

# CMA Part 1 Exam — Paper A

Financial Planning, Performance, and Analytics

Duration: 4 hours

Instructions:

Attempt all questions.

MCQs first (100 questions, 3 hours)

Essay Questions next (2 scenarios, 1 hour)

## Instructions

MCQs:

100 questions, 3 hours allotted

Each MCQ carries 3.75 marks (375 total marks ÷ 100 questions)

You must attempt all MCQs before proceeding to essays

Minimum 50% score required in MCQs to move to essays

Essay Questions:

2 questions, 1 hour allotted

Each essay carries 62.5 marks (125 total marks ÷ 2 essays)

Essays are scenario-based and require written analytical answers

## Percentage-wise Topic Breakdown of MCQs (Example)

Topic	No. of Questions	Percentage (%)
Planning, Budgeting, Forecasting	20	20%
Performance Management	20	20%
Cost Management	15	15%
Internal Controls	15	15%
External Financial Reporting Decisions	15	15%
Auditing and Reporting	15	15%
<b>Total</b>	<b>100</b>	<b>100%</b>

# Summary for Candidates

Total marks: 500

MCQs weight: 375 marks (75%)

Essays weight: 125 marks (25%)

Passing score: 360 or above (combined MCQs + essays)

Exam duration: 4 hours (3 hours MCQs + 1 hour essays)

## Section A: Multiple Choice Questions (100 Questions)

### Planning, Budgeting, and Forecasting (20 Questions)

Which of the following budgets starts from zero and requires justification for all expenses?

- A) Incremental Budget
- B) Flexible Budget
- C) Zero-Based Budget
- D) Static Budget

Answer: C

The primary purpose of forecasting is to:

- A) Guarantee profits
- B) Predict future financial performance
- C) Prepare financial statements
- D) Control inventory

Answer: B

Which budgeting technique uses historical data to predict seasonal sales patterns?

- A) Scenario Analysis
- B) Regression Analysis
- C) Time-Series Analysis
- D) Zero-Based Budgeting

Answer: C

A master budget includes all except:

- A) Sales Budget
- B) Production Budget
- C) Marketing Budget
- D) Personal Budget

Answer: D

Scenario analysis helps managers to:

- A) Evaluate the impact of different possible future events
- B) Ignore market risks
- C) Simplify budgeting
- D) Fix budgets permanently

Answer: A

Which of the following best describes a flexible budget?

- A) A budget that does not change with volume

- B) A budget that changes in response to activity levels
- C) A budget with no variance analysis
- D) A budget only for fixed costs

Answer: B

In regression analysis, the dependent variable is usually:

- A) The variable being predicted
- B) The independent variable
- C) The budget amount
- D) The sales forecast

Answer: A

What is the key advantage of zero-based budgeting?

- A) It speeds up the budgeting process
- B) It requires justification of all expenses, improving cost control
- C) It ignores minor expenses
- D) It increases budget size yearly

Answer: B

Which type of budget forecasts cash inflows and outflows?

- A) Cash Budget
- B) Sales Budget
- C) Production Budget
- D) Zero-Based Budget

Answer: A

Time-series forecasting is least useful when:

- A) Data shows regular seasonal patterns
- B) Sudden economic shocks occur
- C) Sales are stable
- D) Forecasting sales for holidays

Answer: B

Budget variance is:

- A) Difference between budgeted and actual figures
- B) Total expenses in a period
- C) Planned sales volume
- D) Cash inflows

Answer: A

A forecast helps managers to:

- A) React to past events
- B) Predict future financial outcomes
- C) Ignore market trends
- D) Eliminate all risk

Answer: B

A zero-based budget must be:

- A) Approved annually without justification
- B) Justified from scratch every period
- C) Based on last year's figures
- D) Used only for small companies

Answer: B

Flexible budgets are most useful in:

- A) Static production environments
- B) Variable activity environments
- C) Companies without budgets
- D) Non-profit organizations only

Answer: B

Master budgets typically exclude:

- A) Sales budgets
- B) Production budgets
- C) Personal budgets
- D) Cash budgets

Answer: C

Time-series forecasting is less effective when:

- A) Data shows seasonal patterns
- B) There is sudden market disruption
- C) Sales are stable
- D) There is no trend

Answer: B

The budgeting process helps in:

- A) Planning resource allocation
- B) Ignoring company strategy
- C) Avoiding all expenses
- D) Guaranteeing profit

Answer: A

What is the main focus of strategic budgeting?

- A) Short-term cash flows
- B) Aligning budgets with long-term goals
- C) Ignoring market risks
- D) Only controlling expenses

Answer: B

Zero-based budgeting requires a review of:

- A) Only new expenses
- B) All expenses regardless of past budgets
- C) Fixed expenses only
- D) Variable expenses only

Answer: B

Which of the following is NOT a forecasting technique?

