

CIMA 2019 Professional Examinations

Management Level

Subject P2

Advanced Management Accounting

EXAM PRACTICE KIT



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CONTENTS

	Page
Index to questions and answers	P.5
Exam techniques	P.7
Syllabus guidance, learning objectives and verbs	P.9
Approach to revision	P.13
Syllabus grids	P.15

Section

1	Objective test questions	1
2	Answers to objective test questions	89

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INDEX TO QUESTIONS AND ANSWERS

OBJECTIVE TEST QUESTIONS

	<i>Page number</i>	
	<i>Question</i>	<i>Answer</i>
Syllabus section A: Managing the costs of creating value	1	89
Syllabus section B: Capital investment decision-making	18	102
Syllabus section C: Managing and controlling the performance of organisational units	41	125
Syllabus section D: Risk and control	65	143

EXAM TECHNIQUES

COMPUTER-BASED ASSESSMENT

Golden rules

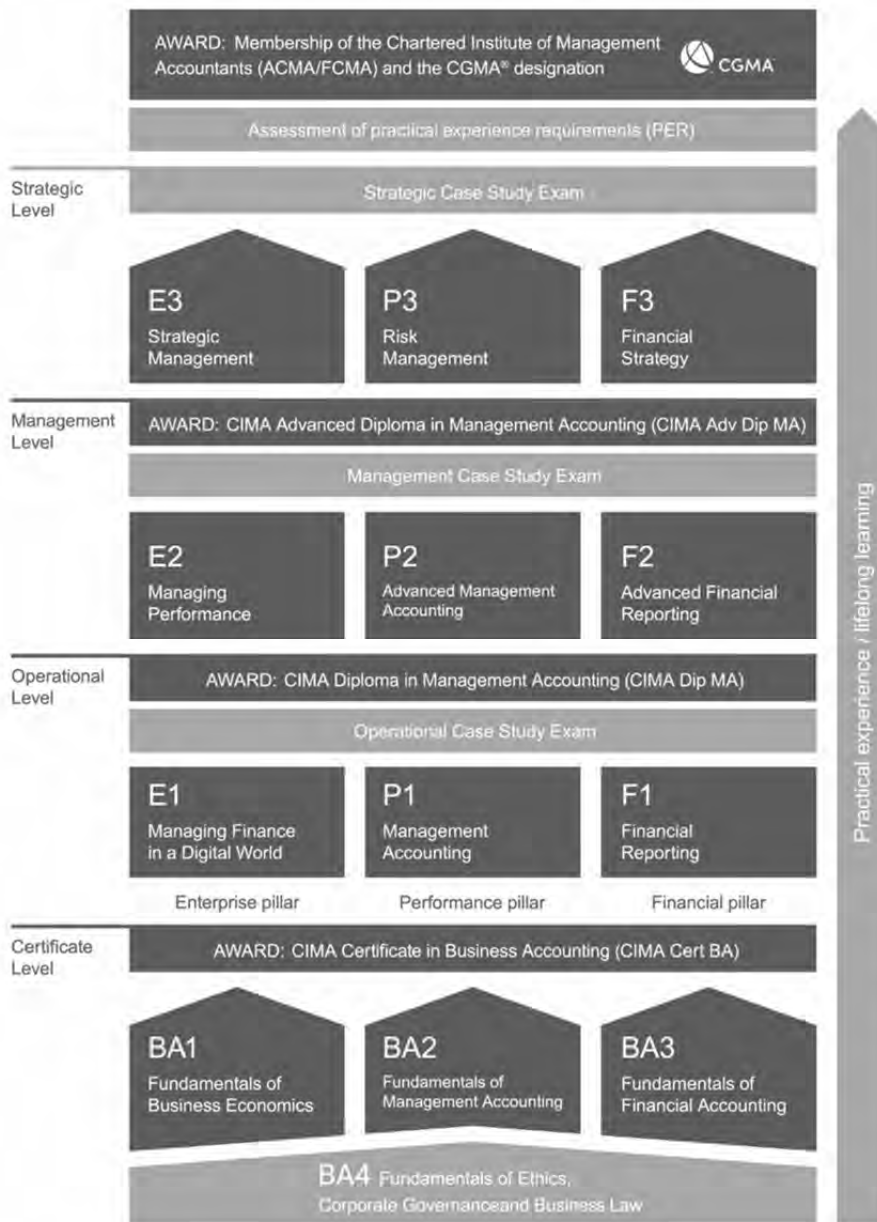
- 1 Make sure you have completed the compulsory 15-minute tutorial before you start the test. This tutorial is available through the CIMA website and focusses on the functionality of the exam. You cannot speak to the invigilator once you have started.
- 2 These exam practice kits give you plenty of exam style questions to practise so make sure you use them to fully prepare.
- 3 Attempt all questions, there is no negative marking.
- 4 Double check your answer before you put in the final answer although you can change your response as many times as you like.
- 5 Not all questions will be multiple choice questions (MCQs) – you may have to fill in missing words or figures.
- 6 Identify the easy questions first and get some points on the board to build up your confidence.
- 7 Attempt 'wordy' questions first as these may be quicker than the computation style questions. This will relieve some of the time pressure you will be under during the exam.
- 8 If you don't know the answer, flag the question and attempt it later. In your final review before the end of the exam try a process of elimination.
- 9 Work out your answer on the whiteboard provided first if it is easier for you. There is also an onscreen 'scratch pad' on which you can make notes. You are not allowed to take pens, pencils, rulers, pencil cases, phones, paper or notes into the testing room.

SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

A CIMA 2019 PROFESSIONAL QUALIFICATION

Details regarding the content of the CIMA 2019 professional qualification can be located within the CIMA 2019 professional qualification syllabus document.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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B STUDY WEIGHTINGS

A percentage weighting is shown against each exam content area in the exam blueprint. This is intended as a guide to the proportion of study time each topic requires.

All component learning outcomes will be tested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

C LEARNING OUTCOMES

Each subject within the qualification is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative knowledge content.

A learning outcome has two main purposes:

- 1 to define the skill or ability that a well-prepared candidate should be able to exhibit in the examination
- 2 to demonstrate the approach likely to be taken by examiners in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective, e.g. Evaluate alternative approaches to budgeting.

The verb 'evaluate' indicates a high-level learning objective. As learning objectives are hierarchical, it is expected that at this level students will have knowledge of different budgeting systems and methodologies and be able to apply them.

The examination blueprints and representative task statements

CIMA have also published examination blueprints giving learners clear expectations regarding what is expected of them. This can be accessed here www.cimaglobal.com/examblueprints

The blueprint is structured as follows:

- Exam content sections (reflecting the syllabus document)
- Lead and component outcomes (reflecting the syllabus document)
- Representative task statements.

A representative task statement is a plain English description of what a CIMA finance professional should know and be able to do.

The content and skill level determine the language and verbs used in the representative task.

CIMA will test up to the level of the task statement in the objective test (an objective test question on a particular topic could be set at a lower level than the task statement in the blueprint).

The format of the objective test blueprints follows that of the published syllabus for the 2019 CIMA Professional Qualification.

Weightings for content sections are also included in the individual subject blueprints.

A list of the learning objectives and the verbs that appear in the syllabus learning outcomes and examinations follows and these will help you to understand the depth and breadth required for a topic and the skill level the topic relates to.

CIMA verb hierarchy

Skill level	Verbs used	Definition
Level 5 Evaluation How you are expected to use your learning to evaluate, make decisions or recommendations	Advise Assess Evaluate Recommend Review	Counsel, inform or notify Evaluate or estimate the nature, ability or quality of Appraise or assess the value of Propose a course of action Assess and evaluate in order, to change if necessary
Level 4 Analysis How you are expected to analyse the detail of what you have learned	Align Analyse Communicate Compare and contrast Develop Discuss Examine Interpret Monitor Prioritise Produce	Arrange in an orderly way Examine in detail the structure of Share or exchange information Show the similarities and/or differences between Grow and expand a concept Examine in detail by argument Inspect thoroughly Translate into intelligible or familiar terms Observe and check the progress of Place in order of priority or sequence for action Create or bring into existence
Level 3 Application How you are expected to apply your knowledge	Apply Calculate Conduct Demonstrate Prepare Reconcile	Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible
Level 2 Comprehension What you are expected to understand	Describe Distinguish Explain Identify Illustrate	Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something
Level 1 Knowledge What you are expected to know	List State Define Outline	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of

