

Version 1.0



ACCA

MANAGEMENT ACCOUNTING (MA/FMA)

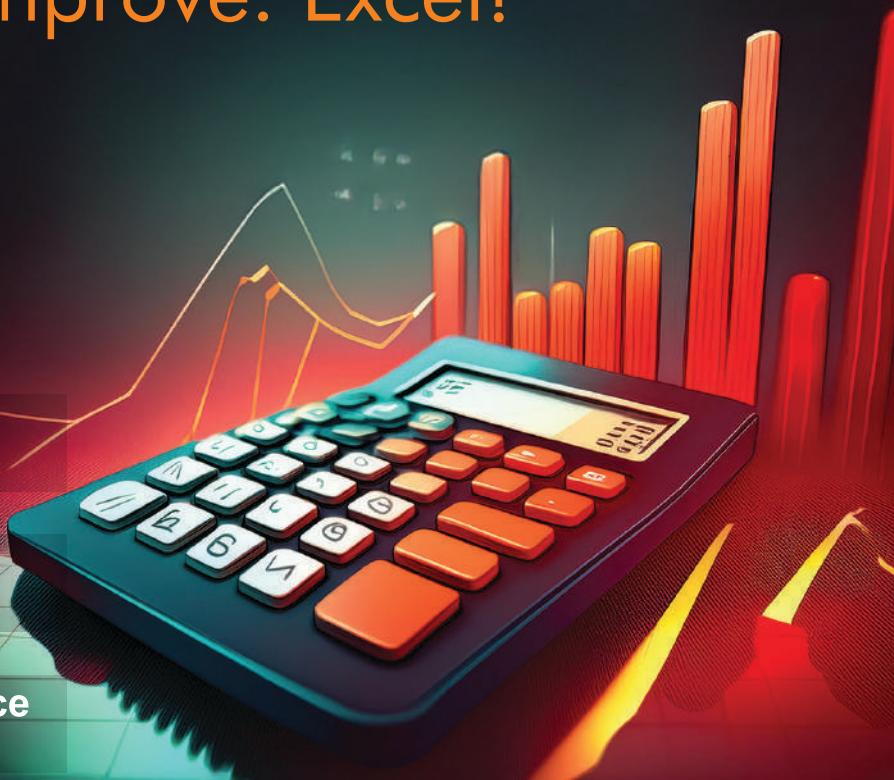
QUESTION BANK

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1. The following statements relate to financial accounting or to cost and management accounting:
 1. The main users of financial accounting information are external to an organization
 2. Cost accounting is part of financial accounting and establishes costs incurred by an organization
 3. Management accounting is used to aid planning, control, and decision-makingWhich of the statements are correct?
(a) 1 and 2 only (b) 1 and 3 only (c) 2 and 3 only (d) 1, 2 and 3
2. Which of the following statements about strategic planning are correct?
 1. It is concerned with quantifiable and qualitative matters
 2. It is mainly undertaken by middle management in an organization
 3. It is concerned predominantly with the long-term(a) 1 and 2 only (b) 1 and 3 only (c) 2 and 3 only (d) 1, 2 and 3
3. What is the purpose of management information?
(a) Planning only
(b) Planning and control only
(c) Planning, control, and decision-making only
(d) Planning, control, decision-making, and research and development
4. Which of the following describes the control process?
(a) The action of monitoring something to keep it on course
(b) The choice between alternatives
(c) The development of strategies to achieve objectives
(d) The establishment of a plan for a future period
5. Which TWO of the following statements about cost and management accounting are true?
(a) Cost accounting cannot be used to provide inventory valuations for external financial reporting
(b) There is a legal requirement to prepare management accounts
(c) The format of management accounts may vary from one business to another
(d) Management accounting provides information to help management make business decisions.
6. Which TWO of the following are characteristics of management accounting information?
(a) Non-financial as well as financial (b) Used by all stakeholders
(c) Concerned with cost control only (d) Not legally required
7. Are the following statements about big data true or false?
 - I. Big data allows organisations to understand their stakeholders
 - II. Big data can be used to forecast demand

8. The following descriptions relate to management information:

1. Clear to the user
2. Detailed and completely accurate
3. Provided whatever the cost
4. Relevant for purpose

Which of the above are necessary features of useful management information?

