

# CIMA 2019 Professional Examinations

**Operational Level**

**Subject P1**

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**Management Accounting**

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**EXAM PRACTICE KIT**

**British Library Cataloguing-in-Publication Data**

A catalogue record for this book is available from the British Library.

Published by:

Kaplan Publishing UK  
Unit 2 The Business Centre  
Molly Millar's Lane  
Wokingham  
Berkshire  
RG41 2QZ

ISBN: 978-1-78740-208-9

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# EXAM TECHNIQUES

## COMPUTER-BASED ASSESSMENT

### Golden rules

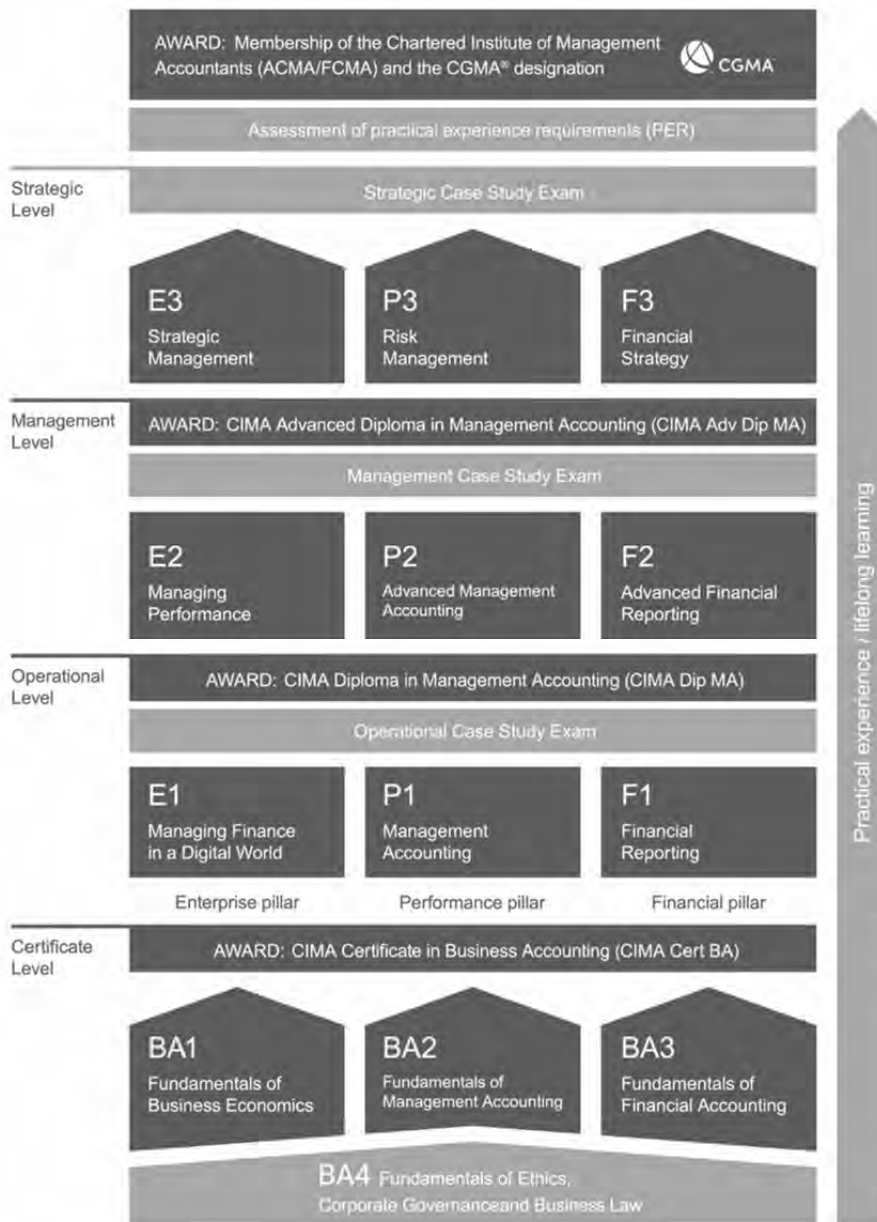
- 1 Make sure you have completed the compulsory 15-minute tutorial before you start the test. This tutorial is available through the CIMA website and focusses on the functionality of the exam. You cannot speak to the invigilator once you have started.
- 2 These exam practice kits give you plenty of exam style questions to practise so make sure you use them to fully prepare.
- 3 Attempt all questions, there is no negative marking.
- 4 Double check your answer before you put in the final answer although you can change your response as many times as you like.
- 5 Not all questions will be multiple choice questions (MCQs) – you may have to fill in missing words or figures.
- 6 Identify the easy questions first and get some points on the board to build up your confidence.
- 7 Attempt 'wordy' questions first as these may be quicker than the computation style questions. This will relieve some of the time pressure you will be under during the exam.
- 8 If you don't know the answer, flag the question and attempt it later. In your final review before the end of the exam try a process of elimination.
- 9 Work out your answer on the whiteboard provided first if it is easier for you. There is also an onscreen 'scratch pad' on which you can make notes. You are not allowed to take pens, pencils, rulers, pencil cases, phones, paper or notes into the testing room.

# SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

## A CIMA 2019 PROFESSIONAL QUALIFICATION

Details regarding the content of the CIMA 2019 professional qualification can be located within the CIMA 2019 professional qualification syllabus document.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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## **B STUDY WEIGHTINGS**

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

All component learning outcomes will be tested.

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

## **C LEARNING OUTCOMES**

Each subject within the qualification is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative knowledge content.

A learning outcome has two main purposes:

- 1 to define the skill or ability that a well-prepared candidate should be able to exhibit in the examination
- 2 to demonstrate the approach likely to be taken by examiners in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective, e.g. Evaluate alternative approaches to budgeting.

The verb 'evaluate' indicates a high-level learning objective. As learning objectives are hierarchical, it is expected that at this level students will have knowledge of different budgeting systems and methodologies and be able to apply them.

### **The examination blueprints and representative task statements**

CIMA have also published examination blueprints giving learners clear expectations regarding what is expected of them. This can be accessed here [www.cimaglobal.com/examblueprints](http://www.cimaglobal.com/examblueprints)

The blueprint is structured as follows:

- Exam content sections (reflecting the syllabus document)
- Lead and component outcomes (reflecting the syllabus document)
- Representative task statements.

A representative task statement is a plain English description of what a CIMA finance professional should know and be able to do.

The content and skill level determine the language and verbs used in the representative task.

CIMA will test up to the level of the task statement in the objective test (an objective test question on a particular topic could be set at a lower level than the task statement in the blueprint).

The format of the objective test blueprints follows that of the published syllabus for the 2019 CIMA Professional Qualification.

Weightings for content sections are also included in the individual subject blueprints.

A list of the learning objectives and the verbs that appear in the syllabus learning outcomes and examinations follows and these will help you to understand the depth and breadth required for a topic and the skill level the topic relates to.

**CIMA verb hierarchy**

Skill level	Verbs used	Definition
<b>Level 5 Evaluation</b> How you are expected to use your learning to evaluate, make decisions or recommendations	Advise Assess Evaluate Recommend Review	Counsel, inform or notify Evaluate or estimate the nature, ability or quality of Appraise or assess the value of Propose a course of action Assess and evaluate in order, to change if necessary
<b>Level 4 Analysis</b> How you are expected to analyse the detail of what you have learned	Align Analyse Communicate Compare and contrast Develop Discuss Examine Interpret Monitor Prioritise Produce	Arrange in an orderly way Examine in detail the structure of Share or exchange information Show the similarities and/or differences between Grow and expand a concept Examine in detail by argument Inspect thoroughly Translate into intelligible or familiar terms Observe and check the progress of Place in order of priority or sequence for action Create or bring into existence
<b>Level 3 Application</b> How you are expected to apply your knowledge	Apply Calculate Conduct Demonstrate Prepare Reconcile	Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible
<b>Level 2 Comprehension</b> What you are expected to understand	Describe Distinguish Explain Identify Illustrate	Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something
<b>Level 1 Knowledge</b> What you are expected to know	List State Define Outline	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of



