CIMAPRO19-P02-1 Q&As

P2 - Advanced Management Accounting

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QUESTION 1

A supermarket group has experienced operational problems during recent years, including a shortage of warehousing space due to increasing turnover and poor inventory management. The product portfolio has expanded considerably.

Although this has led to increased sales volume, marketing and logistics costs have increased disproportionately. Non product-specific costs have also increased significantly.

Management is now considering using Direct Product Profitability (DPP).

Which of the following statements are valid in respect of the possible implementation of DPP within the supermarket group?

Select ALL that apply.

A. DPP should result in improved management of storage space.

B. DPP should result in improved supplier relationships.

C. DPP should result in improved pricing decisions.

D. DPP requires non product-specific costs to be apportioned rather than allocated.

E. DPP provides summary information on the profitability of each customer group.

Correct Answer: ABC

QUESTION 2

A company\\'s competitor has just launched a rival product at a selling price of $38 per unit. Until now the company\\'s selling price of $41.60 per unit has achieved a 30% mark-up on the product\\'s unit cost. The company proposes to use a target

costing approach to pricing to remain competitive. Management has decided to match the competitor\\'s selling price and has set a target cost to achieve a 20% return on the target price.

What is the cost gap?

A. $1.60

B. $3.60

C. $0.33

D. $1.28

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

Which THREE of the following conditions are required for a sustained learning curve to apply?

A. Labor intensive production

B. Continuous production

C. A complex production process

D. Frequent machine maintenance

E. Continuous product development

F. Frequent staff rotation

Correct Answer: ABC

QUESTION 5

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

QUESTION 6

A company has a cost of capital of 12% and a maximum of $20 million to invest. It has identified three possible investment projects, none of which is divisible, as follows.

	Project 1	Project 2	Project 3
Investment required	$10 million	$20 million	$8 million
Net present value	$700,000	$1,000,000	$400,000
Return on Investment	10%	11%	13%
Profitability Index	1.07	1.05	1.05

Which project(s) should the company invest in?

A. Project 1 only

B. Project 2 only

C. Project 3 only

D. Projects 1 and 3 only

Correct Answer: D

QUESTION 7

Which basis of transfer pricing retains the full autonomy of divisional managers?

A. Full cost-plus pricing

B. Variable cost-plus pricing

C. Negotiated pricing

D. Market based pricing

Correct Answer: C

QUESTION 8

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 9

A project has a positive net present value (NPV) when discounted at a company\\'s weighted average cost of capital (WACC). The project has also been evaluated using a range of other investment appraisal techniques.

It has now been recognized that the project is of much higher risk than the average risk of the company\\'s existing portfolio of projects. It has therefore been decided that the discount rate to be used when evaluating this project should be the

WACC adjusted for risk. As the result of changing the discount rate as described, which of following statements are correct? Select ALL that apply.

A. The net present value would decrease.

B. The internal rate of return would decrease.

C. The accounting rate of return would decrease.

D. The internal rate of return would remain unchanged.

E. The profitability index would remain unchanged.

F. The net present value would increase.

Correct Answer: AD

QUESTION 10

An organization produces only two products. Each month it produces 1,000 units of product A and 10,000 units of product B.

Using traditional absorption costing the products have very similar unit costs. However when costs are calculated using activity-based costing (ABC), product A\\'s unit cost is significantly higher than that of product B.

Which of the following factors has the potential to cause this difference? Select ALL that apply.

A. ABC cost calculations are not simply volume-related.

B. ABC costs are driven only by the volume of output.

C. ABC considers only marginal costs.

D. ABC uses multiple cost drivers to trace overhead costs to products.

E. ABC considers only direct costs.

Correct Answer: AD

QUESTION 11

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 12

An electronics company sells a range of tablet computers. Tablet computers come complete with an operating system that is regarded as the market leader. The company aims to launch a new version of its hardware every eighteen months and a major update to its software every three years. The latest version of the tablet computer is always sold at a higher price, but the older version that has been replaced is then sold for a time at a discounted price. Which pricing model does this company appear to be using?

A. Penetration and loss leader pricing

B. Penetration and product bundling

C. Skimming and loss leader pricing

D. Skimming and product bundling

Correct Answer: D

QUESTION 13

A company is considering investing $680,000 in a machine to manufacture a new product. A consultant has been appointed to advise on the investment and the company is committed to paying $10,000 to the consultant in year 1, even if the project does not go ahead. 300,000 units of the new product will be produced and sold each year. Unit cost and revenue information based on this level of output is as follows.

	$ per unit
Selling price	52.00
Variable direct cost	35.00
Overhead, excluding depreciation	14.80

60% of the overhead cost is variable. Of the remainder, 10% consists of allocated head office overheads.

The selling price will increase by 2% each year in line with inflation, beginning in year 2. Fixed price contracts mean that all unit costs will remain unaltered.

Taxation information:

100% first year allowance will be available for the purchase of the machinery.

The taxation rate is 30% of taxable profits, payable in the year after that in which the liability arises.

For the purpose of deciding whether to proceed with the investment, what is the relevant cash flow in year 2?

A. $1,102,320

B. $1,099,320

C. $1,326,960

D. $1,288,800

Correct Answer: A

QUESTION 14

An investment centre manager is considering the purchase of a new machine. If purchased, the new machine would replace an existing one that is used to manufacture one of the investment centre\\'s existing products.

The new machine would incur $800 per month additional running costs; this includes $300 per month of additional depreciation.

The new machine would save on direct labor time. This means that the fixed production overhead absorbed by the product on the basis of direct labor hours would reduce by $100 per month.

What is the total cost of the above that is relevant to the decision to purchase the machine?

A. $500; only the additional running costs, excluding depreciation, are relevant.

B. $700; all of the additional running costs and the reduction in absorbed overhead are relevant.

C. $400; only the reduction in absorbed overhead and the additional running costs, excluding depreciation, are relevant.

D. $800; all of the additional running costs are relevant, but the reduction in absorbed overhead is not relevant.

Correct Answer: A

QUESTION 15

The following summarised financial statements have been prepared by JNM\\'s North subsidiary for the year just ended:

	$ million
Operating assets	160
Loans	100

Calculate the North subsidiary\\'s Residual Income, assuming that JNM\\'s cost of capital is 10%. Give your answer to the nearest $ million.

A. $24 million, 24000000

Correct Answer: A