D OBJECTIVE TEST

Objective test

Objective test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of objective test question you will see are:

- Multiple choice, where you have to choose the correct answer(s) from a list of possible answers. This could either be numbers or text.
- Multiple response, for example, choosing two correct answers from a list of eight possible answers. This could either be numbers or text.
- Fill in the blank, where you fill in your answer within the provided space.
- Drag and drop, for example, matching a technical term with the correct definition.
- Hot spots, where you select an answer by clicking on graphs/diagrams.

Guidance re CIMA on-screen calculator

As part of the CIMA objective test software, candidates are now provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in each of the objective tests and is accessed by clicking the calculator button in the top left hand corner of the screen at any time during the assessment. Candidates are permitted to utilise personal calculators as long as they are an approved CIMA model. CIMA approved model list is found here: <https://www.cimaglobal.com/Studying/study-and-resources/>.

All candidates must complete a 15-minute exam tutorial before the assessment begins and will have the opportunity to familiarise themselves with the calculator and practise using it. The exam tutorial is also available online via the CIMA website. Candidates can use their own calculators providing it is included in CIMA's authorised calculator listing.

Fundamentals of objective tests

The objective tests are 90-minute assessments comprising 60 compulsory questions, with one or more parts. There will be no choice and all questions should be attempted. All elements of a question must be answered correctly for the question to be marked correctly. All questions are equally weighted.

SYLLABUS GRIDS

P2: Advanced Management Accounting

Making medium-term decisions and managing costs and performance

Content weighting

Content area		Weighting
A	Managing the costs of creating value	20%
B	Capital investment decision-making	35%
C	Managing and controlling the performance of organisational units	30%
D	Risk and control	15%
		100%

P2A: Managing the costs of creating value

Cost management and transformation are priorities for organisations facing intense competition. This section examines how to use cost management, quality and process management, and value management to transform the cost structures and drivers to provide organisations with cost advantage.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Apply cost management and cost transformation methodology to manage costs and improve profitability.	Apply the following to manage costs and improve profitability: a. Activity based management (ABM) methodology b. Cost transformation techniques	<ul style="list-style-type: none"> • Engendering a cost-conscious culture • Logic of ABC as the foundation or managing costs • ABM to transform efficiency of repetitive overhead activities • ABM to analyse and improve customer profitability • ABM to analyse and improve channel performance 	One of the reasons for calculating costs is to enable organisations to manage and possibly transform their costs. ABM is a key technique that is used to achieve this objective because of its link to ABC. This revolves around the logic of ABC that links costs to resource consumption and levels of activity and is related to the business model framework. Customer and channel analysis have become very important in the digital world – particularly as customers shift from products and services to experience. How profitable are the segments and channels they use?
2. Compare and contrast quality management methodologies.	Compare and contrast: a. Just-in-time (JIT) b. Quality management c. Kaizen d. Process re-engineering	<ul style="list-style-type: none"> • Impact of JIT and quality management on efficiency, inventory and costs • Benefits of JIT and TQM • Kaizen, continuous improvement and cost of quality reporting • Elimination of non-value adding activities and the reduction of costs using process re-engineering 	Quality management is an important part of managing and transforming costs. What are the key methodologies? How do they affect the costs of products, services and the channels that are used to deliver them?
3. Apply value management techniques to manage costs and improve value creation.	Apply the following to manage costs and value creation: a. Target costing b. Value chain analysis c. Life cycle costing	<ul style="list-style-type: none"> • Determination of target costs from target prices • Components of the value chain • Profitability along the value chain • Life cycle costing and its implication for market strategies 	Cost transformation must always be linked to the value that organisations create. This part provides the link between costs and value.

