ICMA INTERNATIONAL
lead strategically

MODEL PAPER

PRACTICAL INDUSTRY KNOWLEDGE (PIK) EXAMINATION

[COMPUTER BASED EXAMINATIONS]

Advanced Management Accounting
[Managerial Level-2]

TIME ALLOWED: 03 HOURS | MAXIMUM MARKS: 100

Effective from December 2025 Examinations

EXAMINATION DEPARTMENT

MULTIPLE CHOICE QUESTIONS (MCQs)

Question No.1

A forecasting analyst estimates the regression line for sales (Y) based on advertising expense (X) as:
Y = 5000 + 6X
If advertising budget next month is Rs. 2000, the forecasted sales will be: **[04 Marks]**

A	5000
B	6200
C	12000
D	17000

Question No.2

A production budget requires 12,000 units for the coming month. Each unit requires 3 kg of material. Desired ending inventory of material is 5,000 kg, beginning inventory is 4,000 kg. What is the material purchase requirement? **[04 Marks]**

A	32,000 kg
B	33,000 kg
C	35,000 kg
D	41,000 kg

Question No.3

A company budgeted variable overhead at Rs. 8 per machine hour for 10,000 machine hours. Actual activity was 12,000 hours. What is the flexible budget for variable overhead? **[04 Marks]**

A	80,000
B	96,000
C	100,000
D	120,000

Question No.4

A firm is evaluating a proposal that costs Rs. 5,000,000 and provides the following inflows:
Year 1: 1,200,000
Year 2: 1,400,000
Year 3: 1,500,000
Year 4: 1,600,000
What is the cumulative payback period? **[04 Marks]**

A	Between Year 3 and Year 4
B	Exactly 3 years
C	Less than 3 years
D	More than 4 years

Question No.5

A machine costing Rs. 8,000,000 yields the following cash inflows:
Year 1: 2,500,000 (DF 0.90)
Year 2: 2,500,000 (DF 0.82)

Year 3: 2,500,000 (DF 0.75)
Year 4: 2,500,000 (DF 0.68)
What is the total PV of inflows, and should the project be accepted at a 10 percent discount rate?
[04 Marks]

A	PV = 8.0m; accept
B	PV = 7.5m; reject
C	PV = 8.5m; accept
D	PV = 9.0m; accept

Question No.6

A project generates annual cash inflows of Rs. 5,000,000 before tax.
Corporate tax rate: 30 percent
Tax-allowable depreciation: Rs. 1,200,000 per year
Calculate the after-tax operating cash flow. **[04 Marks]**

A	3,500,000
B	4,000,000
C	4,500,000
D	5,000,000

Question No.7

A company produces a single product with the following data:
Selling price per unit: 4,800
Variable cost per unit: 3,000
Fixed cost per year: 27,000,000
What is the break-even point in units? **[04 Marks]**

A	12,000 units
B	14,000 units
C	15,000 units
D	18,000 units

Question No.8

A company produces Product A with the following data:
Selling price: 1,900
Variable cost: 1,300
Annual fixed costs: 9,000,000
If a special order of 5,000 units is offered at 1,450 per unit and there is sufficient idle capacity, should the order be accepted? **[04 Marks]**

A	Yes, because it generates positive contribution
B	No, because price is below normal
C	Accept only if fixed costs are reduced
D	Reject because variable cost increases

Question No.9

A company uses ABC with two cost pools:
Machine setups: 6,000,000 (cost driver: number of setups)
Quality checks: 4,000,000 (cost driver: number of inspections)
Product X: 40 setups, 50 inspections

Product Y: 20 setups, 150 inspections
Total setups = 60
Total inspections = 200
What is the total overhead assigned to Product Y? **[04 Marks]**

A	3,000,000
B	4,000,000
C	5,000,000
D	6,000,000

Question No.10

A company produces Product Z with the following data:
Selling price = 3,500
Direct material cost = 1,800
Processing time on bottleneck = 25 minutes
What is the throughput per bottleneck minute? **[04 Marks]**

A	40
B	68
C	80
D	100

CASE STUDY

Case Study-1

Precision Components Ltd. manufactures three industrial parts: **PX-100**, **PX-200**, and **PX-300**. The production facility operates under heavy pressure due to a **single bottleneck machine** responsible for heat-treating components. Management has adopted **Throughput Accounting (TA)** to improve decision-making and minimize bottleneck losses. The company also uses **backflush accounting**, as inventories remain minimal due to continuous-flow production.

