



# CIMA

**CIMAPRA19-P02-1-ENG**

**P2 Advanced Management Accounting (Online)**

**QUESTION & ANSWERS**

### Question: 1

During a Board meeting at a manufacturing company, concerns regarding the analysing of the current inventory management systems and processes are brought up.

Attendees of the meeting have made several claims and suggestions but the managing director admits that he does not know who to believe and so has asked you to let him know which statements of the following statements are TRUE? Select ALL that apply.

- A. Standard Costing is ideal for organisations running a JIT inventory system
- B. A JIT system is likely to result in economies of scale
- C. ABC is ideal for organisations running a JIT inventory system
- D. Standard costing is ideal for organisations in a TQM environment
- E. A JIT inventory system reduces inventory costs

**Answer: C,D**

### Question: 2

Endure Co. makes 1,000 units of X and 2,000 units of Y.

Costs for X: Material \$4, labour \$8, direct overhead \$2, fixed cost \$4.

Costs for Y: Material \$9, labour \$9, direct overhead \$4, fixed cost \$6.

Selling price for X and Y are \$19 and \$25 respectively. Another company can sell ready made product X and product Y's to Endure Co, this company sells X at \$12 and Y at \$21. Advise Endure Co. on what would be the most cost effective way to source products X and Y.

- A. Endure should buy X and Y from the other supplier.
- B. Endure should buy X but produce Y themselves.
- C. Endure should produce both X and Y themselves.
- D. Endure should buy Y but produce X themselves.

**Answer: A**

### Question: 3

Which of the following are TRUE about the theory of constraints? Select ALL that apply.

- A. Each resource should be put to its most profitable use

- B. Relieve all the constraints in a system simultaneously to ensure optimality
- C. Ensure that each constraint is being used efficiently
- D. Relieve constraints until the cost of relieving the last constraint exceeds the benefit

**Answer: A,C,D**

#### **Question: 4**

The manager of Ice Sculpting Co. believes that too much material is being wasted during downtime. She researched, and found throughput accounting to be an adequate alternative. However, she wasn't sure if all that she read was accurate.

Which of the following statements are TRUE when using Throughput Accounting? Select ALL that apply.

- A. If there is no demand, then there should be no production.
- B. Not all sales equal to profit
- C. Stocking up on inventory is bad for business.
- D. All costs, except materials, are considered fixed.
- E. Departments should be operating at full capacity regardless of bottlenecks

**Answer: A,C,D**

#### **Question: 5**

We have 2 divisions with the following information: Profit before depreciation: B1=\$800,000, B2=\$1,000,000; Assets: B1=\$2,000,000, B2=\$3,000,000; Capital employed: B1 = \$1,700,000 and B2 = \$2,550,000. 20% straight-line depreciation is used.

Calculate ROI for each division.

- A. ROI for B1 is 47% and ROI for B2 is 39.2%
- B. ROI for B1 is 25.5% and ROI for B2 is 17.7%
- C. ROI for B1 is 23.5% and ROI for B2 is 23.5%
- D. ROI for B1 is 23.5% and ROI for B2 is 15.7%

**Answer: D**

### Question: 6

SkillWeave Industries are focused on managing the risk of selling their cars to the region due to economic turmoil, and have now begun using funds from sales in the region to fund supplier purchases from that region to reduce the risk from the volatile currency. However, SkillWeave want to go a step further and make the risk even less sizeable.

Which of the following is a method by which SkillWeave can operate in the market and transfer the risk of exchange rate exposure to another party?

- A. Invoice international sales in domestic currency
- B. Temporarily stop operating in that target market
- C. Arrange a forward foreign exchange rate contract agreeing to buy a given amount of the foreign currency in 3 months time for a fixed exchange rate based on current rates
- D. Put a sale on all vehicles stationed in the region to clear stock quickly

**Answer: A**

### Question: 7

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: A**

### Question: 8

Which of the following statements is TRUE about the activity based costing system when compared to absorption costing method?

- A. ABC is easier to administer than an absorption costing system