CIMAPRO19-P02-1[Q&As]

P2 - Advanced Management Accounting

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QUESTION 1

A company operates a divisional structure. The manager of division D receives a bonus based on the division\\'s annual return on capital employed (ROCE).

A minimum ROCE of 20% must be achieved to receive any bonus and thereafter the bonus increases in line with increases in ROCE.

This year division D achieved a ROCE of 24% and the divisional manager received a large bonus. The manager is considering an investment in a new machine for next year. The incremental ROCE earned by the machine is expected to be

19% although the ROCE for the division as a whole with the machine is expected to be 22%. Without the machine, ROCE is likely to be stable at 24%. The cost of capital for the company as a whole is 18% per year.

Which of the following statements is correct?

A. The manager will accept the investment because overall the division will earn a ROCE that exceeds the minimum target of 20%.

B. The manager will reject the investment because it will result in a lower bonus than without the investment.

C. The manager will accept the investment because it will earn a ROCE that is higher than the company\\'s cost of capital.

D. The manager will reject the investment because it will result in the receipt of no bonus.

Correct Answer: B

QUESTION 2

An 80% learning curve will apply to the production of a new product. The first unit will require 120 labor hours. The labor rate is $11 per hour. To the nearest $1, the expected total labor cost for the first 4 units is:

A. $3,379

B. $845

C. $5,280

D. $4,224

Correct Answer: A

QUESTION 3

The performance report for the production manager of a company for the last month included the following.

1,000 direct labor hours were worked at a basic rate of pay of $10 per hour. 200 of these hours were worked during overtime for which a 30% overtime premium was paid. 80 of these overtime hours were to fulfill a customer order that had originally been planned for manufacture next month. The sales manager had agreed to bring forward the delivery of this order at the request of the customer. The remaining overtime hours were due to unexpected inefficiency of the workforce;

this has been traced to poor supervision by a junior manager.

Material costs included the following:

$5,300 of material A. Material A is a commodity and, due to changes on the global market, the actual unit cost of this material for last month was 6% higher than had been expected $5,250 of material B. The usage of material B last month

was 5% higher than it should have been due to faulty workmanship on the production line.

What is the total value of the above costs that was controllable by the production manager?

A. $20,610

B. $19,810

C. $20,910

D. $20,360

Correct Answer: A

QUESTION 4

The following forecast data relate to the first three years of a five year project. The project will require an initial investment of $30,000 in non-current assets. All revenue will be received in the year it is earned and all operating costs will be paid

in the year they are incurred. Tax will be paid in the following year. Tax depreciation will be 25% per annum of the reducing balance.

The taxation rate will be 30% of taxable profits.

	Year 1	Year 2	Year 3
Contribution	$50,000	$66,000	$71,000
Fixed costs excluding depreciation	$10,000	$10,000	$10,000

What is the forecast after tax cash flow for year 3 (to the nearest $10)?

A. $45,890

B. $39,750

C. $46,000

D. $38,500

Correct Answer: A

QUESTION 5

An investment centre is appraising a potential project that is expected to yield a Return on Investment (ROI) of 12%.

Without the project the investment centre expects to earn an ROI of 14%. The cost of capital is 10%. What would be the impact on the investment centre\\'s performance measures if the project is accepted?

A. Residual Income would decrease and ROI would increase.

B. Residual Income would decrease and ROI would decrease.

C. Residual Income would increase and ROI would increase.

D. Residual Income would increase and ROI would decrease.

Correct Answer: D