CIMAPRO19-P02-1 Q&As

P2 - Advanced Management Accounting

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QUESTION 1

A company\\'s competitor has just launched a rival product at a selling price of $38 per unit. Until now the company\\'s selling price of $41.60 per unit has achieved a 30% mark-up on the product\\'s unit cost. The company proposes to use a target

costing approach to pricing to remain competitive. Management has decided to match the competitor\\'s selling price and has set a target cost to achieve a 20% return on the target price.

What is the cost gap?

A. $1.60

B. $3.60

C. $0.33

D. $1.28

Correct Answer: A

QUESTION 2

A not-for-profit organization measures performance using the three Es. If the organization has been acquiring the resources it needs as cheaply as possible it should be described as having been:

A. Efficient

B. Effective

C. Economic

D. Enterprising

Correct Answer: C

QUESTION 3

An organization has carried out a risk assessment for a project. Which of the following possible outcomes are examples of upside risk? Select ALL that apply.

A. The project might be developed more quickly than expected.

B. The project\\'s costs might be higher than expected.

C. The project\\'s Economic Value Added might be higher than expected.

D. The project\\'s environmental damage might be less than expected.

E. The project\\'s payback period might be greater than expected.

Correct Answer: ACD

QUESTION 4

A manufacturing company has recently introduced a Total Quality Management (TQM) system. The company has invested heavily in the education and training of its staff, in addition to implementing new product design engineering. There is

a plan to sample units from each batch of products manufactured to test for errors, although this has not yet been implemented due to budget constraints.

The company is experiencing high levels of customer complaints, with many faulty units being returned by the customer for refund or replacement. Sales revenue has fallen recently, mainly due to negative press coverage linked to dissatisfied

customers.

Select the statement MOST likely to apply.

A. The high level of external failure costs is the result of a lack of expenditure on prevention costs.

B. The high level of internal failure costs is the result of a lack of expenditure on appraisal costs.

C. The high level of external failure costs is the result of a lack of expenditure on appraisal costs.

D. The high level of internal failure costs is the result of a lack of expenditure on prevention costs.

Correct Answer: C

QUESTION 5

Which of the following is a key objective when agreeing a basis for setting transfer prices?

A. Promoting goal congruence

B. Increasing market share

C. Rewarding profit centre managers

D. Allocating overhead costs effectively

Correct Answer: A

QUESTION 6

Which of the following statements about learning curves is correct?

A. The learning index for an 80% learning curve is calculated as log 2 divided by log 0.8.

B. The learning index for an 80% learning curve is calculated as log 0.8 divided by log 2.

C. A 90% learning curve indicates a faster rate of learning than an 80% learning curve.

D. The learning index will always have a positive value.

Correct Answer: B

QUESTION 7

Company D is about to launch an innovative and unique product which may face direct competition within three years. The company needs to achieve a rapid payback on all investments because it has limited access to external finance. Which is the most appropriate pricing strategy for company D\\'s new product, and for what reason?

A. Market skimming because it exploits areas of the market which are sensitive to price.

B. Penetration pricing because it can be used to rapidly build sales volume in mature markets.

C. Market skimming because it enables high prices to be charged to buyers who want the product as soon as possible.

D. Penetration pricing because it can be used to rapidly build sales volume in high growth markets.

Correct Answer: C

QUESTION 8

A group consists of two divisions, Alpha and Beta, both of which are profit centers. Alpha sells a product to the external market and also sells it as an intermediate product to Beta. Beta then processes further before selling the final product to

the external market. The current group transfer pricing policy requires Alpha to charge Beta with the variable cost of production.

Which of the following statements is valid?

