

CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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QUESTION 1

One of a company's products is sold to three customers: A, B and C. These customers do not buy anything else from the company. The product costs \$20 per unit to manufacture and is sold to the customers for \$50 per unit. The following table shows data for sales and selling costs for the latest period.

Delivery costs of \$32,000 and general overheads of \$60,000 were incurred during the period. Deliveries to customers A and B were made by a courier in batches of 100 units; the courier charged \$300 for each batch delivered to customer A and \$400 for each batch delivered to customer B. Deliveries to customer C were made by mail in batches of 10 units at a cost of \$60 per batch.

	A	B	C
Sales (units)	3,000	2,000	2,500
Selling costs (\$)	30,000	16,000	20,000

Which of the following statements is correct?

- A. Customers B and C have the same profit:sales ratio.
- B. Customer A has the highest sales revenue, the highest profit, and the highest profit:sales ratio
- C. Customer B has the lowest sales revenue, the lowest profit, and the lowest profit:sales ratio.
- D. Customer B has the highest profit:sales ratio.

Correct Answer: D

QUESTION 2

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

QUESTION 3

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

QUESTION 4

The discount rate at which the net present value (NPV) is zero is known as the

- A. accounting rate of return
- B. risk adjusted discount rate
- C. internal rate of return
- D. breakeven point

Correct Answer: C

QUESTION 5

DRAG DROP

Using Porter's value chain, place the tokens to correctly categories the following activities of a manufacturing company.

Select and Place:

Assembly of products		HR management
Recruitment of machine operatives		Procurement
Advertising of products		Operations
Purchase of a new machine to manufacture products		Marketing and sales
		Service
		Technology development

Correct Answer:

Assembly of products	Operations	
Recruitment of machine operatives	HR management	
Advertising of products	Marketing and sales	
Purchase of a new machine to manufacture products	Procurement	
		Service
		Technology development

QUESTION 6

Which of the following statements is true?

- A. Risk transfer means the management of a portfolio of different risks.
- B. Insuring risks means that businesses will not need to take any measures to reduce those risks.
- C. High frequency, high severity risks are always strategic risks.

D. Risk hedging is taking action to offset one risk by incurring a new risk in the opposite direction.

Correct Answer: D

QUESTION 7

The management of a leisure company, who are risk averse, have just approved an investment in a new amusement park. The country in which the amusement park will be located has a warm and mostly dry climate throughout the year. A number of specific risks related to this investment have been identified as follows.

(1)

Losses of very small amounts of revenue due to poor weather.

(2)

A significant financial liability may arise due to the injury of a member of the public.

(3)

Loss of several days of revenue due to rides being unavailable because of poor maintenance routines.

(4)

Income fraud as a consequence of the high levels of cash handled by employees.

Using the TARA framework, which is the most appropriate way of managing each of these risks?

A. Transfer risk 1; accept risk 2; avoid risk 3; reduce risk 4

B. Accept risk 1; avoid risk 2; transfer risk 3; reduce risk 4

C. Accept risk 1; transfer risk 2; avoid risk 3; reduce risk 4

D. Reduce risk 1; transfer risk 2; avoid risk 3; accept risk 4

Correct Answer: C

QUESTION 8

Three years ago the large number of faulty products being returned by its customers resulted in a company adopting total quality management (TQM). The company has increased expenditure on staff training and product inspections. This

has resulted in a reduction in the number of faulty products returned.

Which of the following statements is correct?

A. Spending more on conformance costs has resulted in a reduction in internal failure costs.

B. Spending more on conformance costs has resulted in a reduction in external failure costs.

- C. Spending more on non-conformance costs has resulted in a reduction in conformance costs.
- D. Spending more on prevention costs has resulted in a reduction in appraisal costs.

