



Dr.G.R.Damodaran College of Science

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CRISL rated 'A' (TN) for MBA and MIB Programmes

II B.Com PA [2016-2019]

Semester: III

Core: Performance Management - 318B

Multiple Choice Questions.

1. The following statements have been made about Activity Based Costing: A. ABC recognizes that some overhead costs do not depend directly on the volume of output B. The cost of implementing activity based costing may exceed the benefits for some businesses Which of the above statements is/are true?

- A. A only
- B. B only
- C. Neither A nor B
- D. Both A and B

ANSWER: B

2. Which of the following statements about Activity Based Costing is / are true? 1. It is not particularly relevant for service industry businesses 2. It is based on marginal costing principles

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

ANSWER: C

3. The term 'cost' refers to

- A. the present value of future benefits
- B. the value of the sacrifice made to acquire goods or services
- C. an asset that has given benefit and is now expired
- D. the price of products sold or services rendered

ANSWER: B

4. Cost accounting differs from financial accounting in respect of

- A. reporting of cost
- B. ascertaining cost
- C. control of cost
- D. recording cost

ANSWER: C

5. The principal factor to be considered in designing a costing system includes

- A. company organization structure
- B. nature of business
- C. manufacturing process
- D. all of the above

ANSWER: D

6. The following statements have been made about Activity Based Costing (ABC): 1. Introducing ABC will always reduce costs in the short term 2. If the cost of a product or service using both ABC and absorption costing is the same, there will be no benefit to be gained from adopting ABC

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

ANSWER: C

7. Which one of the following is the most important tool in cost planning?

- A. Budgeting
- B. Cost unit
- C. Cost statement
- D. Direct cost

ANSWER: A

8. Which of the following costs would be included in the Life cycle costs of a product? 1. Planning and concept design costs 2. Proto-type testing costs 3. Product manufacturing costs 4. Distribution and customer service costs

- A. All four costs
- B. 2,3 and 4 only
- C. 1,2 and 4 only
- D. 1,3 and 4 only

ANSWER: A

9. Which costing approach identifies ways of making an acceptable profit margin on the market price of a product or service?

- A. Activity based costing
- B. Benchmarking
- C. Lifecycle costing
- D. Target costing

ANSWER: D

10. Basic objectives of cost accounting is

- A. Tax compliance
- B. Financial audit
- C. Cost ascertainment
- D. Profit analysis

ANSWER: C

11. Which one of the following constitutes the cost of sales?

- A. Works cost + Administration overheads
- B. Cost of production + Selling and distribution overheads
- C. Prime cost + works overheads
- D. Work cost + Selling and distribution overheads

ANSWER: B

12. An increase in selling price

- A. increases the break even point
- B. decreases the break even pint

- C. does not affect the break even point
- D. optimize the break even point

ANSWER: B

13. The following statements have been made about Life cycle costing: 1. It helps forecast a products profitability over its entire life 2. It takes into account a products total costs over its entire life 3. It focuses on the production of monthly profit statements throughout a products entire life Which of the statements are true?

- A. 1 and 2 only
- B. 1 and 3 only
- C. 2 and 3 only
- D. All three statements

ANSWER: A

14. The following statements have been made about environmental management accounting: 1. It provides information mainly for external parties 2. It may include physical information about quantities of scarce resources used Which of the above statements is/are true?

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

ANSWER: B

15. The following are the types of management accounting techniques: 1. Activity based costing 2. Life cycle costing 3. Throughput accounting 4. Input output analysis Which of the above techniques must be used in environmental management accounting?

- A. 1,2 and 3 only
- B. 1,3 and 4 only
- C. 1,2 and 4 only
- D. All of the above

ANSWER: C

16. Which of the following statements about the theory of constraints is NOT true?

- A. It focuses on removing bottlenecks in production to improve throughput
- B. Non-bottleneck resources should not be operated at full capacity
- C. It can only be used in manufacturing organizations
- D. It aims to reduce delays in meeting customer orders

ANSWER: C

17. The following statements have been made about Life cycle costing: 1. It focuses on the short term by identifying costs at the beginning of a products life cycle 2. It identifies all costs which arise in relation to the product each year and then calculates the products profitability on an annual basis 3. It accumulates a products costs over its whole life time and works out the overall profitability of a product 4. It allocates costs to each stage of a products life cycle and writes them off at the end of each stage Which of the above statements is/are correct?

- A. 1 and 3
- B. 3 only
- C. 1 and 4
- D. 2 only

ANSWER: B

18. The following are types of management accounting techniques: 1. Flow cost accounting 2. Input/output analysis 3. Life-cycle costing 4. Activity based costing Which of the above techniques could be used by a company to account for its environmental costs?