A. A two-part tariff would provide a more effective basis for assessing divisional performance.

B. A dual pricing approach to transfer pricing would increase Beta\\'s total profit and reduce Alpha\\'s.

C. If Alpha has unfulfilled external demand then the transfer price should always be set at variable cost.

D. Transfer prices only affect the assessment of performance of investment centres, not of profit centres.

Correct Answer: A

QUESTION 9

A company makes three products, E, F and G. Total overheads for the year are expected to be $1.2 million, with the following split between cost pools: Cost driver information has been estimated as follows:

Number of quality inspections	84,000 inspections
Number of purchase requisitions	12,000 requisitions
Quantity of material handled	240,000 kilogrammes

The company plans to make 10,000 units of product E in the year, with an expected direct cost of $0.60 per unit. This annual production of product E is expected to require 20 quality inspections, 28 purchase requisitions, and 400

kilogrammes of materials.

What is the overhead cost per unit of product E?

A. $0.10

B. $0.70

C. $3.57

D. $4.17

Correct Answer: A

QUESTION 10

A company is investing in a huge diversification project. The plan is to develop and sell a whole new product line that they have never sold before. They\\'ve already started a massive marketing campaign for this new product line and they are

getting good feedback in their market research. They\\'ve had to use debt funding in order to finance the project, but they hope that the returns will be worth the investment and restructuring. If they are successful they will be a step ahead of all

their competitors and offer something none of them can.

What is the risk appetite of this company?

A. Risk seeking

B. Risk averse

C. Risk neutral

D. Impossible to say

Correct Answer: A

QUESTION 11

DRAG DROP

A company classifies its main factory as an investment centre. Categorise each of the following costs as either controllable or uncontrollable by the investment centre manager.

Select and Place:

Machinery rental cost		
Direct labor cost		
Heat and light cost for the factory		Controllable
Product marketing cost		Uncontrollable
Taxation		
Allocated head office administration costs		

Correct Answer:

Machinery rental cost	Controllable	
Direct labor cost	Controllable	
Heat and light cost for the factory	Controllable	Controllable
Product marketing cost	Uncontrollable	Uncontrollable
Taxation	Uncontrollable	
Allocated head office administration costs	Uncontrollable	

QUESTION 12

A positive net present value (NPV) has been calculated for a project to launch a new product. An additional calculation is required to identify the sensitivity of the NPV to changes in the forecast total sales volume. The present value of which of the following would be used in the calculation?

A. Contribution

B. Operating profit

C. Fixed overheads

D. Net profit

Correct Answer: A

QUESTION 13

Which of the following activities are included within activity based management (ABM)?

1.

Cost reduction

2.

Product design decisions

3.

Variance analysis

4.

Operational control

5.

Performance evaluation

A. 3, 4 and 5 only.

B. 1, 2 , 4 and 5 only.

C. 1, 3, 4 and 5 only

D. All of them.

Correct Answer: B

QUESTION 14

A supermarket group has experienced operational problems during recent years, including a shortage of warehousing space due to increasing turnover and poor inventory management. The product portfolio has expanded considerably.

Although this has led to increased sales volume, marketing and logistics costs have increased disproportionately. Non product-specific costs have also increased significantly.

Management is now considering using Direct Product Profitability (DPP).

Which of the following statements are valid in respect of the possible implementation of DPP within the supermarket group?

Select ALL that apply.

A. DPP should result in improved management of storage space.

B. DPP should result in improved supplier relationships.

C. DPP should result in improved pricing decisions.

D. DPP requires non product-specific costs to be apportioned rather than allocated.

E. DPP provides summary information on the profitability of each customer group.

Correct Answer: ABC

QUESTION 15

A manufacturing company has just developed a new product and must now determine the most appropriate pricing strategy for its initial launch.

The product will initially be unique because it will include highly desirable features that no competitive product offers. Its development has involved substantial expenditure and the company wishes to recover this as soon as possible.

The product\\'s uniqueness is expected to last for only six months before a competitor launches a similar product. It is expected that the competitor will avoid any significant development costs by reverse engineering the company\\'s own

product.

At that point, to remain competitive, the company must ensure that its selling price matches that of the competitor.

Which of the following pricing strategies would be most suitable for the initial launch of the company\\'s product?

A. Market skimming

B. Penetration pricing

C. Dual pricing

D. Own label pricing

Correct Answer: A