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Question 1

Question Type: MultipleChoice

A major company sells a range of electrical, clothing and homeware products through a chain of department stores. The main administration functions are provided from the company's head office. Each department store has its own warehouse which receives goods that are delivered from a central distribution center.

The company currently measures profitability by product group for each store using an absorption costing system. All overhead costs are charged to product groups based on sales revenue. Overhead costs account for approximately one-third of total costs and the directors are concerned about the arbitrary nature of the current method used to charge these costs to product groups.

A consultant has been appointed to analyse the activities that are undertaken in the department stores and to establish an activity based costing system.

The consultant has identified the following data for the latest period for each of the product groups for the X Town store:

	<i>Product Group</i>		
	<i>Clothing</i>	<i>Electrical</i>	<i>Homeware</i>
Sales revenue	\$4,400k	\$3,300k	\$1,100k
Cost of sales	\$2,800k	\$2,300k	\$600k
Number of deliveries	104	52	26
Number of pallets per delivery	50	20	10
Number of inventory items	20,000	14,000	6,000
Number of customers	2,100k	1,050k	350k
Number of requisitions	522	243	135

The consultant has also obtained the following information about the support activities:

<i>Activity</i>	<i>Cost driver</i>	<i>Overheads</i> \$000
Customer service	Number of customers	1,100
Warehouse receiving	Number of pallets delivered	700
Warehouse issuing	Number of requisitions	300
In-store merchandising	Number of inventory items	400
Central administration	Sales revenue	316

Calculate the total profit for each of the product groups:

.... using the current absorption costing system;

Options:

A- The profit or loss in \$ was.... Clothing 122; Electrical 56; Homeware (178)

- B-** The profit or loss in \$ was.... Clothing (175); Electrical 86; Homeware 22
- C-** The profit or loss in \$ was.... Clothing 85; Electrical 36; Homeware (28)
- D-** The profit or loss in \$ was.... Clothing 192; Electrical (56); Homeware 148

Answer:

D

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: MultipleChoice

Explain how probability analysis could be used to assess the risk of the evaluated projects.

Select all the true statements.

Options:

- A-** The company can determine a range of possible outcomes for each of the cash flows in the project, for example, a high, low and medium estimate of each cash flow could be determined.
- B-** The net present value (NPV) of the project, if all high, low or medium estimates occurred, can be calculated along with the combined probabilities of their occurrence.
- C-** The probabilities can be combined to calculate the expected value of each cash flow element and of the project as a whole
- D-** The NPVs of a sample range of possible outcomes and the probability of each NPV can be calculated. If a small sample is taken the distribution of outcomes can be used to calculate the zero activities deviation of the NPVs and the probability of success of the projects.

Answer:

A, B, C

Explanation:

References:

Question 4

Question Type: MultipleChoice

Select the benefits to a company of using sensitivity analysis in investment appraisal.

(Select all the true statements.)

Options:

- A-** Sensitivity analysis enables a company to determine the effect of changes to variables on the planned outcome.
- B-** Sensitivity analysis enables a company to assess the risk associated with a project.
- C-** Sensitivity analysis enables identification of fixed costs that are of special significance.
- D-** Sensitivity analysis enables risk management strategies to be put in place to focus on those variables of special significance.

Answer:

A, B, D

Explanation:

References:

Question 5

Question Type: MultipleChoice

Calculate the sensitivity of the investment decision to a change in the annual fixed costs.

By how much should the present value of the fixed cost increase, before this project is not viable?

Options:

A- \$7698

B- \$6390

C- \$9050

D- \$8675

Answer:

D

Explanation:

References:

Question 6

Question Type: MultipleChoice

A company produces trays of pre-prepared meals that are sold to restaurants and food retailers. Three varieties of meals are sold: economy, premium and deluxe.

Extracts from the budget for last year are given below:

	<i>Economy</i>	<i>Premium</i>	<i>Deluxe</i>
Sales quantity (trays)	180,000	360,000	260,000
Selling price per tray	\$2.80	\$3.20	\$4.49
Total sales revenue	\$504,000	\$1,152,000	\$1,167,400
Direct material cost per tray	\$1.00	\$1.60	\$2.20
Total direct material cost	\$180,000	\$576,000	\$572,000
Direct labour cost per tray	\$0.50	\$0.50	\$0.50
Total direct labour cost	\$90,000	\$180,000	\$130,000

Overhead costs for the budget were estimated using the high-low method based on the total overhead costs for three previous years.