- A. 1 only
- B. 1 and 2 only
- C. 1,2 and 3 only
- D. All of the above

ANSWER: D

19. S company is a manufacturer of multiple products and uses target costing. It has been noted that Product P currently has a target cost gap and the company wishes to close this gap. Which of the following may be used to close the target cost gap for product P?

- A. Use overtime to complete work ahead of schedule
- B. Substitute current raw materials with cheaper versions
- C. Raise the selling price of P
- D. Negotiate cheaper rent for S Companys premises

ANSWER: B

20. Direct Material is a

- A. Selling and distribution cost
- B. Administration cost
- C. Manufacturing cost
- D. Any of the above

ANSWER: C

21. Which of the following statements describes target costing?

- A. It calculates the expected cost of a product and then adds a margin to it to arrive at the target selling price
- B. It allocates overhead costs to products by collecting the costs into pools and sharing them out according to each products usage of the cost driving activity
- C. It identifies the market price of a product and then subtracts a desired profit margin to arrive at the target cost
- D. It identifies different markets for a product and then sells that same product at different prices in each market

ANSWER: C

22. The following statements have been made about environmental cost accounting 1. The majority of the environmental costs are already captured in a typical organizations accounting system 2. Input/output analysis divides material flows in an organizations into three categories: material flows; system flows; and delivery and disposal flows Which of the above statements is/are true?

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

ANSWER: A

23. The value of a benefit sacrificed in favour of an alternative course of action Which term is best described by the definition above?

- A. Incremental cost
- B. Opportunity cost
- C. Relevant cost

D. Variable cost

ANSWER: B

24. Which of the following best describes the term relevant cash flow?

- A. The benefit which would have been obtained from the best alternative foregone
- B. The difference in future operating cash flows resulting from a decision
- C. All future cash flow which cannot be avoided
- D. All cash flows, including financing cash flows, arising from a project

ANSWER: B

25. Graytun Co has a production capacity of 2,80,000 units per annum. The budgeted sales volume for the next year is 2,56,000 units and break even volume is 1,67,000 units. What is the margin of safety ratio?

- A. 31.79%
- B. 34.77%
- C. 53.29%
- D. 65.23%

ANSWER: B

26. A shopkeeper finds that if he sets the price of a particular product at \$9.00 per unit he sells, on average, 150 units of the product per month. However, at a price of \$10.00 per unit, he sells an average of 110 units per month. What is the price elasticity of demand for the product?

- A. 0.42
- B. 2.40
- C. 0.27
- D. 0.11

ANSWER: B

27. The following statements have been made about pricing policies: 1. It is appropriate when the price sensitivity of demand is unknown 2. It is likely to discourage competitors from entering the market 3. It is likely to encourage competitors to enter the market Which of the above statements can apply to market skimming?

- A. 1 and 2 only
- B. 1 and 3 only
- C. 2 and 3 only
- D. All three statements

ANSWER: B

28. Direct labour means

- A. Labour which can be conveniently associated with a particular cost unit
- B. Labour which completes the work manually
- C. Permanent labour in the production department
- D. Labour which is recruited directly and not through contractors

ANSWER: A

29. The following statements have been made about sales pricing policies: 1. Market skimming will lead to a constant price throughout the products life 2. Cost plus pricing will lead to profit being maximized Which of the above statements is/are true?

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

ANSWER: C

30. If a 6% fall in price causes a 9% increase in demand for a particular item, what is the price elasticity of demand?

- A. More than one
- B. Positive but less than one
- C. Zero
- D. Between zero and minus one

ANSWER: A

31. Which of the following describes a flexed budget?

- A. One that is set prior to the control period and not subsequently changed in response to changes in activity, costs or revenues
- B. One that is continuously updated by adding a further accounting period when the earliest accounting period has expired
- C. One that is changed in response to changes in the level of activity
- D. One that is changed in response to changes in costs

ANSWER: C

32. Which of the following statements about programme planning and budgeting is correct?

- A. The objective of programme planning and budgeting is to minimize the input resources
- B. Programme planning and budgeting seeks to allocate resources to programmes on the basis of anticipated profitability
- C. Programme planning and budgeting may measure outputs using non financial measures
- D. Programme planning and budgeting is usually carried out over a short time frame

ANSWER: C

33. X Co. uses rolling budgeting, updating its budgets on a quarterly basis. After carrying out the last quarters update to the cash budget, it projected a forecast cash deficit of \$4,00,000 at the end of the year. Consequently, the planned purchase of new capital equipment has been postponed. Which of the following types of control is the sales managers actions an example of?