(a) 1 and 2 only (b) 1 and 4 only (c) 2 and 4 only (d) 1, 2 and 3 only

9. Which of the following only contains essential features of useful management information?

(a) Accurate, clear, presented in report format (b) Timely, reliable, supported by calculations
(c) Regular, complete, communication in writing (d) Clear, accurate, relevant for its purpose

10. The following descriptions relate to features of management information:

1. Communicated in writing
2. Presented in report format
3. Supported by calculations
4. Timely and clear to the user

Which of the above are necessary features of useful management information?

(a) 4 only (b) 2 and 3 only (c) 1 and 4 only (d) 1, 2 and 3 only

11. True or False

Are each of the following statements about management information?

1. Management information should have some value otherwise it would not be worth the cost of collecting and communicating it.
2. Management information only needs to be accurate enough for its purpose

12. Which of the following statements concerning management information is/are correct?

1. A user of management information should have all the information they need to do their job properly
2. A management information report must be relevant for a variety of purposes
3. A management information report should contain a lot of detail to ensure complete accuracy

(a) 1 only (b) 1 and 2 only (c) 2 and 3 only (d) 3 only

13. Are the following statements about data true or false?

1. Primary data is usually less expensive to produce than secondary data because it is available from within the organization
2. Information is data that has been organized so that it can be used for a purpose
3. Big data allows organizations to understand their stakeholders
4. Big data can be used to forecast demand

14. Which of the following characteristics of big data refers to veracity?

(a) Big data selected from a population of items may be inaccurate
(b) Data includes text, photographs, emojis, videos
(c) Data is too large to be analyzed using a spreadsheet
(d) Big data is only meaningful when analyzed to form insights

ANSWER SHEET

1. The correct answer is (b).

(2) is false. Cost accounting is part of management accounting.

2. The correct answer is (b).

(2) is false. Strategic planning is undertaken by senior management.

3. The correct answer is (c).

Management information is provided for these purposes.

4. The correct answer is (a).

B is part of the decision-making process and C and D concern the planning process.

5. The correct answers are (c) and (d).

Correction Explanation:

(a) is false; cost accounting can be used for external reporting (e.g., inventory valuation under GAAP/IFRS).

(c) and (d) are true: management accounts vary in format, and they aid decision-making.

6. The correct answers are (a) and (d).

Correction Explanation:

(c) is false; management accounting covers more than cost control (e.g., planning, performance).

(a) and (d) are true: it includes non-financial data (e.g., customer satisfaction) and isn't legally mandated.

7. Correct answer (I) True and (II) Trues

Explanation:

Big data from sources such as website visitor numbers, customer surveys and social media posts can be combined with data relating to the economic climate and competition, in order to spot trends, understand stakeholders and predict customer demand.

8. The correct answer is (b).

Management information is not necessarily detailed. For example, information for strategic purposes will not have the same level of detail as information for day-to-day management. In managing "by exception" it is the lack of detail (of the non-exceptional items) that makes it most useful. Even financial information should not be provided if its cost outweighs the benefit.

9. The correct answer is (d).

A report format is not essential (so not (a)). Detailed calculations in support of information may be superfluous and therefore not essential (so not (b)). Regular information is not necessarily useful and though information which is reported irregularly, by exception will be useful (so not (c)).

10. The correct answer is (a).

Management information must be timely and clear to the user to be useful. The other features may be helpful but are not necessary for the information to be useful.

11. Management information should have some value otherwise it would not be worth the cost of collecting and communicating it	True
Management information only needs to be accurate enough for its purpose	True

12. The correct answer is (a).

Each management report should be specific to the needs of the user(s) and should not be too detailed, complete, or accurate at the expense of being timely (and therefore relevant).

13.	Primary data is usually less expensive to produce than secondary data because it is available from within the organization.	False
	Information is data that has been organized so that it can be used for a purpose	True

Tutorial note: Primary data is collected for a specific purpose from as close as possible to the origin of an item of data from within or from outside of the organization. Secondary data is “secondhand” data collected by someone else and is usually less expensive than primary data.

Information is data that has been processed or organized so that it can be used for a purpose.

