CIMA MANAGING PERFORMANCE (E2) PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

Table of Contents

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

1. **Which budgeting characteristic is associated with potential demotivation among managers?**
    - A. Participative budgeting improves acceptance.
    - B. Incremental budgeting.
    - C. Stable, unchanging budgets.
    - D. Zero-based budgeting.

2. **What is the aim of fiscal policy in this framework?**
    - A. Keep inflation low but employment high
    - B. Achieve zero inflation
    - C. Maximize government revenue
    - D. Balance the budget yearly

3. **What is the overhead expenditure variance and how is it calculated?**
    - A. Actual overhead − budgeted overhead; includes volume variances.
    - B. Actual overhead − budgeted overhead (excluding variances due to volume).
    - C. Budgeted overhead − actual overhead; includes volume variances.
    - D. Actual overhead × budgeted overhead; unrelated.

4. **Which of the following is not one of Porter's four determinants in the Diamond model?**
    - A. Factor conditions
    - B. Demand conditions
    - C. Innovation
    - D. Related and Supporting industries

5. **The Thomas-Killman model categorizes which of the following?**
    - A. Leadership styles
    - B. Conflict resolution styles
    - C. Motivation theories
    - D. Change management strategies

6. After identifying the cause of a variance and assessing controllability, what is a typical next step?

A. Decide on corrective actions and implement them.

B. Ignore it if it is favorable.

C. Recalculate the budget from scratch.

D. Increase budgetary slack to avoid variances.

7. What behavioral consideration is a potential demotivator when setting budgets and targets?

A. Participative budgeting improves acceptance.

B. Incremental budgeting.

C. Stable, unchanging budgets.

D. Zero-based budgeting.

8. Which account measures trade in goods and services?

A. Current account

B. Capital account

C. Financial account

D. Trade balance

9. Which sequence correctly lists Fayol's five management functions (Planning, Organising, Commanding, Coordinating, Controlling)?

A. Planning, Organising, Coordinating, Commanding, Controlling

B. Planning, Organising, Commanding, Coordinating, Controlling

C. Planning, Controlling, Organising, Commanding, Coordinating

D. Planning, Commanding, Organising, Coordinating, Controlling

10. The outside-in view of competitive advantage emphasizes

A. Competitive Advantage Comes From A Position Relative To Competitors, Customers And Stakeholders

B. Internal Cost-Cutting Alone Generates Advantage

C. Large R&D Expenditures Guarantee Advantage

D. Competitive Advantage Is Random

Answers

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

Explanations

1. **Which budgeting characteristic is associated with potential demotivation among managers?**

   A. Participative budgeting improves acceptance.

   B. Incremental budgeting.

   C. Stable, unchanging budgets.

   D. Zero-based budgeting.

Incremental budgeting keeps the new budget close to last year's figures, with only small adjustments. Because the base is already set, targets often feel safe and predictable, so managers may not need to push hard to cut costs or improve processes. This lack of stretch can dampen motivation and encourage accepting the status quo or budgetary slack, since simply achieving the small change feels sufficient. In contrast, participative budgeting tends to boost motivation by involving managers in target setting, while zero-based budgeting requires justification of all costs and can drive more effort to improve efficiency.

2. **What is the aim of fiscal policy in this framework?**

   A. Keep inflation low but employment high

   B. Achieve zero inflation

   C. Maximize government revenue

   D. Balance the budget yearly

The main aim of fiscal policy in this framework is macroeconomic stabilization: to influence the level of aggregate demand so that inflation stays low while employment is high. Government spending and taxation are used countercyclically—boost demand in a downturn to reduce unemployment and restrain it when the economy is overheating—to achieve a stable, growing economy with price stability. This aligns with aiming for low inflation and strong employment rather than pursuing zero inflation, maximizing revenue, or balancing the budget every year. Zero inflation is not the target in most frameworks because some inflation is considered normal and helps avoid deflation; maximizing revenue ignores stability goals; and insisting on a yearly balanced budget can undermine stabilization during recessions.

3. **What is the overhead expenditure variance and how is it calculated?**

   A. Actual overhead – budgeted overhead; includes volume variances.

   B. Actual overhead – budgeted overhead (excluding variances due to volume).

   C. Budgeted overhead – actual overhead; includes volume variances.

   D. Actual overhead × budgeted overhead; unrelated.

Overhead expenditure variance measures whether the actual spending on overheads was in line with what was budgeted, isolating the effect of spending decisions from production levels. It is calculated as actual overhead minus budgeted overhead, meaning you compare what you actually spent to what you planned to spend, without considering how much you produced. This separation matters because volume changes (producing more or less) create a separate variance that affects how much overhead is absorbed into product costs, but the expenditure variance specifically reflects spending efficiency. For example, if you budgeted 100k for overhead and actually spent 110k, the expenditure variance is 10k adverse. If production was higher than planned and more overhead was absorbed, the total overhead variance could look different, but the expenditure variance itself remains the difference between actual and budgeted spending.

