

# CMA<sup>Q&As</sup>

Certified Management Accountant

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### QUESTION 1

Benefits of computer-integrated manufacturing (CIM) include all of the following except

- A. Faster response to market changes.
- B. Lower production costs.
- C. Greater oversight by upper management.
- D. Improved product quality.

Correct Answer: C

Computer-integrated manufacturing (CIM) provides many benefits, among them improved product quality (less rework), better customer service, faster response to market changes, greater product variety, lower production costs, and shorter product development times. Greater oversight by upper management is debatable as a positive good and it does not apply in CIM in any case.

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### QUESTION 2

The modeling technique to be used for situations involving a sequence of events with several possible outcomes associated with each event is

- A. Queuing theory.
- B. Simulation.
- C. Linear programming.
- D. Decision tree analysis.

Correct Answer: D

Decision tree analysis is useful when the most beneficial series of decisions is to be chosen. The possible decisions for each decision point, the events that might follow from each decision, the probabilities of these events, and the quantified outcomes should be known.

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### QUESTION 3

Which of the following is not a benefit of lean production?

- A. Reduced setup time.
- B. Lower central support costs.
- C. Lower training costs.
- D. Improved on-time delivery.

Correct Answer: C

Since every worker in a manufacturing cell must be able to operate every piece of machinery in the cell, reduced training costs do not necessarily accompany the deployment of lean production.

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**QUESTION 4**

What type of synergy exists when products or services have positive complementary effects?

- A. Market synergy.
- B. Cost synergy
- C. Technological synergy
- D. Management synergy

Correct Answer: A

Market synergy arises when products or services have positive complementary effects. Shopping malls reflect this type of synergy.

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**QUESTION 5**

Maple Motors buys axles in order to produce automobiles. Maple carries an average credit balance of \$25,000,000 with its axle supplier. The axle supplier provides credit terms of 1/10 net 25. The nominal annual cost of Maple not taking the trade discount is closest to which one of the following? Assume a 360day year.

- A. 14.4%
- B. 14.5%
- C. 24.0%
- D. 24.2%

Correct Answer: D

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**QUESTION 6**

Two compares are expected to have annual sales of 1,000,000 decks at playing cards next year. Eirne1es for next year are presented below:

	<u>Company 1</u>	<u>Company 2</u>
Selling price per deck	\$3.00	\$3.00
Cost of paper per deck	.62	.65
Printing ink per deck	.13	.15
Labor per deck	.75	1.25
Variable overhead per deck	.30	.35
Fixed costs	\$960,000	\$252,000

Given these data, which of the following responses is true?

<u>Break-even Point in Units for Company 1</u>	<u>Break-even Point in Units for Company 2</u>	<u>Volume in Units at Which Profits of Company 1 and Company 2 Are Equal</u>
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- A. 800,000 420,000 1,180,000
- B. 800,000 420,000 1,000,000
- C. 533,334 106,000 1,000,000
- D. 533,334 105,000 1,180,000

Correct Answer: A

**QUESTION 7**

Assuming the after-tax cost of common stock is 15%, the after-tax weighted marginal cost of capital for Rogers's first financing alternative consisting of bonds, preferred stock, and common stock would be

- A. 7.285%
- B. 8.725%
- C. 10.375%
- D. 11.700%

Correct Answer: C

**QUESTION 8**

Garfield, Inc. is considering a 10-year capital investment project with forecasted revenues of \$40,000 per year and forecasted cash operating expenses of \$29,000 per year. The initial cost of the equipment for the project is \$23,000, and Garfield expects to sell the equipment for \$9,000 at the end of the tenth year. The equipment will be depreciated over 7 years. The project requires a working capital investment of \$7,000 at its inception and another \$5,000 at the end of Year 5. Assuming a 40% marginal tax rate, the expected net cash flow from the project in the tenth year is?

- A. \$32,000
- B. \$24,000
- C. \$20,000
- D. \$11,000

Correct Answer: B

The project will have an \$11,000 before-tax cash inflow from operations in the tenth year (\$40,000 - \$29,000). Also, \$9,000 will be generated from the sale of the equipment. The entire \$9,000 will be taxable because the basis of the asset was reduced to zero in the 7th year. Thus, taxable income will be \$20,000 (\$11,000 + \$9,000), leaving a net after-tax cash inflow of \$12,000 [ $\$20,000 \times (1 - 0.4)$ ]. To this \$12,000 must be added the \$12,000 tied up in working capital (\$7,000 + \$5,000). The total net cash flow in the 10th year will therefore be \$24,000.

#### QUESTION 9

The manufacturing concept that relates demand forecasts to specific dates for completion is A. Master production schedule

- B. Materials requirements planning
- C. Manufacturing resource planning
- D. Bill of materials

Correct Answer: A

The yearly/quarterly/monthly numbers and styles of finished goods called for in the demand forecasts included in the operational plans must be turned into specific dates for completion and availability for shipment to the customer. This is the task of the master production schedule (MPS).

