



CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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QUESTION 1

DRAG DROP

The performance of an investment centre manager is assessed by return on investment (ROI) alone.

At present, his expected ROI for next year is 15%. The manager must now decide whether to invest in a new project that is expected to yield an ROI of 14%. The cost of capital is 12%.

Indicate whether each of the following statements is true or false.

Select and Place:

True	False
-------------	--------------

The manager will reject the project; this is a dysfunctional decision.

The manager will reject the project; this is not a dysfunctional decision.

The manager will accept the project; this is a dysfunctional decision.

The manager will accept the project; this is not a dysfunctional decision.

If the manager was assessed by residual income (RI) alone, then he would make a dysfunctional decision about the project.

If the manager was assessed by residual income (RI) alone, then he would not make a make a dysfunctional decision about the project.

Correct Answer:



True	False
-------------	--------------

The manager will reject the project; this is a dysfunctional decision.

The manager will reject the project; this is not a dysfunctional decision.

The manager will accept the project; this is a dysfunctional decision.

The manager will accept the project; this is not a dysfunctional decision.

If the manager was assessed by residual income (RI) alone, then he would make a dysfunctional decision about the project.

If the manager was assessed by residual income (RI) alone, then he would not make a dysfunctional decision about the project.

	True	
	False	
	False	
	False	
	False	
	True	

QUESTION 2

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 3



DRAG DROP

A company classifies its main factory as an investment centre. Categorise each of the following costs as either controllable or uncontrollable by the investment centre manager.

Select and Place:

Machinery rental cost		
Direct labor cost		
Heat and light cost for the factory		Controllable
Product marketing cost		Uncontrollable
Taxation		
Allocated head office administration costs		

Correct Answer:

Machinery rental cost	Controllable	
Direct labor cost	Controllable	
Heat and light cost for the factory	Controllable	Controllable
Product marketing cost	Uncontrollable	Uncontrollable
Taxation	Uncontrollable	
Allocated head office administration costs	Uncontrollable	

QUESTION 4

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 5

An airline company has operated passenger flights with low ticket prices to various airports from a busy airport for several years. It now faces increased competition on a number of its routes and has decided to use the balanced scorecard to

monitor its performance.

Which of the following statements are correct?

Select ALL that apply.



- A. Customer satisfaction measures will not be needed because the company pursues a low price strategy for competitive advantage.
- B. The proportion of seats that are occupied on flights could be a suitable measure for the internal business process perspective.
- C. The number of new flights to different destinations could be a suitable measure for the learning and growth perspective.
- D. The number of on time take-offs could be a suitable measure for the internal business process perspective.
- E. Non-financial objectives will be met as a result of financial objectives being achieved.
- F. A survey of passengers could be a suitable measure for the customer perspective.

Correct Answer: BCD

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