

# AAT Level 3 Management Accounting Techniques (MATS) Practice Test (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

**Remember:** successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## Questions

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- 1. Which of the following is a variance type commonly analyzed within standard costing?**
  - A. Sales variance**
  - B. Material variance (price, usage, quality changes)**
  - C. Cash variance**
  - D. Tax variance**
  
- 2. Which of the following is a key advantage of absorption costing?**
  - A. Keeps fixed overheads separate from inventory**
  - B. Does not consider total production cost**
  - C. Adheres to IAS2 so can be used in statutory financial reports**
  - D. Is based on variable costing only**
  
- 3. The purpose of overhead absorption is to:**
  - A. Charge overhead costs to the cost unit produced by the cost centre**
  - B. Allocate overhead only to service departments**
  - C. Eliminate overhead entirely**
  - D. Determine selling prices**
  
- 4. Which of the following is a labour-related variance?**
  - A. Sales variance**
  - B. Labour changes (rate, efficiency, overtime changes)**
  - C. Material variance (price, usage)**
  - D. Fixed overhead variances**
  
- 5. Marginal costing is primarily focused on which aspect of costs for decision making?**
  - A. Cost behavior (variable or fixed)**
  - B. Time period**
  - C. Function**
  - D. Department**

- 6. Which cost is considered part of prime cost?**
- A. Indirect overhead**
  - B. Administrative salaries**
  - C. Advertising**
  - D. Direct materials and direct labour**
- 7. In ABC, after grouping overheads into cost pools and identifying cost drivers, which step comes next?**
- A. Calculate cost driver rates (budgeted cost pool/budget cost driver)**
  - B. Absorb overheads based on demand**
  - C. Determine production quantity**
  - D. Set a single overhead rate**
- 8. What best describes a cost driver in ABC?**
- A. An overhead cost pool**
  - B. An activity or factor that generates cost**
  - C. A fixed asset**
  - D. A product line**
- 9. Which of the following is an advantage of ABC?**
- A. Simpler to implement in most settings**
  - B. Better insight into what causes overhead costs, applicable on complex business environment, gives a more accurate cost per unit**
  - C. Requires no data**
  - D. Provides guaranteed allocation of all overheads**
- 10. If original contribution is 1,500 and required contribution is 2,100, by how much does the contribution need to increase?**
- A. 500**
  - B. 600**
  - C. 900**
  - D. 1100**

## Answers

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1. B
2. C
3. A
4. B
5. A
6. D
7. A
8. B
9. B
10. B

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## **Explanations**

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**1. Which of the following is a variance type commonly analyzed within standard costing?**

- A. Sales variance
- B. Material variance (price, usage, quality changes)**
- C. Cash variance
- D. Tax variance

In standard costing, you focus on how actual costs compare with standard costs for the inputs used to produce output. The material portion is the most common area analyzed, because materials typically form a large part of cost and you can break the variance into clear, actionable parts: price and usage. The material price variance looks at whether you paid more or less per unit than planned, calculated as  $(\text{actual price} - \text{standard price}) \times \text{actual quantity}$ . The material usage variance examines whether you used more or less material than the standard quantity required for the actual output, calculated as  $(\text{actual quantity} - \text{standard quantity for actual output}) \times \text{standard price}$ . If material quality changes affect the amount needed or the waste so that more input is required or scrap increases, that effect enters through the usage/efficiency side of the variance (often treated as yield or quality-related efficiency). Taken together, these material variances tell you where cost differences are coming from in a standard costing system. Other options aren't the typical variances highlighted in standard costing. A variance linked to sales relates to revenue performance rather than cost input variances, while cash or tax variances pertain to cash flow or tax planning rather than the standard-cost comparison framework.

**2. Which of the following is a key advantage of absorption costing?**

- A. Keeps fixed overheads separate from inventory
- B. Does not consider total production cost
- C. Adheres to IAS2 so can be used in statutory financial reports**
- D. Is based on variable costing only

Absorption costing charges all manufacturing costs—both fixed and variable—to the products being produced, so inventory carries a share of fixed overheads. This aligns with IAS 2, which requires inventory costs to include production overheads, making absorption costing appropriate for statutory financial reporting. That compatibility with the accounting standard is the strongest practical advantage, since it ensures the financial statements reflect the full cost of production in the stock value and cost of goods sold. The idea of keeping fixed overheads separate contradicts how absorption costing works, and it also includes total production costs rather than ignoring fixed overheads or focusing only on variable costs.

**3. The purpose of overhead absorption is to:**

- A. Charge overhead costs to the cost unit produced by the cost centre**
- B. Allocate overhead only to service departments**
- C. Eliminate overhead entirely**
- D. Determine selling prices**

Overhead absorption means charging the overhead costs to the cost units produced by the cost centre, using a systematic basis such as direct labour hours, machine hours, or another relevant cost driver. By applying an absorption rate, each product or service takes a fair share of indirect costs, so the recorded cost of a unit reflects its true consumption of resources. This supports accurate inventory valuation and informed cost control and decision making. Allocating overhead only to service departments isn't the full aim, since absorption applies to production costs as well as service overheads that drive production cost. Eliminating overhead isn't possible—the firm has to allocate or absorb these costs. Determining selling prices is a downstream outcome influenced by absorbed costs, but the fundamental purpose is to attach overhead to the produced cost units.

