required. The CIMA Cert BA syllabus learning outcomes and objective test questions will focus on levels one, two and three of the CIMA's hierarchy of learning objectives (knowledge, comprehension and application). However, as you progress to the Operational, Management and Strategic levels of the CIMA Professional Qualification, testing will include levels four and five of the hierarchy. As you complete your CIMA Professional Qualification, you can therefore expect to be tested on knowledge, comprehension, application, analysis and evaluation.

In CIMA Cert BA Objective Test Examinations you will meet verbs from only levels 1, 2, and 3 of the hierarchy which are as follows:

Skill level	Verbs used	Definition
Level 1 Knowledge What you are expected to know	List	Make a list of
	State	Express, fully or clearly, the details/facts of
	Define	Give the exact meaning of
	Outline	Give a summary of

For example you could be asked to define economic terms such as 'inflation' (BA1), or to define the term 'management accounting' (BA2) or to state the accounting entries required to record the revaluation surplus arising on revaluation of land and buildings (BA3).

Skill level	Verbs used	Definition
Level 2 Comprehension What you are expected to understand	Describe	Communicate the key features of
	Distinguish	Highlight the differences between
	Explain	Make clear or intelligible/state the meaning or purpose of
	Identify	Recognise, establish or select after consideration
	Illustrate	Use an example to describe or explain something

For example you could be asked to explain the components of the circular flow of funds (BA1), or distinguish between financial accounting and management accounting (BA3) or distinguish between express terms and implied terms of a contract of employment (BA4).

Skill level	Verbs used	Definition
Level 3 Application How you are expected to apply your knowledge	Apply	Put to practical use
	Calculate	Ascertain or reckon mathematically
	Conduct	Organise and carry out
	Demonstrate	Prove with certainty or exhibit by practical means
	Prepare	Make or get ready for use
	Reconcile	Make or prove consistent/compatible

For example you could be asked to reconcile the differences between profits calculated using absorption costing and marginal costing (BA2), or to calculate the gain or loss on disposal of a non-current asset (BA3) or to apply relevant principles to determine the outcome of a law-based or ethical problem (BA4).

For reference, levels 4 and 5 of the hierarchy require demonstration of analysis and evaluation skills respectively. Further detail on levels 4 and 5 of the hierarchy which are tested in the CIMA Professional Qualification can be obtained from the CIMA website, www.cimaglobal.com.

OBJECTIVE TESTS

Objective Test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of Objective Test question you will see are:

- **multiple choice**, where you have to choose the correct answer(s) from a list of possible answers – this could either be numbers or text.
- **multiple response** with more choices and answers, for example, choosing two correct answers from a list of five available answers – this could either be numbers or text.
- **number entry**, where you give your numeric answer to one or more parts of a question, for example, gross profit is \$25,000 and the accrual for heat and light charges is \$750.
- **drag and drop**, where you match one or more items with others from the list available, for example, matching several accounting terms with the appropriate definition
- **drop down**, where you choose the correct answer from those available in a drop down menu, for example, choosing the correct calculation of an accounting ratio, or stating whether an individual statement is true or false. This can also be included with a number entry style question.
- **hot spot**, where, for example, you use your computer cursor or mouse to identify the point of profit maximisation on a graph

CIMA has provided the following guidance relating to the format of questions and their marking:

- questions which require narrative responses to be typed will not be used
- for number entry questions, clear guidance will usually be given about the format in which the answer is required e.g. 'to the nearest \$' or 'to two decimal places'.
- item set questions provide a scenario which then forms the basis of more than one question (usually 2 and 4 questions). These sets of questions would appear together in the test and are most likely to appear in BA2 and BA3
- all questions are independent so that, where questions are based on a common item set scenario, each question will be distinct and the answer to a later question will not be dependent upon answering an earlier question correctly
- all items are equally weighted and, where a question consists of more than one element, all elements must be answered correctly for the question to be marked correct.

