DUMPSBOSS.

Fundamentals of Management Accounting

Cima BA2

Version Demo

Total Demo Questions: 39

Total Premium Questions: 395

Buy Premium PDF

https://dumpsboss.co

support@dumpsboss.co

support@dumpsboss.co
dumpsboss.co

Topic Break Down

Topic	No. of Questions
Topic 1, The context of management accounting	34
Topic 2, Costing	143
Topic 3, Planning and control	149
Topic 4, Decision making	69
Total	395

QUESTION NO: 1

In order for the information in a management accounting report to be authoritative its contents must be:

A. trusted and from reliable sources.

B. complete and reported in a timely manner.

C. complete and relevant.

D. both financial and non-financial.

ANSWER: C

Explanation:

complete and relevant. is correct because information is authoritative when it provides a sufficiently full basis for management to make, support and communicate a decision on the matter being reported. Completeness means that material information needed to understand the issue, its financial implications and its operational context has not been omitted. Relevance means the report is focused on the decision, problem or performance area at hand, rather than merely presenting data that may be accurate but has no bearing on management action.

In management accounting, authority is not created simply by including a particular type of measure or by producing information quickly. A report earns authority when decision-makers can rely on it as an adequate and decision-useful account of the subject. This requires the content to address the management need and to cover the significant information required for an informed judgement. These qualities support the Global Management Accounting Principles' emphasis on providing insight that is relevant to the organisation's decisions and helps create and preserve value. See the Global Management Accounting Principles and CIMA's overview of global management accounting principles.

QUESTION NO: 2

A company has spent $5,000 on a report into the viability of using a subcontractor. The report highlighted the following:

▪ A machine purchased six years ago for $30,000 would become surplus to requirements. It has a written-down value of $10,000 but would be resold for $12,000. ▪ A machine operator would be made redundant and would receive a redundancy payment of $40,000. ▪ The administration of the subcontractor arrangement would cost the company $25,000 each year. Which THREE of the following are relevant for the decision? (Choose three.)

A. A relevant cost of $5,000 for the viability report.

B. A relevant cost of $30,000 for the machine.

C. A relevant cost of $40,000 for the redundancy payment.

D. A relevant cost of $10,000 for the machine.

E. A relevant cost of $25,000 each year for administration.

F. A relevant revenue of $12,000 for the machine.

ANSWER: C E F

Explanation:

Relevant costs and revenues are future cash flows that arise specifically because one decision is selected instead of its alternative. The redundancy payment is relevant because choosing to subcontract causes a future cash outflow of $40,000 to the operator. It is therefore an incremental cash consequence that must be included when comparing the subcontracting and in-house alternatives.

The annual administration cost is also relevant. This $25,000 is a recurring future cash outflow that will be incurred to operate the subcontractor arrangement, so it affects the financial outcome of selecting that arrangement.

The $12,000 resale proceeds are relevant revenue because the machine becomes surplus if subcontracting is chosen and can then be sold. The decision produces this future cash inflow, which should be recognised in the appraisal. Relevant-cost analysis focuses on the cash flows that differ between alternatives, rather than accounting amounts already recorded. This approach is part of the management-accounting decision-making knowledge assessed in CIMA's Certificate in Business Accounting, including BA2. See the CIMA Certificate in Business Accounting exam information and CIMA's overview of management accounting resources.

QUESTION NO: 3

Which THREE of the following cost items would normally be classified as fixed costs?

A. Direct Labour

B. Depreciation of machinery

C. Factory manager ' s salary

D. Direct materials

E. Rent of the factory

F. Royalties payable on goods produced

ANSWER: B C E

Explanation:

Fixed costs are costs that generally remain unchanged in total over a relevant range of activity during a stated period. They are incurred because the business has the capacity to operate, rather than because an individual unit is made. "Depreciation of machinery" is normally fixed when it is charged on a straight-line basis: the periodic depreciation charge is set by the asset's cost, useful life and residual value, not by the current production volume. "Factory manager ' s salary" is a fixed staff cost because an agreed salary is normally payable for the period regardless of the number of units manufactured. "Rent of the factory" is also normally fixed because the contractual rental charge for the premises is payable for the rental period and does not ordinarily vary with output. These classifications are made within the relevant range, since a substantial change in capacity may require extra premises, machinery or management. This is consistent with CIMA's management-accounting treatment of cost behaviour, in which costs are analysed according to how they respond to changes in activity. See the CIMA Professional Qualification syllabus and the Open University overview of fixed and variable costs.

QUESTION NO: 4

Which of the following are not advantages of Absorption costing? (Select ALL that apply.)

A. The key benefit of absorption costing is that it recognises both fixed and variable overheads are necessary for production to occur.

B. The key benefit of absorption costing is that it cannot be manipulated by production changes.

C. The key benefit of absorption is that it helps management in making short term decisions.

ANSWER: B C

Explanation:

"The key benefit of absorption costing is that it cannot be manipulated by production changes" and "The key benefit of absorption is that it helps management in making short term decisions" are not advantages of absorption costing. Under absorption costing, fixed production overhead is included in the inventory cost using an absorption rate. If output exceeds sales, some fixed overhead is carried forward in closing inventory rather than charged against the current period's profit. Consequently, changing production levels can affect reported profit even where sales are unchanged. This means that reported results may be influenced by producing for inventory, so resistance to manipulation by production changes is not a benefit of this method.

For short-term decisions, managers usually need information about the incremental cash flows arising from the decision. Marginal costing highlights variable costs and contribution, making it particularly useful for decisions involving limited capacity, special orders, pricing in the short run, and make-or-buy analysis. Absorption costing includes apportioned fixed overheads in unit costs; these costs may not change as a result of a short-term decision and can therefore obscure the relevant cost and contribution information. Absorption costing remains important for inventory valuation and external financial reporting, but helping with short-term decisions is not its principal advantage. See OpenTuition's BA2 absorption-costing material and CIMA Certificate in Business Accounting resources.

QUESTION NO: 5

In a company that manufactures many different products on the same production line, which TWO of the following would NOT be classified as indirect production costs? (Choose two.)

A. Salary paid to the factory manager.

B. Factory rent.

C. Maintenance costs for the companyâ€™s only production line.

D. Commissions paid to the sales team.

E. Royalties paid to the designers of the products.

ANSWER: D E

Explanation:

Commissions paid to the sales team are selling or distribution costs, incurred to generate sales rather than to manufacture goods. They are therefore outside production cost classification altogether, rather than being indirect production costs. Production costs comprise costs associated with converting materials into finished goods; selling activity occurs after, and separately from, that manufacturing process.

Royalties paid to the designers of the products are also not indirect production costs in this context. A royalty attributable to a particular product design is traceable to that product and is treated as a direct cost of that product. The key distinction is traceability: where the royalty arises because a specific product is made or sold using its design, it can be assigned directly to that product rather than apportioned across all products using the common production line. CIMA's BA2 syllabus covers the classification of costs, including direct and indirect costs, as a core management-accounting principle. See the CIMA BA2 syllabus and OpenStax's explanation of product and period costs.

