

CIMA Managing Performance (E2) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What distinguishes activity-based costing from traditional costing in terms of cost drivers?**
 - A. It uses multiple cost drivers tied to activities rather than a single driver.**
 - B. It allocates overhead solely on direct labor hours.**
 - C. It ignores activity levels and allocates overhead evenly.**
 - D. It uses machine hours as the only driver.**

- 2. Which statement identifies an Internal Processes KPI?**
 - A. On-time delivery rate**
 - B. Customer satisfaction score**
 - C. Employee training hours**
 - D. Return on investment**

- 3. Which statement best describes Operational Strategy?**
 - A. Deliver corporate/business strategies using resources, processes & people**
 - B. Define broad mission**
 - C. Set long-term goals**
 - D. Enter new markets**

- 4. In the Rational Model, which step involves evaluating and choosing among strategic options before implementation?**
 - A. Strategic option generation**
 - B. Corporate Appraisal**
 - C. Strategic evaluation & choice (SAF)**
 - D. Position Audit**

- 5. Which type of competitor, per Kotler, satisfies the same need in a different way (for example cinema vs pay-per-view streaming)?**
 - A. Industry**
 - B. Form**
 - C. Brand**
 - D. Generic**

- 6. How is standard costing used to manage performance in manufacturing?**
- A. Track only actual costs without standards.**
 - B. Use standard costing for pricing only.**
 - C. Ignore variances.**
 - D. By comparing actual costs to standard costs and analyzing variances to identify improvements.**
- 7. Which of the following is NOT one of the five categories of power proposed by French and Raven?**
- A. Legitimate Power**
 - B. Referent Power**
 - C. Expert Power**
 - D. Informant Power**
- 8. Weber identified three forms of authority; which is attached to the position rather than the individual?**
- A. Traditional Authority**
 - B. Rational-Legal Authority**
 - C. Charismatic Authority**
 - D. Divine-Right Authority**
- 9. Which statement explains how RI mitigates ROI drawbacks?**
- A. ROI ignores the cost of capital and focuses on short-term gain.**
 - B. ROI focuses on short-term cash flows alone.**
 - C. ROI rewards only efficiency without capital cost consideration.**
 - D. RI accounts for the cost of capital and promotes investing in profitable assets.**
- 10. Which of the following is a risk associated with foreign direct investment?**
- A. Market risk**
 - B. Currency risk**
 - C. Political risk**
 - D. Operational risk**

Answers

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1. A
2. A
3. A
4. C
5. B
6. B
7. D
8. B
9. D
10. C

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Explanations

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1. What distinguishes activity-based costing from traditional costing in terms of cost drivers?

- A. It uses multiple cost drivers tied to activities rather than a single driver.**
- B. It allocates overhead solely on direct labor hours.**
- C. It ignores activity levels and allocates overhead evenly.**
- D. It uses machine hours as the only driver.**

Activity-based costing is defined by using multiple cost drivers linked to different activities to allocate overhead, rather than relying on a single volume-based driver. Traditional costing typically spreads overhead using one driver—often direct labor hours or machine hours—assuming overhead varies mainly with output. ABC, instead, identifies the various activities that consume resources (such as setups, inspections, or material handling) and assigns overhead to products based on how much each product uses those activities, using different drivers for different activities. This approach explains why different products incur different amounts of overhead. So, the key distinction is the use of several activity-related cost drivers rather than a single driver. The other descriptions describe traditional single-driver allocation or ignoring activity levels, which ABC does not do.

2. Which statement identifies an Internal Processes KPI?

- A. On-time delivery rate**
- B. Customer satisfaction score**
- C. Employee training hours**
- D. Return on investment**

Internal processes KPIs track how well the organization runs its own operations to create and deliver its products or services. On-time delivery rate directly measures whether orders are completed and handed over to customers as promised, which hinges on production planning, scheduling, logistics, and cross-functional coordination. This makes it a clear indicator of the efficiency and reliability of internal processes. The other options sit in different KPI perspectives: customer satisfaction score assesses the customer's view of the service or product quality, not the internal workings; employee training hours measure learning and development within the organization; return on investment is a financial outcome reflecting profitability. So on-time delivery rate best identifies an Internal Processes KPI.

3. Which statement best describes Operational Strategy?

- A. Deliver corporate/business strategies using resources, processes & people**
- B. Define broad mission**
- C. Set long-term goals**
- D. Enter new markets**

Operational strategy is about turning strategic aims into how the organization actually runs—how it uses resources, designs processes, and deploys people to deliver the chosen strategy. This focus on the day-to-day arrangement of operations to achieve strategic goals is what makes the best description the one that says delivering corporate/business strategies using resources, processes and people. To see why, think about what strategy asks the business to achieve and what operations must do to make that happen. Choosing how to make, where to locate capacity, how to structure processes, what skills to build, and how to measure performance are all operational decisions that implement strategy. For example, deciding between make-to-stock and make-to-order changes inventory, lead times, and flexibility, which are operational concerns tied directly to delivering the strategy. Other options describe broad mission statements, long-term goals, or market expansion—these are strategic planning or growth decisions at a higher level, not the way the organization runs its day-to-day activities to execute the strategy.

