



CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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QUESTION 1

A company produces a single product which is sold to one customer. Components for the product are stored in a warehouse and when required for production they are inspected. Those passing the quality check are moved to the initial production line. Part-completed items are then inspected and those passing this second quality check are moved to the warehouse until required in the finishing process. After the finishing process the products are inspected, packaged and returned to the warehouse until required by the customer. The company is considering implementing a full just-in-time (JIT) system for both purchasing and production and has asked your advice about the activities that will be necessary if this system is implemented. Which THREE of the following activities will definitely be required in the proposed JIT system?

- A. Components received
- B. Components inspected
- C. Product manufactured
- D. Part finished product inspected
- E. Finished product stored
- F. Finished product despatched to customer

Correct Answer: ACF

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 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 4

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 amount 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 5

The money cost of capital is 12%. The expected rate of inflation is 4%. What is the real cost of capital? Give your answer to 2 decimal places.

- A. 7.69 %, 7.70%

Correct Answer: A

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