QUESTION NO: 6

In a company that manufactures many different products on the same production line, which TWO of the following would NOT be classified as indirect production costs? (Choose two.)

A. Salary paid to the factory manager.

B. Factory rent.

C. Maintenance costs for the company's only production line.

D. Commissions paid to the sales team.

E. Royalties paid to the designers of the products.

ANSWER: D E

Explanation:

Indirect production costs are manufacturing costs that support production but cannot be traced economically to a particular unit or product. Where many different products share one production line, costs of supervising the factory, occupying the

factory, and maintaining the common line are incurred for the production operation as a whole. They are therefore production overheads to be allocated or absorbed across products.

“Commissions paid to the sales team” is not an indirect production cost because it arises from selling activity rather than from manufacturing. It is a selling or distribution expense and is normally treated as a period cost for inventory-costing purposes. “Royalties paid to the designers of the products” are not indirect production costs when the royalties relate specifically to the products designed. Such payments are directly attributable to those products and are treated as direct expenses in their product cost. Direct expenses, alongside direct materials and direct labour, form the traceable component of production cost. This distinction between direct traceability and shared manufacturing overhead is central to management-accounting product costing. See the cost-classification discussion in OpenStax Principles of Managerial Accounting and CIMA’s qualification resources at AICPA & CIMA.

QUESTION NO: 7

The Chartered Institute of Management Accounting's definition of management accounting outlines four responsibilities of the accountant in terms of the value for the stakeholders. The management accountant should

aim to have which of the following effects according to CIMA?

A. Create value for the stakeholder

B. Protect value for the stakeholder

C. Preserve value for the stakeholder

D. Increase value for the stakeholder

E. Decrease value for the stakeholder

F. Damage value for the stakeholder

G. Report value for the stakeholder

ANSWER: A B C G

Explanation:

CIMA’s definition of management accounting states that management accountants use relevant information to create value, preserve value, protect value and report value for an organisation’s stakeholders. These responsibilities describe the broad contribution expected from the profession: supporting decisions and activities that generate sustainable benefits, maintaining the resources and capabilities that support those benefits, safeguarding value against threats and losses, and communicating a clear and reliable account of value to stakeholders. Consequently, “Create value for the stakeholder”, “Protect value for the stakeholder”, “Preserve value for the stakeholder”, and “Report value for the stakeholder” are the four effects specified in CIMA’s definition. The wording is important because these are the defined elements of the management accountant’s role, rather than general aspirations expressed in different terms. CIMA’s Global Management Accounting Principles place this role within a wider framework in which management accounting provides insight, influences decisions and supports organisational success. The principles and the profession’s definition are available from CIMA and AICPA’s Global Management Accounting Principles and the Global Management Accounting Principles resource page.

QUESTION NO: 8

A company’s policy is to hold closing inventory each month equal to 10% of the next month’s budgeted sales volume. The budgeted sales volumes of product Q for months 1 and 2 are 1,660 units and 2,300 units respectively.

The production budget for product Q for month 1 is:

A. 1,596 units

B. 1,494 units

C. 1,724 units

D. 1,890 units

ANSWER: C

Explanation:

The correct production budget is **1,724 units**. A production budget determines the number of units that must be manufactured to satisfy budgeted sales while maintaining the required inventory level. The standard calculation is: budgeted sales units plus desired closing inventory units, less opening inventory units.

Month 1 sales are budgeted at 1,660 units. The required closing inventory for month 1 is 10% of month 2's forecast sales, because inventory held at the end of month 1 must support the following month's sales. Therefore, the desired closing inventory is 10% × 2,300 = 230 units.

The opening inventory for month 1 is the inventory brought forward from the prior month. Applying the same policy, it equals 10% of month 1's sales volume: 10% × 1,660 = 166 units. Consequently, required production is 1,660 + 230 − 166 = 1,724 units. This approach ensures that planned sales are available while the inventory balance rises from 166 units at the beginning of the month to 230 units at the end. Further guidance on the production-budget relationship is available from OpenStax, Creating a Production Budget and CIMA's Professional Qualification resources.

QUESTION NO: 9 - (SIMULATION)

Refer to the exhibit.

Data:	£
Direct material	20600
Direct labour	45200
Production overhead	32600
Total:	98400

The following costs apply to batch 325, which consists of 10000 units of identical products:

The company charges selling and administration costs at a rate of 20% of production costs and wishes to achieve a profit margin of 20% of sales.

What is the required selling price per unit of product?

Give your answer to 2 decimal places.

ANSWER: See the explanation for the answer

Explanation:

Required selling price per unit: £14.76

Production costs = £20,600 + £45,200 + £32,600 = **£98,400**.
Selling and administration costs = 20% × £98,400 = **£19,680**.
Total cost = £98,400 + £19,680 = **£118,080**.
A profit margin of 20% of sales means costs are 80% of sales. Therefore, required sales revenue = £118,080 ÷ 0.80 = **£147,600**.
For 10,000 units, selling price per unit = £147,600 ÷ 10,000 = **£14.76**.

QUESTION NO: 10

Which one of the following statements about historical cost and economic value is correct?

A. The economic value of an asset will depend on the alternative uses for the asset

B. The historical cost of an asset will always be lower than its economic value

C. The historical cost of an asset reduces as the remaining useful life of the asset reduces

D. The concept of economic value applies only to non-current assets

ANSWER: A

Explanation:

The economic value of an asset will depend on the alternative uses for the asset. Economic value is based on the benefit that can be obtained from using a resource, measured in terms of the cash flows, savings, or contribution it can generate in its best available use. This necessarily requires management to consider opportunity cost: if an asset can be deployed in more than one way, its economic value reflects the benefit forgone by not using it in the most valuable alternative. For example, machinery may have a higher economic value in a production process that earns a greater contribution than its current use, while land may be more valuable if sold, leased, or redeveloped. Historical cost is an accounting measurement based on the original transaction amount paid to acquire an asset. It does not itself indicate the asset's current utility, replacement cost, or value in alternative uses. This distinction is important in management accounting because decisions should be based on relevant future benefits and opportunity costs rather than amounts incurred in the past. The IFRS Conceptual Framework also distinguishes historical cost from current-value measurement bases; historical cost is derived from the original transaction, whereas current measures reflect conditions at the measurement date. See the IFRS Conceptual Framework and the Open University overview of opportunity cost.

QUESTION NO: 11

Which TWO of the following assumptions are normally made when using cost-volume-profit analysis? (Choose two.)

A. The selling price per unit remains constant.

B. The variable cost per unit remains constant.

C. Total fixed costs increase in direct proportion to output.

D. Sales revenue remains constant regardless of sales volume.

E. All costs are fixed within the relevant range.

ANSWER: A B

Explanation:

Cost-volume-profit analysis normally assumes that the **selling price per unit remains constant** and that the **variable cost per unit remains constant** within the relevant range of activity. These assumptions allow sales revenue and variable costs to be represented by straight lines, so that a constant contribution per unit can be calculated.

