

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

P2 - Advanced Management Accounting

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**QUESTION 1**

A large supermarket is applying direct product profitability analysis to establish the profit earned by each of the products it sells. Data for product P are as follows.

Selling price per unit	\$5.80
Purchase price per unit	\$5.30
Store general overhead cost per unit	\$0.09
Distribution cost per case	\$9.00
Number of units per case	150
Shelf stackers' wages per hour	\$10.80
Number of units stacked per hour	180
Number of times shelf is stacked per day	3
Shelf space cost per cubic metre per day	\$12.00
Number of units per cubic metre of shelf space	100

The shelf is stacked each time that all units are sold and there are no units of product P left unsold at the end of each day. What is the direct product profit per unit of product P? Give your answer to the nearest \$0.01.

A. \$0.34

Correct Answer: A

**QUESTION 2**

You have just assessed an investment proposal, involving an immediate cash outflow followed by a series of cash inflows over the next 7 years, by deducing the NPV and the IRR. You have now discovered that you have underestimated the

discount rate.

Correcting the underestimation will have the following effect, relative to your original deductions:

- A. NPV will reduce, IRR will not change
- B. NPV and IRR will not change
- C. NPV will increase, IRR will reduce
- D. NPV and IRR will both increase
- E. Not enough information given for an answer

Correct Answer: A

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### QUESTION 3

An organization uses a balanced scorecard approach to performance measurement, both at the corporate level and to assess the performance of each of its responsibility centre managers. Which THREE of the following statements are valid in respect of the effect of this approach on the behavior of the responsibility centre managers?

- A. It encourages them to focus mainly on short-term financial measures.
- B. It provides them with a range of performance measures to discourage a tendency to focus on only one measure.
- C. It provides them with clear guidance as to how customer satisfaction problems should be solved.
- D. It encourages them to make decisions that are in line with corporate objectives.
- E. It encourages them to identify, and deal with, problems at an earlier stage.

Correct Answer: BDE

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### QUESTION 4

A company uses activity based costing. The total production overheads of \$16,050 for the next period are for set up costs of \$6,450 and quality inspection costs of \$9,600. The company produces two products, Product F and Product G. Details relating to the next period are as follows: A new customer has offered to purchase Product F for \$28.00 per unit. The only costs incurred would be those shown above. What is the profit per unit of Product F that would be gained by accepting the offer? Give your answer to two decimal places.

	<b>Product F</b>	<b>Product G</b>
Budgeted output	1,000 units	2,000 units
Units per production run	100 units	400 units
Set ups per production run	1	1
Number of inspections per production run	4	8
Direct labour cost per unit (\$)	5	6
Direct material cost per unit (\$)	10	15

A. \$3.90

Correct Answer: A

**QUESTION 5**

Which of the following statements is correct in respect of the key feature of dual pricing?

- A. The selling price recorded by the selling division is higher than the cost recorded by the receiving division.
- B. Internal customers are offered trade discounts depending on the number of units they purchase.
- C. Internal transfers are priced at marginal cost and a lump sum payment is made subsequently to contribute to fixed costs.
- D. Internal customers are charged a lower price than external customers to reflect savings in distribution costs.

Correct Answer: A

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**QUESTION 6**

Company TTM has the opportunity to invest \$60,000 in a project. The project is anticipated to produce annual returns of \$12,500 each year for 8 years. The cost of capital is 12%. What is the net present value of the project? Give your answer to the nearest whole number.

A. \$2100

Correct Answer: A

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**QUESTION 7**

Division A and Division B are divisions of the same group. Division A transfers all of its output to Division B.

Which THREE of these alternative transfer pricing bases will prevent any cost inefficiencies in Division A being passed on to Division B?