P2B: Capital investment decision-making

Organisations have to allocate resources and key strategic initiatives to ensure that their strategies are properly implemented. Capital investment decision-making is the primary means by which such resources are allocated between competing needs. This section covers the criteria, process and techniques that are used to decide which projects to undertake. Of particular interest is the financial appraisal of digital transformation projects.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Apply the data required for decision-making.	Apply the following for decision-making: a. Relevant cash flows b. Non-financial information	<ul style="list-style-type: none"> Incremental cash flows Tax, inflation and other factors Perpetuities Qualitative issues Sources and integrity of data Role of business intelligence systems 	The quality of decisions depends on the quality and type of data that is available to decision-makers. What type of data do decision-makers need for medium-term decisions? Where do they get this data? In a digital world this would come from data lakes through to data warehouses and business intelligence systems.
2. Explain the steps and pertinent issues in the decision-making process.	Explain: a. Investment decision-making process b. Discounting c. Capital investments as real options	<ul style="list-style-type: none"> Origination of proposals, creation of capital budgets, go/no go decisions Time value of money Comparing annuities Profitability index for capital rationing Decision to make follow-on investment, abandon or wait (capex as real options) 	What are the steps in the investment decision-making process for simple as well as complex decisions? What key concepts underpin the techniques that are used? What are the criteria for accepting projects? How is uncertainty dealt with?
3. Apply investment appraisal techniques to evaluate different projects.	Apply the following to evaluate projects: a. Payback b. Accounting rate of return c. IRR d. NPV	<ul style="list-style-type: none"> Process and calculation Strengths and weaknesses Appropriate usage Use in prioritisation of mutually exclusive projects 	This part covers a straight forward application of the techniques used to appraise projects. These should be extended to deal with the evaluation of digital transformation projects that do not have the same profile as other capital projects.
4. Discuss pricing strategies.	Discuss: a. Pricing decisions b. Pricing strategies	<ul style="list-style-type: none"> Pricing decisions for maximising profit in imperfect markets Types of pricing strategies Financial consequences of pricing strategies 	What pricing strategies are open to organisations operating in imperfect markets? How do these affect the capital investment decision process?

P2C: Managing and controlling the performance of organisational units

The structure and strategies of organisations should align with each other to ensure effective strategy implementation. Responsibility centres are the organisational units that are allocated resources and charged with implementing organisational strategy. This section shows how to manage the performance of these organisational units to ensure that they achieve the strategic and other organisational objectives. Key concepts, techniques and issues are explored and examined.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse the performance of responsibility centres and prepare reports.	a. Analyse performance of cost centres, revenue centres, profit centres, and investment centres. b. Prepare reports for decision-making.	<ul style="list-style-type: none"> Objectives of each responsibility centre Controllable and uncontrollable costs and revenue Costs variability, attributable costs and revenue and identification of appropriate measures of performance Use of data analytics in performance management of responsibility centres 	What are responsibility centres and how should they be matched to the strategy of organisations? What are the KPIs of each type of responsibility centre? How is their performance evaluated and why? What types of reports are prepared for responsibility centre managers? How do they use analytics, visualisation and self-service technologies to enhance the performance management of responsibility centres?
2. Discuss various approaches to the performance and control of organisations.	a. Discuss budgets and performance evaluation. b. Discuss other approaches to performance evaluation.	<ul style="list-style-type: none"> Key performance indicators (e.g., profitability, liquidity, asset turnover, return on investment and economic value) Benchmarking (internal and external) Non-financial performance indicators Balanced scorecard 	How are budgets used to evaluate the performance of responsibility centres? What is best practice in this area? How are other methodologies like the balanced scorecard useful in managing performance?
3. Explain the behavioural and transfer pricing issues related to the management of responsibility centres.	Explain: a. Behavioural issues b. Use and ethics of transfer pricing	<ul style="list-style-type: none"> Internal competition Internal trading Transfer pricing for intermediate goods where markets exist and where no markets exist Types of transfer prices and when to use them Effect of transfer pricing on autonomy, and motivation of managers of responsibility centre Effect of transfer pricing on responsibility centre and group profitability 	What are the behavioural issues in responsibility centre performance management – in particular as they affect controllable and non-controllable costs and revenue? How should they be managed so that responsibility centres work effectively with each other to maximise performance of the whole organisation rather than each responsibility centre? What role can transfer pricing play in this area?