**4. Which of the following is a labour-related variance?**

- A. Sales variance**
- B. Labour changes (rate, efficiency, overtime changes)**
- C. Material variance (price, usage)**
- D. Fixed overhead variances**

Labour variances measure how actual labour cost differs from the standard cost allowed for the actual output. They capture changes in pay rate, the amount of time taken (efficiency), and the impact of paying overtime. The option that talks about labour changes (rate, efficiency, overtime) directly reflects these components, so it's the labour-related variance. For example, paying a higher hourly rate than standard creates a rate variance; using more hours than the standard for the same output creates an efficiency variance; overtime pay adds to the cost through the overtime premium, affecting the overall labour variance. The other choices relate to revenue (sales), materials, or fixed overheads, not to labour cost components.

**5. Marginal costing is primarily focused on which aspect of costs for decision making?**

- A. Cost behavior (variable or fixed)**
- B. Time period**
- C. Function**
- D. Department**

This question tests understanding of what marginal costing emphasizes: how costs behave as activity changes. Marginal costing focuses on cost behavior by separating costs into variable and fixed. Variable costs vary with output, while fixed costs stay the same in the short term; decisions are driven by the contribution per unit, which is selling price minus variable cost. Fixed costs are treated as period costs and aren't allocated to individual units for short-term decisions, so they don't drive the incremental choice. The other aspects (time period, function, department) relate to how costs are classified or reported, not to the decision-relevant behavior that marginal costing centers on.

## 6. Which cost is considered part of prime cost?

- A. Indirect overhead
- B. Administrative salaries
- C. Advertising
- D. Direct materials and direct labour**

Prime cost is the sum of costs that can be directly traced to producing the product: direct materials and direct labour. These are the costs assigned straight to each unit of output. Indirect overhead, administrative salaries, and advertising are not directly tied to a specific product or unit—they are either manufacturing overhead, period costs, or selling costs. Therefore, the pair that fits prime cost is direct materials and direct labour.

## 7. In ABC, after grouping overheads into cost pools and identifying cost drivers, which step comes next?

- A. Calculate cost driver rates (budgeted cost pool/budget cost driver)**
- B. Absorb overheads based on demand
- C. Determine production quantity
- D. Set a single overhead rate

Once overheads have been grouped into cost pools and their drivers identified, the next step is to translate those budgets into a usable price for each driver. This means calculating the cost driver rates by dividing the budgeted overhead for each pool by the budgeted level of its driver. These rates become the amounts used to apply or absorb overheads to products or services based on actual consumption of each driver. For example, if a pool has budgeted overhead of £120,000 and the driver is 24,000 machine hours, the rate is £5 per machine hour. When actual hours are known, you multiply by the rate to allocate overhead accordingly. Absorbing overheads based on demand is something you do after the rates exist; production quantity is not what creates the rate in ABC, and using a single overhead rate contradicts the multiple-rate approach of activity-based costing.

## 8. What best describes a cost driver in ABC?

- A. An overhead cost pool
- B. An activity or factor that generates cost**
- C. A fixed asset
- D. A product line

In ABC, a cost driver is the activity or factor that causes overhead costs to be incurred. It reflects the cause-and-effect link between resource use and costs and is used to allocate overhead from cost pools to products or services based on how much of the driver each consumes. For example, the number of machine setups or the hours of machine time can drive maintenance or setup costs, so those drivers determine how much of the overhead is assigned to a product. The other options don't fit as the driver. An overhead cost pool is merely a group of costs to be allocated, not the cause of those costs. A fixed asset is a long-term resource, not something that drives overhead costs. A product line is a cost object—the recipient of allocated costs—not the factor that generates the costs.

9. Which of the following is an advantage of ABC?

- A. Simpler to implement in most settings
- B. Better insight into what causes overhead costs, applicable on complex business environment, gives a more accurate cost per unit**
- C. Requires no data
- D. Provides guaranteed allocation of all overheads

Activity-Based Costing focuses on the activities that drive overhead costs and traces those costs to products based on how much of each activity they actually use. This approach reveals which products consume more of costly activities—like setups, inspections, or materials handling—and assigns overhead accordingly, leading to a more accurate cost per unit, especially when the business has a complex mix of products and diverse processes. Traditional costing often spreads overhead using a single driver such as direct labor hours, which can distort product costs when activities don't vary in step with that driver. By aligning cost allocation with real activity use, ABC provides better insight into what really drives overhead and where to improve efficiency. It's true that ABC can be data-intensive and more complex to implement, and it doesn't guarantee perfect allocation of all overheads, but its main advantage is the clearer, more accurate picture of true product costs in a complex environment.

10. If original contribution is 1,500 and required contribution is 2,100, by how much does the contribution need to increase?

- A. 500
- B. 600**
- C. 900
- D. 1100

To reach the required contribution you look at how much more is needed beyond what you already have. The shortfall is 2,100 minus 1,500, which equals 600. So the contribution must increase by 600 to meet the requirement.

## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://aatlvl3mats.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**

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