A. Standard variable cost

B. Actual full cost

C. Actual prime cost

D. Market price

E. Actual variable cost

F. Standard variable cost plus a profit margin

Correct Answer: ADF

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**QUESTION 8**

TTR Ltd plans to purchase a new plant for \$1,000m on the 1st of January 20X6. The annual sales expected from the production of this plant is \$400m per year. The plant has an expected life of five years. The financial accountant has computed the NPV of the project at \$61.42m considering a discount rate of 10%. The marketing director wants to know the percentage drop in revenue that the sales team can afford before the project becomes unviable. Which of the following indicates the percentage required by the marketing director?

A. 4.05%

B. 5.05%

C. 4.5%

D. 10%

Correct Answer: A

**QUESTION 9**

Juan is looking to invest in the mining industry. He has narrowed his options down to two rival companies, both with sales of £200m. Company A has an EBIT of £10m whereas Company B has an EBIT of £14m.

This would suggest that Company B is the better investment but Juan is suspicious that Company B has more financial backing than Company A.

Which ratios will tell him which company will use his investment the best?

- A. Profit margin
- B. R.O.C.E
- C. Current ratio
- D. Quick ratio

Correct Answer: AB

**QUESTION 10**

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

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### QUESTION 11

An investment centre manager is considering the purchase of a new machine. If purchased, the new machine would replace an existing one that is used to manufacture one of the investment centre's existing products.

The new machine would incur \$800 per month additional running costs; this includes \$300 per month of additional depreciation.

The new machine would save on direct labor time. This means that the fixed production overhead absorbed by the product on the basis of direct labor hours would reduce by \$100 per month.

What is the total cost of the above that is relevant to the decision to purchase the machine?

A. \$500; only the additional running costs, excluding depreciation, are relevant.

B. \$700; all of the additional running costs and the reduction in absorbed overhead are relevant.

C. \$400; only the reduction in absorbed overhead and the additional running costs, excluding depreciation, are relevant.

D. \$800; all of the additional running costs are relevant, but the reduction in absorbed overhead is not relevant.

Correct Answer: A

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### QUESTION 12

SQ has the opportunity to invest in project X. The net present value for project X is \$12,600. Cash inflows occur in years 1, 2 and 3. The company's cost of capital is 14%. Calculate the annualized equivalent annuity of project X. Give your answer to the nearest whole \$.

A. \$5429

Correct Answer: A

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### QUESTION 13

DRAG DROP

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Place each method of analysing risk and uncertainty against the statement that describes it correctly.

Select and Place:

Depicting one or more sequential decisions and their possible outcomes.		<b>Decision tree</b> <b>Simulation</b> <b>Sensitivity analysis</b> <b>Pay off table</b>
Constructing a mathematical model of the situation and then performing a large number of iterations.		
Determining the effect on the planned outcome of changes in key decision variables.		
Charting all possible combinations of decision variables in order to assess the range of possible outcomes.		

Correct Answer:

Depicting one or more sequential decisions and their possible outcomes.	<b>Decision tree</b>
Constructing a mathematical model of the situation and then performing a large number of iterations.	<b>Simulation</b>
Determining the effect on the planned outcome of changes in key decision variables.	<b>Sensitivity analysis</b>
Charting all possible combinations of decision variables in order to assess the range of possible outcomes.	<b>Pay off table</b>

**QUESTION 14**

A company has just completed the production of the first 16 batches of a product. A learning curve has been observed throughout. The following table gives further details.

<b>Cumulative batches</b>	<b>Cumulative labour hours</b>
1	1,400
16	11,200

To the nearest whole percentage, what rate of learning is implied?

- A. 87%
- B. 8%
- C. 84%



D. 93%

Correct Answer: C

**QUESTION 15**

A company manufactures and sells a range of products. Relevant data for one unit of a particular product are as follows.

<b>Variable material cost</b>	<b>\$0.60</b>
<b>Variable labour cost</b>	30 minutes at \$4 per hour
<b>Market selling price</b>	<b>\$3.50</b>

The company is using target costing to ensure that it achieves a contribution of 40% of the market selling price. In order to achieve the target cost, by how much does the company need to reduce the variable cost per unit?

- A. \$ 2.10
- B. \$ 0.50
- C. \$ 1.40
- D. \$ 2.60

Correct Answer: B

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