

Advanced Management Accounting (P2) . CIMA Management level . For revision use only

Transfer Pricing

Minimum price (selling division) = Marginal cost +
opportunity cost of internal sale

Maximum price (buying division) = Lower of external
purchase price and NRV to buyer

Divisional Performance

ROI = Controllable profit / Controllable net assets x 100

Residual income = Controllable profit - (Net assets x Cost of
capital %)

*ROI can cause goal-incongruent decisions RI avoids
(near-hurdle-rate projects)*

Capital Investment Appraisal (Advanced)

MIRR: reinvest cash inflows at reinvestment rate, discount
outflows at finance rate

MIRR = $(\text{Terminal value of inflows} / \text{PV of outflows})^{1/n} - 1$

Profitability index = PV of future cash flows / Initial
investment

Used to rank projects under single-period capital rationing

Standard Costing — Advanced Variances

Planning variance = Original standard vs Revised (ex-post)
standard

Operational variance = Revised standard vs Actual result

Mix (per input) = (Actual total input x std mix % - Actual qty)
x Std price

Yield = (Actual output - Std output for actual input) x Std
cost/unit output

Risk & Uncertainty

Expected value = $\sum (\text{Outcome} \times \text{Probability})$

*Used to evaluate decisions under risk, not for one-off unique
decisions*

Non-Financial & Balanced Scorecard Ratios

Asset turnover = Revenue / Net assets

ROI = Profit margin x Asset turnover