## D OBJECTIVE TEST

### Objective test

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

The most common types of objective test question you will see are:

- Multiple choice, where you have to choose the correct answer(s) from a list of possible answers. This could either be numbers or text.
- Multiple response, for example, choosing two correct answers from a list of eight possible answers. This could either be numbers or text.
- Fill in the blank, where you fill in your answer within the provided space.
- Drag and drop, for example, matching a technical term with the correct definition.
- Hot spots, where you select an answer by clicking on graphs/diagrams.

### Guidance re CIMA on-screen calculator

As part of the CIMA objective test software, candidates are now provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in each of the objective tests and is accessed by clicking the calculator button in the top left hand corner of the screen at any time during the assessment. Candidates are permitted to utilise personal calculators as long as they are an approved CIMA model. CIMA approved model list is found here: <https://www.cimaglobal.com/Studying/study-and-resources/>.

All candidates must complete a 15-minute exam tutorial before the assessment begins and will have the opportunity to familiarise themselves with the calculator and practise using it. The exam tutorial is also available online via the CIMA website. Candidates can use their own calculators providing it is included in CIMA's authorised calculator listing.

### Fundamentals of objective tests

The objective tests are 90-minute assessments comprising 60 compulsory questions, with one or more parts. There will be no choice and all questions should be attempted. All elements of a question must be answered correctly for the question to be marked correctly. All questions are equally weighted.

# SYLLABUS GRIDS

## P1: Management Accounting

What the finance function does

Content weighting

Content area		Weighting
A	Cost accounting for decision and control	30%
B	Budgeting and budgetary control	25%
C	Short-term commercial decision-making	30%
D	Risk and uncertainty in the short term	15%
		<b>100%</b>

## P1A: Cost accounting for decision and control

This section is about understanding why costing is done and what it is used for. It introduces candidates to the basic building blocks of costing and how to apply them in the costing methods and techniques organisations use. In a fast-changing digital world this understanding is critical and can enable candidates to develop their own ways of calculating costs when existing methods are no longer appropriate. Digital costing is introduced in this section.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Distinguish between the different rationales for costing.	a. Define costing b. Distinguish between the rationales for costing	<ul style="list-style-type: none"> <li>• Inventory valuation</li> <li>• Profit reporting</li> <li>• Cost management and transformation</li> <li>• Decision-making</li> </ul>	This seeks to address the following pertinent questions: What are reasons for calculating costs? What types of costs are appropriate for a particular purpose and why?
2. Apply the main costing concepts to organisations and cost objects.	a. Explain the main costing concepts b. Apply costing concepts to different organisations and cost objects	<ul style="list-style-type: none"> <li>• Cost elements</li> <li>• Costs structure</li> <li>• Cost behaviour</li> <li>• Cost drivers</li> <li>• Costing applied to different types of organisations</li> <li>• Costing applied to digital cost objects</li> </ul>	Examine the basic building blocks of costing and how they apply to different types of organisations and operating contexts (e.g., manufacturing and service sectors). How has the digital world affected the nature of these building blocks of costing?
3. Apply costing methods to determine the costs for different purposes.	Apply the following: a. Cost accumulation, allocation, apportionment and absorption b. Standard costing c. Variance analysis (without mix and yield variance) d. Activity based costing e. Digital costing	<ul style="list-style-type: none"> <li>• Trace, classify and allocate costs</li> <li>• Marginal costing</li> <li>• Absorption costing</li> <li>• Price and rate variances</li> <li>• Usage and efficiency variances</li> <li>• Interpretation of variances</li> <li>• Product and service costing using ABC</li> <li>• Advantages of ABC over other costing systems</li> <li>• Features of digital costing</li> </ul>	Investigate how costs are traced, classified, accumulated, allocated, apportioned and absorbed to arrive at the costs of a product, service or other cost object. Calculate the costs of products or services using various costing methods. Determine which costing methods are appropriate and why?

