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Advanced Management Accounting

Cima P2

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QUESTION NO: 1

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.

- 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 NO: 2 - (DRAG DROP)

Place the correct quality cost classification against each cost described below.

Cost of staff attending TQM training courses	<input type="text"/>	
Cost of inspecting products before despatch to customers	<input type="text"/>	Appraisal cost
Cost of repairing products returned by customers	<input type="text"/>	Prevention cost
Cost of rectifying products rejected by quality control staff	<input type="text"/>	Internal failure cost
Cost of inspecting goods inwards	<input type="text"/>	External failure cost
Cost of maintaining inspection equipment	<input type="text"/>	

ANSWER:

Cost of staff attending TQM training courses	Prevention cost	
Cost of inspecting products before despatch to customers	Appraisal cost	Appraisal cost
Cost of repairing products returned by customers	External failure cost	Prevention cost
Cost of rectifying products rejected by quality control staff	Internal failure cost	Internal failure cost
Cost of inspecting goods inwards	Appraisal cost	External failure cost
Cost of maintaining inspection equipment	Appraisal cost	

Explanation:

Cost of staff attending TQM training courses	Prevention cost	
Cost of inspecting products before despatch to customers	Appraisal cost	Appraisal cost
Cost of repairing products returned by customers	External failure cost	Prevention cost
Cost of rectifying products rejected by quality control staff	Internal failure cost	Internal failure cost
Cost of inspecting goods inwards	Appraisal cost	External failure cost
Cost of maintaining inspection equipment	Appraisal cost	

QUESTION NO: 3

Which of the following correctly defines the expected value of a project?

- 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 NO: 4

Residual income is an appropriate performance measure for which type of responsibility centre?

- A. Cost centre
- B. Revenue centre
- C. Investment centre
- D. Profit centre

ANSWER: C

QUESTION NO: 5

A company is classifying its quality costs to prepare a quality cost report. Which of the following are conformance costs?

Select ALL that apply.

- A. Internal Failure Costs
- B. External Failure Costs
- C. Prevention Costs
- D. Appraisal Costs

ANSWER: C D

QUESTION NO: 6

It is often claimed that a two-part transfer pricing system offers a number of advantages to organizations which use it.

Which of the following statements is NOT an advantage of using a two-part transfer pricing system?

- A. Transfers are made at the marginal cost of the supplying division and both divisions should be able to report profits from inter-divisional trading.
- B. The receiving division is made aware of and charged for the full cost of obtaining intermediate products from other divisions.
- C. It stimulates planning, communication and coordination amongst divisions.

D. The agreed fixed fee simply compensates the supplying division for incurring the fixed costs associated with the item transferred.

ANSWER: D

QUESTION NO: 7

Which THREE of the following are advantages of changing from a 'top-down' to a 'bottom-up' (participative) style of budgeting?

- A. The budget will be based on information from employees who are familiar with the day to day activities.
- B. Motivation will improve due to a feeling of ownership of the budget.
- C. There will be increased commitment to organizational objectives.
- D. Budget setters will be forced to justify every item on the budget.
- E. There will be reduced likelihood of budgetary slack being built into the budgets for 'selfish' reasons.
- F. It will be less time-consuming for operational managers.

ANSWER: A B C

QUESTION NO: 8

Which of the following statements are correct with regard to responsibility centres?

Select ALL that apply.

- A. Revenue centre managers have a lower level of decision-making authority than profit centre managers.
- B. Revenue centre managers and profit centre managers are accountable for controllable costs only.
- C. Profit centre managers and investment centre managers are responsible for the majority of operating costs incurred.
- D. Investment centre managers have a higher level of managerial authority than profit centre managers.
- E. Managers of profit centres have authority over the level of investment in working capital but managers of cost centres do not.

ANSWER: A C D

QUESTION NO: 9

Which of the following is the ideal basis to use for a transfer price when there is a perfect external market?

- A. Actual variable cost

- B. Market price
- C. Standard variable cost
- D. Full cost plus

ANSWER: B

QUESTION NO: 10 - (DRAG DROP)

Using the Value Chain model for a manufacturing company, place the correct primary activity classification against each of the activities described.

Assembly of components		
After-sales support		Service
Distribution of products to customers		Inbound logistics
Installation of products at customers' premises		Operations
Inventory control		Outbound logistics
Transportation of inventory from goods inwards to the raw material store		Marketing and sales

ANSWER:

Assembly of components	Operations	
After-sales support	Service	Service
Distribution of products to customers	Outbound logistics	Inbound logistics
Installation of products at customers' premises	Service	Operations
Inventory control	Inbound logistics	Outbound logistics
Transportation of inventory from goods inwards to the raw material store	Inbound logistics	Marketing and sales

Explanation:

Assembly of components
After-sales support
Distribution of products to customers
Installation of products at customers' premises
Inventory control
Transportation of inventory from goods inwards to the raw material store

Operations
Service
Outbound logistics
Service
Inbound logistics
Inbound logistics

Service
Inbound logistics
Operations
Outbound logistics
Marketing and sales