



CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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QUESTION 1

A company currently absorbs production overheads based on labor hours. The overheads absorbed by the two products that are made, L and M, are \$4 per unit and \$10 per unit respectively. These were based on the budgeted overheads of \$7,000 and budgeted labor hours of 1,750. The budgeted output was 500 units of each product.

The company is investigating the use of activity based costing (ABC). Analysis has shown that the total production overheads of \$7,000 are made up of \$4,000 for set up costs and \$3,000 for inspection costs. The cost driver for set up costs is

the number of set ups and for inspection costs it is the number of inspections.

The cost driver rate for set ups is \$160 per set up. Product L would need 5 production runs. Both types of product would need 1 set up for each production run. Product L would need 2 inspections for each production run. Product M would need 1 inspection per production run.

The products are made in the same department and use the same equipment and staff but they are produced separately.

Which of the following statements are correct?

Select ALL that apply.

- A. The current production overhead absorption rate is \$4.00 per hour.
- B. The current production overhead absorption rate is \$500 per hour.
- C. If ABC was used, set up costs per unit of Product L would be \$1.60.
- D. If ABC was used, set up costs per unit of Product M would be \$4.00.
- E. If ABC was used, inspection costs per unit of Product L would be \$4.00.
- F. If ABC was used, inspection costs per unit of Product M would be \$4.00.

Correct Answer: ACF

QUESTION 2

An organization has carried out a risk assessment for a project. Which of the following possible outcomes are examples of upside risk? Select ALL that apply.

- A. The project might be developed more quickly than expected.
- B. The project's costs might be higher than expected.
- C. The project's Economic Value Added might be higher than expected.
- D. The project's environmental damage might be less than expected.
- E. The project's payback period might be greater than expected.



Correct Answer: ACD

QUESTION 3

Product WB currently sells for \$13 per unit. Annual demand at that price is 20,000 units. If the price increases to \$15, the annual demand falls by 500 units. What is the formula for the demand curve?

- A. $Q = a - bP$
- B. $P = f(Q)$.
- C. $Q_d = a - b(P)$
- D. $P = a - b(Q)$

Correct Answer: C

QUESTION 4

SkillWeave Industries are focused on managing the risk of selling their cars to the region due to economic turmoil, and have now begun using funds from sales in the region to fund supplier purchases from that region to reduce the risk from

the volatile currency. However, SkillWeave want to go a step further and make the risk even less sizeable.

Which of the following is a method by which SkillWeave can operate in the market and transfer the risk of exchange rate exposure to another party?

- A. Invoice international sales in domestic currency
- B. Temporarily stop operating in that target market
- C. Arrange a forward foreign exchange rate contract agreeing to buy a given amount of the foreign currency in 3 months time for a fixed exchange rate based on current rates
- D. Put a sale on all vehicles stationed in the region to clear stock quickly

Correct Answer: A

QUESTION 5

The following forecast data relate to the first three years of a five year project. The project will require an initial investment of \$30,000 in non-current assets. All revenue will be received in the year it is earned and all operating costs will be paid

in the year they are incurred. Tax will be paid in the following year. Tax depreciation will be 25% per annum of the reducing balance.

The taxation rate will be 30% of taxable profits.



	Year 1	Year 2	Year 3
Contribution	\$50,000	\$66,000	\$71,000
Fixed costs excluding depreciation	\$10,000	\$10,000	\$10,000

What is the forecast after tax cash flow for year 3 (to the nearest \$10)?

- A. \$45,890
- B. \$39,750
- C. \$46,000
- D. \$38,500

Correct Answer: A

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