



CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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QUESTION 1

Which of the following is a valid objective of a transfer pricing system?

- A. To achieve divisional autonomy
- B. To maintain head office control
- C. To establish centralised decision making
- D. To develop a top-down culture

Correct Answer: A

QUESTION 2

A project is viable because it has a positive net present value (NPV). Details of four of the input variables, together with the sensitivity of the viability of the project to a change in each one in isolation, are given below.

Input variable	Input variable value	Sensitivity
Initial Investment	\$130,000	3%
Resale value at the end of the project	\$10,000	60%
Incremental annual cash contributions	\$50,000	8%
Rate of taxation of profits	30%	40%

Which of the following statements is correct?

- A. A 1% change in the initial investment will result in a change of 3% in the NPV.
- B. The resale value at the end of the project is the most sensitive of the four variables.
- C. If the incremental annual cash contributions reduce by more than 8% then the project will no longer be viable.
- D. If the rate of taxation on profits increases to 40% then the project will no longer be viable.



Correct Answer: C

QUESTION 3

Which of the following statements is TRUE about the activity based costing system when compared to absorption costing method?

- A. ABC is easier to administer than an absorption costing system
- B. ABC will be less detailed than an absorption costing system
- C. ABC will provide more accurate overhead allocation than absorption costing
- D. ABC will cost less to administer than an absorption costing system

Correct Answer: C

QUESTION 4

K Supermarket spends \$80,000 per year on checking and processing receipts of inventory. Annual warehouse costs are a further \$70,000 per year. These costs are currently treated as fixed overheads in the company's costing system.

As an experiment, the company is preparing a direct profitability analysis of a small range of products, including fresh grapes.

K Supermarket receives a total of 3,600 deliveries every year. 20% of these deliveries are of perishable goods such as grapes. It takes twice as long to process a delivery of perishable goods compared to a normal delivery because perishable

goods have to be checked more carefully. Half of the warehouse costs are for the chilled store that is used to store perishable goods. At any time, the chilled store has 800 kilos of perishable goods in stock. K Supermarket receives 150

deliveries of grapes every year. Each delivery is for 100 kilos of grapes. The grapes spend an average of two days in the chilled store before they are sold. Calculate the total cost per kilo of checking, processing and storing grapes that should

be taken into account in determining the profitability of grapes.

Give your answer to the nearest whole cent.

- A. 61 cents

Correct Answer: A

QUESTION 5

DRAG DROP

The performance of an investment centre manager is assessed by return on investment (ROI) alone.



At present, his expected ROI for next year is 15%. The manager must now decide whether to invest in a new project that is expected to yield an ROI of 14%. The cost of capital is 12%.

Indicate whether each of the following statements is true or false.

Select and Place:

True	False
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The manager will reject the project; this is a dysfunctional decision.

The manager will reject the project; this is not a dysfunctional decision.

The manager will accept the project; this is a dysfunctional decision.

The manager will accept the project; this is not a dysfunctional decision.

If the manager was assessed by residual income (RI) alone, then he would make a dysfunctional decision about the project.

If the manager was assessed by residual income (RI) alone, then he would not make a make a dysfunctional decision about the project.

Correct Answer:



True	False
-------------	--------------

The manager will reject the project; this is a dysfunctional decision.

The manager will reject the project; this is not a dysfunctional decision.

The manager will accept the project; this is a dysfunctional decision.

The manager will accept the project; this is not a dysfunctional decision.

If the manager was assessed by residual income (RI) alone, then he would make a dysfunctional decision about the project.

If the manager was assessed by residual income (RI) alone, then he would not make a make a dysfunctional decision about the project.

	True	
	False	
	False	
	False	
	False	
	True	

QUESTION 6

An organization is comprised of two divisions. One of the divisions manufactures a product that it sells both to an imperfect external market and to the other division. The organization wishes to establish the most suitable basis for the transfer

price for this product and is considering either a negotiated transfer price or a market-based transfer price.

Which of the following statements is correct?

- A. A negotiated transfer price could help to overcome the problem of establishing a single price for this external market.
- B. A single market price for all of the division's output can be determined easily whereas a negotiated transfer price may result in protracted negotiations.
- C. A negotiated transfer price will always result in goal congruence whereas this is not always true when using a single market-based transfer price.



D. A market-based transfer price will ensure both divisional autonomy and goal congruence because part of the division's output is sold to the external market.

Correct Answer: A

QUESTION 7

When considering a capital investment, relevant costs for decision making have which THREE of the following features?

- A. They are future costs.
- B. They are committed costs.
- C. They are incremental costs.
- D. They are unavoidable costs.
- E. They are cash flows.