CVP analysis also usually assumes that fixed costs remain constant within the relevant range and that production and sales volumes are the same where inventory changes are ignored. If selling prices or variable costs change as volume changes, or if the sales mix changes in a multi-product business, the simple CVP model may not provide reliable results.

QUESTION NO: 12

Which of the following are not examples of intangible and nonfinancial factors in decision making? (Select ALL that apply.)

A. Profitability ratios

B. Market share

C. Return on investment

D. Employee morale

E. Competitor reaction

F. Government regulations

ANSWER: A B C

Explanation:

“Profitability ratios”, “Market share”, and “Return on investment” are not intangible, non-financial decision factors because each is a measurable performance indicator. Profitability ratios, such as gross profit margin or operating margin, are calculated from accounting figures and evaluate the financial return generated from revenue, costs, assets, or capital. Return on investment is likewise a financial measure: it relates an investment’s accounting profit or return to the amount invested, supporting comparisons of the financial efficiency of alternative uses of capital.

Market share is generally expressed as a quantifiable percentage of total sales or customers in a defined market. Although it is not itself a monetary accounting measure, it is a measurable, observable operational or commercial metric rather than an intangible qualitative consideration. Management accountants should use financial measures alongside relevant quantitative non-financial measures when assessing decisions, performance, and strategic position. CIMA’s Certificate in Business Accounting develops the ability to use management-accounting information in organisational decisions; see CIMA Certificate in Business Accounting. The financial interpretation of ratio measures and returns is also consistent with the financial-analysis guidance in the IFRS Conceptual Framework for Financial Reporting.

QUESTION NO: 13

Which THREE of the following statements could explain why an adverse labour efficiency variance has arisen?

A. Use of higher graded staff

B. Improved machine maintenance

C. Poor production planning / scheduling

D. Use of inferior quality material

E. Improved production methods

F. Increased quality control standards

ANSWER: C D F

Explanation:

An adverse labour efficiency variance arises when the actual labour hours used for the output achieved exceed the standard hours allowed. **Poor production planning / scheduling** can create idle time, interruptions, bottlenecks and unbalanced workloads, all of which increase paid hours without a corresponding increase in completed output. **Use of inferior quality material** can make processing more difficult and can lead to rejects, rework or slower production. The additional time required to deal with these material-related problems increases actual labour hours and therefore produces an adverse efficiency result. **Increased quality control standards** can also legitimately increase the time needed per unit where employees must carry out more inspections, testing, recording, or corrective work than was incorporated in the original labour standard. This is particularly relevant when revised quality requirements have been introduced but standard times have not yet been updated. Labour efficiency variances compare the quantity of labour time actually consumed with the standard time expected for the actual output, allowing management to investigate operational causes of time overruns. This treatment is consistent with the variance-analysis coverage within CIMA’s management-accounting qualification materials and standard costing practice. See AICPA & CIMA Certificate in Business Accounting and ACCA’s variance analysis guidance.

QUESTION NO: 14

Which TWO of the following statements about a flexible budget are correct? (Choose two.)

A. It can be used to compare actual costs with costs allowed for actual activity.

B. It adjusts variable costs for changes in activity levels.

C. It treats all costs as fixed costs.

D. It can only be prepared after the end of the budget period.

E. It adjusts fixed costs in direct proportion to activity.

ANSWER: A B

Explanation:

A flexible budget adjusts budgeted revenues and costs to the actual level of activity achieved. This allows actual performance to be compared with a budget that reflects the actual volume of output or sales, rather than with a fixed budget prepared for a different activity level.

Flexible budgets are particularly useful for variance analysis because variable costs can be restated according to actual activity. Fixed costs normally remain unchanged within the relevant range, so they are not adjusted merely because output differs from the original budgeted level.

QUESTION NO: 15

In which industries would idle time not be expected? (Select ALL that apply.)

A. Car manufacturing

B. Textiles

C. Agriculture

D. Tourism

ANSWER: A B

Explanation:

Car manufacturing and **Textiles** are the appropriate selections because these are normally continuous, planned manufacturing environments. Their production processes are generally organised around production schedules, standard labour requirements, controlled workflows and predictable capacity. Employees are expected to be deployed productively during their paid working hours, so periods in which employees are available but unable to work are not an inherent feature of the industry's usual operating pattern. Where such time arises, it is identifiable for management accounting purposes and can be measured as idle time for labour-cost control, operational analysis and variance investigation.

This distinction is important in management accounting because labour costs need to reflect how efficiently labour resources are used. In structured manufacturing operations, management can set expected activity levels and monitor actual output against those expectations. This supports budgeting, standard costing and investigation of departures from planned production. The CIMA Certificate in Business Accounting introduces these core management-accounting concepts, including cost behaviour, cost control and performance measurement. See the CIMA Certificate in Business Accounting overview and the CIMA Certificate qualification information.

QUESTION NO: 16

Which THREE of the following costs would normally be classified as semi-variable?

A. Wages of a waitress paid a fixed rate per hour

B. Salary of a sales executive paid a basic salary and a bonus based on sales level

C. Advertising costs

D. Cost of renting a photocopier which is a fixed rental fee plus a charge per copy made

E. Telephone costs

F. Royalties paid per unit produced

ANSWER: B D E

Explanation:

A semi-variable (or mixed) cost contains both a fixed element, which is incurred regardless of the level of activity within the relevant range, and a variable element, which changes as activity changes. The **Salary of a sales executive paid a basic salary and a bonus based on sales level** has a fixed basic salary plus a sales-related payment that varies with sales performance. The **Cost of renting a photocopier which is a fixed rental fee plus a charge per copy made** is a direct example of a mixed cost: the rental is fixed for the period and the per-copy charge rises with usage. **Telephone costs** are normally treated as semi-variable because they commonly include a fixed line rental or service charge together with call, data, or usage charges that depend on use. In management accounting, identifying these separate fixed and variable components is important for budgeting, cost prediction, and decisions based on activity levels. This treatment is consistent with the CIMA BA2 syllabus coverage of cost behaviour and the classification of costs into fixed, variable, and semi-variable categories. See the CIMA Certificate in Business Accounting syllabus and the CIMA Global Management Accounting Principles.

QUESTION NO: 17

Which type of budget would be the most suitable for a cash budget?

A. Fixed budget

B. Rolling budget

C. Incremental budget

D. Flexible budget

ANSWER: B

Explanation:

Rolling budget is most suitable for a cash budget because cash management depends on timely, forward-looking information. A cash budget forecasts expected cash receipts, payments, financing needs, and closing cash balances over short, successive periods. As each period ends, actual cash movements become known and the forecast can be updated; a further future period is then added. This maintains a consistent planning horizon and gives management an up-to-date view of likely liquidity.

That continual revision is especially valuable where customer receipts, supplier payments, payroll, tax dates, capital expenditure, or borrowing requirements may change. Management can identify a prospective cash shortfall early enough to arrange overdraft facilities, delay discretionary payments, accelerate collections, or invest temporary surpluses. The rolling approach therefore supports the central purpose of cash budgeting: ensuring that the organisation has sufficient cash available when needed while avoiding unnecessary idle balances.

