## MA and FMA Extra MTQs Specimen Exam Answers

MTQ 1
Task 1 (6 marks)

| Return on investment | 20 \% |
| :---: | :---: |
|  | ROI $=$ (operating profit/capital employed) $\times 100=(\$ 700 / \$ 3,500) \times$ $100=20 \%$ |
| Return on sales (operating profit margin) | $1.4 \%$ |
|  | Return on sales $=($ operating profit/sales) x100 $=(\$ 700 / \$ 50,000) x$ $100=1.4 \%$ |
| Asset turnover | 14 times |
|  | Asset turnover = sales/capital employed $=\$ 50,000 / \$ 3,500=14$ |
| Residual income | \$280 |
|  | Residual income $=$ operating profit imputed interest $=\$ 700-(12 \% x$ $\$ 3,500)=\$ 280$ |
| Market share | 4 \% |
|  | Market share $=$ (sales of south division/total industry sales) $\times 100=$ $\$ 50,000 / \$ 1,250,000 \times 100=4 \%$ |

Task 2 (2 marks)

| It ensures that managers will select projects with positive net <br> present values (NPV) | No |
| :--- | :--- |
| It helps in comparing performance of the managers of divisions <br> of different sizes | No |
| It makes divisional managers aware of the cost of financing their <br> divisions | Yes |
| It is directly related to net present value (NPV) | Yes |

Residual income does make divisional managers aware of the cost of financing their decisions through the deduction of impacted interest in the calculation, which is based on the company's cost of capital. As it uses the cost of capital it is more directly related to NPV.

The other statements relate to the benefits of ROI and NPV.
Task 3 (2 marks)
Non-productive hours per month
Defects per product per month

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Non-productive hours per month and defects per product per month are non-financial indicators.
Return per machine per month and profit per product per month are financial indicators.

MTQ 2
Task 1 (2 marks)

| Opening finished goods inventory 150 thousand | 150 <br> Company policy is to hold in inventory the equivalent of 1 weeks sales of the next quarter. Quarter 1 forecast sales $=\$ 1,950,000$ Forecast sales for 1 week = $\$ 1,950,000 / 13=150,000$ units |
| :---: | :---: |
| Closing inventory goods inventory 175 thousand | 175 <br> At the end of Quarter 1 the company will hold inventory equivalent to 1 week of Quarter 2 sales. <br> Quarter 2 forecast sales $=\$ 2,275,000$ <br> Forecast sales for 1 week = <br> $\$ 2,275,000 / 13=175,000$ units |

## Task 2 (2 marks)

Production in Quarter 42250
2250
thousand units
Production budget $=$ Sales + closing inventory opening inventory
$=2,275,000+150,000-175,000=2,250,000$
Note: Opening inventory of 175,000 is based on the closing inventory required at the end of Quarter 3 which is equivalent to 1 week of Quarter 4's sales.

## Task 3 (2 marks)

\$ 57150 thousand
Raw material usage budget $=$ production budget x material usage per unit x standard cost per kg

$$
=3,175,000 \times 3 \mathrm{~kg} \times \$ 6=\$ 57,150,000
$$

## Task 4 (2 marks)

## 0 units

As $6,600,000 \mathrm{~kg}$ of material is available then the company can only produce $2,200,000$ units as each unit requires 3 kg .
Even taking into account the opening inventory of 325,000 units, the company will only be able to sell $2,525,000$ units of its forecast Quarter 3 sales. This means that closing 18/10/13

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 inventory will be 0 .Task 5 (2 marks)

## Requesting a trade discount <br> Using the economic order quantity model

Requesting a trade discount will not overcome patterns in supply, as during a period where materials are in short supply prices are likely to go up and suppliers would not be inclined to offer this option.

Using the EOQ model would not overcome restrictions in supply, as it assumes orders are placed regularly, which might not be possible if raw material is scarce and would restrict production. In addition the model could determine an order size which is higher than the amount of raw material available.

## MTQ 3

Task 1 (10 marks)

| Absorption |
| :--- |
| higher than |
| 1200 less than |
| $\$ 1640000$ |
| 100 units less |
| Less than |
| 320kg more than flexed |

Gap 1 -Absorption - the sales volume variance has been valued at standard profit and the fixed overhead variances include an expenditure and volume variance.
Gap 2- Higher than - the sales price is favourable which indicates the units sold achieved a higher price than the standard selling price.
Gap 3-1,200 less than - the sales volume variance is adverse which indicates less units were sold than budgeted. The sales volume variance is valued at standard profit, therefore is $\$ 60,000 / \$ 50=1,200$ units less than budgeted.
Gap 4 - \$1,640,000 - actual sales units are 10,800 (standard profit on actual sales/standard profit). Therefore sales revenue $=(10,800 \times 150)+20,000$ (favourable price variance) $=\$ 1,640,000$
Gap 5 - Less than - Fixed overhead volume variance is calculated based on production units. It is adverse which indicates less units have produced than budgeted for. FOH volume variance is valued at standard overhead absorption rate $=\$ 2,000 / \$ 20=100$ units less than budgeted.
Gap 6 - Less than - the material price is favourable which indicates that the materials purchased were bought for a lower price than was budgeted for.
Gap 7-320kg more than flexed - the material usage variance is adverse which indicates more materials used than budgeted for. The usage variance is valued at standard material cost $=\$ 8,000 / \$ 25=320 \mathrm{~kg}$. It is flexed as all cost variances are flexed to reflect the actual production activity in the period.