- A. Feedforward control
- B. Negative feedback control
- C. Positive feedback control
- D. Double loop feedback control

ANSWER: A

34. Which of the following is an assumption of learning curve theory?

- A. The reduction in unit time will follow a predictable pattern
- B. Unit time will decrease at an increasing rate
- C. The time required to do a task will vary randomly each time the task is repeated
- D. Learning will not be transferred from one worker to the next

ANSWER: A

35. What is a basic standard?

- A. A standard set an ideal level, which makes no allowance for normal losses, waste and machine downtime
- B. A standard which assumes an efficient level of operation, but which includes allowances for factors such as normal loss, waste and machine downtime
- C. A standard which is kept unchanged over a period of time
- D. A standard which is based on current price levels

ANSWER: C

36. Which of the following best describes management by exception?

- A. Using management reports to highlight exceptionally good performance, so that favourable results can be built upon to improve future outcomes
- B. Sending management reports only to those managers who are able to act on the information contained within the reports
- C. Focusing management reports on areas which require attention and ignoring those which appear to be performing within acceptable limits
- D. Appointing and promoting only exceptional managers to areas of responsibility within the organization

ANSWER: C

37. Which one of the following is UNLIKELY to be the reason for an adverse material price variance?

- A. The budget incorporated an assumption of price inflation of 4% and the actual rate is 6%
- B. To reduce waste, a higher grade of material has been purchased
- C. A major supplier has introduced a rebate scheme which had not been planned for
- D. An inexperienced purchase clerk ordered materials from four different suppliers

ANSWER: C

38. Which one of the following is most likely to be the explanation for an adverse material usage variance?

- A. A major supplier of material has reduced the rate of trade discount
- B. Rates of pay have been increased
- C. Quality standards have been increased
- D. Unforeseen material price rises have been incurred

ANSWER: C

39. Which one of the following is most likely to be the reason for a favourable labour efficiency variance?

- A. An ideal standard was used as part of a quality improvement programme
- B. A shortage of skilled staff meant that more trainees had been recruited
- C. Lower grade material was purchased
- D. Staff have recently been trained in material handling techniques

ANSWER: D

40. What is meant by budgetary slack?

- A. The lead time between the preparation of the functional budgets and the approval of the master budget by senior management
- B. The difference between the budgeted output and the actual output
- C. The difference between budgeted capacity utilization and full capacity
- D. The intentional over estimation of costs and/or under estimation of revenue in a budget

ANSWER: D

41. Absorption means

- A. Charging of overheads to cost centres or cost units
- B. Charging the overheads to cost units
- C. Charging of overheads to cost centres
- D. None of the above

ANSWER: B

42. Yobo Co. manufactures a wide range of products. There is considerable variation in the profit per unit sold of each product. The managing director is planning to introduce an incentive scheme for production

employees. The objective of the incentive scheme is to improve product quality. On which of the following should the incentive scheme be based in order to improve product quality?

- A. Production volume
- B. Sales revenue
- C. Level of rework
- D. Profitability

ANSWER: C

43. Many organizations use non financial performance indicators (NFPIs). Which of the following NFPIs is MOST suitable for monitoring quality?

- A. Throughput volume per time period
- B. New customers per time period
- C. Number of customer complaints
- D. Number of transactions per customer

ANSWER: C

44. Lukers Co is structured on a financial basis. Two of the departments are purchasing and production. The directors wish to improve product quality, and are considering the introduction of an incentive scheme. Which of the following performance measures would be an appropriate basis for the incentive scheme?

- A. Company profit
- B. Favourable material price variances
- C. Volume of products returned by customers
- D. Share price

ANSWER: C

45. xxx describes the relationship between utilization of resources (inputs) and the output produced by those resources. Improving xxx means getting more output from each unit of input, or getting the same amount of output with fewer resources. In this definition what does xxx refer to?

- A. Economy
- B. Efficiency
- C. Effectiveness
- D. Value-for-money

ANSWER: C

46. A local authority has introduced an initiative which is intended to achieve greater output for each unit of input. What is the objective of the initiative?

- A. Quality improvement
- B. Efficiency
- C. Effectiveness
- D. Economy

ANSWER: B

47. Which of the following measures could most suitably be used to assess the customer perspective of the balanced scorecard approach for an insurance company? 1. New insurance products introduced in the period 2. Training expenditure on sales representatives 3. Average time to settle insurance claims 4. Percentage of policy renewals

- A. 1 and 2
- B. 2 and 3
- C. 3 and 4
- D. 1 and 4

ANSWER: C

48. The Fitzgerald and Moon building block model provides six dimensions under which performance in service industries can be measured. Which of the following is NOT one of the six dimensions?

