CIMAPRO19-P02-1 Q&As

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

DRAG DROP

An investment appraisal has identified that a project has a positive net present value when discounted at the company\\'s cost of capital. If the cost of capital is now increased, indicate whether each of the following appraisal measures will increase, decrease or stay the same.

Select and Place:

Payback period		
Internal rate of return		Increase
Accounting rate of return		Decrease
Net present value		Stay the same
Discounted payback period		
Modified internal rate of return		

Correct Answer:

Payback period	Stay the same	
Internal rate of return	Stay the same	Increase
Accounting rate of return	Stay the same	Decrease
Net present value	Decrease	Stay the same
Discounted payback period	Increase	
Modified internal rate of return	Increase	

QUESTION 3

A group consists of two divisions, Alpha and Beta, both of which are profit centers. Alpha sells a product to the external market and also sells it as an intermediate product to Beta. Beta then processes further before selling the final product to

the external market. The current group transfer pricing policy requires Alpha to charge Beta with the variable cost of production.

Which of the following statements is valid?

A. A two-part tariff would provide a more effective basis for assessing divisional performance.

B. A dual pricing approach to transfer pricing would increase Beta\\'s total profit and reduce Alpha\\'s.

C. If Alpha has unfulfilled external demand then the transfer price should always be set at variable cost.

D. Transfer prices only affect the assessment of performance of investment centres, not of profit centres.

Correct Answer: A

QUESTION 4

Which of the following investment appraisal methods provides an absolute monetary value on which to base decisions?

A. Accounting rate of return

B. Net present value

C. Internal rate of return

D. Profitability index

Correct Answer: B

QUESTION 5

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 6

A company has just received the latest in a series of annual payments; this payment was $620. The annual payments are expected to continue for three more years with each payment being increased by the expected rate of inflation. The real cost of capital is 8% per year and the expected rate of inflation is 6% per year.

What is the present value of the future payments the company expects to receive? Give your answer to the nearest:

A. $1598

Correct Answer: A

QUESTION 7

Which TWO of the following statements are correct?

A. It is worthwhile for a company to sell further units when the marginal revenue is greater than the marginal cost.

B. Price is the only factor affecting the demand for products and services.

C. Premium pricing is possible when there is a measure of product or service differentiation.

D. Loss leadership pricing is appropriate for a new product which is not part of a range of products.

E. Demand functions can be predicted accurately and the relationship between price and quantity demanded is always constant.

Correct Answer: AC

QUESTION 8

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 9

A small company currently uses an information system that was implemented several years ago and is based entirely on internal data. The company is considering replacing it with a more up to date system. It has been suggested that the

new system should include the use of big data.

Which TWO of the following statements are correct?

A. Big data can provide a small company with useful information in the quest for competitive advantage.

B. Big data is concerned solely with a dramatic increase in the amount of internal data stored.

C. Big data can be used by a small company to identify new opportunities.

D. It is not possible to value the potential benefits to a small company of an improved information system.

E. Big data is only applicable to large companies which have substantial funds to invest in information systems.

Correct Answer: AC

QUESTION 10

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

Variable material cost	$0.60
Variable labour cost	30 minutes at $4 per hour
Market selling price	$3.50

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

QUESTION 11

A public sector service organization is considering whether to use a balanced scorecard or a value for money approach based on the three Es to assess its performance. Which of the following are correct comparisons of the balanced scorecard and value for money based on the three Es as performance measurement frameworks? Select ALL that apply.

A. Efficiency is measured as one of the three Es but the balanced scorecard does not measure efficiency.

B. If the organization wishes to consider both financial and non-financial performance then the balanced scorecard should be used rather than the three Es.

C. The public\\'s satisfaction with the organization\\'s services can be measured by both the three Es and the balanced scorecard.

D. The balanced scorecard is concerned with meeting the organization\\'s objectives whereas the three Es approach is concerned only with reducing costs.

E. The three Es approach was designed for public sector service organizations, but the balanced scorecard approach can also be used in the public sector.

Correct Answer: CE

QUESTION 12

DRAG DROP

A company classifies its main factory as an investment centre. Categorise each of the following costs as either controllable or uncontrollable by the investment centre manager.

Select and Place:

Machinery rental cost		
Direct labor cost		
Heat and light cost for the factory		Controllable
Product marketing cost		Uncontrollable
Taxation		
Allocated head office administration costs		

Correct Answer:

Machinery rental cost	Controllable	
Direct labor cost	Controllable	
Heat and light cost for the factory	Controllable	Controllable
Product marketing cost	Uncontrollable	Uncontrollable
Taxation	Uncontrollable	
Allocated head office administration costs	Uncontrollable	

QUESTION 13

Company S has two divisions, X and Y. Division X transfers 50,000 component units to Division Y each quarter. The market price of the component is $20. Division X\\'s variable cost is $10 per unit and its fixed cost is $150,000 each quarter.

What price would be credited to Division X for each component that it transfers to Division Y under:

two-part tariff pricing (where the two divisions have agreed that the fixed fee will be $100,000); and dual pricing (based on market price and marginal cost).

A. Two-part tariff pricing = $10 Dual pricing = $22

B. Two-part tariff pricing = $12 Dual pricing = $18

C. Two-part tariff pricing = $10 Dual pricing = $20

D. Two-part tariff pricing = $13 Dual pricing = $22

Correct Answer: C

QUESTION 14

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.

	Product F	Product G
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 15

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