- A) Regression analysis
- B) Time-series analysis
- C) Activity-based costing
- D) Scenario analysis

Answer: C

# Performance Management (20 Questions)

Variance analysis helps managers to:

- A) Identify areas where performance deviates from standards
- B) Increase prices arbitrarily
- C) Ignore cost control
- D) Avoid budgeting

Answer: A

The balanced scorecard includes which of the following perspectives?

- A) Financial, Customer, Internal Processes, Learning and Growth
- B) Financial, Marketing, Sales, Production
- C) Legal, Ethical, Social, Political
- D) Financial only

Answer: A

Responsibility accounting is based on:

- A) Assigning costs and revenues to managers responsible for them
- B) Ignoring costs
- C) Increasing expenditures
- D) None of the above

Answer: A

Return on Investment (ROI) is calculated as:

- A)  $\text{Net Profit} \div \text{Total Assets}$
- B)  $\text{Net Income} \div \text{Sales}$
- C)  $\text{Total Revenue} \div \text{Investment}$
- D)  $\text{Cost of Goods Sold} \div \text{Equity}$

Answer: A

Which variance measures the difference between actual and standard labor hours?

- A) Labor Rate Variance
- B) Labor Efficiency Variance
- C) Material Price Variance
- D) Overhead Variance

Answer: B

Benchmarking is used to:

- A) Set performance standards based on best practices
- B) Ignore competitors
- C) Increase costs
- D) None of the above

Answer: A

Residual income is:

- A) Net income minus a charge for capital employed
- B) Total revenue minus expenses
- C) Cash flow from operations
- D) A cost allocation method

Answer: A

Performance management focuses on:

- A) Measuring and managing organizational goals
- B) Ignoring financial data
- C) Increasing costs

D) Removing responsibility

Answer: A

The financial perspective in a balanced scorecard focuses on:

A) Customer satisfaction

B) Profitability and cost management

C) Employee training

D) Process improvement

Answer: B

Variance analysis compares:

A) Budgeted amounts to actual amounts

B) Competitor's costs

C) Last year's stock prices

D) None of the above

Answer: A

A key objective of performance evaluation is to:

A) Reward managers for meeting targets

B) Penalize employees only

C) Ignore cost control

D) Avoid responsibility

Answer: A

A responsibility center can be:

A) Cost center

B) Profit center

C) Investment center

D) All of the above

Answer: D

Material price variance occurs when:

A) Quantity used differs from standard

B) Actual price differs from standard price

C) Production volume changes

D) Budget changes

Answer: B

Labor efficiency variance measures:

A) Difference in labor hours used versus standard hours allowed

B) Labor wage rate differences

C) Total labor cost

D) None of the above

Answer: A

Which of these is NOT part of performance management?

A) Budgeting

B) Benchmarking

C) Cost control

D) Production only

Answer: D

Management by exception means:

A) Focusing on variances beyond a set threshold

B) Reviewing all data equally

C) Ignoring exceptions

D) None of the above

Answer: A

Balanced scorecard helps link:

A) Financial and non-financial performance measures

B) Only financial results

C) Only customer satisfaction

D) None of the above

Answer: A

Responsibility accounting helps in:

A) Delegating accountability

B) Reducing communication

C) Increasing errors

D) None of the above

Answer: A

A negative variance is:

A) Favorable

B) Unfavorable

C) Neutral

D) Not measurable

Answer: B

Performance management helps:

A) Improve decision-making

B) Increase costs

C) Ignore strategy

D) Decrease productivity

Answer: A

## **Cost Management (15 Questions)**

Activity-Based Costing (ABC) allocates overhead based on:

A) Direct labor hours

B) Machine hours

C) Activities causing costs

D) Sales volume

Answer: C

In job order costing, costs are accumulated:

A) For each department

B) For each product batch

C) For each specific job/project

D) For entire production

Answer: C

Fixed costs:

- A) Vary with production volume
- B) Remain constant over a relevant range
- C) Change every month
- D) None of the above

Answer: B

Variable costs:

- A) Remain constant
- B) Change with production volume
- C) Are not important
- D) None of the above

Answer: B

Process costing is best for:

- A) Custom products
- B) Homogeneous continuous production
- C) One-time projects
- D) Services only

Answer: B

Cost allocation is:

- A) Assigning indirect costs to cost objects
- B) Ignoring overheads
- C) Directly charging materials
- D) None of the above

Answer: A

Supply chain management impacts:

- A) Inventory costs
- B) Customer satisfaction
- C) Production efficiency
- D) All of the above

Answer: D

Just-In-Time inventory aims to:

- A) Minimize inventory holding costs
- B) Increase stock levels
- C) Delay deliveries
- D) None of the above

Answer: A

Cost behavior analysis helps in:

- A) Budgeting and decision-making
- B) Ignoring costs
- C) Setting random prices
- D) None of the above

Answer: A

Activity cost drivers:

- A) Cause activities and consume resources
- B) Are irrelevant
- C) Ignore overheads



D) None of the above

Answer: A

Job order costing is used when:

A) Producing standard products

B) Producing customized orders

C) No production is involved

D) None of the above

Answer: B

Fixed manufacturing overhead is:

A) Variable

B) Fixed regardless of production volume

C) Not allocated

D) None of the above

Answer: B

Overhead costs can be:

A) Applied using activity drivers

B) Ignored

C) Only direct materials

D) None of the above

Answer: A

Cost control focuses on:

A) Monitoring and reducing costs

B) Increasing expenses

C) Ignoring budgets

D) None of the above

Answer: A

Marginal costing considers:

A) Fixed costs only

B) Variable costs only

C) Both fixed and variable costs

D) None of the above

Answer: B

## **Internal Controls (15 Questions)**

Segregation of duties helps prevent:

A) Data entry errors

B) Fraud and theft

C) Increased sales

D) Customer complaints

Answer: B

Corporate governance ensures:

A) Higher taxes

B) Accountability and ethical behavior

- C) Lower profits
- D) Increased advertising

Answer: B

Fraud detection techniques include:

- A) Audits and whistleblower policies
- B) Ignoring discrepancies
- C) Reducing controls
- D) None of the above

Answer: A

Internal controls aim to:

- A) Protect assets
- B) Ensure data accuracy
- C) Comply with regulations
- D) All of the above

Answer: D

Risk management involves:

- A) Identifying and mitigating risks
- B) Ignoring risks
- C) Increasing risks
- D) None of the above

Answer: A

An example of internal control is:

- A) Physical inventory counts
- B) Ignoring errors
- C) Bypassing approvals
- D) None of the above

Answer: A

Management is responsible for:

- A) Designing and maintaining internal controls
- B) Outsourcing all controls
- C) Ignoring risks
- D) None of the above

Answer: A

Control environment includes:

- A) Integrity and ethical values
- B) Only financial controls
- C) Marketing efforts
- D) None of the above

Answer: A

Monitoring internal controls is:

- A) Continuous
- B) Rare
- C) Unnecessary
- D) None of the above

Answer: A

Examples of fraud include:

- A) Embezzlement
- B) Honest mistakes
- C) Approved expenses
- D) None of the above

Answer: A

Whistleblower policies help:

- A) Report unethical behavior
- B) Hide fraud
- C) Promote errors
- D) None of the above

Answer: A

Internal audits are:

- A) Independent reviews
- B) Marketing activities
- C) Production tasks
- D) None of the above

Answer: A

External auditors report to:

- A) Shareholders
- B) Marketing
- C) Production
- D) None of the above

Answer: A

Ethical behavior in auditing includes:

- A) Independence
- B) Bias
- C) Confidentiality breaches
- D) None of the above

Answer: A

Auditing standards are issued by:

- A) Regulatory bodies
- B) Marketing firms
- C) Production managers
- D) None of the above

Answer: A

## **External Financial Reporting Decisions (15 Questions)**

The matching principle requires:

- A) Recognizing expenses when paid
- B) Matching expenses to revenues they generate
- C) Recognizing revenues when cash is received

D) Ignoring accruals

Answer: B

Which statement shows cash inflows and outflows?

A) Balance Sheet

B) Income Statement

C) Cash Flow Statement

D) Statement of Changes in Equity

Answer: C

Accrual accounting:

A) Recognizes revenues and expenses when incurred

B) Recognizes only cash transactions

C) Ignores expenses

D) None of the above

Answer: A

IFRS stands for:

A) International Financial Reporting Standards

B) International Fund Reporting System

C) Internal Financial Regulation Standards

D) None of the above

Answer: A

GAAP is primarily used in:

A) United States

B) United Kingdom

C) Europe

D) Asia

Answer: A

Under IFRS, inventory methods allowed include:

A) FIFO and Weighted Average

B) LIFO only

C) No inventory methods allowed

D) None of the above

Answer: A

Financial statements must be:

A) Relevant and reliable

B) Confidential

C) Incomplete

D) None of the above

Answer: A

The statement of changes in equity shows:

A) Owner's equity movements

B) Cash flows

C) Revenues

D) Expenses

Answer: A

Long-term liabilities are classified as:

A) Current liabilities

- B) Non-current liabilities
- C) Equity
- D) Assets

Answer: B

Revenue recognition under accrual basis is:

- A) When earned, not received
- B) When cash is received
- C) When expenses occur
- D) When paid

Answer: A

Financial reporting aims to:

- A) Provide information useful to stakeholders
- B) Hide company losses
- C) Increase taxes
- D) None of the above

Answer: A

The balance sheet equation is:

