

CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting





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QUESTION 1

In an organization's transfer pricing system the selling division and the purchasing division each record a different price for the same transaction. This is known as a:

- A. Dual pricing system.
- B. Two part tariff system.
- C. Full cost pricing system.
- D. Marginal cost plus pricing system.

Correct Answer: A

QUESTION 2

Which of the following statements is NOT correct?

Transfer prices between responsibility centers should be set at a level that:

- A. provides an artificial selling price that enables the transferring division to earn a return for its efforts and the receiving division to incur a cost for benefits received.
- B. enables profit centre performance to be measured 'commercially'.
- C. encourages a balance of goal congruence, managerial effort and centralized management.
- D. encourages profit centre managers to agree on the amount of goods and services to be transferred at a level that is consistent with organizational aims.

Correct Answer: C

QUESTION 3

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 4

A group consists of two divisions, Alpha and Beta, both of which are profit centers. Alpha sells a product to the external market and also sells it as an intermediate product to Beta. Beta then processes further before selling the final product to

the external market. The current group transfer pricing policy requires Alpha to charge Beta with the variable cost of production.

Which of the following statements is valid?

- A. A two-part tariff would provide a more effective basis for assessing divisional performance.
- B. A dual pricing approach to transfer pricing would increase Beta's total profit and reduce Alpha's.
- C. If Alpha has unfulfilled external demand then the transfer price should always be set at variable cost.
- D. Transfer prices only affect the assessment of performance of investment centres, not of profit centres.

Correct Answer: A

QUESTION 5

Which TWO of the following actions taken during the budgetary planning process will result in the creation of budgetary slack?

- A. Overestimating costs
- B. Underestimating costs
- C. Underestimating revenues
- D. Overestimating revenues
- E. Overestimating profit

Correct Answer: AC

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