- A. Resource utilization
- B. Quality of service
- C. Staff satisfaction
- D. Flexibility

ANSWER: C

49. The following statements have been made about the balanced scorecard: 1. It focuses solely on non-financial performance measures 2. It looks at both internal and external matters concerning the organization Which of the above statements is/are true?

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

ANSWER: B

50. In relation to residual income, which of the following statements is correct?

- A. Residual income is calculated by adding back depreciation and deducting the notional interest charge
- B. Residual income eliminates the effect of accounting policies from the assessment of performance
- C. Residual income assesses divisional income based on the book value of the investment which has been made
- D. Residual income does not take the risk of specific projects into account

ANSWER: C

51. Which one of the following individuals is most likely to be an investment centre manager?

- A. The sales manager
- B. The maintenance department manager
- C. A portfolio manager
- D. The manager of a factory, who has the authority to buy new machinery

ANSWER: D

52. Marginal cost is

- A. Prime cost
- B. Variable cost
- C. Works cost
- D. Cost of production

ANSWER: B

53. Absorption costing takes into account

- A. Total cost
- B. Fixed cost
- C. Variable cost
- D. Works cost

ANSWER: A

54. Contribution is

- A. Excess of sales over total cost
- B. Excess of cost of sales over sales
- C. Excess of sales over fixed cost

D. Excess of sales over variable cost

ANSWER: D

55. P/V ratio is

- A. Price volume ratio
- B. Price variance ratio
- C. Contribution to sales ratio
- D. Total cost to sales ratio

ANSWER: C

56. Break even point is

- A. Sales at which profit is high
- B. Sales at which there is loss
- C. Sales at which there is no profit or loss
- D. None of the above

ANSWER: C

57. Margin of safety is

- A. Sales at which there is profit
- B. Sales at which there is loss
- C. Sales in excess of BEP
- D. None of the above

ANSWER: C

58. Break even chart is a chart of

- A. Sales
- B. Total cost
- C. Profit
- D. Sales and Total cost

ANSWER: D

59. A key factor is

- A. Budget factor
- B. Limiting factor
- C. Cost factor
- D. None of these

ANSWER: B

60. Angle of Incidence is

- A. Angle between sales and fixed cost lines
- B. Angle between sales and variable cost lines
- C. Angle between sales and total cost lines
- D. None of the above

ANSWER: C

61. Budgeting is

- A. A Technique
- B. A method of costing
- C. Maintaining ledger accounts
- D. None of the above

ANSWER: A

62. A company has capital employed of \$3,00,000 and cost of capital of 10% per year. Its residual income is \$45,000 What is the companys return on investment?

- A. 5%
- B. 10%
- C. 15%
- D. 25%

ANSWER: D

63. A flexible budget is

- A. Budget for different capacity levels
- B. Budget for different departments
- C. Budget for receipts and payments
- D. None of the above

ANSWER: A

64. Division A supplies other divisions within the company with component parts. There are the other suppliers in the market supplying virtually identical products with known prices, and Division A also supplies third party companies. From the viewpoint of company as a whole, what is the optimal basis for the transfer price for components sold by Division A to other divisions within the company?

- A. Full cost plus a profit margin
- B. Marginal cost
- C. Market price
- D. Market price less marketing costs

ANSWER: D

65. Sales budget is

- A. Budget of output to be sold
- B. Budget for selling expenses
- C. Budget of revenue and expenses
- D. A list of incentives to salesmen

ANSWER: A

66. Purchase budget refers to

- A. Purchase of fixed assets
- B. Purchase of raw materials
- C. Purchase of advertising and distribution materials
- D. Purchase of office supplies

ANSWER: B

67. A production budget is based on

- A. Cash budget
- B. Overheads budget
- C. Sales budget
- D. Purchase budget

ANSWER: C

68. A master budget is

- A. Budget for assets and liabilities
- B. Budget of Profit or Loss
- C. Budget for managerial remuneration

D. Budget for operations of the entire organization

ANSWER: D

69. Performance budget is

- A. Laying down of objectives
- B. Measurement of output in relation to input
- C. Flexible budgeting
- D. Fixed budget

ANSWER: B

70. Zero base budgeting refers to

- A. Short term and Long term budgeting
- B. Performance reporting
- C. Responsibility accounting
- D. Justification of every item in the budget afresh

ANSWER: D

71. Which of the following statements about transfer pricing is correct?

- A. Head office managers should never be involved in transfer pricing decisions
- B. The market price will always be the most appropriate transfer price
- C. The transfer price will not affect divisional profits
- D. The transfer price should promote goal congruence

ANSWER: D

72. Which one of the following types of information system is most likely to be used by operational managers within an organization?