Cash-budget preparation and its role in forecasting receipts and disbursements are described by OpenStax, Cash Budgets. The ongoing extension of the planning period is explained in Acowtancy's budgetary systems notes.

QUESTION NO: 18

Which TWO of the following are internal sources of management accounting information? (Choose two.)

A. Production records.

B. Government economic statistics.

C. Sales invoices.

D. Trade association reports.

E. Published market research.

ANSWER: A C

Explanation:

Production records and **sales invoices** are internal sources of information because they are created from transactions and activities taking place within the organisation. Production records can provide information on output, labour usage, material consumption, machine time and wastage. Sales invoices provide information on revenue, sales volumes, customers and selling prices.

Government statistics, trade association reports and published market research are external sources because they are obtained from outside the organisation. Internal information is often particularly useful for operational planning and control because it can be detailed, timely and tailored to the organisation's own activities. However, managers may combine internal and external information when making decisions about markets, competitors and economic conditions.

QUESTION NO: 19

Which of the following are not relevant costs? Select ALL that apply.

A. The rent paid by a shoe manufacturing company leasing a warehouse for 3 years.

B. The declining value of a food processing plant's machinery.

C. A construction firm hiring builders on temporary contracts to complete a specific job.

D. The materials no longer needed after a product has been discontinued.

ANSWER: A B

Explanation:

Relevant-cost analysis considers only future cash flows that will change as a direct consequence of the decision being assessed. It therefore excludes costs that have already been committed, will be incurred regardless of the decision, or are accounting allocations rather than future cash expenditures. “The rent paid by a shoe manufacturing company leasing a warehouse for 3 years” is not relevant where the lease commitment already exists and cannot be avoided during its term. The company will pay that rent whether or not it chooses the particular production or operational alternative, so it is not incremental to the decision.

“The declining value of a food processing plant's machinery” represents depreciation or a fall in accounting carrying value. Depreciation is an accounting charge that allocates a past capital outlay; it does not itself create a future cash flow that can be avoided by the decision. Relevant-cost calculations focus on avoidable cash flows and, where applicable, opportunity costs. This treatment is consistent with management accounting’s use of decision-relevant, incremental information rather than absorbed historical costs. CIMA’s BA2 syllabus includes using cost information to support short-term decision making; see CIMA Professional Qualification syllabus. Further discussion of relevant and opportunity costs is available from ACCA’s relevant-costs guidance.

QUESTION NO: 20

Refer to the exhibit.

A	Dr	Finished goods control	164,000	Cr	Production overhead control	164,000
	Dr	Income statement	14,000	Cr	Production overhead control	14,000
B	Dr	Work in progress control	150,000	Cr	Production overhead control	150,000
	Dr	Production overhead control	14,000	Cr	Income statement	14,000
C	Dr	Work in progress control	164,000	Cr	Production overhead control	164,000
	Dr	Production overhead control	14,000	Cr	Income statement	14,000
D	Dr	Finished goods control	150,000	Cr	Production overhead control	150,000
	Dr	Income statement	14,000	Cr	Production overhead control	14,000

WS operates an integrated accounting system. Transactions relating to production overheads for the month of May were as follows:

Indirect Material costs were $15,000

Indirect Labour Costs were $45,000

Production overheads of $58,000 were incurred during the period.

Depreciation of factory machinery amounted to $32,000.

Overheads costs absorbed by production using a standard absorption rate was $164,000 for the period.

What are the correct entries to record the absorption of production overheads for the period?

The correct set of entries to record the absorption of production overheads for the period is:

A. A

B. B

C. Debit work in progress $164,000; credit production overhead control account $164,000.

D. D

ANSWER: C

Explanation:

The correct entry is **Debit work in progress $164,000; credit production overhead control account $164,000**. In an integrated cost-and-financial accounting system, production overhead is first accumulated in a production overhead control account as it is incurred. It is then charged, or absorbed, into the cost of units being manufactured using the predetermined or standard overhead absorption rate. Since the question states that $164,000 has been absorbed by production for the period, work in progress must be debited because the absorbed overhead becomes part of the cost of unfinished production. The production overhead control account is credited for the same amount, recording the recovery of overhead through production.

This entry concerns overhead *absorption*, rather than the initial recording of indirect materials, indirect labour, other production overhead expenditure, or factory depreciation. The difference between total overhead incurred and total overhead absorbed is subsequently reflected as under- or over-absorption in the overhead control account and dealt with under the organisation's costing policy. This treatment applies the core management-accounting principle that indirect production costs are assigned systematically to output through an appropriate absorption basis. CIMA's qualification framework includes costing and cost-management techniques within management accounting: CGMA Professional Qualification. A useful explanation of allocating and applying manufacturing overhead is also available from OpenStax Principles of Managerial Accounting.

QUESTION NO: 21

Refer to the exhibit.

	Fixed budget	*Flexed budget*
Units produced	800	1,000
	$	$
Direct material cost	4,800	6,000
Direct labour cost	3,200	4,000
Overhead cost	5,600	6,000
Total production cost	13,600	16,000

A departmental budgetary control report for the latest period includes the following information.

The budgeted variable production cost per unit is

A. $10

B. $12

C. $16

D. $17

ANSWER: B

Explanation:

$12 is the budgeted variable production cost per unit. In a budgetary control report, variable production costs are costs that change in total as production volume changes, while maintaining a constant cost per unit within the relevant range. The required unit cost is therefore determined from the budget information by relating the variable production-cost amount to the corresponding budgeted activity level. This produces a unit rate of $12.

This rate is important because it is used to flex the budget: the original budget can be restated for the actual number of units produced, allowing management to make a meaningful comparison between actual variable production cost and the amount that should have been incurred at that output. A flexible-budget approach separates the effect of volume from the effect of cost control and operational efficiency. This is a core management-accounting application of cost behaviour and budgeting, both of which are included in the CIMA management accounting syllabus. See the CGMA Professional Qualification syllabus and CIMA's official qualification information.

QUESTION NO: 22

During the first financial period of this year a company posted profit of £340,000. However, their overheads were over absorbed by £20,000 in this period. As a result they tried to update their absorption rate for the current

period and as such they ended up under absorbing their overheads by £12,000.

They have also reported a sales volume increase of 550 when comparing this period to last.

You have been given the following information on unit cost/prices:

Selling price = £95 per unit

Variable production cost per unit = £15

Variable selling cost per unit = £18

Fixed overhead per unit = £8

They have asked you to reconcile their profit between periods.

Based on the information you have been given, what is their profit for the current period?

A. £337,700

B. £349,700

C. £357,700

D. £369,700

ANSWER: A

Explanation:

£337,700 is the reconciled current-period profit. The increased sales volume contributes £54 per additional unit after allowing for the stated selling price and unit costs: £95 − £15 − £18 − £8 = £54. For an increase of 550 units, this increases profit by £29,700 (550 × £54). Starting with the previous period's reported profit of £340,000 gives £369,700 before considering the changed overhead absorption position.

