

# CIMAPRO19-P02-1<sup>Q&As</sup>

P2 - Advanced Management Accounting

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**QUESTION 1**

Endure Co. makes 1,000 units of X and 2,000 units of Y. Costs for X: Material \$4, labour \$8, direct overhead \$2, fixed cost \$4. Costs for Y: Material \$9, labour \$9, direct overhead \$4, fixed cost \$6. Selling price for X and Y are \$19 and \$25 respectively. Another company can sell ready made product X and product Y's to Endure Co, this company sells X at \$12 and Y at \$21. Advise Endure Co. on what would be the most cost effective way to source products X and Y.

- A. Endure should buy X and Y from the other supplier.
- B. Endure should buy X but produce Y themselves.
- C. Endure should produce both X and Y themselves.
- D. Endure should buy Y but produce X themselves.

Correct Answer: A

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**QUESTION 2**

Which TWO of the following statements are correct?

- A. It is worthwhile for a company to sell further units when the marginal revenue is greater than the marginal cost.
- B. Price is the only factor affecting the demand for products and services.
- C. Premium pricing is possible when there is a measure of product or service differentiation.
- D. Loss leadership pricing is appropriate for a new product which is not part of a range of products.
- E. Demand functions can be predicted accurately and the relationship between price and quantity demanded is always constant.

Correct Answer: AC

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**QUESTION 3**

Which of the following statements about the use of traditional budgeting compared with a beyond budgeting approach is correct?

- A. If the organization has devolved decision making, beyond budgeting is not appropriate because it does not allow the same level of empowerment as traditional budgeting.
- B. If the organization's products are subject to rapid technological change, beyond budgeting would allow managers to respond more quickly than under traditional budgeting.
- C. If there is a dynamic external environment with fast moving opportunities, beyond budgeting will inhibit the organization's ability to take advantage of these opportunities whereas traditional budgeting will not.
- D. If the organization's culture is such that a top down budgeting system is desired then this is better achieved by

adopting beyond budgeting rather than traditional budgeting.

Correct Answer: B

**QUESTION 4**

Division A is an investment centre with assets of \$7.3 million. The following is an extract from the annual budget for division A:

	<b>Division A</b>
	<b>\$000s</b>
Sales	6,900
Variable costs	3,870
<b>Contribution</b>	<b>3,030</b>
Controllable fixed overheads	1,200
Apportioned group costs	450
<b>Net Profit</b>	<b>1,380</b>

The cost of capital is 14%.

Calculate the residual income for division A.

- A. \$808,000
- B. \$1,727,800
- C. \$358,000
- D. \$2,008,000

Correct Answer: A

**QUESTION 5**

A company has just launched a new product at a selling price that is designed to rapidly gain market share and to discourage other competitors from entering the market. Which pricing strategy is the company using?

- A. Penetration pricing
- B. Loss leader

C. Market skimming

D. Premium pricing

Correct Answer: A

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