- A. Decision support systems
- B. Business intelligence systems
- C. Transaction processing systems
- D. Executive information systems

ANSWER: C

73. Anthony's model defines three levels of management Strategic, Tactical and Operational. Which of the following tasks would NOT normally be performed by tactical managers?

- A. Preparation of budgets for the next financial year
- B. Making pricing decisions for the local markets
- C. Deciding to move into new markets
- D. Planning how many staff to recruit each year

ANSWER: C

74. What type of information systems monitor the elementary activities and transactions of the organizations?

- A. Management level systems
- B. Transactions processing systems
- C. Knowledge level systems
- D. Transactions processing systems

ANSWER: D

75. Projections and responses to queries are typically outputs from what type of system?

- A. Decision Support Systems
- B. Management Information Systems

- C. Executive Information Systems
- D. Transactions Processing Systems

ANSWER: C

76. Which of the following definitions best describes Zero-Based Budgeting?

- A. A method of budgeting where an attempt is made to make each cost heading as close to zero as possible
- B. A method of budgeting whereby all activities are re-evaluated each time a budget is formulated
- C. A method of budgeting which recognizes the difference between the behaviour of fixed and variable costs with respect to changes in output and is designed to change appropriately with such fluctuations
- D. A method of budgeting where the sum of revenues and expenditures in each cost centre must equal zero

ANSWER: B

77. Standard costing is a

- A. Method of costing
- B. Technique for cost reduction
- C. Cost control technique
- D. None of the above

ANSWER: C

78. Variance analysis involves

- A. Dividing variance according to causes
- B. Fixing responsibility for loss
- C. Identifying gains in working
- D. None of the above

ANSWER: A

79. Material Price Variance is loss or gain

- A. Due to using more or less material
- B. Due to wastage of material
- C. Due to payment of higher or lower price than what is specified
- D. None of the above

ANSWER: C

80. Usually standards are set up on the basis of

- A. Past performance
- B. Ideal performance
- C. Normal performance
- D. Attainable high performance

ANSWER: D

81. Standard Hour represents

- A. Time taken by workers for production
- B. Expected number of hours the factory should work
- C. Output of different kinds expressed in terms of hours
- D. None of the above

ANSWER: C

82. Standard costing involves

- A. Setting of budgeted costs

- B. Determination of standard cost
- C. Fixation of estimated cost
- D. None of these

ANSWER: B

83. Standard costing can be used along with

- A. Marginal costing
- B. Absorption costing
- C. Job and Process costing
- D. All of the above

ANSWER: C

84. The cost of a product as determined under standard costing is

- A. Predetermined cost
- B. Direct cost
- C. Fixed cost
- D. Historical cost

ANSWER: A

85. Standard cost are useful in all of the following, except

- A. Costing inventories
- B. Establishing records
- C. Speeding up preparation of operating reports
- D. Reducing cost

ANSWER: B

86. The type of standard that is best suited from cost control point of view

- A. Basic standard
- B. Normal standard
- C. Expected standard
- D. Theoretical standard

ANSWER: C

87. Which one of the following standards can be attained under the most favourable conditions possible?

- A. Basic standard
- B. Normal standard
- C. Expected standard
- D. Theoretical standard

ANSWER: D

88. The difference between actual cost and standard cost is known as

- A. Loss
- B. Profit
- C. Differential cost
- D. Variance

ANSWER: D

89. Material cost variance is due to

- A. Change in material mix
- B. Change in price of material
- C. Change in quantity used

D. All of the above

ANSWER: D

90. Material mix variance is a sub variance of

- A. Material yield variance
- B. Material quantity variance
- C. Material price variance
- D. Material cost variance

ANSWER: B

91. Labour rate variance is due to

- A. Poor working conditions
- B. Defective material
- C. Overtime allowance
- D. None of these

ANSWER: C

92. Idle time variance is a sub variance of

- A. Labour efficiency variance
- B. Labour rate variance
- C. Labour cost variance
- D. Labour mix variance

ANSWER: A

93. Difference between budgeted fixed overheads and actual fixed overheads is known as

- A. Fixed overhead volume variance
- B. Fixed overhead budget variance
- C. Fixed overhead expenditure variance
- D. both B & C

ANSWER: D

94. The following statements have been made about a flexed budget. 1. It allows managers to plan for alternative contingencies 2. It makes no differentiation between fixed and variable costs 3. It assists in identifying limiting factors 4. It provides useful control information Which of the above statements are correct?