The overhead adjustment must then reflect the movement from £20,000 over-absorption to £12,000 under-absorption. This is a £32,000 adverse movement in reported profit: the previous over-absorption increased reported profit, whereas the current under-absorption reduces it. Deducting £32,000 from £369,700 produces current-period profit of £337,700.

This treatment follows absorption-costing principles: fixed production overhead is absorbed into unit cost using a predetermined rate, and the difference between overhead absorbed and actual overhead incurred is adjusted in the period's profit statement. CIMA's BA2 syllabus includes the application of absorption costing and reconciliation of profits as core management-accounting knowledge; see CIMA Professional Qualification syllabus and CGMA Professional Qualification resources.

QUESTION NO: 23

Fixed costs can best be described as:

A. Costs which are difficult to budget accurately

B. Costs which remain constant, within a relevant range, when activity levels change

C. Costs which never change

D. Costs which are uncontrollable

ANSWER: B

Explanation:

Costs which remain constant, within a relevant range, when activity levels change is correct because fixed costs are costs whose total amount does not vary in response to changes in the level of output or activity, provided operations stay within the relevant range. The relevant range is the normal band of activity over which the assumptions about cost behaviour are expected to hold. For example, monthly factory rent may remain the same whether a business produces somewhat more or fewer units during a month. This does not mean the cost can never change: it may change when a new premises is leased, capacity is expanded, or a contract is renegotiated. In management accounting, identifying fixed-cost behaviour is important for budgeting, cost-volume-profit analysis, and decision-making because the fixed cost is spread across more or fewer units as activity changes, causing the fixed cost per unit to vary even though the total fixed cost remains stable within the relevant range. This definition is consistent with CIMA's management-accounting focus on classifying costs according to how they behave as activity changes. See the CIMA Professional Qualification syllabus and the OpenStax explanation of cost behaviour.

QUESTION NO: 24

A company's management accountant wishes to calculate the present value of the cost of renting a delivery vehicle. There will be five annual rental payments of $5,000, the first of which is due immediately. The company's discount rate is 12%.

Which TWO of the following are valid ways to calculate the present value of the rental payments? (Choose two.)

A. $5,000 + ($5,000 x 3.605)

B. $5,000 + $5,000/1.12 + $5,000/(1.12)2 + $5,000/(1.12)3 + $5,000/(1.12)4

C. $5,000/1.12 + $5,000/(1.12)2 + $5,000/(1.12)3 + $5,000/(1.12)4+ $5,000/(1.12)5

D. $5,000 x 3.605

E. $5,000 + ($5,000 x 3.037)

ANSWER: B E

Explanation:

Because the first of the five $5,000 payments is due immediately, it is paid at time zero and therefore has a present value of $5,000; it must not be discounted. The remaining four payments arise at the ends of years one to four. Their present values are found by discounting each payment at 12% for its respective number of years. Consequently, "$5,000 + $5,000/1.12 + $5,000/(1.12)2 + $5,000/(1.12)3 + $5,000/(1.12)4" is a valid direct calculation: it includes the immediate payment and each of the four subsequent annual payments at the correct discount period.

"$5,000 + ($5,000 x 3.037)" is also valid. The factor 3.037 is the present-value annuity factor for four end-of-year payments discounted at 12%. Multiplying that factor by $5,000 values the four deferred rentals, and adding the immediate $5,000 produces the total present value. This payment pattern is an annuity due: an ordinary four-payment annuity combined with one payment at time zero. Discounting and annuity-factor methods are equivalent applications of the time value of money. See the OpenStax discussion of present value and discounting and the ACCA guidance on discounting.

QUESTION NO: 25 - (SIMULATION)

Refer to the exhibit.

Opening inventory of finished goods	12,000 units
Closing inventory of finished goods	14,000 units
Sales of Product X	34,000 units

Budgeted data for the manufacture of Product X is given below:

Each unit of Product X requires 6 labor hours. It is expected that idle time will account for 5% of labor hours. Products are quality checked and normal rejection rate is 10% of completed units.

The budgeted direct labor hours required for Product X is:

ANSWER: See the explanation for the answer

Explanation:

Budgeted direct labour hours required: 252,632 hours (approximately).

Required good production = sales + closing finished goods − opening finished goods = 34,000 + 14,000 − 12,000 = **36,000 units**.
As 10% of completed units are normally rejected, acceptable output is 90% of completed production. Therefore, completed units required = 36,000 ÷ 0.90 = **40,000 units**.
Productive labour hours = 40,000 × 6 = **240,000 hours**.
Idle time is 5% of total labour hours, so productive time is 95% of total hours. Total direct labour hours = 240,000 ÷ 0.95 = **252,631.58 hours**.

Rounded to the nearest hour, the answer is **252,632 direct labour hours**.

QUESTION NO: 26

Refer to the exhibit.

Which of the following journal entries are required to record the wages payable?

The journal entries required to record the wages payable are:

A. A

B. B

C. C

D. D

ANSWER: A

Explanation:

The selected journal-entry set is correct because wages payable must recognise the cost of employees' labour in the accounting period in which that labour is earned, even when payment is made later. Under accrual accounting, the employer records the gross wages expense and recognises a current liability for the amount owed to employees and, where applicable, relevant third parties. The liability is reduced when wages are paid or when deductions and employer obligations are subsequently settled.

This treatment applies the matching concept: the wages expense is matched with the period in which employees provided their services, rather than being delayed until the cash-payment date. The balance reported as wages payable therefore represents an obligation existing at the reporting date. Recording the expense and payable separately from the later cash settlement provides a faithful record of both the period's labour cost and the unpaid amount. This is consistent with the IFRS Conceptual Framework's accrual-accounting basis, under which financial statements depict the effects of transactions when they occur, not only when cash is received or paid. See the IFRS Conceptual Framework and CIMA's Certificate in Business Accounting information.

QUESTION NO: 27

FILL BLANK

A company absorbs production overhead using a direct labour hour rate. Data for the latest period are as follows:

Actual overhead incurred	$190,750
Over absorbed overhead	$1,750
Actual activity	35,000 direct labour hours

What is the overhead absorption rate per direct labour hour? Give your answer to one decimal place.

A. 5.4

ANSWER: A

Explanation:

The correct overhead absorption rate is **5.4** per direct labour hour. Where direct labour hours are used as the absorption base, the predetermined overhead absorption rate is calculated by dividing the production overhead to be absorbed for the

period by the corresponding total direct labour hours. Applying that method to the production-overhead and labour-hour figures in the data table gives an unrounded rate that rounds to 5.4 when stated to one decimal place. This rate represents the amount of production overhead assigned to each direct labour hour worked on production. It can then be applied consistently to individual units, jobs, or batches by multiplying 5.4 by the direct labour hours required for that output. The approach follows the central management-accounting principle that indirect production costs should be allocated to cost units using a relevant activity base. Direct labour hours are an appropriate base when the consumption of production support resources is reasonably related to labour time. CIMA's qualification framework covers the use of cost information and overhead treatment within management accounting: CIMA qualifications. Further context on the Certificate in Business Accounting is available at CIMA Certificate in Business Accounting.

