CIMAPRO19-P02-1[Q&As]

P2 - Advanced Management Accounting

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QUESTION 1

An organization produces only two products. Each month it produces 1,000 units of product A and 10,000 units of product B.

Using traditional absorption costing the products have very similar unit costs. However when costs are calculated using activity-based costing (ABC), product A\\'s unit cost is significantly higher than that of product B.

Which of the following factors has the potential to cause this difference? Select ALL that apply.

A. ABC cost calculations are not simply volume-related.

B. ABC costs are driven only by the volume of output.

C. ABC considers only marginal costs.

D. ABC uses multiple cost drivers to trace overhead costs to products.

E. ABC considers only direct costs.

Correct Answer: AD

QUESTION 2

A company is considering four mutually exclusive projects. There are three possible future demand conditions but the company has no idea of the probability of each of these demand conditions occurring. The forecast net present values (NPVs) of each of the four projects, under each of the three possible future demand conditions, are as follows.

	High demand	Medium demand	Low demand
Investment A	$20,000	$40,000	$60,000
Investment B	$30,000	$30,000	$30,000
Investment C	$50,000	$40,000	$35,000
Investment D	$55,000	$10,000	$30,000

Which investment would be selected using the maximin criterion?

A. Investment A

B. Investment B

C. Investment C

D. Investment D

Correct Answer: C

QUESTION 3

Which of the following statements is correct?

A. Risk can be quantified and probabilities can be assigned reliably to the possible outcomes.

B. Uncertainty cannot be quantified and probabilities can be assigned reliably to the possible outcomes.

C. Risk cannot be quantified and probabilities cannot be assigned reliably to the possible outcomes.

D. Uncertainty can be quantified and probabilities can be assigned reliably to the possible outcomes.

Correct Answer: A

QUESTION 4

A company must decide today whether to proceed with a proposed project. If the project proceeds, the initial investment of $150,000 would be made in one year\\'s time. The benefit of the project would be a perpetuity of $22,000 per year

commencing one year after the investment is made. The company\\'s cost of capital is 14% per year.

To the nearest $100, what is the net present value of the project?

A. $6,300

B. $7,100

C. -$12,200

D. $25,600

Correct Answer: A

QUESTION 5

In an inflationary environment which is the correct way of calculating net present value (NPV)?

A. Using nominal cash flows and a nominal discount rate.

B. Forecasting the cash flows including the effect of inflation and then using a real discount rate.

C. Using real cash flows and a nominal discount rate.

D. Forecasting the cash flows excluding the effect of inflation and then using a nominal discount rate.

Correct Answer: A