Throughout this Exam Practice Kit we have introduced these types of questions, but obviously we have had to label answers A, B, C etc. rather than using click boxes. For convenience we have retained quite a few questions where an initial scenario leads to a number of sub-questions. There will be questions of this type in the Objective Test Examination but they will rarely have more than three sub-questions.

Guidance re CIMA on-screen calculator

As part of the CIMA Objective Test software, candidates are provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in Objective Test Examinations for BA1, BA2 and BA3 (it is not required for BA4).

Guidance regarding calculator use in the Objective Test Examinations is available online at: <https://connect.cimaglobal.com/>

CIMA Cert BA Objective Tests

The Objective Tests are a two-hour assessment comprising compulsory questions, each with one or more parts. There will be no choice and all questions should be attempted. The number of questions in each assessment are as follows:

BA1 Fundamentals of Business Economics – 60 questions

BA2 Fundamentals of Management Accounting – 60 questions

BA3 Fundamentals of Financial Accounting – 60 questions

BA4 Fundamentals of Ethics, Corporate Governance and Business Law – 85 questions

**Information concerning formulae and tables will be provided via the CIMA website:
www.cimaglobal.com.**

SYLLABUS OUTLINE

BA2: Fundamentals of Management Accounting

Syllabus overview

This subject deals with the fundamental knowledge and techniques that underpin management accounting. It identifies the position of the management accountant within organisations and the role of CIMA. The subject portrays the role of management accounting in the contexts of commercial and public sector bodies and its wider role in society.

The identification and classification of costs and their behaviour provides the basis for understanding and applying the tools and techniques needed to plan, control and make decisions. Budgetary control requires the setting of targets and standards which then allow the performance of organisations to be reported and analysed by the calculation of variances. Investment appraisal, break-even analysis and profit maximisation are used to inform both long and short-term decision making.

Assessment strategy

There will be a two hour computer based assessment, comprising 60 compulsory objective test questions. Short scenarios may be given to which one or more objective test questions relate.

Syllabus structure

The syllabus comprises the following topics and weightings:

Content area		Weighting
A	The context of management accounting	10%
B	Costing	25%
C	Planning and control	30%
D	Decision making	35%
		100%

LEARNING OUTCOMES AND INDICATIVE SYLLABUS CONTENT

BA2A: The context of management accounting (10%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Explain the purpose of management accounting and the role of the Management Accountant.	a. Explain the need for management accounting.	2	<ul style="list-style-type: none"> The Global Management Accounting Principles.
	b. Explain the characteristics of financial information for operational, managerial and strategic levels within organisation.	2	<ul style="list-style-type: none"> Characteristics of financial information. The CIMA definition of the role of the management accountant.
	c. Explain the role of the management accountant.	2	<ul style="list-style-type: none"> The IFAC definition of the domain of the professional accountant in business.
	d. Explain the relationships between the management accountant and the organisation's managers.	2	<ul style="list-style-type: none"> The positioning of management accounting within the organisation.
2. Explain the role of CIMA as a professional body for Management Accountants.	a. Explain the role of CIMA in developing the practice of management accounting.	2	<ul style="list-style-type: none"> The need for a professional body in management accounting. CIMA's role in relation to its members, students, the profession of management accounting and society.

