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Advanced Management Accounting

Cima P2

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QUESTION NO: 1

It is often claimed that a two-part transfer pricing system offers a number of advantages to organizations which use it.

Which of the following statements is NOT an advantage of using a two-part transfer pricing system?

- A.** Transfers are made at the marginal cost of the supplying division and both divisions should be able to report profits from inter-divisional trading.
- B.** The receiving division is made aware of and charged for the full cost of obtaining intermediate products from other divisions.
- C.** It stimulates planning, communication and coordination amongst divisions.
- D.** The agreed fixed fee simply compensates the supplying division for incurring the fixed costs associated with the item transferred.

ANSWER: D**QUESTION NO: 2**

Which of the following statements are correct with regard to responsibility centres?

Select ALL that apply.

- A.** Revenue centre managers have a lower level of decision-making authority than profit centre managers.
- B.** Revenue centre managers and profit centre managers are accountable for controllable costs only.
- C.** Profit centre managers and investment centre managers are responsible for the majority of operating costs incurred.
- D.** Investment centre managers have a higher level of managerial authority than profit centre managers.
- E.** Managers of profit centres have authority over the level of investment in working capital but managers of cost centres do not.

ANSWER: A C D**QUESTION NO: 3**

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

ANSWER: A C

QUESTION NO: 4 - (DRAG DROP)

Place each of the activities described below against the correct classification of quality costs.

Category	Activity
Prevention cost	
Appraisal cost	
Internal failure cost	
External failure cost	

Training machine operatives
 Inspecting goods received from supplier
 Repairing an item prior to sale
 Repairing an item returned by a customer

ANSWER:

Category	Activity
Prevention cost	Training machine operatives
Appraisal cost	Inspecting goods received from supplier
Internal failure cost	Repairing an item prior to sale
External failure cost	Repairing an item returned by a customer

Training machine operatives
 Inspecting goods received from supplier
 Repairing an item prior to sale
 Repairing an item returned by a customer

Explanation:

Activity
Training machine operatives
Inspecting goods received from supplier
Repairing an item prior to sale
Repairing an item returned by a

QUESTION NO: 5

An organization produces only two products. Each month it produces 1,000 units of product A and 10,000 units of product B.

Using traditional absorption costing the products have very similar unit costs. However when costs are calculated using activity-based costing (ABC), product A's unit cost is significantly higher than that of product B.

Which of the following factors has the potential to cause this difference?

Select ALL that apply.

- A. ABC cost calculations are not simply volume-related.
- B. ABC costs are driven only by the volume of output.
- C. ABC considers only marginal costs.
- D. ABC uses multiple cost drivers to trace overhead costs to products.
- E. ABC considers only direct costs.

ANSWER: A D

QUESTION NO: 6

A product requires one each of three different components.

Faulty components are identified only at the end of the manufacturing process.

The following average fault rates have been identified:

Component A – 1 in 100

Component B – 1 in 20

Component C – 1 in 10

The probability that a unit of finished product contains no faulty components is:

- A. 0.84645
- B. 0.00005
- C. 0.99231
- D. 0.97692

ANSWER: A

QUESTION NO: 7

A company is considering two mutually exclusive projects, an analysis of which is given below:

	Project A	Project B
Accounting Rate of Return (ARR)	16%	15%
Payback Period (PP)	4.3 years	3.8 years
Net Present Value (NPV)	\$390,000	\$430,000
Internal Rate of Return (IRR)	17%	14%

The company's cost of capital is 12%.

Assuming an objective of maximising shareholders' wealth, which project would be recommended?

- A. Project B because it has the higher net present value.
- B. Project B because it has the shorter payback period.
- C. Project A because it has the higher accounting rate of return.
- D. Project A because it has the higher internal rate of return.

ANSWER: A

QUESTION NO: 8

The Chief Executive of a large manufacturing company has made the following comment.

"All of our competitors are using both just-in-time(JIT) and Total Quality Management (TQM) whereas we have never used either. Consequently we are lagging behind our competitors because their levels of inventory and quality costs are significantly below ours. I want to see JIT fully implemented, both for purchasing and for production, in 4 weeks' time and TQM fully implemented 4 weeks after that."

Which of the following provide appropriate advice to the Chief Executive?

Select ALL that apply.

- A. Full implementation of JIT is unlikely to be successful unless a TQM environment has first been established.
- B. Implementing TQM from scratch within 8 weeks should be feasible for a large manufacturing company, but implementing JIT within 4 weeks is unlikely to be feasible.
- C. Total quality costs are likely to begin declining immediately once the process of implementing TQM has commenced.
- D. JIT offers the long run prospect of significantly reducing inventory.

E. It would be possible to implement TQM without implementing JIT.

F. It is not possible to implement JIT for production without first implementing JIT for purchasing.

ANSWER: A D E

QUESTION NO: 9 - (DRAG DROP)

A Balanced Scorecard is being prepared for a coach passenger transport company. Place the correct perspective of the Balanced Scorecard against each performance measure.

Percentage of operating hours lost due to coach breakdowns		<div style="display: flex; flex-direction: column; align-items: center;"> <div style="border-bottom: 1px solid red; width: 80%; margin-bottom: 5px;">Learning and growth</div> <div style="border-bottom: 1px solid black; width: 80%; margin-bottom: 5px;">Financial</div> <div style="border-bottom: 1px solid red; width: 80%; margin-bottom: 5px;">Customer</div> <div style="width: 80%;">Internal business process</div> </div>
Number of travel tickets refunded due to late arrival of coach services		
Average time taken to clean a coach		
Average training hours per employee		
Return on capital employed		

ANSWER:

Percentage of operating hours lost due to coach breakdowns	Internal business process	<div style="display: flex; flex-direction: column; align-items: center;"> <div style="border-bottom: 1px solid red; width: 80%; margin-bottom: 5px;">Learning and growth</div> <div style="border-bottom: 1px solid black; width: 80%; margin-bottom: 5px;">Financial</div> <div style="border-bottom: 1px solid red; width: 80%; margin-bottom: 5px;">Customer</div> <div style="width: 80%;">Internal business process</div> </div>
Number of travel tickets refunded due to late arrival of coach services	Customer	
Average time taken to clean a coach	Internal business process	
Average training hours per employee	Learning and growth	
Return on capital employed	Financial	

Explanation:

**QUESTION NO: 10**

A positive net present value (NPV) has been calculated for a project to launch a new product. An additional calculation is required to identify the sensitivity of the NPV to changes in the forecast total sales volume.

The present value of which of the following would be used in the calculation?

- A. Contribution
- B. Operating profit
- C. Fixed overheads
- D. Net profit

ANSWER: A