- A)  $\text{Assets} = \text{Liabilities} + \text{Equity}$
- B)  $\text{Assets} = \text{Revenue} + \text{Expenses}$
- C)  $\text{Liabilities} = \text{Equity} - \text{Assets}$
- D) None of the above

Answer: A

An asset is:

- A) A resource owned by the company
- B) An obligation
- C) Owner's claim
- D) None of the above

Answer: A

Equity represents:

- A) Owner's interest in the business
- B) Company debts
- C) Sales revenue
- D) Expenses

Answer: A

Cash flow from investing activities includes:

- A) Sale of equipment
- B) Payment of dividends
- C) Issuance of shares
- D) Loan proceeds

Answer: A

## **Auditing and Reporting (15 Questions)**

The primary role of internal audit is to:

- A) Prepare financial statements
- B) Conduct independent reviews and improve controls
- C) Approve budgets
- D) Sell company products

Answer: B

Auditors must maintain:

- A) Confidentiality and independence
- B) Profit maximization
- C) Marketing efforts
- D) Production schedules

Answer: A

External auditors report to:

- A) Management only
- B) Shareholders and regulatory bodies
- C) Marketing department
- D) Production team

Answer: B

Fraud detection is part of:

- A) Internal controls
- B) Sales strategy
- C) Product design
- D) Marketing plan

Answer: A

An audit opinion expresses:

- A) Auditor's view on financial statements' fairness
- B) Company's sales targets
- C) Employee performance
- D) None of the above

Answer: A

Segregation of duties is a control to:

- A) Prevent fraud and errors
- B) Increase costs
- C) Slow down processes
- D) None of the above

Answer: A

Auditor independence means:

- A) Freedom from conflicts of interest
- B) Following management instructions blindly
- C) Sharing confidential information
- D) None of the above

Answer: A

Audit evidence includes:

- A) Documents, records, confirmations
- B) Rumors and hearsay
- C) Marketing brochures

D) None of the above

Answer: A

Professional ethics in auditing require:

A) Integrity and objectivity

B) Dishonesty

C) Bias

D) Ignorance

Answer: A

Whistleblower policies help:

A) Detect and report unethical conduct

B) Hide fraud

C) Encourage errors

D) None of the above

Answer: A

An internal auditor reports primarily to:

A) Board of Directors or Audit Committee

B) Sales department

C) External consultants

D) Production manager

Answer: A

Materiality in auditing means:

A) Importance of information to users' decisions

B) Size of the office

C) Number of employees

D) None of the above

Answer: A

Audit risk is:

A) Risk that financial statements are misstated

B) Risk of losing sales

C) Risk of employee turnover

D) None of the above

Answer: A

Control testing is performed to:

A) Evaluate effectiveness of controls

B) Increase profits

C) Manage marketing

D) None of the above

Answer: A

Audit planning involves:

A) Assessing risks and defining audit approach

B) Ignoring risks

C) Marketing the audit

D) None of the above

Answer: A

## **Section B: Essay Questions (2 Questions)**

### **Essay Question 1: Labor Rate Variance**

#### **Question:**

The company has noticed a consistent unfavorable labor rate variance over the past 3 months. Discuss possible causes of this variance and suggest management actions to address it.

#### **Answer:**

An unfavorable labor rate variance occurs when the actual labor wage rate exceeds the standard or budgeted rate. Possible causes include:

Wage increases due to labor market conditions or union negotiations.

Use of higher-paid overtime or skilled labor instead of standard labor.

Errors in setting standard labor rates that are too low.

Inaccurate labor time recording or payroll errors.

#### **Management Actions:**

Review and adjust standard labor rates periodically to reflect market conditions.

Control overtime usage by better scheduling and workload management.

Ensure accurate recording and approval of labor hours worked.

Explore training or reallocation to optimize labor costs.

#### **Essay Question 2: Budget Types**

#### **Question:**

Explain the main differences between a master budget and a flexible budget. Provide examples of when each type would be most useful in a manufacturing company.

#### **Answer:**

##### **Master Budget:**

A comprehensive, static budget summarizing all individual budgets (sales, production, cash, etc.) for a fixed level of activity.

It serves as the overall financial plan for a period, usually a fiscal year.



Example: A manufacturing company uses a master budget to plan sales of 50,000 units, production needs, and cash flows based on this fixed volume.

### **Flexible Budget:**

Adjusts expenses and revenues based on actual activity levels (e.g., units produced or sold).

Useful for variance analysis by comparing actual results to expected costs for the actual volume.

Example: If actual production is 45,000 units instead of 50,000, the flexible budget recalculates expected variable costs accordingly for better comparison.

### **Usefulness:**

Master budget is useful for initial planning and resource allocation when activity is predictable.

Flexible budget is valuable for performance evaluation when actual activity varies, providing a more realistic benchmark.