



Free Questions for **CIMAPRO19-P01-1**

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Question 1

Question Type: MultipleChoice

RFT, an engineering company, has been asked to provide a quotation for a contract to build a new engine. The potential customer is not a current customer of RFT, but the directors of RFT are keen to try and win the contract as they believe that this may lead to more contracts in the future. As a result, they intend pricing the contract using relevant costs. The following information has been obtained from a two-hour meeting that the Production Director of RFT had with the potential customer. The Production Director is paid an annual salary equivalent to \$1,200 per 8-hour day. 110 square meters of material A will be required. This is a material that is regularly used by RFT and there are 200 square meters currently in inventory. These were bought at a cost of \$12 per square meter. They have a resale value of \$10.50 per square meter and their current replacement cost is \$12.50 per square meter. 30 liters of material B will be required. This material will have to be purchased for the contract because it is not otherwise used by RFT. The minimum order quantity from the supplier is 40 liters at a cost of \$9 per liter. RFT does not expect to have any use for any of this material that remains after this contract is completed. 60 components will be required. These will be purchased from HY. The purchase price is \$50 per component. A total of 235 direct labour hours will be required. The current wage rate for the appropriate grade of direct labour is \$11 per hour. Currently RFT has 75 direct labour hours of spare capacity at this grade that is being paid under a guaranteed wage agreement. The additional hours would need to be obtained by either (i) overtime at a total cost of \$14 per hour; or (ii) recruiting temporary staff at a cost of \$12 per hour. However, if temporary staff are used they will not be as experienced as RFT's existing workers and will require 10 hours supervision by an existing supervisor who would be paid overtime at a cost of \$18 per hour for this work. 25 machine hours will be required. The machine to be used is already leased for a weekly leasing cost of \$600. It has a capacity of 40 hours per week. The machine has sufficient available capacity for the contract to be completed. The variable running cost of the machine is \$7 per hour. The company absorbs its fixed overhead costs using an absorption rate of \$20 per direct labour hour.

Select ALL the true statements.



Options:

- A- The cost for the production director meeting was a relevant cost.
- B- Material A was a relevant cost.
- C- Material B was a relevant cost.
- D- The components are to be purchased from HY at a cost of \$50 each. This is a relevant cost because it is future expenditure that will be incurred as a result of the work being undertaken.
- E- The machine is currently being leased and it has spare capacity so it will either stand idle or be used on this work. The lease cost will be a relevant cost or \$10 per hour.
- F- The company absorbs its fixed overhead costs using an absorption rate of \$20 per direct labour hour. This is a relevant cost.

- G- The relevant cost is \$7010
- H- The relevant cost is \$7080
- I- The relevant cost is \$7100

Answer:

B, C, D, G

Explanation:

References:



Question 2

Question Type: MultipleChoice

CDF is a manufacturing company within the DF group. CDF has been asked to provide a quotation for a contract for a new customer and is aware that this could lead to further orders. As a consequence, CDF will produce the quotation by using relevant costing instead of its usual method of full cost plus pricing. The following information has been obtained in relation to the contract: Material D 40 tons of material D would be required. This material is in regular use by CDF and has a current purchase price of \$38 per ton. Currently, there are 5 tons in inventory which cost \$35 per ton. The resale value of the material in inventory is \$24 per ton.

Components 4,000 components would be required. These could be bought externally for \$15 each or alternatively they could be supplied by RDF, another company within the DF manufacturing group. The variable cost of the component if it were manufactured by RDF would be \$8 per unit, and RDF adds 30% to its variable cost to contribute to its fixed costs plus a further 20% to this total cost in order to set its internal transfer price. RDF has sufficient capacity to produce 2,500 components without affecting its ability to satisfy its own external customers. However, in order to make the extra 1,500 components required by CDF, RDF would have to forgo other external sales of \$50,000 which have a contribution to sales ratio of 40%.

Labour hours 850 direct labour hours would be required. All direct labour within CDF is paid on an hourly basis with no guaranteed wage agreement. The grade of labour required is currently paid \$10 per hour, but department W is already working at 100% capacity. Possible ways of overcoming this problem are: * Use workers in department Z, because it has sufficient capacity. These workers are paid \$15 per hour. * Arrange for sub-contract workers to undertake some of the other work that is performed in department W. The sub-contract workers would cost \$13 per hour.

Specialist machine The contract would require a specialist machine. The machine could be hired for \$15,000 or it could be bought for \$50,000. At the end of the contract if the machine were

bought, it could be sold for \$30,000. Alternatively, it could be modified at a cost of \$5,000 and then used on other contracts instead of buying another essential machine that would cost \$45,000. The operating costs of the machine are payable by CDF whether it hires or buys the machine. These costs would total \$12,000 in respect of the new contract.

Supervisor The contract would be supervised by an existing manager who is paid an annual salary of \$50,000 and has sufficient capacity to carry out this supervision. The manager would receive a bonus of \$500 for the additional work.