14. Correct answer: (a) Big data selected from a population of items may be inaccurate

Explanation:

Big data is often characterized by the "4 Vs" framework (sometimes expanded to more):

- **Volume:** Refers to the massive size of the data (e.g., petabytes).
- **Velocity:** Refers to the speed of data creation or processing (e.g., real-time streams).
- **Variety:** Refers to the diverse types and sources of data (e.g., text, images, videos).
- **Veracity:** Refers to the accuracy, reliability, or trustworthiness of the data, emphasizing the uncertainty or potential errors due to its scale, complexity, or uncontrolled origins.

15. Correct Answer: (c) 1 and 2 only

Correction Explanation:

1 is true (time/cost impact quality).

2 is true (e.g., historical sales data).

3 is false (accuracy depends on input, not just the system).

16. Correct Answer: (b)

Correction Explanation:

(b) is transactional (records a purchase event).

(c) is sensor data, not transactional.

17. Correct Answer: (a) Statement 1 is true and statement 2 is false

Explanation:

Statement 1: Management accounting is for internal use, so there are no legally mandated formats like in financial accounting.

Statement 2: Management accounting is primarily for internal managers, not external parties.

18. Correct Answer: (d) Chart showing accounting staff exam results

Explanation:

Data is raw, unprocessed facts.

Information is processed, organized, and interpreted data that provides context and meaning.

A chart transforms raw exam results into a visual representation, making it easier to understand trends and patterns, thus making it information.

19. Correct Answer: (a) and (c)

Correction Explanation:

- (a) Relevant and (c) Specific (tailored to purpose) are key qualities.
- (d) Complete is not always necessary; excessive detail can reduce usefulness.

20. The correct answers are (a) and (d).

The desired qualities (attributes) of good information are

Accurate	Complete	Cost-effective
User-targeted	Relevant	Authoritative
Timely	Easy to use	

21. Change the answer to-Correct Answer: (a) and (c)

Correction Explanation:

- (a) and (c) are external (customer input, published stats).
- (b) and (d) are internal reports.

22. Correct Answer: (a) Cost accounting is only useful for internal inventory valuation reporting.

- Explanation:** This statement is incorrect because cost accounting can be used for both internal and external reporting, performance evaluation, and decision-making.
- Why others are incorrect:**
 - (b) Management accounting delivers key information for decision-making, planning, control, and performance assessment. (Correct because this is a primary purpose of management accounting.)
 - (c) Routine information can apply to both short-term and long-term decisions. (Correct because routine information can indeed be used for both short-term and long-term decision-making.)
 - (d) Financial accounting data can serve internal reporting needs. (Correct because financial accounting data can be used for internal as well as external reporting.)

23. Correct answer: (b) (i) and (iii) only.

- Explanation:**
 - (i) is true: Financial accounts record past transactions.
 - (ii) is false: Cost accounting is not part of financial accounting.
 - (iii) is true: Management accounting supports planning and decision-making.

24. Correct Answer: (a) Qualitative data is generally non-numerical.

- Explanation:** Qualitative data is descriptive and focuses on characteristics that cannot be measured numerically.
- Why others are incorrect:**
 - (b) Information can be sourced only externally. (Incorrect because information can be sourced both internally and externally.)
 - (c) Operational information details long-term plans only. (Incorrect because operational information can include both short-term and long-term plans.)
 - (d) Quantitative data is inherently accurate. (Incorrect because quantitative data can have inaccuracies depending on how it is collected and processed.)

25. (i) The centre's revenue (ii) The centre's costs (iii) Assets used in the centre

- Correct Answer: (c). (i) and (ii) only**
- Explanation:** A profit center manager is responsible for the revenue and costs, but not for the assets used in the center. Assets are typically managed by an investment center manager.

- **Why others are incorrect:**
 - ◆ (a) (i) only (Incorrect because it leaves out statement (ii), which is also correct.)
 - ◆ (b) (ii) only (Incorrect because it leaves out statement (i), which is also correct.)
 - ◆ (d) (i), (ii), and (iii) (Incorrect because a profit center manager does not typically manage assets, which are the responsibility of an investment center manager.)

