



# CIMAPRO19-P02-1<sup>Q&As</sup>

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

A learning curve applies to the manufacture of the first 256 units of a product. During the manufacture of the first 255 units, the time taken to produce each successive unit is expected to:

- A. Reduce at a decreasing rate.
- B. Reduce at a constant rate.
- C. Reduce at an increasing rate.
- D. Reach the steady state.

Correct Answer: A



### QUESTION 3

Which TWO of the following conditions are necessary for a learning curve to apply?

- A. The process must be simple.
- B. The process must be complex.
- C. There must be regular breaks in production.
- D. Production must be machine intensive.
- E. Production must be labor intensive.

Correct Answer: BE

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### QUESTION 4

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

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### QUESTION 5

Which of the following investment appraisal methods provides an absolute monetary value on which to base decisions?

- A. Accounting rate of return
- B. Net present value
- C. Internal rate of return
- D. Profitability index

Correct Answer: B

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