



CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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**QUESTION 1**

One aspect of life cycle costing is the recognition of the fact that during the design or development stage a large proportion of many products' life cycle costs are:

- A. determined
- B. wasted
- C. under absorbed
- D. amortised

Correct Answer: A

QUESTION 2

Under the absorption costing system, which simply allocates our entire amount of production overheads based on machine hours, we have found that out of our 4 products, 2 are profitable, 1 breaks even and 1 is making a loss.

Model D the most recent addition to the range is making a large loss after the price of a major component rose dramatically. Model A is only just breaking now too as costs have risen. The only two products making profit are Models B and C.

These two require the least amount of machine hours so this makes sense. However, the management have a few reservations. They cannot understand how B is so profitable. It requires several more stages of production than the other

models and a whole day longer to be customised by an expert.

Select the correct answer from the list below that can help to explain this situation.

- A. ABC would show that only a small amount of our overheads are based on machine hours.
- B. ABC could have shown that some products are selling poorly and should be discontinued.
- C. ABC would show that if overheads are shared equally that model B would be less profitable.

Correct Answer: A

QUESTION 3

Which TWO of the following actions taken during the budgetary planning process will result in the creation of budgetary slack?

- A. Overestimating costs
- B. Underestimating costs



C. Underestimating revenues

D. Overestimating revenues

E. Overestimating profit

Correct Answer: AC

QUESTION 4

Which TWO of the following expressions are correct?

A. $1 + \text{money rate} = (1 + \text{real rate}) \times (1 + \text{inflation rate})$

B. $1 + \text{real rate} = (1 + \text{money rate}) / (1 + \text{inflation rate})$

C. $1 + \text{real rate} = (1 + \text{inflation rate}) / (1 + \text{money rate})$

D. $1 + \text{money rate} = (1 + \text{inflation rate}) / (1 + \text{real rate})$

E. $1 + \text{inflation rate} = (1 + \text{money rate}) \times (1 + \text{real rate})$

Correct Answer: AB

QUESTION 5

A company wishes to appraise a potential project. One of the project's relevant cash flows is the receipt, expressed in money terms, of \$20,000 per year for the first 5 years. The company's real cost of capital is 5% per year and the expected rate of inflation is 3% per year. What is the real value of the expected receipt in year 2? Give your answer to the nearest \$10.

A. \$18850

Correct Answer: A

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