26. Correct Answer: (c) Reducing the selling price by 15%

- **Explanation:** Reducing the selling price by 15% is a specific action that can be taken to achieve short-term tactical goals.
- **Why others are incorrect:**
 - (a) Reviewing and investigating cost variances (Incorrect because this is part of performance evaluation and control rather than a specific short-term tactical plan.)
 - (b) Comparing actual market share to budgeted figures (Incorrect because this is a form of performance review, not necessarily a short-term tactical plan.)
 - (d) Monitoring actual sales against budget (Incorrect because this is part of performance monitoring, not a specific short-term tactical plan.)

27. (i) It involves both quantifiable and qualitative matters.

(ii) It is primarily conducted by middle management.

(iii) It focuses mainly on long-term goals.

- **Correct Answer:** (b) (i) and (iii) only
 - **Explanation:** Strategic planning involves both quantifiable and qualitative matters and focuses mainly on long-term goals.
 - **Why others are incorrect:**
 - ◆ (a) (i) and (ii) only (Incorrect because it leaves out a statement (iii), which is also correct.)
 - ◆ (c) (ii) and (iii) only (Incorrect because it leaves out a statement (i), which is also correct.)
 - ◆ (d) (i), (ii), and (iii) (Incorrect because statement (ii) is not correct as strategic planning is primarily conducted by top management.)

28. Correct Answer: A (i) only

Correction Explanation:

- (i) is partially true but debatable (ROCE fits investment centers better than profit centers).
- (ii) is false (cost centers exist in services, e.g., IT department).
- (iii) is false (revenue centers focus on sales, not costs).

29. Correct Answer: (d) Understandable, accurate, relevant to its purpose

- **Explanation:** These are the essential features of useful management information.
- **Why others are incorrect:**
 - (a) Accurate, understandable, presented in a report format (Incorrect because the format is less critical.)
 - (b) Timely, reliable, supported by calculations (Incorrect because being supported by calculations alone is not sufficient.)
 - (c) Regular, complete, communicated in writing (Incorrect because communication format (written) is less critical.)

30. Correct Answer: (b) Information is derived from processing data

- **Explanation:** Information is indeed derived from processing data, and converting raw data into meaningful insights.

- **Why others are incorrect:**
 - (a) Data is stored on computers in digital form, while information is readable by humans (Incorrect because both data and information can be stored digitally and be readable by humans.)
 - (c) Data and information are synonymous (Incorrect because data and information are not the same; data is raw facts, while information is processed data.)
 - (d) Data consists of numerical or statistical information (Incorrect because data can be qualitative or quantitative, not limited to numerical/statistical information.)

31. Correct Answer: (b) Data collected for a different purpose

- **Explanation:** Secondary data is collected for a purpose other than the current research or project.
- **Why others are incorrect:**
 - (a) Data that lacks informational value (Incorrect because secondary data can still provide valuable insights.)
 - (c) Data specifically gathered for the ongoing survey (Incorrect because this describes primary data.)
 - (d) Data collected via postal or telephone surveys, not through personal interviews (Incorrect because secondary data can be collected through various methods, not limited to these.)

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INTRODUCTION

The purpose of management accounting is to assist management in running the business in ways that will improve the performance of the business.

DEFINITIONS

- **Financial accounting** – The recording, processing, and reporting of financial information to produce financial statements.
- **Management accounting** – The preparation of financial and non-financial information to support management activities.
- **Cost accounting** – Focuses on identifying costs (a monetary valuation or assessment) of resources and their allocation to products, services, inventory or other items. It is a function of management accounting.

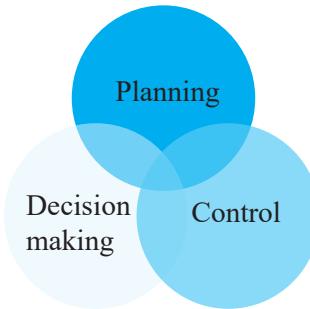
COMPARING MANAGEMENT AND FINANCIAL ACCOUNTING

Aspect	Management Accounting	Financial Accounting
Users of information	Internal management only	Shareholders, banks, creditors, potential investors, tax authorities, government
Requirement to produce	Voluntary, no requirement to produce.	It is required by law. Presentation and content governed by law and generally accepted accounting practices.
Format of information	It can take any form—no legal requirements. Best practices are developed and used.	Presentation regulated by law (e.g. Companies Acts) and the profession through accounting standards.
Content	Financial and non-financial, predominantly current with future predictions (e.g. in budgets).	A summary of mainly (past) historical financial information with supporting notes.
Level of detail	More detailed (e.g. costs and revenues by department, product).	As prescribed by legislation, etc.
Frequency of preparation	As frequently as needed by management: Quarterly, monthly, weekly, daily, or on demand	Usually annually (more frequently for certain types of “public interest” companies).
Purpose of information	Used to plan, control and make decisions.	Stewardship and investment decisions.
Bases of valuation	Standard costs, relevant costs, marginal costs, absorption costs. Other bases may also apply.	Historical costs (as modified by the revaluation of certain fixed assets and fair values as required by financial reporting standards).