P2D: Risk and control

Risk is inherent in the operations of all organisations. This section analyses risks and uncertainties that organisations face in the medium term. The risks are mainly operational in nature.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse risk and uncertainty associated with medium-term decision-making.	Conduct a. Sensitivity analysis b. Analysis of risk	<ul style="list-style-type: none"> Quantification of risk Use of probabilistic models to interpret distribution of project outcomes Stress-testing of projects Decision trees Decision-making under uncertainty 	What risks do organisations face in relation to capital investment decision-making and the implementation of those decisions? How are those risks incorporated in the decision-making process and managed in the implementation of the decisions?
2. Analyse types of risk in the medium term.	a. Analyse types of risk b. Manage risk	<ul style="list-style-type: none"> Upside and downside risks TARA framework – transfer, avoid, reduce, accept Business risks Use of information systems and data in managing risks 	

Section 1

OBJECTIVE TEST QUESTIONS

A: MANAGING THE COSTS OF CREATING VALUE

- 1 EFG has recently introduced an activity-based costing system. It manufactures three products, details of which are set out below:

	<i>Product E</i>	<i>Product F</i>	<i>Product G</i>
Budgeted annual production (units)	75,000	120,000	60,000
Batch size (units)	200	60	30
Machine set-ups per batch	5	3	9
Purchase orders per batch	4	2	2
Processing time per unit (minutes)	3	4	4

Three cost pools have been identified. Their budgeted costs for the year ending 30 September 20X3 are as follows:

Machine set-up costs	\$180,000
Purchasing of materials	\$95,000
Processing	\$110,000

The budgeted machine set-up cost per unit of product F is nearest to:

- A \$0.17
 - B \$0.35
 - C \$0.76
 - D \$3.10
- 2 **Which THREE of the following statements regarding the use of Activity Based Costing (ABC) information are correct?**
- A An ABC system produces future information relating to product costs
 - B ABC can support decisions regarding changes to the range and mix of products
 - C ABC systems are useful for longer-term decisions because all factors of production become variable in the longer term
 - D Unlike traditional systems, ABC systems assume that products consume activities in proportion to their production volumes
 - E ABC systems remedy the tendency of traditional costing systems to over-cost high-volume products and under-cost low-volume products

3 AB Company is a supermarket group that incurs the following costs:

- (i) The bought-in price of the good
- (ii) Inventory financing costs
- (iii) Shelf refilling costs
- (iv) costs of repacking or 'pack out' prior to storage before sale.

AB Company's calculation of direct product profit (DPP) would include:

- A All of the above costs
- B All of the above costs except (ii)
- C All of the above costs except (iv)
- D Costs (i) and (iii) only

4 A company sells five products. Sales data for the past year are as follows:

<i>Product</i>	<i>Sales</i>	<i>Sales price per unit</i>
	Units	\$
A	2,000	25
B	1,000	40
C	6,000	5
D	5,000	20
E	10,000	2

How would a Pareto analysis of sales revenue be presented, in a table format?

- A In the order A, B, C, D, E
- B In the order D, A, B, C, E
- C In the order E, C, D, A, B
- D In the order B, A, D, C, E

5 M manufactures three products: A, B and C. Products A and B are manufactured in batches of ten units. Product C is a high-value product that is manufactured in single units.

In a typical month, production comprises 500 units of A, 400 of B and 20 of C. Product C is manufactured to order and it is very unusual for M to make more than one unit of C per day.

The quality control department has to inspect each unit produced. The department costs a total of \$5,020 per month to run.

The monthly cost of running the quality control department is broken down as follows:

	\$
Setting up test equipment	2,200
Inspection	2,820

The test equipment has to be set up differently for each product. Once set up, the equipment can test up to ten units before it has to be recalibrated. The time and cost of setting up the equipment is the same for each product.