

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

P2 - Advanced Management Accounting

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**QUESTION 1**

An investment centre is appraising a potential project that is expected to yield a Return on Investment (ROI) of 12%.

Without the project the investment centre expects to earn an ROI of 14%. The cost of capital is 10%. What would be the impact on the investment centre's performance measures if the project is accepted?

- A. Residual Income would decrease and ROI would increase.
- B. Residual Income would decrease and ROI would decrease.
- C. Residual Income would increase and ROI would increase.
- D. Residual Income would increase and ROI would decrease.

Correct Answer: D

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**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.

	<b>High demand</b>	<b>Medium demand</b>	<b>Low demand</b>
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

Using the maximax criterion, which investment should be selected?

- A. Investment A
- B. Investment B
- C. Investment C
- D. Investment D

Correct Answer: A

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**QUESTION 3**

Which basis of transfer pricing retains the full autonomy of divisional managers?

- A. Full cost-plus pricing
- B. Variable cost-plus pricing
- C. Negotiated pricing
- D. Market based pricing

Correct Answer: C

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**QUESTION 4**

To which technique for dealing with risk and uncertainty do ALL of the following statements apply?

It requires that only one factor is considered at a time.

It identifies areas which are crucial to a project, which can then be monitored if the project is chosen.

It does not provide an indication of the likelihood of any change in the factors.

Following the calculation, it requires the exercising of judgement to decide whether to accept or reject a project.

- A. Sensitivity analysis
- B. Probability analysis
- C. Scenario analysis
- D. Adjusting the discount rate to reflect risk.

Correct Answer: A

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**QUESTION 5**

Which TWO of the following expressions are correct?

- A.  $1 + \text{money rate} = (1 + \text{real rate}) \times (1 + \text{inflation rate})$
- B.  $1 + \text{real rate} = (1 + \text{money rate}) / (1 + \text{inflation rate})$
- C.  $1 + \text{real rate} = (1 + \text{inflation rate}) / (1 + \text{money rate})$
- D.  $1 + \text{money rate} = (1 + \text{inflation rate}) / (1 + \text{real rate})$
- E.  $1 + \text{inflation rate} = (1 + \text{money rate}) \times (1 + \text{real rate})$

Correct Answer: AB

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