



CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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QUESTION 1

The following cost of quality report has been prepared for the latest period.

Cost of Quality Report	\$
Prevention costs	50,000
Appraisal costs	80,000
Internal failure costs	90,000
External failure costs	310,000

What is the difference between the cost of conformance and the cost of non-conformance?

A. \$270000

Correct Answer: A

QUESTION 2

The following information is available for four investment projects:



	Initial investment \$000	Cash inflows Year 1 \$000	Cash inflows Year 2 \$000	Cash inflows Year 3 \$000
Project A	600	300	300	300
Project B	240	125	125	125
Project C	100	40	40	40
Project D	580	295	295	295

A discount rate of 12% is appropriate for all four projects. The organization is subject to capital rationing and wishes to prioritise the projects using the profitability index (PI). Which project has the highest PI?

- A. Project A
- B. Project B
- C. Project C
- D. Project D

Correct Answer: B

QUESTION 3

A manufacturing company sells a large range of products. Forecast data for the next period for one of these products are as follows.

Production volume	30,000 units
Batch size	500 units
Cost per set up	\$475

After manufacture, each complete batch must be stored in a local warehouse until it is subsequently sent to the company's main national warehouse. The company does not own a local warehouse. A local warehouse with a maximum

capacity of 500 units could be rented for \$2,450 for the next period.



Alternatively a larger local warehouse with a maximum capacity of 700 units could be rented for \$3,430 for the next period. The company will not begin the manufacture of any new batch until the previous batch has been sent to its main national warehouse. What would be the change in the total cost of set up and storage if the batch size was changed to 600 units?

Give your answer to the nearest whole \$.

A. \$3770

Correct Answer: A

QUESTION 4

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 5

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

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