BA2B: Costing (25%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Demonstrate cost identification and classification.	a. Explain the classification of costs in relation to output.	2	<ul style="list-style-type: none"> • Direct and indirect costs. • Variable, semi-variable, stepped and fixed costs. • The use of 'high-low', graphical and regression analysis methods to establish and predict total cost. • Relevant and irrelevant costs.
	b. Explain the classification of costs in relation to activity level.	2	
	c. Calculate appropriate costs having identified cost behaviour.	3	
	d. Explain the classification of costs in relation to decisions.	2	
2. Apply absorption costing and marginal costing.	a. Prepare overhead cost statements.	3	<ul style="list-style-type: none"> • Overhead cost statements: allocation, apportionment and reciprocal servicing. <p>Note: The repeated distribution and simultaneous equations methods will be used for reciprocal servicing.</p> <ul style="list-style-type: none"> • The treatment of direct and indirect costs in ascertaining the full cost of a 'cost object' e.g. a product, service, activity, customer. • Overhead absorption rates. • Under or over absorbed overheads. • The treatment of direct and indirect costs in ascertaining the marginal cost of a 'cost object' e.g. a product, service, activity, customer. • The difference between marginal and absorption profits. • Marginal cost pricing and full-cost pricing to achieve specified targets (return on sales, return on investment, mark-up and margins). <p>Note: Students are not expected to have a detailed knowledge of activity-based costing (ABC).</p>
	b. Calculate the full cost of products, services and activities.	3	
	c. Calculate the marginal cost of products, services and activities.	3	
	d. Reconcile the differences between profits calculated using absorption costing and those calculated using marginal costing.	3	
	e. Apply cost information in pricing decisions.	3	

BA2C: Planning and control (30%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Prepare budgets for planning and control.	a. Explain why organisations prepare forecasts and plans	2	<ul style="list-style-type: none"> Budgeting for planning and control. Functional budgets. Master budget, including statements of profit and loss, financial position and cash flow. The importance of cash budgets. Fixed and flexible budgeting. Budget variances.
	b. Prepare functional budgets	3	
	c. Explain budget statements	2	
	d. Identify the impact of budgeted cash surpluses and shortfalls on business operations	2	
	e. Prepare a flexible budget	3	
	f. Calculate budget variances.	3	
2. Apply variance analysis to reconcile budgeted and actual profits in a marginal format.	a. Explain why planned standard costs, prices and volumes are useful.	2	<ul style="list-style-type: none"> Principles of standard costing. Standards for the selling price and variable costs of a product or service. Variances: materials (total, price and usage); labour (total, rate and efficiency); variable overhead (total, expenditure and efficiency); sales (sales price and sales volume contribution). The use of variances to reconcile the budgeted and actual profits that have been calculated using marginal costing. Interpretation of variances.
	b. Calculate variances for materials, labour, variable overheads, sales prices and sales volumes.	3	
	c. Prepare a statement that reconciles budgeted profit with actual profit calculated using marginal costing.	3	
	d. Explain why variances could have arisen and the inter-relationships between variances.	2	
3. Calculate appropriate financial and non-financial performance measures.	a. Explain the need for appropriate performance measures.	2	<ul style="list-style-type: none"> Characteristics of service industries. Responsibility accounting (authority, responsibility and controllability). The use of appropriate financial and non-financial performance measures in a variety of contexts (e.g. manufacturing and service sectors). <p>Note: Detailed knowledge of the balanced scorecard is not required.</p>
	b. Calculate appropriate financial and non-financial performance measures in a variety of contexts.	3	
4. Prepare accounts and reports for managers.	a. Explain the integration of the cost accounts with the financial accounting system.	2	<ul style="list-style-type: none"> Manufacturing accounts including raw material, work-in-progress, finished goods and manufacturing overhead control accounts. Integrated ledgers including accounting for over and under absorption of production overhead. The treatment of variances in integrated ledger systems. Job and batch costing. Cost accounting statements for management information in manufacturing, service and not-for-profit organisations.
	b. Prepare a set of integrated accounts, showing standard cost variances.	3	
	c. Prepare appropriate accounts for job and batch costing.	3	
	d. Prepare reports in a range of organisations.	3	

