CIMAPRO19-P02-1 Q&As

P2 - Advanced Management Accounting

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QUESTION 1

Under the absorption costing system, which simply allocates our entire amount of production overheads based on machine hours, we have found that out of our 4 products, 2 are profitable, 1 breaks even and 1 is making a loss.

Model D the most recent addition to the range is making a large loss after the price of a major component rose dramatically. Model A is only just breaking now too as costs have risen. The only two products making profit are Models B and C.

These two require the least about of machine hours so this makes sense. However, the management have a few reservations. They cannot understand how B is so profitable. It requires several more stages of production than the other

models and a whole day longer to be customised by an expert.

Select the correct answer from the list below that can help to explain this situation.

A. ABC would show that only a small amount of our overheads are based on machine hours.

B. ABC could have shown that some products are selling poorly and should be discontinued.

C. ABC would show that if overheads are shared equally that model B would be less profitable.

Correct Answer: A

QUESTION 2

An organization wishes to make its investment decisions on the basis of more than simply a financial appraisal. Which of the following will assist it to take into account both qualitative and quantitative factors?

A. Cost Benefit Analysis

B. Profitability Index

C. Discounted Payback

D. Modified Internal Rate of Return

Correct Answer: A

QUESTION 3

A company is investing $200,000 in a project which will generate a cash flow of $60,000 each year for five years starting immediately. The company\\'s cost of capital is 7%. The net present value of the investment to the nearest $100 is:

A. $63200

Correct Answer: A

QUESTION 4

An organization\\'s transfer pricing system involves:

The transferring division receiving $20 per unit; an amount equal to its variable costs.

The receiving division paying an additional $30,000 every month to the transferring division.

Which transfer pricing system is the organization using?

A. Dual transfer prices

B. Two part tariff

C. Cost-plus

D. Variable cost plus opportunity cost

Correct Answer: B

QUESTION 5

A company has three divisions, each of which is an investment centre. The divisional managers\\' performance is assessed using return on investment (ROI). A higher ROI will result in a higher bonus for the divisional manager.

The company\\'s cost of capital is 15%.

For the forthcoming year each divisional manager has one investment opportunity available as follows:

	Division 1	Division 2	Division 3
ROI of investment opportunity	20.0%	13.0%	16.0%
Expected ROI excluding investment opportunity	25.0%	9.0%	11.0%

The manager(s) of which division(s) will proceed with their respective investment opportunity?

A. Division 1 and Division 3

B. Division 2 and Division 3

C. Division 3 only

D. Division 1 only

Correct Answer: B