



CIMAPRO19-P02-1 Practice Questions

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Question 1

Question Type: MultipleChoice

The cash flows from a project are detailed in the table below.

	Initial investment	Year 1	Year 2	Year 3
Cash outflow	-\$52,175			
Cash inflows		\$20,000	\$30,000	\$10,000

To the nearest 1%, what is the project's internal rate of return?

Options:

- A- 15%
- B- 8%
- C- 46%
- D- 115%

Answer:

B

Question 2

Question Type: MultipleChoice

Which option best correctly defines the expected value of a project?

Options:

- A- The weighted average of the possible outcomes of the project.
- B- The actual amount of incremental wealth that the project will generate.
- C- The most likely amount of incremental wealth that the project will generate.
- D- The present value of the positive cash flows that the project will generate.

Answer:

A

Question 3

Question Type: FillInTheBlank

A company comprises several divisions.

One of these divisions was originally expected to earn an operating profit next year of \$800,000 on net assets of \$4 million.

However, the divisional manager is considering investing in a project that would generate a project return on investment (ROI) of 38% on additional net assets of \$500,000.

What would be the divisional ROI next year if the project was implemented?

Give your answer to the nearest percentage.

Answer:

22 %

Question 4

Question Type: MultipleChoice

An organization's transfer pricing system involves:

- * The transferring division receiving \$20 per unit; an amount equal to its variable costs.
- * The receiving division paying an additional \$30,000 every month to the transferring division.

Which transfer pricing system is the organization using?

Options:

- A- Dual transfer prices
- B- Two part tariff
- C- Cost-plus
- D- Variable cost plus opportunity cost

Answer:

B

Question 5

Question Type: FillInTheBlank

A company currently absorbs production overheads based on labor hours. The overheads absorbed by the two products that are made, L and M, are \$4 per unit and \$10 per unit respectively. These were based on the budgeted overheads of \$7,000 and budgeted labor hours of 1,750. The budgeted output was 500 units of each product.

The company is investigating the use of activity based costing (ABC). Analysis has shown that the total production overheads of \$7,000 are made up of \$4,000 for set up costs and \$3,000 for inspection costs. The cost driver for set up costs is the number of set ups and for inspection costs it is the number of inspections.

The cost driver rate for set ups is \$160 per set up. Product L would need 5 production runs. Both types of product would need 1 set up for each production run.

Product L would need 2 inspections for each production run. Product M would need 1 inspection per production run.

The products are made in the same department and use the same equipment and staff but they are produced separately.

Which of the following statements are correct?

Select ALL that apply.

Answer:

A, C, F

Question 6

Question Type: MultipleChoice

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.

Options:

- 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 7

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 8

Question Type: MultipleChoice

Division A is an investment centre with assets of \$7.3 million. The following is an extract from the annual budget for division A:

	Division A
	\$000s
Sales	6,900
Variable costs	3,870
Contribution	3,030
Controllable fixed overheads	1,200
Apportioned group costs	450
Net Profit	1,380

The cost of capital is 14%.

Calculate the residual income for division A.

Options:

- A- \$808,000
- B- \$1,727,800
- C- \$358,000
- D- \$2,008,000

Answer:

A

Question 9

Question Type: FillInTheBlank

A company uses activity based costing. The total production overheads of \$16,050 for the next period are for set up costs of \$6,450 and quality inspection costs of \$9,600. The company produces two products, Product F and Product G. Details relating to the next period are as follows:

	Product F	Product G
Budgeted output	1,000 units	2,000 units
Units per production run	100 units	400 units
Set ups per production run	1	1
Number of inspections per production run	4	8
Direct labour cost per unit (\$)	5	6
Direct material cost per unit (\$)	10	15

A new customer has offered to purchase Product F for \$28.00 per unit. The only costs incurred would be those shown above.

What is the profit per unit of Product F that would be gained by accepting the offer? Give your answer to two decimal places.

Answer:

\$3.90

Question 10

Question Type: MultipleChoice

Which of the following statements is correct?

Options:

- A- Risk can be quantified and probabilities can be assigned reliably to the possible outcomes.
- B- Uncertainty cannot be quantified and probabilities can be assigned reliably to the possible outcomes.
- C- Risk cannot be quantified and probabilities cannot be assigned reliably to the possible outcomes.
- D- Uncertainty can be quantified and probabilities can be assigned reliably to the possible outcomes.

Answer:

A

Question 11

Question Type: FillInTheBlank

The following cost of quality report has been prepared for the latest period.

Cost of Quality Report	\$
Prevention costs	50,000
Appraisal costs	80,000
Internal failure costs	90,000
External failure costs	310,000

What is the difference between the cost of conformance and the cost of non-conformance?

Answer:

\$270000

Question 12

Question Type: MultipleChoice

A company has just launched a new product at a selling price that is designed to rapidly gain market share and to discourage other competitors from entering the market.

Which pricing strategy is the company using?

Options:

- A- Penetration pricing
- B- Loss leader
- C- Market skimming
- D- Premium pricing

Answer:

A

Question 13

Question Type: FillInTheBlank

A company has invested \$500,000 in developing a new product and requires a return of 12% on this investment.

The company has researched the market and has set the selling price for the new product at \$300 per unit. At this price, sales volume for next year is forecast to be 500 units. The forecast unit cost is \$210.

What is the target cost gap per unit for the coming year?

Give your answer to the nearest whole \$.

Answer:

\$30



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