- A. 1,2 and 3
- B. 1,3 and 4
- C. 1,2 and 4
- D. 2,3 and 4

ANSWER: B

95. One of the primary differences between marginal costing and absorption costing is regarding the treatment of

- A. Prime cost
- B. Fixed overheads
- C. Variable overheads
- D. Direct materials

ANSWER: B

96. Absorption costing differs from marginal costing is the

- A. fact that standard costs can be used with absorption costing but not with marginal costing

- B. Amount of costs assigned to individual units of products
- C. Kind of activities for which each can be used
- D. Amount of fixed costs that will be incurred

ANSWER: B

97. Contribution margin is also known as

- A. Marginal income
- B. Gross profit
- C. Net profit
- D. None of these

ANSWER: A

98. Which of the following is/are necessary for the successful operation of a Just in Time purchasing system? 1. Long term contracts with suppliers 2. A reliable forecast of the level of demand 3. An effective quality assurance programme

- A. 1 and 2 only
- B. 1 and 3 only
- C. 2 and 3 only
- D. All of the above

ANSWER: D

99. Contribution margin is equal to

- A. Fixed cost - Loss
- B. Profit + Variable cost
- C. Sales - Fixed Cost - Profit
- D. None of these

ANSWER: A

100. P/V ratio is an indicator of

- A. The rate at which goods are sold
- B. The volume of sales
- C. The volume of profit
- D. The rate of profit

ANSWER: D

101. Margin of safety is the difference between

- A. Planned sales and planned profit
- B. Actual sales and Break even sales
- C. Planned sales and actual sales
- D. None of the above

ANSWER: B

102. An increase in variable costs

- A. Increases P/V ratio
- B. Increases the profit
- C. Reduces contribution
- D. None of the above

ANSWER: C

103. An increase in selling price

- A. Increases the break even point

- B. Decreases the break even point
- C. Does not affect the break even point
- D. None of the above

ANSWER: B

104. Break even point is calculated by the formula

- A. Marginal cost/Standard cost * Sales
- B. Fixed / Marginal contribution * sales
- C. Fixed cost / Total cost * Sales
- D. None of the above

ANSWER: B

105. A large margin of safety includes

- A. Over production
- B. Over capitalization
- C. The soundness of the business
- D. None of the above

ANSWER: C

106. The budget is

- A. A post - mortem analysis
- B. A substitute of management
- C. An aid to management
- D. None of these

ANSWER: C

107. One of the most important tools of cost planning is

- A. Budget
- B. Direct cost
- C. Unit cost
- D. Cost sheet

ANSWER: A

108. Sales budget is a

- A. Functional budget
- B. Expenditure budget
- C. Master budget
- D. Flexible budget

ANSWER: A

109. John is the manager of a branch of a fast food restaurant. He is responsible for purchasing, hiring staff and managing the staff rotas for each shift. He is also responsible for advertising. He cannot make investment decisions. Which of the following performance measures would be appropriate for assessing Johns performance? 1. Residual income 2. Customer satisfaction rankings 3. Contribution

- A. 2 only
- B. 1 and 2
- C. 1 and 3
- D. 2 and 3

ANSWER: D

110. The fixed - variable cost classification has a special significance in the preparation of

- A. Capital budget
- B. Cash budget
- C. Master budget
- D. Flexible budget

ANSWER: D

111. The following statements have been made about Enterprise Resource Planning (ERP) systems: 1. They aim to allow all departments within an organization to share information 2. They are used only by strategic managers 3. They typically include an accounting module Which of the above statements are correct?

- A. 1 and 2 only
- B. 1 and 3 only
- C. 2 and 3 only
- D. All of the above

ANSWER: B

112. The following statements have been made about Management Information Systems: 1. They are designed to report an existing operation 2. They have an external focus Which of the above statements is/are true?

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

ANSWER: A

113. The following are the types of control within an organization: 1. Logical access controls 2. Database controls 3. Hierarchical passwords 4. Range checks Which of the above controls help to ensure the security of highly confidential information?