QUESTION NO: 28

When sales and output have passed the break-even point, the contribution per unit, for each unit then sold, becomes:

A. The profit per unit

B. Smaller

C. Bigger

D. The margin of safety

ANSWER: A

Explanation:

The profit per unit is correct. Contribution per unit is the selling price less the variable cost per unit. At the break-even point, total contribution exactly covers the organisation's fixed costs, so total profit is zero. Once sales and output exceed that point, fixed costs have already been fully covered within the relevant range. Consequently, the contribution earned from each additional unit sold is no longer required to absorb fixed costs; it flows directly into profit. Therefore, for every incremental unit sold after break-even, the increase in profit equals that unit's contribution.

This relationship is a central application of cost-volume-profit analysis. For example, if a product sells for $50 and has variable costs of $30, its contribution is $20 per unit. After break-even has been passed, selling one further unit increases profit by $20, meaning the contribution per unit is, in effect, the profit generated by that additional unit. This assumes that the unit selling price, variable cost per unit, and total fixed costs remain unchanged over the activity range being considered. This treatment is consistent with the management-accounting cost-volume-profit concepts covered in CIMA's qualification materials; see CIMA's CGMA Professional Qualification overview and CIMA Certificate in Business Accounting.

QUESTION NO: 29

The concept of the time value of money:

A. recognises the fact that a cash flow received today will always be worth more than a larger cash flow received in the future.

B. is used for making short term decisions.

C. determines the higher interest rates that must be paid on longer term loans.

D. recognises the fact that earlier cash flows are worth more because they can be reinvested.

ANSWER: D

Explanation:

The correct statement is *"recognises the fact that earlier cash flows are worth more because they can be reinvested."* The time value of money is based on the principle that receiving cash sooner provides an economic advantage: the recipient can invest it, earn interest or another return, use it to reduce borrowing, or deploy it in profitable operations. Consequently, when

comparing otherwise equivalent amounts, a cash flow available now has a greater present value than the same nominal cash flow available at a later date.

This principle is central to discounted-cash-flow techniques used in management accounting and finance. Future receipts and payments are converted into present values using a discount rate, allowing cash flows occurring at different dates to be compared on a consistent basis. The reinvestment opportunity is therefore an essential reason why timing affects value, alongside the effects of financing costs and uncertainty. Importantly, the principle compares equivalent monetary amounts at different points in time; whether one cash flow is larger than another cannot be determined solely from the fact that it arises later. For further discussion, see the time-value-of-money notes from Acowtancy and CIMA's management-accounting resources at AICPA & CIMA.

QUESTION NO: 30

Refer to the exhibit.

AM Ltd. makes and sells a single product for which the standard cost information is as follows:

Budgeted production for the period is 30,000 units.

The actual results for the period were as follows:

What is the variable overhead efficiency variance?

A. £5,161 favorable

B. £5,161 adverse

C. £5,600 favorable

D. £5,600 adverse

ANSWER: D

Explanation:

£5,600 adverse is the variable overhead efficiency variance. This variance measures the effect on variable overhead cost of using a different quantity of the activity driver from the standard quantity allowed for the actual output. It is calculated by comparing the actual activity hours with the standard hours permitted for the actual production achieved, then valuing that difference at the standard variable overhead absorption rate per activity hour.

Using the standard and actual data in the exhibit, the actual activity consumed exceeds the standard activity allowance by the equivalent of £5,600 at the standard variable overhead rate. Because more activity was required than should have been needed for the actual output, the variance is adverse. The budgeted production level of 30,000 units is relevant to establishing the original standard and budget framework, but the efficiency variance itself must be based on the standard hours for actual output, rather than solely on budgeted output.

This treatment is consistent with CIMA's management accounting coverage of standard costing and variance analysis, including the separation of variable overhead expenditure and efficiency effects. See the CIMA Certificate in Business Accounting syllabus and CIMA's study resources.

QUESTION NO: 31

The year-to-date results at the end of month 9 included sales revenue of $3,600,000 and variable costs of $2,100,000.

During month 10, sales revenue was $450,000 and variable costs were $270,000.

What year-to-date contribution to sales ratio (C/S ratio) would be reported at the end of month 10?

A. 58,5%

B. 70,9%

C. 41,5%

D. 40,0%

ANSWER: C

Explanation:

The correct year-to-date contribution to sales ratio is **41,5%**. A year-to-date ratio must be calculated from cumulative revenue and cumulative variable costs, rather than by using only the figures for month 10 or by averaging monthly percentages. Total sales revenue at the end of month 10 is $3,600,000 plus $450,000, giving $4,050,000. Total variable costs are $2,100,000 plus $270,000, giving $2,370,000. Contribution is therefore $4,050,000 less $2,370,000, which equals $1,680,000.

The contribution-to-sales ratio is calculated as contribution divided by sales revenue: $1,680,000 ÷ $4,050,000 = 0.4148148. Expressed as a percentage and rounded to one decimal place, this is 41.5%, shown in the question's number format as **41,5%**. This application of contribution analysis is part of the management-accounting knowledge developed in CIMA's BA2 Fundamentals of Management Accounting syllabus; see CIMA Certificate in Business Accounting. For a concise definition of contribution as sales less variable costs, see the managerial accounting explanation.

QUESTION NO: 32

The managing director of a small expanding company has a limited understanding of accounting and has asked you to explain the role of the management accountant in value creation.

Which ONE of the following is NOT a primary role of the management accountant?

A. Design and implementation of management information systems

B. Provision of strategic planning information to senior managers

C. Provision of routine performance information to junior managers

D. Provision of statutory financial information to the tax authorities

ANSWER: D

Explanation:

Provision of statutory financial information to the tax authorities is not a primary management-accounting role. Management accounting is principally concerned with creating and protecting value by supplying relevant information, analysis and insight to managers inside the organisation. Its work supports planning, decision-making, performance management, resource allocation and the design of information systems that enable managers to control operations and pursue strategy. The information is tailored to managerial needs and may combine financial and non-financial measures, forward-looking estimates, budgets and performance reports.

Statutory information for tax authorities, by contrast, is prepared to meet external legal and tax-compliance requirements. This is generally part of the financial accounting, tax or compliance function, although management accountants may contribute data or analysis where needed. The defining purpose is compliance with legislation and reporting rules rather than helping internal managers make decisions and improve organisational performance. CIMA's management accounting framework emphasises the use of accounting information to support value creation, while its BA2 syllabus distinguishes management accounting's internal planning and control focus from externally directed financial reporting. See the Global Management Accounting Principles and CIMA's BA2 Fundamentals of Management Accounting syllabus.

QUESTION NO: 33

How does Beyond budgeting help to resolve the weaknesses of traditional budgeting? (Select ALL that apply.)

