

Question 1 of 100

The flexible budget for production of copper wire by Metalworks, Inc., includes a budget based on 50,000 units produced per month. For this level of production, indirect materials are \$206,000, indirect labor is \$148,000, utilities are \$18,000, depreciation is \$64,000, and supervision is \$5,000. In the month of January, they spent \$205,472 for indirect materials, \$149,594 for indirect labor, and \$19,650 for utilities to make 50,000 units of wire. What was their difference in variable costs for January?

A. \$2,716 unfavorable. ✓

B. \$2,716 favorable.

C. \$1,066 favorable.

D. \$1,066 unfavorable.

Explanation:

(Choice A) Correct. Flexible budgets are prepared after a period is over to show budgeted amounts for the actual level of activity achieved. Fixed costs are the same in a static budget and flexible budget as fixed costs do not change when activity changes. Variable costs in a flexible budget will be different from variable costs in a static budget to the extent that actual activity level differs from the activity level used to prepare the static budget. Variable costs for Metalworks include indirect materials, indirect labor, and utilities. Depreciation and supervision are fixed costs. The total variable costs in the flexible budget are \$372,000 ($\$206,000 + \$148,000 + \$18,000$) and the actual total variable costs are \$374,716 ($\$205,472 + \$149,594 + \$19,650$). Since actual spending is higher than the flexible budget amount by \$2,716 ($\$374,716 - \$372,000$), there is a \$2,716 unfavorable variance.

(Choice B) Incorrect. Variable costs for Metalworks include indirect materials, indirect labor, and utilities. Depreciation and supervision are fixed costs. The total variable costs in the flexible budget are \$372,000 ($\$206,000 + \$148,000 + \$18,000$) and the actual total variable costs are \$374,716 ($\$205,472 + \$149,594 + \$19,650$). While there is a variance of \$2,716 ($\$374,716 - \$372,000$), it is not favorable, as actual spending is higher than the flexible budget amount.

(Choice C) Incorrect. Variable costs for Metalworks include indirect materials, indirect labor, and utilities. Depreciation and supervision are fixed costs. If utilities are omitted, total variable costs in the flexible budget would be \$354,000 ($\$206,000 + \$148,000$) and the actual total variable costs would be \$355,066 ($\$205,472 + \$149,594$). This would result in a variance of \$1,066 ($\$355,066 - \$354,000$). However, it would be unfavorable, not favorable, since actual spending would be higher than the flexible budget. In addition, utilities need to be included in the variable costs.

(Choice D) Incorrect. Variable costs for Metalworks include indirect materials, indirect labor, and utilities. Depreciation and supervision are fixed costs. If utilities are omitted, total variable costs in the flexible budget would be \$354,000 (\$206,000 + \$148,000) and the actual total variable costs would be \$355,066 (\$205,472 + \$149,594). Since actual spending would be higher than the flexible budget amount by \$1,066 (\$355,066 – \$354,000), there would be a \$1,066 unfavorable variance. However, utilities need to be included in the variable costs.

Question 2 of 100

Which of the following is a limitation of comparing actual results to the master budget?

- A. Actual results are based on the actual level of activity but the master budget is based on the expected level of activity. ✓**
- B.** Actual results are based on the actual level of activity but the master budget is based on last year's expected level of activity.
- C.** Actual results are based on the actual level of activity but the master budget is based on last year's actual level of activity.
- D.** Actual results are based on the actual level of activity but the master budget is based on the actual level of efficiency.

Explanation:

(Choice A) A master budget is prepared before a period begins and it contains information on expected revenues and expenses for the period. While comparing actual results to master budget figures gives a high-level overview of performance, it can be misleading when the actual level of activity differs significantly from the expected level of activity because revenues and expenses are likely to be different at different levels of activity. To the extent this is true, comparing actual results to master budget figures will be misleading.

(Choice B) This answer is incorrect. A master budget is not based on last year's expected level of activity.

(Choice C) This answer is incorrect. A master budget is not based on last year's actual level of activity.

(Choice D) This answer is incorrect. A master budget is not based on the actual level of efficiency.