## P1B: Budgeting and budgetary control

Taken together, budgeting and budgetary control is one way the finance function enables and shapes how organisations create and preserve value. This section examines the various reasons organisations prepare and use budgets, how the budgets are prepared, the types and sources of data, the technologies used to improve the quality of budgets, how budgets are implemented and the impact on the people who work with the organisation.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Distinguish between the different rationales for budgeting.	a. Explain the role of budgets. b. Distinguish between the different rationales for budgeting.	<ul style="list-style-type: none"> <li>• Planning</li> <li>• Communication</li> <li>• Coordination</li> <li>• Motivation</li> <li>• Control</li> </ul>	Why do organisations prepare budgets? In what ways are the different rationales for preparing budgets compatible with each other? How do organisations get the most out of the budgeting process?
2. Prepare budgets.	a. Explain forecasting and its relationship with budgeting. b. Prepare master budgets. c. Conduct what-if analysis in budgeting. d. Describe the technologies available for improving budgeting.	<ul style="list-style-type: none"> <li>• Time series and trend analysis to forecast sales volumes</li> <li>• Components of master budgets and their interaction with each other</li> <li>• Limiting factors</li> <li>• Stress testing budgets</li> <li>• Big data analytics and budgets</li> <li>• Alternative approaches to budgeting</li> </ul>	What is the process by which budgets are prepared? What types of budgets are required by organisations? What data do they use and where do they get the data from? How are those budgets prepared and presented? What technologies are available for improving the quality of the budgets?
3. Discuss budgetary control.	Discuss: a. The concept of budgetary control b. Human dimensions of budgeting	<ul style="list-style-type: none"> <li>• Feedback and feedforward control</li> <li>• Flexed budgets</li> <li>• Target setting and motivation</li> <li>• Controllable and uncontrollable outcomes</li> <li>• Dysfunctional behaviours in budgeting</li> <li>• Ethical considerations in budgeting</li> </ul>	What is budgetary control? Describe and discuss how and why the budgetary control system provides feedback and feedforward to the organisation. What are the behavioural impacts of budgetary control and how are they managed?

## P1C: Short-term commercial decision-making

Organisations cannot foresee every opportunity that might arise during their operations, so they need mechanisms by which to identify and take advantage of these opportunities as they arise. The primary objective of this section is to guide candidates in how to do this in the short term through effective decision-making. The finance function supports such decisions (e.g., pricing and product choice) using techniques such as relevant revenue and cost analysis and break-even analysis. Candidates are introduced to these techniques and the concepts that underpin the techniques. They are expected to be able to apply the techniques to support short-term decision-making.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Describe the main types of short-term decisions made by organisations.	a. Describe pricing and revenue maximising decisions. b. Describe product decisions.	<ul style="list-style-type: none"> <li>• Marginal and full cost recovery for pricing decisions</li> <li>• Differences in pricing and revenue maximisation for the short term and long term</li> <li>• Product mix</li> </ul>	Describe the types of short-term decisions organisations make and the circumstances that give rise to them. What do these short-term decisions seek to achieve? How important are they to performance of organisations? The emphasis is on both revenue and costs.
2. Explain the underlying concepts used for short-term decision-making.	a. Explain the objectives of decision-making. b. Explain the underlying concepts of short-term decision-making.	<ul style="list-style-type: none"> <li>• Implications of commercial decision-making in the short term</li> <li>• Relevant revenues</li> <li>• Relevant costs</li> <li>• Difference with profit reporting</li> </ul>	What are the objectives and underlying concepts that are used to guide short-term decision-making and why? Distinguish between those concepts of revenue, costs and information from other concepts.
3. Apply appropriate techniques to support short-term decisions.	Apply the following to support short-term decision-making: a. Relevant cost analysis b. Break-even analysis c. Product mix decisions with constraints d. Data and technology	<ul style="list-style-type: none"> <li>• Make or buy decisions</li> <li>• Discontinuation decisions</li> <li>• Multi-product break-even analysis</li> <li>• Use of data and technology to analyse product mix decisions</li> <li>• Ethical considerations in short-term decision-making</li> </ul>	Use data (financial and non-financial) and the appropriate concepts and techniques to support decision-making to achieve organisational objectives of value creation and preservation.

