CIMAPRO19-P02-1 Q&As

P2 - Advanced Management Accounting

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QUESTION 1

Which of the following statements is correct?

A. Risk can be quantified and probabilities can be assigned reliably to the possible outcomes.

B. Uncertainty cannot be quantified and probabilities can be assigned reliably to the possible outcomes.

C. Risk cannot be quantified and probabilities cannot be assigned reliably to the possible outcomes.

D. Uncertainty can be quantified and probabilities can be assigned reliably to the possible outcomes.

Correct Answer: A

QUESTION 2

Which of the following statements is true?

A. Risk transfer means the management of a portfolio of different risks.

B. Insuring risks means that businesses will not need to take any measures to reduce those risks.

C. High frequency, high severity risks are always strategic risks.

D. Risk hedging is taking action to offset one risk by incurring a new risk in the opposite direction.

Correct Answer: D

QUESTION 3

A project requires an initial investment of $160,000 in an asset for which the annual depreciation charge will be $40,000. The forecast profits from the investment are as follows.

Year	Profit
1	$20,000
2	$30,000
3	$50,000
4	$80,000

What is the payback period for the project in years? Give your answer to two decimal places.

A. 2.33 years

Correct Answer: A

QUESTION 4

A company has three divisions, each of which is an investment centre. The divisional managers\\' performance is assessed using return on investment (ROI). A higher ROI will result in a higher bonus for the divisional manager.

The company\\'s cost of capital is 15%.

For the forthcoming year each divisional manager has one investment opportunity available as follows:

	Division 1	Division 2	Division 3
ROI of investment opportunity	20.0%	13.0%	16.0%
Expected ROI excluding investment opportunity	25.0%	9.0%	11.0%

The manager(s) of which division(s) will proceed with their respective investment opportunity?

A. Division 1 and Division 3

B. Division 2 and Division 3

C. Division 3 only

D. Division 1 only

Correct Answer: B

QUESTION 5

The directors of a company wish to evaluate two mutually exclusive capital investment projects. Both projects have conventional cash flows: an initial outflow followed by a series of annual cash inflows. The directors are aware of the following three investment appraisal methods: internal rate of return (IRR), net present value (NPV) and accounting rate of return (ARR). The directors have asked for your advice about which method should be used to evaluate these two projects. Which of the following is valid advice to give to the directors?

A. IRR should be used because both NPV and ARR could lead to an incorrect investment decision.

B. ARR should be used because it is based on profit whereas both IRR and NPV are based on cash flows.

C. IRR should NOT be used because it could result in multiple IRRs.

D. NPV should be used because it focuses on wealth creation whereas IRR and ARR are both relative measures.

Correct Answer: D