Correct Answer: ACE

QUESTION 8

If transfer prices are set at variable costs, the supplying division does not cover its fixed costs. Which of the following does NOT resolve this problem?

- A. Each division can be given a share of the overall contribution earned by the organization.
- B. A system of dual pricing can be adopted.
- C. Reduce the level of fixed costs.
- D. Central management can impose a range within which the transfer price should fall.

Correct Answer: C

QUESTION 9

DRAG DROP

Using the Value Chain model for a manufacturing company, place the correct primary activity classification against each of the activities described.

Select and Place:



Assembly of components		
After-sales support		Service
Distribution of products to customers		Inbound logistics
Installation of products at customers' premises		Operations
Inventory control		Outbound logistics
Transportation of inventory from goods inwards to the raw material store		Marketing and sales

Correct Answer:

Assembly of components	Operations	
After-sales support	Service	Service
Distribution of products to customers	Outbound logistics	Inbound logistics
Installation of products at customers' premises	Service	Operations
Inventory control	Inbound logistics	Outbound logistics
Transportation of inventory from goods inwards to the raw material store	Inbound logistics	Marketing and sales

QUESTION 10

One of a company's products is sold to three customers: A, B and C. These customers do not buy anything else from the company. The product costs \$20 per unit to manufacture and is sold to the customers for \$50 per unit. The following table shows data for sales and selling costs for the latest period.

Delivery costs of \$32,000 and general overheads of \$60,000 were incurred during the period. Deliveries to customers A and B were made by a courier in batches of 100 units; the courier charged \$300 for each batch delivered to customer A and \$400 for each batch delivered to customer B. Deliveries to customer C were made by mail in batches of 10 units at a cost of \$60 per batch.



	A	B	C
Sales (units)	3,000	2,000	2,500
Selling costs (\$)	30,000	16,000	20,000

Which of the following statements is correct?

- A. Customers B and C have the same profit:sales ratio.
- B. Customer A has the highest sales revenue, the highest profit, and the highest profit:sales ratio
- C. Customer B has the lowest sales revenue, the lowest profit, and the lowest profit:sales ratio.
- D. Customer B has the highest profit:sales ratio.

Correct Answer: D

QUESTION 11

SDF is a newly-established production company that is experiencing high staff turnover in its factory. The production department is studying the manufacturing process and its associated learning curve. Which of the following statements is correct?

- A. SDF's staff turnover will disrupt the observation and measurement of the learning curve.
- B. SDF's staff turnover will affect the learning curve.
- C. SDF's rapid staff turnover means that knowledge of the learning curve has little value.
- D. SDF can use the learning curve to determine labor budgets for the remainder of the first year of operation.

Correct Answer: A

QUESTION 12

A small company currently uses an information system that was implemented several years ago and is based entirely on internal data. The company is considering replacing it with a more up to date system. It has been suggested that the new system should include the use of big data.

Which TWO of the following statements are correct?

- A. Big data can provide a small company with useful information in the quest for competitive advantage.
- B. Big data is concerned solely with a dramatic increase in the amount of internal data stored.
- C. Big data can be used by a small company to identify new opportunities.



D. It is not possible to value the potential benefits to a small company of an improved information system.

E. Big data is only applicable to large companies which have substantial funds to invest in information systems.

Correct Answer: AC

QUESTION 13

GHY has two subsidiaries. GHY-Motor manufactures car engines and GHY-Build designs and assembles cars. In the car industry it is common for manufacturers to buy parts, including engines, from other manufacturers.

GHY has granted GHY-Motor and GHY-Build full autonomy. GHY-Build is considering using an engine from another company for a new model that it is designing. GYY-Motor has a suitable engine, but it charges more than GHY-Build's preferred supplier.

Which of the following statements is correct? Select ALL that apply.

- A. GHY should consider permitting GHY-Motor to charge part of the selling price on engines sold to GHY-Build to head office.
- B. Forcing GHY-Motor to grant a discount to GHY-Build could lead to dysfunctional behavior.
- C. There could be significant non-financial issues associated with GHY-Build's decision to buy another engine.
- D. Parent companies should never grant subsidiaries full autonomy on matters such as intra-group sales.
- E. The threat of dysfunctional behavior is largely theoretical and managers can be trusted to maximise shareholder wealth.

Correct Answer: ABC

QUESTION 14

Product WB currently sells for \$13 per unit. Annual demand at that price is 20,000 units. If the price increases to \$15, the annual demand falls by 500 units. What is the formula for the demand curve?

- A. $Q = a - bP$
- B. $P = f(Q)$.
- C. $Q_d = a - b(P)$
- D. $P = a - b(Q)$

Correct Answer: C

QUESTION 15



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

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