## P1D: Risk and uncertainty in the short term

Budgets and decisions focus on the future. This introduces uncertainties and risks that need to be identified, assessed and managed. The aim of this section is to help candidates identify, assess and manage the risks and uncertainties associated with the short term.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Apply basic risk management tools in the short term.	a. Explain nature of risk and uncertainty in short term. b. Apply basic sensitivity analysis to budgeting and short-term decision-making.	<ul style="list-style-type: none"> <li>• Stress testing</li> <li>• Sensitivity and what-if analysis</li> <li>• Probability distributions</li> <li>• Decision trees</li> </ul>	What types of risks and uncertainties do organisations face when preparing and implementing budgets and when making short-term decisions? How are those risks and uncertainties identified, assessed and managed?

# Section 1

## OBJECTIVE TEST QUESTIONS

### COST ACCOUNTING FOR DECISION AND CONTROL

#### RATIONALE FOR COSTING

1 Which of the following is NOT one of the main purposes of management accounting?

- A Planning
- B Reporting
- C Decision Making
- D Controlling

2 Do the comments below relate to management or financial accounting? (*tick the correct system*)

	Management accounting	Financial accounting
Uses only historical data		
Is carried out at the discretion of management		
Uses non-financial information		
Aids planning within the organisation		

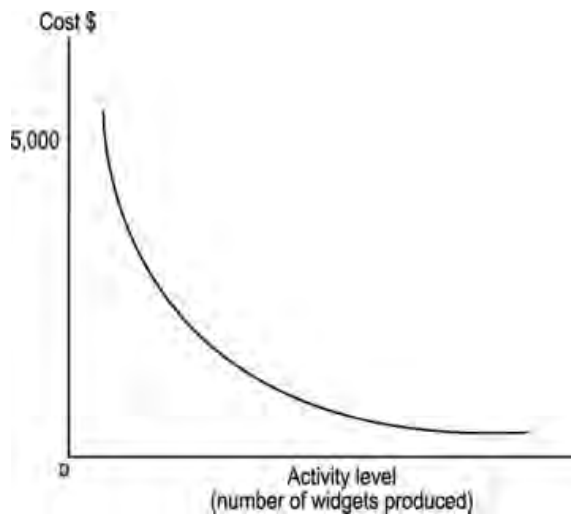
3 Which TWO of the following would normally be carried out by strategic level management?

	<i>Strategic?</i>
Making day-to-day decisions about the running of a department	
Defining the objectives of the company	
Deciding in which markets to operate	
Deciding about how to compete within their chosen markets	
Inventory control	

4 Direct costs are:

- A costs which can be identified with a cost centre but not identified to a single cost unit
- B costs which can be economically identified with a single cost unit
- C costs which can be identified with a single cost unit, but it is not economic to do so
- D costs incurred as a direct result of a particular decision

5 Which of the following descriptions best suits the graph below?



- A Total fixed costs
- B Total variable costs
- C Variable cost per unit
- D Fixed cost per unit

6 Which of the following would be classified as direct labour?

- A An HR manager in a company servicing cars
- B Builder in a construction company
- C General manager in a DIY shop
- D Maintenance manager in a company producing cameras

### TRADITIONAL COSTING

7 A business reported a marginal costing profit of \$45,000 last period. Its inventory values for the period were as follows:

	\$
Opening inventory	16,000
Closing inventory	20,800

If the business had used absorption costing, the inventory values would have been as follows:

	\$
Opening inventory	28,000
Closing inventory	36,400

**What would have been the reported profit using absorption costing?**

- A \$41,400
- B \$48,600
- C \$57,000
- D \$60,600