THE MAIN MANAGERIAL PROCESSES

PLANNING, DECISION-MAKING, AND CONTROL

Managers Require Information for Three Essential Activities



Planning	Managers plan a course of action for the future. <ul style="list-style-type: none"><input type="checkbox"/> Setting objectives, such as a sales target for a product<input type="checkbox"/> Selecting the best method of achieving the objectives.<input type="checkbox"/> Plans can be financial, like a budget.
Control	Managers use information to check how the organisation performs compared to their plans. <ul style="list-style-type: none"><input type="checkbox"/> Comparing actual results with planned results (variance)<input type="checkbox"/> Reviewing strategic plans when circumstances change.
Decision-making	Managers use information to help them make decisions about the organisation: <ul style="list-style-type: none"><input type="checkbox"/> Preparing information for investment decisions (such as whether to invest in new plant and equipment)<input type="checkbox"/> Making decisions on actions to take: how much of the product to make, what price to set, how to reduce costs etc.

THE DIFFERENT LEVELS OF PLANNING

STRATEGIC, TACTICAL, AND OPERATIONAL PLANNING

Different types of planning and decisions are taken at each different levels in the management hierarchy. These levels have been identified by Robert Anthony as:



- Strategic Planning:** Long-term plans (e.g. 5 to 10 years) for the business e.g. what new offices to open?/what new products to launch?
- Tactical Planning:** Medium-term, more detailed, plans – usually involving producing budgets for the next year e.g. how many staff to employ next year?
- Operational Planning:** Short-term planning and decisions e.g. which supplier to choose for a purchase next week

Below is an illustration of the task performed by the various management levels in potentially expanding the operations of a successful farm:

Task	Management Level	Resources Involved	Timeframe Impact
Deciding to expand operations by buying more land	Strategic	High	Long-term
Deciding on how to fund the purchase of more land	Strategic	High	Long-term
Identifying suitable land for purchase	Tactical	Medium	Medium-term
Arranging finance with banks and investors	Tactical	Medium	Medium-term
Recruitment of employees to work on land	Tactical	Medium	Medium-term
Plan, forecast, and budget for profits and revenues	Tactical	Medium	Medium-term
Monitoring actual progress to plans	Tactical	Low	Short term
Plant crops, decide daily workloads, give operational instructions, and manage day-to-day operations.	Operational	Low	Short-term

DATA AND INFORMATION



One way of assisting management is to provide them with good information to help them with their decisions. The information can be provided to them in different ways, but is usually in the form of reports. For example, a report analysing costs of producing each of several products may assist management in deciding which products to produce. It is the management accountant who will be expected to provide the information, and in order to do so he/she needs to collect data.

Data consists of the facts that are gathered and stored. Data has no clear meaning until it is processed – analysed and sorted – into information

WHAT MAKES GOOD INFORMATION? GOOD QUALITY INFORMATION SHOULD

- be **Accurate** be **Complete** (but not excessive)
- be **Cost effective** (should cost less than the savings to be made)
- be **Understandable** (to whoever is using it)
- be **Relevant** (to the decision being made)
- be **Accessible** (i.e. communicated by an appropriate channel (for example, be printed or be sent electronically))
- be **Timely**
- be **Easy to use**

LIMITATIONS OF MANAGEMENT INFORMATION

If management information lacks the characteristics of useful information, then it may cause management to make wrong decisions. Information can, therefore, sometimes be limited in its usefulness to management.

- Time and cost affect the quality of management information.**
- A lot of management information is based on past events.**
- Management information is often incomplete.**
- Computer systems reports may contain errors.**
- Information can be based on incorrect assumptions.**
- Too much focus on financial information.**

Other Books in This Series

