Free Questions for CIMAPRO19-P02-1

Shared by Randall on 06-06-2022

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Question 1

Question Type: FillInTheBlank

A project requires an initial investment of $50,000. It will generate positive cash flows for two years as follows.

Year	Cash flow
1	$54,000
2	$19,600

The cost of capital is 12% per year.

What is the equivalent annual net present value of the project?

Give your answer to the nearest $10.

Answer:

$8190, $8191

Question 2

Question Type: MultipleChoice

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.

Options:

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:

A, B, C

Question 3

Question Type: MultipleChoice

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?

Options:

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:

A

Question 4

Question Type: DragDrop

An investment appraisal has identified that a project has a positive net present value when discounted at the company's cost of capital. If the cost of capital is now increased, indicate whether each of the following appraisal measures will increase, decrease or stay the same.

Payback period		
Internal rate of return		Increase
Accounting rate of return		Decrease
Net present value		Stay the same
Discounted payback period		
Modified internal rate of return		

Answer:

See the Answer in the Premium Version!

Question 5

Question Type: MultipleChoice

The directors of a company wish to evaluate two mutually exclusive capital investment projects. Both projects have conventional cash flows: an initial outflow followed by a series of annual cash inflows.

The directors are aware of the following three investment appraisal methods: internal rate of return (IRR), net present value (NPV) and accounting rate of return (ARR).

The directors have asked for your advice about which method should be used to evaluate these two projects.

Which of the following is valid advice to give to the directors?

Options:

A- IRR should be used because both NPV and ARR could lead to an incorrect investment decision.
B- ARR should be used because it is based on profit whereas both IRR and NPV are based on cash flows.
C- IRR should NOT be used because it could result in multiple IRRs.
D- NPV should be used because it focuses on wealth creation whereas IRR and ARR are both relative measures.

Answer:

D

Question 6

Question Type: MultipleChoice

A company makes three products, E, F and G. Total overheads for the year are expected to be $1.2 million, with the following split between cost pools:

Cost driver information has been estimated as follows:

Number of quality inspections	**84,000 inspections**
Number of purchase requisitions	12,000 requisitions
Quantity of material handled	240,000 kilogrammes

The company plans to make 10,000 units of product E in the year, with an expected direct cost of $0.60 per unit. This annual production of product E is expected to require 20 quality inspections, 28 purchase requisitions, and 400 kilogrammes of materials.

What is the overhead cost per unit of product E?

Options:

A- $0.10

B- $0.70

C- $3.57

D- $4.17

Answer:

A

Question 7

Question Type: DragDrop

Place each method of analysing risk and uncertainty against the statement that describes it correctly.

Statement	Answer
Depicting one or more sequential decisions and their possible outcomes.	
Constructing a mathematical model of the situation and then performing a large number of iterations.	
Determining the effect on the planned outcome of changes in key decision variables.	
Charting all possible combinations of decision variables in order to assess the range of possible outcomes.	

Decision tree
Simulation
Sensitivity analysis
Pay off table

Answer:

See the Answer in the Premium Version!

Question 8

Question Type: FillInTheBlank

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 $.

Answer:

$1598

Question 9

Question Type: FillInTheBlank

A manufacturing company sells a large range of products. Forecast data for the next period for one of these products are as follows.

Production volume	**30,000 units**
Batch size	500 units
Cost per set up	$475

After manufacture, each complete batch must be stored in a local warehouse until it is subsequently sent to the company's main national warehouse. The company does not own a local warehouse. A local warehouse with a maximum capacity of 500 units could be rented for $2,450 for the next period.

Alternatively a larger local warehouse with a maximum capacity of 700 units could be rented for $3,430 for the next period.The company will not begin the manufacture of any new batch until the previous batch has been sent to its main national warehouse.

What would be the change in the total cost of set up and storage if the batch size was changed to 600 units?

Give your answer to the nearest whole $.

Answer:

$3770

Question 10

Question Type: DragDrop

Place each performance measure against the correct perspective of the Balanced Scorecard for a company that operates a chain of hotels.

Percentage of revenue earned from new sources	
Operating profit margin	
Average waiting time at check-in desk	
Average time to clean a standard bedroom	

Financial
Customer
Internal business process
Learning and growth

Answer:

See the Answer in the Premium Version!

Question 11

Question Type: MultipleChoice

Which of the following statements is NOT correct?

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

Options:

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.

Answer:

C

Question 12

Question Type: MultipleChoice

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

Options:

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:

B