

# CIMA P2 - Advanced Management Accounting

1. A supermarket group has experienced operational problems during recent years, including a shortage of warehousing space due to increasing turnover and poor inventory management. The product portfolio has expanded considerably. Although this has led to increased sales volume, marketing and logistics costs have increased disproportionately. Non product-specific costs have also increased significantly.

Management is now considering using Direct Product Profitability (DPP).

Which of the following statements are valid in respect of the possible implementation of DPP within the supermarket group?

Select ALL that apply.

A. DPP should result in improved management of storage space.

B. DPP should result in improved supplier relationships.

C. DPP should result in improved pricing decisions.

D. DPP requires non product-specific costs to be apportioned rather than allocated.

E. DPP provides summary information on the profitability of each customer group.

**Answer(s):** A B C

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2. The money cost of capital is 12%. The expected rate of inflation is 4%. What is the real cost of capital? Give your answer to 2 decimal places.

A. 7.69 %, 7.70 %

**Answer(s):** A

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3. Division A and Division B are divisions of the same group. Division A transfers all of its output to Division B.

Which THREE of these alternative transfer pricing bases will prevent any cost inefficiencies in Division A being passed on to Division B?

A. Standard variable cost

B. Actual full cost

C. Actual prime cost

D. Market price

E. Actual variable cost

F. Standard variable cost plus a profit margin

**Answer(s):** A D F

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4. Kaizen costing is being used by an organization to gradually reduce the unit cost of one of its products in order to achieve a 20% mark up on the product's cost.

The selling price of the product must be \$72 per unit and this selling price has been maintained for two years.

Two years ago the product's cost was \$3 per unit more than its selling price. Kaizen costing has achieved an 8% reduction from the previous period's unit cost in each of the past two years. The organization expects to continue to achieve the same rate of cost reduction next year.

Which of the following statements provides an accurate analysis of the extent to which Kaizen costing has been successful in achieving the required unit cost for the product?

A. Kaizen costing has successfully achieved the necessary cost reduction.

B. The current cost is \$63.00 per unit and the required unit cost will be achieved next year.

C. Kaizen costing has not yet achieved the required unit cost of \$57.60 because a greater rate of reduction in costs was needed.

D. The current cost is \$63.48 per unit and the required unit cost will be achieved next year.

**Answer(s):** D

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5. A company must decide today whether to proceed with a proposed project. If the project proceeds, the initial investment of \$150,000 would be made in one year's time. The benefit of the project would be a perpetuity of \$22,000 per year commencing one year after the investment is made. The company's cost of capital is 14% per year.

To the nearest \$100, what is the net present value of the project?

A. \$6,300

B. \$7,100

C. -\$12,200

D. \$25,600

**Answer(s):** A

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6. SDF is a newly-established production company that is experiencing high staff turnover in its factory. The production department is studying the manufacturing process and its associated learning curve.

Which of the following statements is correct?

A. SDF's staff turnover will disrupt the observation and measurement of the learning curve.

B. SDF's staff turnover will affect the learning curve.

C. SDF's rapid staff turnover means that knowledge of the learning curve has little value.

D. SDF can use the learning curve to determine labor budgets for the remainder of the first year of operation.

**Answer(s): A**

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7. 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.  $Qd = a - b(P$

D.  $P = a - b(Q)$

**Answer(s): C**

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8. The management of a leisure company, who are risk averse, have just approved an investment in a new amusement park. The country in which the amusement park will be located has a warm and mostly dry climate throughout the year.

A number of specific risks related to this investment have been identified as follows.

(1) Losses of very small amounts of revenue due to poor weather.

(2) A significant financial liability may arise due to the injury of a member of the public.

(3) Loss of several days of revenue due to rides being unavailable because of poor maintenance routines.

(4) Income fraud as a consequence of the high levels of cash handled by employees.

Using the TARA framework, which is the most appropriate way of managing each of these risks?

A. Transfer risk 1; accept risk 2; avoid risk 3; reduce risk 4

B. Accept risk 1; avoid risk 2; transfer risk 3; reduce risk 4

C. Accept risk 1; transfer risk 2; avoid risk 3; reduce risk 4

D. Reduce risk 1; transfer risk 2; avoid risk 3; accept risk 4

**Answer(s): C**

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**9. CORRECT TEXT**

\$30.328 million is to be invested in a project that will yield annual net cash inflows of \$8 million for 5 years. What is the project's internal rate of return (IRR)? Give your answer to the nearest whole percentage.

A. 9 %, 10 %, 11 %

**Answer(s): A**

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**10.** An organization has a decentralized structure in which division A supplies division B with an intermediate product for which there is no external market. Division B carries out further processing and then sells the final product on the external market. Due to organizational policy the current transfer pricing basis is variable cost.