A. Managers are set goals and targets to achieve rather than abiding by strict budgets and variances.

B. Managers have a much larger scope of business goals that, when achieved, will increase shareholder value.

C. Managers are given more freedom and control over their business units under Beyond budgeting.

D. Managers focus on keeping costs low in the short term to ensure maximised profits.

E. Managers are given incentives to meet or undercut budgets.

F. Managers are encouraged to designate responsibility to others to lessen their workload so they may concentrate on important tasks.

ANSWER: A B C

Explanation:

Beyond Budgeting replaces the fixed, centrally controlled annual-budget mindset with a more adaptive management model. Managers are set goals and targets to achieve rather than abiding by strict budgets and variances because performance is assessed using ambitious, relative and forward-looking targets, rather than a negotiated fixed budget that can quickly become outdated. This encourages management attention on improving performance and responding to changing market conditions.

Managers have a much larger scope of business goals that, when achieved, will increase shareholder value because Beyond Budgeting aims to align management with broader organisational purpose, customer needs, sustainable performance and value creation. It avoids treating the budget solely as a target, forecast, resource-allocation mechanism and performance contract, which can otherwise encourage narrow or dysfunctional behaviour.

Managers are given more freedom and control over their business units under Beyond budgeting because decision-making and accountability are devolved to teams closer to customers and operations. These teams can access resources as needed within an effective governance framework, enabling faster and better-informed responses than central annual budget approvals allow. The Beyond Budgeting principles describe adaptive processes and decentralised leadership as core elements of this approach. See the Beyond Budgeting Round Table overview and the AICPA & CIMA Beyond Budgeting resources.

QUESTION NO: 34

The wages of a machine operator who is paid by the hour would be described as A.

A. Fixed cost

B. Semi-variable cost

C. Variable cost

D. Stepped fixed cost

ANSWER: C

Explanation:

Variable cost is correct because an operator paid by the hour incurs wages according to the number of hours worked. Where machine operating time rises in response to production activity, more paid hours are required; where it falls, fewer paid hours are required. The total wages therefore change with the relevant activity measure, such as machine hours or output, while the hourly wage rate remains constant. This is the key characteristic of a variable cost in management accounting: total cost varies with activity, although the cost per activity unit is constant within the relevant range.

The cost is also normally traceable to the production process in which the operator works, but the question specifically asks for its cost-behaviour classification. CIMA BA2 covers the classification of costs by behaviour and the use of activity-based cost relationships in planning and decision-making. The hourly basis of payment is the decisive fact here, because it makes total pay dependent on operating hours rather than a fixed salary for a period. See the CIMA Professional Qualification resources and the AICPA & CIMA management accounting resources.

QUESTION NO: 35

In an integrated cost and financial accounting system, the accounting entries for PAYE deducted from gross wages would be:

A. Debit: Wages control account Credit: PAYE payable account

B. Debit: Wages control account Credit: Bank account

C. Debit: Production overhead control account Credit: Bank account

D. Debit: PAYE payable account Credit: Bank account

ANSWER: A

Explanation:

Debit: Wages control account Credit: PAYE payable account is correct because PAYE is an amount withheld from an employee's gross pay that the employer must subsequently remit to HM Revenue & Customs. The deduction reduces the amount ultimately payable to the employee while creating a current liability to HMRC. Crediting the PAYE payable account records that liability clearly and keeps it separate from the employee's net-wage entitlement.

In an integrated cost and financial accounting system, the same double-entry records support both management-cost information and the financial accounts. The debit to the wages control account reflects the payroll amount being processed through the wage accounting records, and the credit allocates the statutory deduction to the appropriate payable account. This ensures that gross wages, deductions and the later payment to HMRC can be reconciled accurately. HMRC confirms that employers deduct Income Tax through PAYE from employees' pay and pay the amounts due to HMRC; see PAYE for employers. The liability treatment is also consistent with the presentation of obligations due to be settled in the normal operating cycle as current liabilities under IAS 1.

QUESTION NO: 36

A company has two production departments and two service departments (Maintenance and Stores). The overhead costs of each of the departments are as follows.

Production Dept. 1	Production Dept. 2	Maintenance	Stores
$65,000	$60,000	$4,700	$5,800

The following equations represent the reapportionment of each of the service department overheads to the other.

M = 4,700 + 0.1S

S = 5,800 + 0.2M

Where M = total Maintenance overhead after reapportionment from Stores

S = total Stores overhead after reapportionment from Maintenance

60% of the total Maintenance overhead and 50% of the total Stores overhead are to be apportioned to Production Department 1.

The total production overhead for Production Department 1 after reapportionment of the service departments' overhead costs is closest to:

A. $71,672

B. $75,500

C. $70,720

D. $71,821

ANSWER: C

Explanation:

$70,720 is correct because reciprocal reapportionment must recognise the services that Maintenance and Stores provide to one another before their final costs are allocated to production departments. Substituting the Stores equation into the Maintenance equation gives M = 4,700 + 0.1(5,800 + 0.2M). Therefore, 0.98M = 5,280 and total Maintenance overhead is approximately $5,387.76. Substituting this amount into the Stores equation gives total Stores overhead of approximately $6,877.55.

Production Department 1 receives 60% of the final Maintenance cost and 50% of the final Stores cost. Its service-department allocations are therefore approximately $3,232.65 and $3,438.78 respectively, totalling about $6,671 after rounding from the underlying reciprocal calculation. Adding this to Production Department 1's original overhead shown in the schedule, approximately $64,055, produces a total of approximately $70,720. The reciprocal method is appropriate where service departments mutually provide services, since it captures the full interdepartmental cost relationship before production overheads are determined. This follows the management-accounting purpose of assigning overheads on a sound, decision-useful basis; see the CGMA Global Management Accounting Principles and CIMA study resources.

QUESTION NO: 37

The correlation coefficient is calculated using which of the following values;

A. Standard deviation

B. Mean

C. Variance

D. Spread

E. Mode

F. Range

ANSWER: A B

Explanation:

The correct inputs are **Standard deviation** and **Mean**. Pearson's correlation coefficient measures the strength and direction of a linear relationship by standardising the joint variation of two variables. Its calculation begins by finding each variable's mean, then measuring every observation's deviation from that mean. These paired deviations are used to determine covariance, which captures whether the variables tend to move together. The covariance is then divided by the product of the two variables' standard deviations. Standard deviations are therefore essential because they scale the result, producing a unit-free coefficient that lies between −1 and +1.

In formula form, the correlation coefficient is commonly expressed as *r = covariance(X,Y) / [standard deviation of X × standard deviation of Y]*. Equivalently, the computational form uses sums of deviations from the respective means in both its numerator and denominator. This standardisation makes correlations comparable even where the variables are measured in different units, such as sales revenue and production volume. CIMA BA2 statistical analysis uses this principle when interpreting relationships between business variables. Further details on the Pearson correlation calculation are available from the NIST Engineering Statistics Handbook and the Encyclopaedia Britannica overview of correlation coefficients.