BA2D: Decision making (35%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Demonstrate the impact of risk.	a. Explain the concepts of risk and uncertainty.	2	<ul style="list-style-type: none"> Risk and uncertainty. Probability and its relationship with proportions and percentages. Expected values and expected values tables. Limitations of expected values. Arithmetic mean, median, mode, range, variance, standard deviation and coefficient of variation for both ungrouped and grouped data. Graphs/diagrams and use of normal distribution tables. <p>Note: Students will not be asked to apply techniques to deal with uncertainty.</p>
	b. Demonstrate the use of expected values and joint probabilities in decision making.	3	
	c. Calculate summary measures of central tendency and dispersion for both grouped and ungrouped data.	3	
	d. Demonstrate the use of the normal distribution.	3	
2. Demonstrate the use of appropriate techniques for short-term decision making.	a. Apply breakeven analysis.	3	<ul style="list-style-type: none"> Breakeven charts, profit volume graphs, breakeven point, target profit, margin of safety. Make or buy decisions. Limiting factor analysis for a multi-product company that has one scarce resource.
	b. Demonstrate make or buy decisions.	3	
	c. Calculate the profit maximising sales mix after using limiting factor analysis.	3	
3. Demonstrate the use of appropriate techniques for long-term decision making.	a. Explain the time value of money.	2	<ul style="list-style-type: none"> The time value of money. Discounting, compounding, annuities and perpetuities. Net present value, internal rate of return and payback.
	b. Apply financial mathematics.	3	
	c. Calculate the net present value, internal rate of return and payback for an investment or project.	3	

Section 1

OBJECTIVE TEST QUESTIONS

THE CONTEXT OF MANAGEMENT ACCOUNTING

- 1 Which TWO of the following are DISADVANTAGES of Business Process Outsourcing?
(place a tick in the box corresponding to any that would apply)

<input type="checkbox"/>	Higher cost
<input type="checkbox"/>	Less specialism
<input type="checkbox"/>	Loss of control
<input type="checkbox"/>	Duplication of effort
<input type="checkbox"/>	Confidentiality risk

- 2 Select the correct word to complete the following sentences.

- A The cash budget would be prepared by the management/financial accountant.
- B The cash flow statement would be prepared by the management/financial accountant.
- C The statement of profit or loss would be prepared by the management/financial accountant.

- 3 Do the comments below relate to management or financial accounting? Drag each comment under the correct heading.

**Management
accounting**

**Financial
accounting**

Uses only historical data

Is carried out at the discretion of management

Uses non-financial information

Aids planning within the organisation

4 Which TWO of the following statements regarding information are correct? (place a tick in the box corresponding to any that would apply)

- | | |
|--------------------------|--|
| <input type="checkbox"/> | Information used by strategic management tends to be summarised |
| <input type="checkbox"/> | Information used by strategic management tends to be forward looking |
| <input type="checkbox"/> | Information used by operational management tends to contain estimates |
| <input type="checkbox"/> | Information used by operational management tends to be required infrequently |
| <input type="checkbox"/> | Information used by operational management tends to be from external sources |

5 Which of the following is NOT a role of management accounting, as defined by CIMA?

- A Deriving performance measures and benchmarks for monitoring and controlling
- B Measuring and reporting financial and non-financial performance measurements to management and other stakeholders
- C Checking the accuracy of the financial statements produced by the organisation
- D Formulating strategic and operational plans in line with the corporate objectives of the organisation

6 Management accounting is concerned with planning, control and decision making. Which TWO of the following relate to control? (place a tick in the box corresponding to any that would apply)

- | | |
|--------------------------|---|
| <input type="checkbox"/> | Preparing an annual budget for a cost centre |
| <input type="checkbox"/> | Producing an investment appraisal calculation for a proposed new project |
| <input type="checkbox"/> | Comparing the actual and expected results for a period and calculating the variances |
| <input type="checkbox"/> | Advising management of the most profitable use of scarce resources |
| <input type="checkbox"/> | Producing a monthly report of financial and non-financial performance measures for management |

7 Which of the following statements regarding information are correct?

- A Strategic information is mainly used by middle management in an organisation.
- B Productivity measurements are examples of tactical information.
- C Operational information is required infrequently by its main users.
- D Two characteristics of good information are cost beneficial and regular.

8 Which of the following is NOT one of the five fundamental principles of the CIMA code of ethics?

- A Integrity
- B Responsibility
- C Professional competence and due care
- D Confidentiality