



CIMAPRO17-BA2-X1-ENG^{Q&As}

E3 - Strategic Management Question Tutorial

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QUESTION 1

A project is about to be launched. Two of the three possible outcomes and their associated probabilities are as follows:

\$25,000 loss	0.2
\$30,000 gain	0.7

The remaining possible outcome is a \$70,000 gain.

What is the correct calculation of the expected value of the project?

- A. $(\$30,000 + \$70,000 - \$25,000) / 3$
- B. $(\$30,000 + \$70,000 - \$25,000) \times (0.7 + (1.0 - (0.2 + 0.7)) + 0.2)$
- C. $(\$30,000 \times 0.7) + (\$70,000 \times (1.0 - (0.2 + 0.7))) + (\$25,000 \times 0.2)$
- D. $(\$30,000 \times 0.7) + (\$70,000 \times (1.0 - (0.2 + 0.7))) - (\$25,000 \times 0.2)$

Correct Answer: A

QUESTION 2

Which of the following statements relating to risk and uncertainty is correct?

- A. Risk exists when we do not know all of the possible outcomes.
- B. Risk exists when we know all of the possible outcomes but not their probabilities.
- C. Uncertainty exists when we know all of the possible outcomes but not their probabilities.
- D. Uncertainty exists when we know all of the possible outcomes and their probabilities.

Correct Answer: C

QUESTION 3

A new product requires an investment of \$200,000 in machinery and working capital. The total sales volume over the product's life will be 5,000 units. The forecast costs per unit throughout the product's life are as follows:

	\$
Direct material	15
Direct labour	12
Absorbed production overhead	6

The product is required to earn a return on investment of 35%. What unit selling price needs to be achieved?



- A. \$54.00
- B. \$50.77
- C. \$47.00
- D. \$44.55

Correct Answer: D

QUESTION 4

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A company uses full cost pricing. The unit costs for product Z are given below.

	\$ per unit
Direct materials	12.00
Direct labour	5.00
Production overhead	6.00
Selling and distribution overhead	5.00
Administration overhead	2.00

What price per unit should be charged in order to achieve a profit margin of 20%? Give your answer to the nearest cent.

- A. \$25

Correct Answer: A

QUESTION 5

The possible returns and associated probabilities of two independent projects are as follows:

	Return \$	Probability
Project 1	10,000 loss	0.1
	20,000 gain	0.5
	30,000 gain	0.4
Project 2	15,000 gain	0.2
	20,000 gain	0.7
	35,000 gain	0.1

It has been decided that both projects are to be launched.

Which TWO of the following statements are correct? (Choose two.)



- A. The expected value of the total return is \$41,500 gain.
- B. The probability of the total return being a loss is 0.10.
- C. The probability of making a total return of exactly \$5,000 gain is 0.02.
- D. The probability of the total return being a gain is less than 1.00.
- E. The expected value of the total return is \$40,000 gain.

Correct Answer: BD

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