Question 3 of 100

Each of the following statements about key performance indicators (KPIs) is correct, **except**:

- A. KPIs measure critical success factors (CSFs) that represent strategic objectives for the organization.
- B. KPIs often arise as a result of a SWOT (strengths, weaknesses, opportunities, and threats) analysis.
- C. KPIs can be both financial and nonfinancial.
- D. KPIs focus only on short-term performance. ✓**

Explanation:

(Choice A) KPIs are tied to CSFs because KPIs measure objectives critical to the strategic success of an organization.

(Choice B) A SWOT analysis is part of an organization's strategic planning process that involves analyzing the strengths, weaknesses, opportunities, and threats facing an organization to help identify critical success factors (CSFs). KPIs are tied to the strategic objectives of an organization because they measure performance on CSFs that represent strategic objectives.

(Choice C) KPIs can include both financial and nonfinancial measures.

(Choice D) KPIs measure strategic factors critical to the success of an organization. Because goals and objectives are based on short-term operational and long-term strategic performance, KPIs should focus on both short- and long-term performance of critical success factors (CSFs).

Question 4 of 100

For a corporation that is subject to the U.S. Income Tax Code and reports its financial results in accordance with U.S. GAAP, which one of the following requires the recognition of a deferred tax liability?

*Source: Retired ICMA CMA Exam Questions.

- A. Subscriptions received in advance and accounted for ratably over the subscription term
- B. An accrual for product warranty expenses that will be incurred and paid in the future
- C. Interest received on state and municipal bonds
- D. Sales accounted for on an accrual basis and on the cash basis for tax purposes**



Explanation:

(Choice A) This answer is incorrect. When subscriptions are paid in advance, revenue is recognized immediately under IRS rules but over time under U.S. GAAP. This results in tax return income being lower than book income in the future.

(Choice B) This answer is incorrect. When product warranty expenses are accrued, warranty expense is recognized immediately under U.S. GAAP. However, warranty expense is only recognized under IRS rules when cash is paid out on a warranty claim. This results in tax return income being lower than book income in the future.

(Choice C) This answer is incorrect. Interest on state and municipal bonds is considered a permanent difference, not a temporary difference.

(Choice D) A company records a deferred tax liability when the taxable income on its tax return in the future will be higher than earnings before taxes on its income statement will be. They result from different tax treatments for transactions between U.S. GAAP and the IRS (temporary differences). When a sale is accounted for on an accrual basis under U.S. GAAP and on a cash basis for tax purposes, revenue is recorded on the books (U.S. GAAP) before the tax return. This results in a deferred tax liability since tax return income will be higher than book income in the future (when cash is received).

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A company uses return on investment (ROI) to compare its divisions, using this evaluation to determine division manager bonuses. Which method of asset measurement would provide the **best** method of comparison?

*Source: Retired ICMA CMA Exam Questions.

A. Book value

B. Current cost ✓

C. Historical cost

D. Depreciated cost

Explanation:

(Choice A) This answer is incorrect. Book values are at least partially based on accounting choices such as depreciation method, depreciable life, and expected salvage value. This means a manager can manipulate return on investment through these choices.

(Choice B) How asset values are measured is important in determining a division's return on investment since it affects the numerator (as depreciation expense) and the denominator (as the investment base). Lower asset values bias return on investment upward (through a higher numerator and lower denominator) while higher asset values bias it downward (through a lower numerator and higher denominator). Current cost provides the best method of comparison because it is independent of accounting choices such as depreciation method, depreciable life, and expected salvage value and it is independent of the age of an asset (how long ago it was purchased).

(Choice C) This answer is incorrect. Historical cost is likely to differ significantly between divisions, especially if one division has older assets purchased many years ago and the other has newer assets recently purchased. The lower historical cost of older assets will bias return on investment upward while the higher historical cost of newer assets will bias it downward.

(Choice D) This answer is incorrect. Depreciated cost is at least partially based on accounting choices such as depreciation method, depreciable life, and expected salvage value. This means a manager can manipulate return on investment through these choices.