Product Data:
PX-100: Selling price 3,000; Direct material cost 1,400; Bottleneck time 18 minutes
PX-200: Selling price 4,200; Direct material cost 2,000; Bottleneck time 30 minutes
PX-300: Selling price 2,500; Direct material cost 1,200; Bottleneck time 12 minutes

Operational Constraints:
Total bottleneck time available per month: 24,000 minutes
Demand per month:
PX-100 = 400 units
PX-200 = 600 units
PX-300 = 1,800 units
Management wants to determine the optimal product mix under TA and evaluate inventory valuation under backflush accounting.

QUESTIONS

1. Which product should be prioritized at the bottleneck?
2. What is the maximum number of units of the prioritized product that can be produced if only that product is run?
3. What is one benefit of using backflush accounting in this manufacturing environment? **(Marks 15)**

Case Study-2

GreenEarth Manufacturing Ltd. produces plastic household goods. Due to increasing environmental scrutiny, the company introduced an **Environmental Cost Management System** to identify and classify environmental costs more accurately. Management wants to analyze how environmental costing impacts pricing, production decisions, and sustainability strategy.

Environmental Cost Data for the Year:

Prevention Costs
• Process redesign to reduce plastic waste: 9,000,000
• Employee training on pollution control: 1,800,000

Detection Costs
• Air and water quality monitoring: 2,400,000
• Environmental audits: 1,200,000

Internal Failure Costs
• Waste reprocessing and defective material handling: 4,500,000

External Failure Costs
• Penalties for plastic disposal: 3,200,000
• Clean-up cost due to accidental chemical leakage: 5,000,000
• Compensation to affected communities: 2,000,000

Management is concerned that **external failure costs** have increased significantly and wants to evaluate whether further investment in prevention could reduce future risk and cost.

QUESTIONS

1. What is the total external failure cost?
2. Which category (prevention, detection, internal failure, external failure) accounts for the highest cost?
3. Based on environmental costing principles, what strategic shift should management focus on to reduce future environmental costs?

(Marks 15)

Scenario Based Question-1

Part (a):

A manufacturing company has the following working capital data:
Average inventory holding period: 65 days
Average receivable collection period: 45 days
Average payable payment period: 30 days
The finance manager wants to reduce financing costs by shortening the cash conversion cycle (CCC). Which action will most effectively reduce the CCC?

A. Increase credit sales to boost revenue
B. Negotiate with suppliers to extend payment terms to 60 days
C. Reduce inventory levels through JIT implementation
D. Offer customers longer credit periods

(Marks 5)

Part (b):

A firm has seasonal sales fluctuations. During peak months, it generates strong cash inflows, while in off-season months, receipts decline sharply. To stabilize cash availability, management is evaluating financing and investment options. Which approach is most appropriate for managing such seasonality?

A. Keep large idle cash throughout the year
B. Use marketable securities to invest surplus cash and draw on them during off-season
C. Permanently increase long-term borrowing
D. Delay supplier payments beyond agreed terms

(Marks 5)

Part (c):

A company's receivables increased from 90,000,000 to 140,000,000 in one year, while annual credit sales remained constant at 600,000,000. Customers are now taking longer to pay due to relaxed credit policies. Management is worried about liquidity. What should be the company's most effective response?

A. Extend credit terms even further
B. Implement stricter credit approval and start charging late payment penalties
C. Increase inventory levels to support more sales
D. Reduce supplier payment days

(Marks 5)

Scenario Based Question-2

Part (a):

A manufacturing company has been facing frequent stockouts of raw materials, which cause production stoppages. Investigation shows:
• Poor demand forecasting
• Delayed reordering
• No safety stock maintained
Management wants to avoid production halts while minimizing cost. Which inventory management approach should be immediately prioritized?

A. Eliminate lead time completely
B. Introduce safety stock and improve reorder point calculation
C. Increase warehouse size
D. Reduce production levels permanently

(Marks 5)

Part (b):

A factory produces two products: Alpha and Beta. Traditional costing applies overhead using direct labour hours.
Total overhead: 12,000,000
Total labour hours: 60,000
Overhead rate = 200 per labour hour
ABC analysis identifies two major activities:
Machine setups: Cost pool 5,000,000; Alpha requires 50 setups, Beta 25 setups

Quality inspections: Cost pool 7,000,000; Alpha requires 70 inspections, Beta 30 inspections
Which product is likely to be overcosted under traditional costing?

A. Alpha
B. Beta
C. Both products equally
D. Neither product

(Marks 5)

Part (c):

A company makes Product X with the following data:
Selling price: 3,000
Variable cost: 1,800
Fixed costs: 12,000,000 per month
A distributor offers to buy 4,000 units at 2,000 per unit. But accepting the order would require giving up production of 1,000 units of normal sales (contribution 1,200 each). Should the order be accepted?

A. Accept because 2,000 is above variable cost
B. Reject because opportunity cost of lost contribution is too high
C. Accept because fixed cost will be absorbed better
D. Accept partially

(Marks 5)

THE END