4. In the Rational Model, which step involves evaluating and choosing among strategic options before implementation?

- A. Strategic option generation**
- B. Corporate Appraisal**
- C. Strategic evaluation & choice (SAF)**
- D. Position Audit**

Evaluating and selecting among strategic options before implementation is the step where you compare the generated paths against objectives, resources, and risks, and then commit to the best one to put into action. This is the strategic evaluation & choice phase (SAF). It comes after options are created and before any execution, which is why it's the moment you decide which direction to pursue. Strategic option generation is about coming up with possible strategies, not judging them. Corporate Appraisal focuses on the overall corporate portfolio and performance, while a Position Audit examines the current market position and competitive standing. The step that actually selects among options to implement is the strategic evaluation & choice.

5. Which type of competitor, per Kotler, satisfies the same need in a different way (for example cinema vs pay-per-view streaming)?

A. Industry

B. Form

C. Brand

D. Generic

Kotler uses four levels of competition to show how consumers meet the same need with different offerings. When the same need is satisfied by a different form of delivering the product, that's form competition. Cinema and pay-per-view streaming both fulfill the entertainment need, but through different delivery forms, so they're form competitors. The broader categories don't apply here: industry competition would cover all ways to meet entertainment within the entire market, generic competition includes substitutions across different product categories, and brand competition refers to rival brands within the same form and product type.

6. How is standard costing used to manage performance in manufacturing?

A. Track only actual costs without standards.

B. Use standard costing for pricing only.

C. Ignore variances.

D. By comparing actual costs to standard costs and analyzing variances to identify improvements.

Standard costing manages performance by setting expected costs for materials, labour, and overhead and then comparing what actually occurs to those standards. This comparison produces variances that reveal where operations deviate from plan, such as price or usage differences for materials, or efficiency and rate differences for labour and overhead. By analysing these variances, management can identify waste, price pressures, or process inefficiencies and take corrective actions to improve cost control and productivity. While standard costs can inform pricing decisions, using them only for pricing misses the ongoing performance management purpose of variance analysis. Tracking actual costs without standards provides no benchmark, and ignoring variances loses the actionable insight that drives improvements.

7. Which of the following is NOT one of the five categories of power proposed by French and Raven?

- A. Legitimate Power**
- B. Referent Power**
- C. Expert Power**
- D. Informant Power**

French and Raven's framework distinguishes five bases of power that people use to influence others: legitimate power from formal authority, reward power from the ability to deliver rewards, coercive power from the capacity to punish, expert power from specialized knowledge, and referent power from admiration or identification with the leader. The item described as Informant Power doesn't belong to these five bases. Informational (informant) power—that is, power arising from access to or control of information—was not one of the bases in their original model (some later theories expand beyond the five, but not in the original list). So this option is the one that does not fit.

8. Weber identified three forms of authority; which is attached to the position rather than the individual?

- A. Traditional Authority**
- B. Rational-Legal Authority**
- C. Charismatic Authority**
- D. Divine-Right Authority**

In Weber's view, authority that is attached to a position rather than to the person holding it comes from a system of formal rules and offices. This is rational-legal authority. Legitimacy arises because the leader operates within an established legal-bureaucratic framework: defined roles, procedures, and impersonal norms. The power of the office persists regardless of who fills it, and obedience follows the legitimacy of the system, not the personal qualities of the individual. Traditional authority, by contrast, rests on custom and the sanctity of longstanding practices or lineage, while charismatic authority hinges on the personal appeal and extraordinary qualities of the individual. Divine-right authority isn't one of Weber's three categories, though it's sometimes discussed in historical contexts.

9. Which statement explains how RI mitigates ROI drawbacks?

- A. ROI ignores the cost of capital and focuses on short-term gain.**
- B. ROI focuses on short-term cash flows alone.**
- C. ROI rewards only efficiency without capital cost consideration.**
- D. RI accounts for the cost of capital and promotes investing in profitable assets.**

Residual income works by charging a cost for the capital tied up in the investment and only rewarding profits that exceed that cost. By subtracting the capital charge from operating profit (or NOPAT), RI directly reflects whether a project genuinely creates value above the required return. This alignment means managers are incented to invest only in assets that earn more than the cost of the funds used, rather than chasing high percentage returns that may still be financed by costly capital. In other words, RI accounts for the cost of capital and promotes investing in profitable assets, addressing ROI's tendency to overlook whether the capital employed is costing enough to justify the investment. The other statements describe limitations of ROI—ignoring capital cost and focusing on short-term gains—not how RI improves decision-making.

10. Which of the following is a risk associated with foreign direct investment?

- A. Market risk**
- B. Currency risk**
- C. Political risk**
- D. Operational risk**

When you invest directly in another country, the biggest concern is how the host country's actions and rules can affect your investment. Political risk covers the possibility that the government changes laws, taxes, or ownership rules, or even takes or restricts the investment through expropriation, nationalization, or currency controls. Such changes can directly reduce or eliminate expected cash flows and could threaten the viability of the project, which is why political risk is the primary risk associated with FDI. Market risk relates to demand for the product in the market, currency risk to fluctuations in exchange rates, and operational risk to internal processes and management. These risks matter, but they are not as uniquely tied to cross-border investments as political risk, which stems from the sovereign environment in which the investment operates.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://cimae2.examzify.com>

We wish you the very best on your exam journey. You've got this!

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