- A. 1 and 2 only
- B. 1 and 3 only
- C. 1,2 and 3 only
- D. All of the above

ANSWER: C

114. Classification of cost is useful to

- A. Find gross profit
- B. Find net profit
- C. To identify costs
- D. None of these

ANSWER: C

115. Elements of costs are

- A. Three types
- B. Two types
- C. Four types
- D. Five types

ANSWER: A

116. Direct expenses are also called

- A. Major expenses
- B. Sundry expenses
- C. Overhead expenses

D. Chargeable expenses

ANSWER: D

117. Factory Overhead is also termed as Manufacturing Overhead or

- A. Officer Overhead
- B. Selling Overhead
- C. Distribution Overhead
- D. Production Overhead

ANSWER: D

118. Warehouse rent is a part of

- A. Prime cost
- B. Distribution Overhead
- C. In Profit and Loss Account
- D. In trading account

ANSWER: B

119. Indirect material scrap is adjusted along with

- A. Prime cost
- B. Works cost
- C. In Profit and Loss Account
- D. In Trading Account

ANSWER: B

120. Goodwill written off is a part of

- A. Prime cost
- B. Factory Overhead
- C. Officer Overhead
- D. None of these

ANSWER: D

121. Sales of defectives is reduced from

- A. Prime cost
- B. Works cost
- C. Cost of Production
- D. Cost of Sales

ANSWER: B

122. There are a number of benefits associated with budgeting. Which of the following is NOT a benefit of the budget process?

- A. Budgets eliminate the opportunity for slack or padding in an organization
- B. Budgets help ensure that long term goals are achieved
- C. Budgets are useful tools in performance evaluation
- D. Budgets can help identify production bottlenecks

ANSWER: A

123. The following statements relate to the participation of junior management in the budget setting process: 1. It speeds up the budget setting process 2. It increases their commitment to budgets 3. It incorporates their knowledge into budgets 4. It improves their moral and motivation Which of the statements are true?

- A. 1,2 and 3

- B. 1,2 and 4
- C. 2,3 and 4
- D. 2 and 3 only

ANSWER: C

124. Consumption of raw material is based on

- A. Production
- B. Sales
- C. Cash
- D. Market

ANSWER: A

125. Which of the following are potential benefits of budgeting? 1. It plans for the efficient use of scarce resources 2. It complies with financial reporting requirements 3. It delegates responsibility in an organization 4. It is a starting point for developing a mission statement

- A. 1 and 3 only
- B. 1 and 4 only
- C. 2 and 3 only
- D. 2 and 4 only

ANSWER: A

126. Which of the following statements about budgets is false?

- A. A continuous budget is feasible only for sales projections
- B. The direct labour budget is specifically dependent on the production budget
- C. The budgeting process normally begins with preparation of sales budget
- D. The cash budget is an element of a master budget

ANSWER: A

127. A government funded hospital offers free treatment to patients. Which of the following is the most likely principal budget factor?

- A. Demand
- B. Labour Hours
- C. Materials
- D. Cash

ANSWER: D

128. Which would be the usual order of budget preparation for a manufacturing company, whose principal budget factor is sales demand?

- A. Production budget, sales budget, purchases budget
- B. Production budget, purchases budget, sales budget
- C. Sales budget, production budget, purchases budget
- D. Sales budget, purchases budget, production budget

ANSWER: C

129. Which of the following is a master budget?

- A. Labour budget
- B. Material purchases budget
- C. Budgeted statement of profit or loss
- D. Production budget

ANSWER: C

130. Which of the following items would be included in a cash budget? 1. Depreciation 2. Allowances for irrecoverable debts 3. Profit on sale of equipment

- A. 1 only
- B. 2 only
- C. 3 only
- D. None of them

ANSWER: D

131. Which of the following would be included in the cash budget? 1. Repayment of loan notes 2. The trade in value of a car sold in an exchange for a new model 3. Write off of an irrecoverable debt

- A. 1 only
- B. 2 only
- C. 3 only
- D. None of them

ANSWER: A

132. Which of the following describes a flexible budget?

- A. A budget comprised of variable production costs only
- B. A budget which is updated with actual costs and revenues on a monthly basis
- C. A set of budgets showing costs and revenues at different levels of activity
- D. A budget which is prepared using a computer spreadsheet model

ANSWER: C

133. Which of the following is a feature of a fixed budget?

- A. A budget which ignores inflation
- B. A budget used only for fixed costs
- C. A budget for a single level of activity
- D. A budget for a single product

ANSWER: C

134. Which of the following statements relating to a fixed budget is correct?

- A. Should never be prepared as it has no purpose
- B. Is useful in evaluating a managers performance by comparing actual costs against planned costs
- C. Show planned results at the original budgeted activity level
- D. Is changed only if the actual level of activity is different than originally budgeted