Output	720,000 trays	680,000 trays	840,000 trays
Total overheads	\$1,016,000	\$992,000	\$1,096,000

Actual results for last year were as follows:

	<i>Economy</i>	<i>Premium</i>	<i>Deluxe</i>
Sales quantity (trays)	186,000	396,000	278,000
Selling price per tray	\$2.82	\$3.21	\$4.50
Total sales revenue	\$524,520	\$1,271,160	\$1,251,000
Direct material cost per tray	\$1.10	\$1.50	\$2.10
Total direct material cost	\$204,600	\$594,000	\$583,800
Direct labour cost per tray	\$0.52	\$0.54	\$0.48
Total direct labour cost	\$96,720	\$213,840	\$133,440
Variable overhead per tray	\$0.64	\$0.66	\$0.63
Total variable overheads	\$119,040	\$261,360	\$175,140
Actual fixed overheads: \$546,000			

The company operates a just-in-time system for purchasing and production and does not hold any inventory.

Ignore inflation.

Discuss the benefits of flexible budgeting for planning and control purposes.

Select all the true statements.

Options:

- A-** A fixed budget will provide meaningful control information when actual activity differs from budget and variable costs are significant.
- B-** If actual sales revenue is compared to a fixed budget it is possible to tell whether a favourable sales variance is due to an increase in units sold or an increase in sales price.

- C-** If sales volumes were well above budget, adverse variable cost variances will probably be reported, against the fixed budget, since more variable costs have to be incurred to support the higher level of activity.
- D-** Reporting against a fixed budget tells management nothing about the efficiency of operations.
- E-** If a flexible budget is prepared then the budget variances calculated will provide a better indication of performance since actual results will be compared against an appropriate benchmark.
- F-** The fixed budget however provides more insight into actual performance.

Answer:

C, D, E

Explanation:

References:

Question 7

Question Type: MultipleChoice

A company produces trays of pre-prepared meals that are sold to restaurants and food retailers. Three varieties of meals are sold: economy, premium and deluxe.

Extracts from the budget for last year are given below:

	<i>Economy</i>	<i>Premium</i>	<i>Deluxe</i>
Sales quantity (trays)	180,000	360,000	260,000
Selling price per tray	\$2.80	\$3.20	\$4.49
Total sales revenue	\$504,000	\$1,152,000	\$1,167,400
Direct material cost per tray	\$1.00	\$1.60	\$2.20
Total direct material cost	\$180,000	\$576,000	\$572,000
Direct labour cost per tray	\$0.50	\$0.50	\$0.50
Total direct labour cost	\$90,000	\$180,000	\$130,000

Overhead costs for the budget were estimated using the high-low method based on the total overhead costs for three previous years.

Output	720,000 trays	680,000 trays	840,000 trays
Total overheads	\$1,016,000	\$992,000	\$1,096,000

	<i>Economy</i>	<i>Premium</i>	<i>Deluxe</i>
Sales quantity (trays)	186,000	396,000	278,000
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Variable overhead per tray	\$0.64	\$0.66	\$0.63
Total variable overheads	\$119,040	\$261,360	\$175,140
Actual fixed overheads: \$546,000			

The company operates a just-in-time system for purchasing and production and does not hold any inventory.

Ignore inflation.

Calculate, for the original budget, the budgeted fixed overhead costs, the budgeted variable overhead cost per tray and the budgeted total overheads costs.

Options:

- A-** The variable cost per tray = \$0.75; The fixed cost = \$ 490 000
- B-** The variable cost per tray = \$0.65; The fixed cost = \$ 550 000
- C-** The variable cost per tray = \$0.45; The fixed cost = \$ 320 000

D- The variable cost per tray = \$0.85; The fixed cost = \$ 530 000

Answer:

B

Explanation:

References:

Question 8

Question Type: MultipleChoice

A flexible budget is a budget that is:

Options:

A- set prior to the control period and not subsequently changed in response to changes in activity period has expired

B- continuously updated by adding a further accounting period when the earliest accounting period has expired

C- changed in response to changes in the level of activity

D- changed in response to changes in costs

Answer:

C

Explanation:

References:

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