#### QUESTION 10

Mason Compass board of directors has determined 4 options to increase working capital next year.

- Option 1 is to increase current assets by \$120 and decrease current liabilities by \$50.
- Option 2 is to increase current assets by \$180 and increase current liabilities by \$30.
- Option 3 is to decrease current assets by \$140 and increase current liabilities by \$20.
- Option 4 is to decrease current assets by \$100 and decrease current liabilities by \$75.

Which option should Mason choose to maximize working capital?

- A. Option 1.
- B. Option 2.
- C. Option 3.
- D. Option 4.

Correct Answer: A

Net working capital is the excess of current assets over current liabilities. An increase in current assets or a decrease in current liabilities will increase networking capital. Option 1 maximizes Mason Doman's networking capital, increasing it by \$170 (\$120 + \$50).

**QUESTION 11**

Gatsby, Inc. is going to begin factoring its accounts receivable and has collected information on the following four finance companies: Which company will give Gatsby the highest proceeds from a \$100,000 account due in 60 days? Assume a 360-day year.

	<u>Required Reserves</u>	<u>Commissions</u>	<u>Annual Interest Charge</u>
Company A	6%	1.4%	15%
Company B	7%	1.2%	12%
Company C	5%	1.7%	20%
Company D	8%	1.0%	5%

- A. Company A.
- B. Company B
- C. Company C.
- D. Company D.

Correct Answer: A

Company A will withhold \$6,000 (\$100,000 x 6%) as a reserve against returns and allowances and \$1,400 (\$100,000 x 1.4%) as a commission. The remaining \$92,600 will be reduced by interest at the rate of 15% annually. The interest charge will be \$2,315, assuming a 360-day year [(\$92,600 x 15%) x (60-day payment period - 360 days)]. The proceeds to be received by Gatsby equal \$90,285 (\$92,600 - \$2,315).

**QUESTION 12**

A market follower is a firm that does not choose to challenge the market leader. This firm must have its own strategy for maintaining its share of the market. When the firm improves products that are already on the market and operates in different markets, it is a (n).

- A. Counterfeiter.
- B. Cloner.
- C. Imitator.
- D. Adapter.

Correct Answer: D

An adapter improves products and may operate in different markets or evolve into a market challenger

**QUESTION 13**

Pontotoc Industries manufactures a product that is used as a subcomponent by other manufacturers. It has the following price and cost structure: Pontotoc received a special, one-time order for 1,000 units of its product. However, Pontotoc has an alternative use for this capacity that will result in a contribution of \$20,000. The minimum unit price for this special, onetime order is in excess of

Selling price		\$ 300
Costs		
Direct materials	40	
Direct labor	30	
Variable manufacturing overhead	24	
Fixed manufacturing overhead	60	
Variable selling	6	
Fixed selling and administrative	<u>20</u>	<u>(180)</u>
Operating margin		<u><u>\$ 120</u></u>

- A. \$200
- B. \$180
- C. \$140
- D. \$120

Correct Answer: D

**QUESTION 14**

Vasil, Inc. conducted a strategy self-assessment of factors contributing to market attractiveness and business strengths as follows: The factor ratings range from 1 (the lowest) to 5 (the highest). Which one of the following strategies would be the most beneficial for Vasil?

<u>Market attractiveness</u>	<u>Weight</u>	<u>Rating (1-5)</u>
Overall market size	0.4	5
Annual market growth rate	0.3	4
Historical profit margin	0.3	5
<u>Business strength</u>	<u>Weight</u>	<u>Rating (1-5)</u>
Unit costs	0.5	4
Market share growth	0.4	2
Brand reputation	0.1	3

- A. Build selectively on strengths.
- B. Upgrade product line.
- C. Focus on attractive segments.
- D. Avoid investments.

Correct Answer: A

Vasil can quantify the results of its strategic self-assessment by weighting and summing each rating.

**QUESTION 15**

MS Trucking is considering the purchase of a new piece of equipment that has a net initial investment with a present value of \$300,000. The equipment has an estimated useful life of 3 years. For tax purposes the equipment will be fully depreciated at rates of 30%, 40%, and 30% in years one, two, and three, respectively. The new machine is expected to have a \$20,000 salvage value. The machine is expected to save the company \$170,000 per year in operating expenses. MS Trucking has a 40% marginal income tax rate and a 16% cost of capital. Discount rates for a 16% rate are:

	<u>Present Value of an Ordinary Annuity of \$1</u>	<u>Present Value of \$1</u>
Year 1	.862	.862
Year 2	1.605	.743
Year 3	2.246	.641

What is the profitability index for the project?

- A. 1.089



B. 1.106

C. 1.315

D. 1.063

Correct Answer: A

The profitability index is the present value of the future net cash inflows divided by the present value of the net initial investment. The present value of the future net cash inflows is \$326,556. Hence, the profitability index is 1.089 ( $\frac{\$326,556}{\$300,000}$ ).

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