4. Which of the following is not one of Porter's four determinants in the Diamond model?

A. Factor conditions

B. Demand conditions

C. Innovation

D. Related and Supporting industries

Porter's Diamond explains national competitiveness through four interrelated determinants: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. Innovation is not one of these four. It tends to be influenced by how resources like skilled labor and infrastructure (factor conditions) are available, how demanding and sophisticated the domestic market is (demand conditions), how strong the supplier and related industries are (related and supporting industries), and how firms compete and organize themselves (firm strategy, structure and rivalry). So the item describing innovation isn't one of the four determinants, even though innovation often results from the interplay of the others.

5. The Thomas-Killman model categorizes which of the following?

A. Leadership styles

B. Conflict resolution styles

C. Motivation theories

D. Change management strategies

The model focuses on how people handle disagreements, classifying behaviors in conflict situations. It identifies five conflict resolution styles based on two dimensions: assertiveness (pursuing one's own concerns) and cooperativeness (considering others' concerns). Those styles—competing, collaborating, compromising, avoiding, and accommodating—describe typical ways individuals respond when there's a dispute, helping predict outcomes and guide negotiation or teamwork strategies. This makes it the best answer because the framework is specifically about conflict management behavior, not about how leaders lead, what motivates people, or how organizations implement change. Leadership styles describe influence approaches, motivation theories explain drivers of behavior, and change management deals with implementing organizational transitions, which are different concepts from how conflicts are resolved.

6. After identifying the cause of a variance and assessing controllability, what is a typical next step?

A. Decide on corrective actions and implement them.

B. Ignore it if it is favorable.

C. Recalculate the budget from scratch.

D. Increase budgetary slack to avoid variances.

When a variance is identified and its controllability is assessed, the typical next step is to decide on corrective actions and implement them. This means selecting practical changes to the process, operations, or inputs to address the root cause and bring performance back toward the budgeted target. After implementing, you monitor results to see the impact and adjust as needed. Ignoring a favorable variance, redoing the budget from scratch, or merely increasing budget slack don't tackle the underlying issue; they avoid taking effective action or distort planning.

7. What behavioral consideration is a potential demotivator when setting budgets and targets?

A. Participative budgeting improves acceptance.

B. Incremental budgeting.

C. Stable, unchanging budgets.

D. Zero-based budgeting.

The behavior being tested is how budgets shape motivation. Using incremental budgeting means starting from last period's budget and adding a small step up. That creates targets that are only slightly higher, so the stretch required to achieve them is minimal. People may not feel the need to push for major improvements and may even pad the budget or settle for just meeting the increment. In other words, it can reduce ambition and true performance improvement, which is why it's a potential demotivator when setting budgets and targets. Participative budgeting, by contrast, tends to boost acceptance and commitment, not demotivation. A budget that's stable and unchanging can be demotivating in some cases, but incremental budgeting specifically fosters only minor gains and can undermine motivation to excel. Zero-based budgeting, while more demanding, requires justification for all activities and can motivate more rigorous scrutiny, not dampen motivation.

8. Which account measures trade in goods and services?

A. Current account

B. Capital account

C. Financial account

D. Trade balance

Trade in goods and services is a current transaction between residents and non-residents, so it sits in the current account of the balance of payments. This account captures the flow of exports and imports of goods and services, plus income from abroad and current transfers. The net result for goods and services—often called the trade balance—is a component of this current account, not the account itself. The capital account handles capital transfers and non-produced asset transactions, while the financial account tracks changes in financial assets and liabilities across borders. So the measure of trade in goods and services is found in the current account.

9. Which sequence correctly lists Fayol's five management functions (Planning, Organising, Commanding, Coordinating, Controlling)?

A. Planning, Organising, Coordinating, Commanding, Controlling

B. Planning, Organising, Commanding, Coordinating, Controlling

C. Planning, Controlling, Organising, Commanding, Coordinating

D. Planning, Commanding, Organising, Coordinating, Controlling

Fayol's five management functions are a sequence that starts with deciding what to achieve and how to do it, then organizing resources to implement that plan, followed by directing people to carry out the tasks, then coordinating the activities so they work together smoothly, and finally monitoring performance to correct any deviations. This order—planning first, then organizing, then commanding (leading), then coordinating, and finally controlling—reflects a logical flow from setting objectives to executing and then ensuring everything aligns with the plan. Moving any step earlier or later would disrupt the process; for example, leading without a plan or coordinating before leadership doesn't fit how the functions are intended to interact.

10. The outside-in view of competitive advantage emphasizes

A. Competitive Advantage Comes From A Position Relative To Competitors, Customers And Stakeholders

B. Internal Cost-Cutting Alone Generates Advantage

C. Large R&D Expenditures Guarantee Advantage

D. Competitive Advantage Is Random

Outside-in thinking focuses on the market and how a company sits relative to customers, competitors, and other stakeholders. A lasting competitive advantage comes from delivering superior value to customers in a way that stands out from rivals and fits the external environment—what customers want, how competitors are positioned, and what stakeholders expect. That's why being positioned relative to customers, competitors, and stakeholders best describes the outside-in view. Internal cost-cutting alone may improve efficiency but doesn't guarantee external value or a sustainable edge. Large R&D spending can help, but only if it aligns with customer needs and market dynamics; spending in isolation isn't a guarantee. Competitive advantage isn't random.

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!