Correct Answer: B

QUESTION 9

The following data relate to an investment opportunity. The percentage reduction in the annual revenue that could occur before the project is no longer financially viable is: A. 15.9%

	Year	Cash flow	Discount factor @ 10%	Present value
Initial investment	0	\$(50,000)	1.000	\$(50,000)
Revenue	1-5	\$28,000	3.791	\$106,148
Variable costs	1-5	\$(12,000)	3.791	\$(45,492)
Scrap proceeds	5	\$10,000	0.621	\$6,210

- B. 56.0%
- C. 28.6%
- D. 212.3%

Correct Answer: A

QUESTION 10

One of an investment centre's products is sold on an external market. Output is limited because the specialist machine that manufactures the product is operating at full capacity. Current data for the product are as follows.

Selling price per unit	\$500
Variable labour cost per unit	\$100
Variable material cost per unit (3 kg @ \$50 per kg)	\$150
Head office general overhead absorption rate per unit	\$24
Actual sales and production units per year	1,200
Maximum customer demand units per year	1,500

Investigations have identified that more rigorous maintenance of the machine at an annual cost of \$5,000 would reduce the number of breakdowns and increase its capacity to 1,300 units per year. There would be no change in the selling price if more units were sold. Any additional labor hours would be paid a premium of 25%. A discount of 2% of the cost of all materials purchased is available if the company increases its purchases to 3,700 kg or more per year. What would be the increase in the investment centre's annual controllable profit if more rigorous maintenance is undertaken?

- A. \$21,400
- B. \$17,800
- C. \$23,900
- D. \$26,160

Correct Answer: A

QUESTION 11

DRAG DROP

Place each of the activities described below against the correct classification of quality costs.

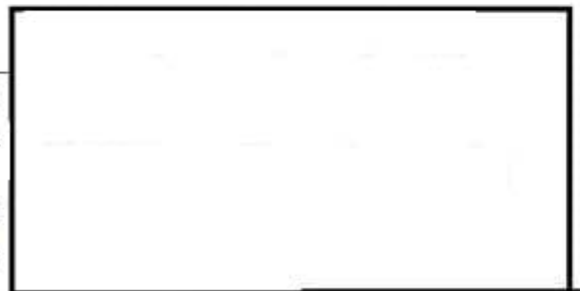
Select and Place:

Category	Activity
Prevention cost	
Appraisal cost	
Internal failure cost	
External failure cost	

Training machine operatives
 Inspecting goods received from supplier
 Repairing an item prior to sale
 Repairing an item returned by a customer

Correct Answer:

Category	Activity
Prevention cost	Training machine operatives
Appraisal cost	Inspecting goods received from supplier
Internal failure cost	Repairing an item prior to sale
External failure cost	Repairing an item returned by a customer



QUESTION 12

A machine requires an initial investment of \$500,000. The net present value (NPV) of the investment in the machine is \$36,500. Which of the following statements is correct in relation to the sensitivity of the investment?

- A. The initial investment can increase by no more than 7.3% before the project is not viable.
- B. The NPV can decrease by no more than 7.3% before the project is not viable.
- C. The initial investment can increase by no more than 13.7% before the project is not viable.
- D. The NPV can decrease by no more than 13.7% before the project is not viable.

Correct Answer: A

QUESTION 13

A company has invested \$500,000 in developing a new product and requires a return of 12% on this investment.

The company has researched the market and has set the selling price for the new product at \$300 per unit. At this price, sales volume for next year is forecast to be 500 units. The forecast unit cost is \$210.

What is the target cost gap per unit for the coming year? Give your answer to the nearest whole \$.

- A. \$30

Correct Answer: A

QUESTION 14

An organization wishes to achieve cost reductions for a product it already has in production without affecting the customer's perception of the product.

It has decided to carry out a systematic examination of the factors affecting the cost of the product in order to identify ways of achieving the specified purpose at lower cost while maintaining the required standard and quality.

Which of the following correctly identifies the activity that the organization is undertaking?

- A. Value analysis
- B. Kaizen costing
- C. Standard costing
- D. Process innovation

Correct Answer: A

QUESTION 15

A new product is being manufactured for the first time. The first unit required 600 minutes of labor to manufacture. It is expected that there will be a 90% learning curve for the first 20 units. The learning index for a 90% learning curve is

0.152. Calculate the expected labor time to manufacture the 10th unit. Your answer should be given to the nearest whole minute.

- A. 360 minutes, 361 minutes, 362 minutes

Correct Answer: A

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