

CIMAPRO19-P02-1^{Q&As}

P2 - Advanced Management Accounting

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QUESTION 1

One aspect of life cycle costing is the recognition of the fact that during the design or development stage a large proportion of many products' life cycle costs are:

- A. determined
- B. wasted
- C. under absorbed
- D. amortised

Correct Answer: A

QUESTION 2

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 3

A company produces a single product which is sold to one customer. Components for the product are stored in a warehouse and when required for production they are inspected. Those passing the quality check are moved to the initial production line. Part-completed items are then inspected and those passing this second quality check are moved to the warehouse until required in the finishing process. After the finishing process the products are inspected, packaged and returned to the warehouse until required by the customer. The company is considering implementing a full just-in-time (JIT) system for both purchasing and production and has asked your advice about the activities that will be necessary if this system is implemented. Which THREE of the following activities will definitely be required in the proposed JIT system?

- A. Components received
- B. Components inspected
- C. Product manufactured
- D. Part finished product inspected
- E. Finished product stored
- F. Finished product despatched to customer

Correct Answer: ACF

QUESTION 4

An organization has the right to mine for gold on its land. The price of gold and the cost of extraction are such that mining is not currently financially viable. However, the organization has the right to commence mining at any time in the future

if the price of gold increases and makes mining financially viable.

This right to commence mining in the future is an option to:

- A. abandon
- B. redeploy
- C. expand
- D. delay

Correct Answer: D

QUESTION 5

A large manufacturing company sells a range of products. Details of one of these products are as follows.

Selling price per unit	\$55
Variable labour cost per unit	\$12
Variable material cost per unit	\$20
Absorbed general overhead cost per unit	\$10
Delivery cost per batch	\$140
Production batch size in units	100
Set up cost per batch	\$300
Total production and sales units per month	1,200

Each completed batch is delivered immediately in full to the one customer that purchases this product. The delivery vehicle is currently only 50% full when it makes these deliveries. The customer will accept deliveries of any size.

Managers are considering changing the production batch size to 150 units. Increased material storage would be needed; this can be rented nearby at a cost of \$1,500 per month.

The additional storage facility would enable an increase in the reorder quantity for the materials. As a result a 5% discount would be received on all materials purchased. Using direct product profitability (DPP), what will be the monthly profit

attributable to the product if the production batch size is changed to 150 units?

Give your answer to the nearest whole \$.

A. \$23780

Correct Answer: A

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