QUESTION NO: 38 - (DRAG DROP)

DRAG DROP

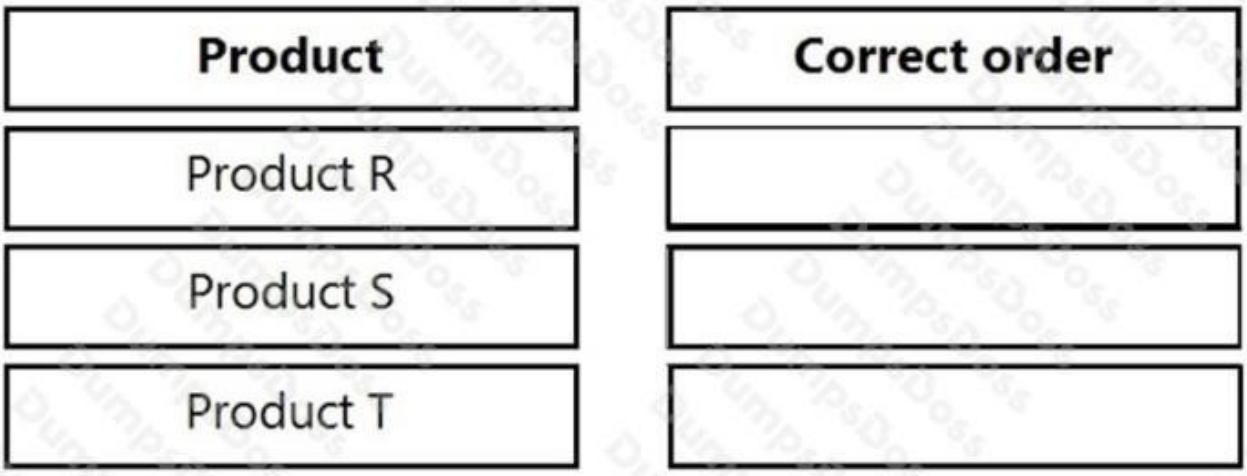
A company manufactures three products using the same direct labour which will be in short supply next month. No inventories are held. Data for the three products are as follows:

	Product R	Product S	Product T
	$ per unit	$ per unit	$ per unit
Selling price	40.50	37.75	40.35
Direct labour cost	15.00	15.10	15.75
Other variable costs	5.30	0.50	2.40
Fixed costs	4.20	6.30	2.20
Profit	16.00	15.85	20.00

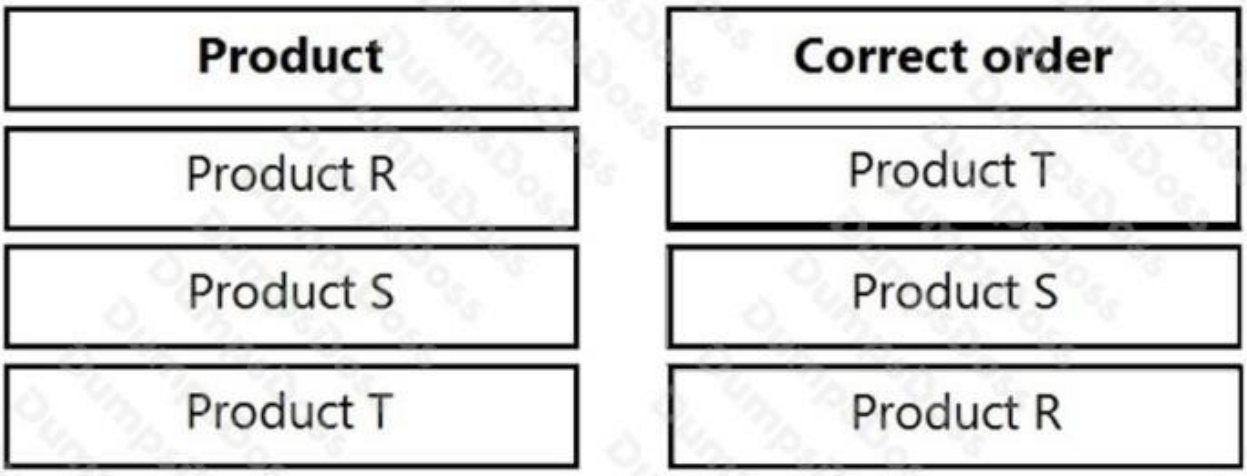
The fixed costs are all committed costs and cannot now be altered for the next month.

Place the labels against the correct product to indicate the order of priority for manufacture that will maximise the profit for the next month.

Select and Place:



ANSWER:



Explanation:

When a business has a limiting factor, such as direct labour hours being in short supply, it should not rank products simply by total contribution per unit or by selling price. The relevant measure is contribution earned for each unit of the scarce resource used. Here, the scarce resource is direct labour, so each product's unit contribution is divided by the direct-labour time required to make one unit. This shows the contribution generated per direct-labour hour.

The product with the greatest contribution per direct-labour hour should be made first, because every scarce labour hour allocated to it produces the largest possible increase in total contribution. Product T is therefore given first priority. Once

demand for Product T has been met, the remaining available labour hours should be allocated to Product S, which provides the next-highest contribution per labour hour. Product R is made only after those priorities, because it ranks third on this limiting-factor measure.

Fixed costs do not affect this short-term production ranking because they are committed for the next month and cannot be changed by the production decision. The aim is consequently to maximise total contribution from the limited labour capacity, since any additional contribution improves profit after those unavoidable fixed costs. This is the standard limiting-factor approach used in management accounting; see the AICPA & CIMA management accounting resources and the OpenStax discussion of relevant cost behaviour and decision-making. The correct order is Product T, then Product S, then Product R.

QUESTION NO: 39

Which THREE of the following are characteristics of job costing?

A. It is appropriate where homogeneous products are manufactured

B. It is only appropriate in manufacturing environments

C. Costs are traced to separately identifiable cost units

D. It cannot be applied in a public sector or not for profit organization

E. A separate work in progress account is maintained for each cost unit

F. It is a specific order costing system

ANSWER: C E F

Explanation:

Job costing is a specific-order costing system used when work is undertaken for distinct jobs, contracts, batches, or customer orders. Its essential feature is that the organisation can identify each cost unit separately and accumulate the resources consumed by that individual unit. Therefore, “Costs are traced to separately identifiable cost units” is correct: direct materials, direct labour and attributable expenses can be assigned to the particular job, while overheads are absorbed using an appropriate basis.

“A separate work in progress account is maintained for each cost unit” is also a defining accounting consequence. Each unfinished job needs its own job cost record or work-in-progress record so that its accumulated cost can be monitored until completion, transfer to finished goods, or delivery to the customer. This supports job-level pricing, profitability assessment and control.

“It is a specific order costing system” correctly describes the broader classification of job costing. Specific-order systems accumulate costs for identifiable units of output rather than averaging costs across continuous, uniform production. CIMA’s BA2 syllabus includes the principles and application of costing methods within management accounting: CIMA BA2 Fundamentals of Management Accounting. Further practical guidance on accumulating costs by individual jobs is available from OpenStax’s job-order costing overview.