ANSWER: C

135. What is the primary difference between a fixed budget and a flexible budget?

- A. A fixed budget contains only fixed costs, while a flexible budget also contains variable costs
- B. A fixed budget reflects different activity levels, while a flexible budget is prepared for a single level of activity
- C. A fixed budget is prepared for a single level of activity, while a flexible budget is prepared for different activity levels
- D. A fixed budget cannot be flexed to an actual level of activity, while a flexible budget can

ANSWER: C

136. Which of the following statements relating to budgets are true? 1. A flexed budget is used for control purpose and a fixed budget is used for planning purposes 2. A flexed budget is prepared at the end of the period and a fixed budget is prepared at the beginning of the period 3. A flexed budget is prepared for different levels of activity and fixed budget for fixed capacity

- A. 1 and 2 only

- B. 1 and 3 only
- C. 2 and 3 only
- D. 1,2 and 3

ANSWER: A

137. Which of the following statements relating to a flexible budget is correct?

- A. It is prepared when management cannot agree on objectives for the company
- B. It provides budgeted data for various levels of activity
- C. It takes account of the cost behaviour of variable costs only
- D. Flexible budgets do not need to be flexed for comparison with actual results

ANSWER: B

138. What do the costs in a flexed budget represent?

- A. Original costs at the fixed budget activity level
- B. Actual costs for the budgeted activity level
- C. Budgeted costs for the actual activity level achieved
- D. Actual costs for actual level of activity level

ANSWER: C

139. Which of the following BEST describes a flexed 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 revised to the actual level of activity during the period
- D. A series of budget representing various levels of activity

ANSWER: C

140. Which of the following statements about a standard marginal costing system is true? 1. It calculates fixed overhead per unit using a budgeted overhead absorption rate 2. It values finished goods inventory at the standard variable cost of production

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. Neither 1 nor 2

ANSWER: B

141. What is a standard cost?

- A. The planned unit cost of a product, component or service in a period
- B. The budgeted cost ascribed to the level of activity achieved in a budget centre in a control period
- C. The budgeted production cost ascribed to the level of activity in a budget period
- D. The budgeted non - production cost for a product, component or service in a product

ANSWER: A

142. The treatment of which of the following gives rise to the difference between marginal and standard costing approaches?

- A. Direct material
- B. Variable overhead
- C. Fixed overhead
- D. Prime cost

ANSWER: C

143. The standard absorption cost of a product is 1. A direct cost 2. A historic cost 3. A predetermined cost

Which is/are true?

- A. 1 and 2 only
- B. 2 only
- C. 2 and 3 only
- D. 3 only

ANSWER: D

144. What type of standard is prepared on the basis that all activities are undertaken at a maximum level of efficiency?

- A. Attainable
- B. Ideal
- C. Efficient
- D. Realistic

ANSWER: B

145. Which of the following refers to budget slack?

- A. The time between the preparation of the functional budgets and the master budget
- B. The difference between the budgeted output and the actual output achieved
- C. The additional capacity which can be made available for the budgeted output
- D. The deliberate over estimation of costs in a budget

ANSWER: D

146. 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 Rs.40,000. The fixed production overhead rate was Rs.10 per unit What would the profit for last month have been using marginal costing?

- A. Rs. 15,000
- B. Rs. 25,000
- C. Rs. 55,000
- D. Rs. 65,000

ANSWER: B

147. Which one of the following amounts would change if a company changed its standard costing system from marginal costing to absorption costing?

- A. Inventory value and Sales volume variance
- B. Direct labour efficiency variance
- C. Indirect labour efficiency variance
- D. Fixed overhead expenditure variance

ANSWER: A

148. The cost data provide invaluable information for taking the following managerial decisions

- A. To make or buy
- B. To own or hire fixed asset
- C. Determining the expansion or contraction policy
- D. All of the above

ANSWER: D

149. Expenditure incurred on material, labour, machinery, production and inspection are summed up to find the

- A. Total cost of product
- B. Selling price of product
- C. Factory cost of product

D. None of the above

ANSWER: C

150. Which of the following are benefits of using a standard costing system? 1. It facilitates timelier and more efficient reporting 2. It provides the basis on which inefficient operations can be identified 3. Over time administrative work is reduced 4. It focuses on controllable costs for responsibility accounting

A. 1,2 and 3 only

B. 1,2 and 4 only

C. 1,3 and 4 only

D. 2,3 and 4 only

ANSWER: A

Staff Name

Jayanthi.M.