The manager of division A has stated, "The current transfer price is unfair because it does not enable us to recoup our costs".

The manager of division B has stated, "The current transfer pricing system enables us to quote competitive prices for the finished product".

The Chief Executive of the organization is considering imposing a transfer pricing policy that uses dual pricing.

Dual pricing would:

A. be welcomed by the manager of division A but the manager of division B would resist it.

B. be welcomed by both divisional managers.

C. increase divisional autonomy.

D. involve a lump sum payment to division A in addition to the payment of the variable cost per unit.

**Answer(s): B**

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**11.** 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.

**Answer(s):** B C D

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**12. CORRECT TEXT**

The following summarised financial statements have been prepared by JNM's North subsidiary for the year just ended:

	\$ million
Operating assets	160
Loans	100

Calculate the North subsidiary's Residual Income, assuming that JNM's cost of capital is 10%.  
Give your answer to the nearest \$ million.

A. \$24 million, 24000000

**Answer(s):** A

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**13. CORRECT TEXT**

SQ has the opportunity to invest in project X. The net present value for project X is \$12,600. Cash inflows occur in years 1, 2 and 3. The company's cost of capital is 14%.

Calculate the annualized equivalent annuity of project X.

Give your answer to the nearest whole \$.

A. \$5429

**Answer(s):** A

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**14. CORRECT TEXT**

A company has just received the latest in a series of annual payments; this payment was \$620. The annual payments are expected to continue for three more years with each payment being increased by the expected rate of inflation. The real cost of capital is 8% per year and the expected rate of inflation is 6% per year.

What is the present value of the future payments the company expects to receive?

Give your answer to the nearest \$.

A. \$1598

Answer(s): A

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15. The following data are available for a division for the latest period.

Sales revenue	\$48,000
Operating assets	\$120,000
Operating profit	\$15,000
Cost of capital	10%

What is the division's residual income for the period?

A. 12.50%

B. 31.25%

C. \$36,000

D. \$3,000

Answer(s): D

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16. Which of the following statements regarding multinational transfer pricing is INCORRECT?

A. Transfer prices affect tax liabilities and royalties because of different laws in countries.

B. If transfer prices are inflated, this will increase profits of buying division.

C. Companies have incentives to set transfer price to increase revenues in low-tax countries.

D. Companies have incentives to set transfer price to increase costs in high-tax countries.

Answer(s): B

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17. An airline prides itself on using highly reliable aircraft that are maintained to the highest possible standard and that its flight crews are arguably the best in the industry. Despite that, the directors accept that there remains a slight possibility that there will be a fatal accident.

Which THREE of the following statements are correct?

A. The airline appears to be behaving responsibly.

B. It is unlikely that any airline could totally eliminate all possibility of a fatal accident.

C. The airline's directors can justify their behavior on the basis that they insist on exceeding all relevant statutory and industry safety standards.

D. Fatal air accidents can be justified on the basis that some risk is inevitable.

E. The airline should cease operations in order to eliminate the risk of a fatal accident.

**Answer(s):** A B C

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**18. DRAG DROP** (Drag and Drop is not supported)

Using Porter's value chain, place the tokens to correctly categories the following activities of a manufacturing company.

Assembly of products



Recruitment of machine operatives



Advertising of products



Purchase of a new machine to manufacture products



HR management
Procurement
Operations
Marketing and sales
Service
Technology development

A. See Explanation section for answer.

**Answer(s):** A

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**19. CORRECT TEXT**

A cost centre manager's performance is monitored based on a comparison of actual and budgeted cost. A summary performance report for the latest period is shown below.

	<b>\$000</b>
<b>Actual costs</b>	370
<b>Budgeted costs</b>	326
<b>Variance</b>	-44

The actual costs include:

\*\$28,000 for allocated head office costs.

\*\$18,000 payment for a rental agreement entered into by the cost centre manager two years ago.

\*\$34,000 for depreciation.

What is the cost centre manager's controllable actual cost for the period?

Give your answer to the nearest \$000.

A. \$308000

**Answer(s):** A

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**20.** SkillWeave are an international clothing manufacturer known for their durable and high quality products. Recently their biggest market in the world's premier customs union has had some economic volatility. This has resulted in the currency of this market being very unstable and difficult to predict in terms of whether it will retain, lose or gain relative value to domestic currency. Which of the following is an effective risk reduction technique for SkillWeave's clothing sales to this region?

A. Pay part suppliers from the region in their currency, generated from sales in the region

B. Temporarily stop producing for and selling cars to the region

C. Pay part suppliers from the region in domestic currency, generated from sales in the region

D. Buy parts domestically to avoid using the region's currency

**Answer(s):** A

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