Development time 15 hours of development time at a cost of \$3,000 have already been worked in determining the resource requirements of the contract.

Fixed overhead absorption rate CDF uses an absorption rate of \$20 per direct labour hour to recover its general fixed overhead costs. This includes \$5 per hour for depreciation.

Calculate the relevant cost of the contract to CDF. You must present your answer in a schedule that clearly shows the relevant cost value for each of the items identified above. You should also explain each relevant cost value you have included in your schedule and why any values you have excluded are not relevant.

Ignore taxation and the time value of money.

Select all the true statements.

Options:

- A- Machine operating costs is a relevant cost.
- B- Development Cost is a relevant cost.
- C- General fixed overhead costs are relevant costs.
- D- Direct labour cost is a relevant cost
- E- The total relevant cost was \$84990
- F- The total relevant cost was \$94740
- G- The total relevant cost was \$104320

Answer:

A, D, E

Explanation:

References:

Question 3

Question Type: DragDrop

A company makes Product A and Product B. The production process for both products uses one type of material, one type of labour, and utilises one machine. All three of these resources will be limited in November. The company has performed a linear programming model and the constraints and optimal solution, to maximise contribution, are as follows:

Constraints:

Material $2A + 3B \leq 1,800$

Labour hours $4A + 2B \leq 2,000$

Machine hours $3A + 2B \leq 2,000$

Optimal Solution:

Product A: 300 units

Product B: 400 units

For November, which of the above constraints are binding, and which are non-binding?

Material Constraint	<input type="text"/>	<input type="text" value="Binding"/>
Labour Hours Constraint	<input type="text"/>	<input type="text" value="Non-Binding"/>
Machine Hours Constraint	<input type="text"/>	

Answer:

See the Answer in the Premium Version!

Question 4

Question Type: MultipleChoice

EF manufactures and sells three products, X, Y and Z. The following production overhead costs are budgeted for next year:

Activity	\$
Set up	560,000
Material handling	242,000
Inspection	<u>386,000</u>
Total production overheads	<u>1,188,000</u>

Budgeted details for each of the products for next year are as follows:

	Product X	Product Y	Product Z
Production units	10,000	16,000	18,000
Batch size	100	200	300
Number of set ups per batch	2	3	6
Number of material movements	16,530	20,938	17,632
Number of inspections	1,188	1,782	2,430

Required:

Calculate the total budgeted production overhead cost for each product using activity based budgeting.

Options:

- A- The total budgeted production overhead cost was \$ 1 285 000
- B- The total budgeted production overhead cost was \$ 1 305 000
- C- The total budgeted production overhead cost was \$ 2 195 000
- D- The total budgeted production overhead cost was \$ 1 188 000
- E- The total budgeted production overhead cost was \$ 1 258 000

Answer:

D

Explanation:

References:

Question 5

Question Type: MultipleChoice

A medium-sized manufacturing company, which operates in the electronics industry, has employed a firm of consultants to carry out a review of the company's planning and control systems. The company presently uses a traditional incremental budgeting system and the inventory management system is based on economic order quantities (EOQ) and reorder levels. The company's normal production patterns have changed significantly over the previous few

years as a result of increasing demand for customized products. This has resulted in shorter production runs and difficulties with production and resource planning. The consultants have recommended the implementation of activity based budgeting and a manufacturing resource planning system to improve planning and resource management.

What are the benefits for the company that could occur following the introduction of an activity based budgeting system?

Select ALL the correct answers.

Options:

- A- Under an activity based budgeting system, resource allocation is linked to the strategic plan and is prepared after considering alternative strategies. This approach ensures that new activities that are required to meet the company's strategic objectives are included in the budget.
- B- Under a traditional incremental budgeting system the focus is on existing resources and operations. Adjustments are then made for changes in activity and price which results in past inefficiencies being perpetuated. Under an activity based budgeting system, only resources that are needed to perform activities required to meet the budgeted production and sales volumes are included.
- C- Activity based techniques including activity based budgeting focus on the outputs of a process rather than the input to the process. This approach provides a clear framework for understanding the link between costs and the level of activity. It allows the ranking of activities and the determination of how limited resources should be allocated across competing activities.
- D- Activity Based Budgeting Systems present costs under functional headings i.e. the emphasis is on the nature of the cost. The weakness if this approach is that it gives little indication of the link between the level of activity and the cost incurred.
- E- The approach under an Activity based Budgeting System is to make arbitrary cuts in order to meet overall financial targets.

Answer:

A, B, C

Explanation:

References:

Question 6

Question Type: MultipleChoice

Which of the following distinguishes risk from uncertainty?

Options:

- A- Risk can be quantified whereas uncertainty cannot.
- B- Risk can have both upside and downside whereas uncertainty is always downside.
- C- Risk should be taken into account in decision making whereas uncertainty should not.
- D- Risk is relevant to financial decisions whereas uncertainty is relevant to non-financial.

Answer:

A

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