accepting the special order increases material costs, these increased material costs are relevant to the decision of whether to accept the order or not.

7. Explain the concept of "activity-based costing" (ABC) and its advantages over traditional costing methods.

Answer:

Activity-based costing (ABC) is a costing method that allocates indirect costs to products or services based on the activities that drive those costs. It involves identifying and assigning costs to specific activities or cost drivers, and then allocating those costs to products or services based on their consumption of these activities. ABC provides a more accurate cost allocation compared to traditional costing methods, which often use a single cost driver, such as direct labor hours or machine hours. Advantages of ABC include better cost accuracy, improved decision-making, and a clearer understanding of the cost structure of products or services.

8. What is a budget, and why is it important in managerial accounting?

Answer:

A budget is a financial plan that outlines an organization's expected revenues, expenses, and financial goals for a specific period, typically a fiscal year. It serves as a roadmap for managing an organization's resources and helps in setting targets, controlling expenses, and evaluating performance. Budgets are crucial in managerial accounting because they enable organizations to plan for the future, allocate resources efficiently, and measure actual performance against planned performance. They also provide a basis for decision-making, cost control, and performance evaluation.

f) Variable overhead efficiency variance

g) Fixed overhead budget variance

h) Fixed overhead volume variance

Question 5: A company is considering whether to make or buy a component that it currently makes in-house. The annual demand for the component is 20,000 units. The cost to make the component is as follows:

Direct materials | $80,000

Direct labor | $120,000

Variable overhead| $60,000

Fixed overhead | $100,000

The fixed overhead consists of $40,000 of avoidable costs and $60,000 of unavoidable costs. The company can buy the component from an outside supplier for $14 per unit. What is the relevant cost to make the component? What is the relevant cost to buy the component? What should the company do?

Question 6: A company has two divisions, X and Y. Division X produces a component that can be sold externally for $25 per unit or transferred internally to Division Y for $15 per unit. Division X has a capacity of 10,000 units and a variable cost of $10 per unit. Division Y needs 8,000 units of the component for its own production. Division Y can buy the component from an external supplier for $20 per unit. What is the transfer price that maximizes the overall profit of the company?

Question 7: A company has three products, P, Q, and R, with the following characteristics:

Product | Selling Price | Variable Cost | Demand

c) Direct labor rate variance = Actual hours worked * (Actual rate - Standard rate) = (6 * 1,000) * ($18 - $20) = $12,000 (Favorable)

d) Direct labor efficiency variance = Standard rate * (Actual hours worked - Standard hours allowed) = ($20) * ((6 * 1,000) - (5 * 1,000)) = -$20,000 (Unfavorable)

e) Variable overhead spending variance = Actual hours worked * (Actual rate - Standard rate) = (6 * 1,000) * ($12 - $10) = -$12,000

PAPER # 4

Section A: Multiple Choice Questions (20 marks)

1. Which of the following is NOT a key function of management accounting?
   - A. Planning
   - B. Control
   - C. Decision-making
   - D. Financial reporting
2. Which of the following is an example of a fixed cost?
   - A. Direct materials
   - B. Direct labor
   - C. Factory rent
   - D. Sales commissions
3. Which of the following is an example of a variable cost?
   - A. Packaging materials
   - B. Hourly wages
   - C. Insurance premiums
   - D. Depreciation

2. The three main types of budgets are:

    - Operating budgets: Budgets that show how a company plans to generate revenue and incur costs during a specific period of time.
    - Capital budgets: Budgets that show how a company plans to invest in long-term assets during a specific period of time.
    - Financial budgets: Budgets that show how a company plans to finance its operations and investments.

3. Standard costing is a method of accounting that compares the actual costs of a product or service to the standard costs that should have been incurred. Any difference between the two is known as a variance. Variance analysis can be used to identify and investigate areas where costs are out of control.

4. The different types of variance analysis include:

    - Material price variance: The difference between the actual price paid for materials and the standard price.
    - Material quantity variance: The difference between the actual quantity of materials used and the standard quantity

PAPER # 5

Section A: Multiple Choice Questions (20 marks)

1. Which of the following is NOT a function of managerial accounting?

    - A. Planning
    - B. Controlling
    - C. Decision making
    - D. Reporting to external stakeholders

2. What is the difference between direct costs and indirect costs?

    - A. Direct costs are incurred specifically for the production of a product or service, while indirect costs are incurred for the benefit of the organization as a whole.