IMA

Exam Questions CMA-Strategic-Financial-Management

CMA Part 2: Strategic Financial Management Exam

NEW QUESTION 1
- (Topic 1)
The production process of a company s main product yields a by-product Production costs or $700,000 are incurred during this process and $300,000 m additional costs are incurred to finalize the main product. The by-product can be sold for $200 000 without further processing A manager proposed the conversion of the by-product into another product that would cost $100,000 and generate revenue of $250,000. When deciding on this proposal the company should

A. select an approbate cost allocation method to allocate the $1 100 000 joint costs
B. evaluate whether other nonfinancial factors outweigh the Si 50.000 in incremental income
C. treat the $100,000 conversion cost as the marginal cost 1o produce the new product
D. ignore the $200 000 sales revenue for the by-product because it Is irrelevant

Answer: C

NEW QUESTION 2
- (Topic 1)
Sigma industries is considering purchasing Lambda Products in a cash transaction Sigma financial analysts Dave conducted an extensive amount of negotiation and due diligence and nave summarized the following financial information for management.
• Assets having a 10-year remaining life can be acquired for $22 million
• Assets are to De depreciated over their remaining life on a straight-line basis for Doth book and tax purposes
• Current liabilities of Lambda amounting to S3 million must be assumed by Sigma
• Lambda operations are expected to produce annual pre-tax cash Don of S7 million for the remaining 10 years of operation
• A16% return on investment is required by Sigma for acquisitions of this type
• Sigma's marginal Income tax rate is 35%
What is the net present value to Sigma of the Lambda acquisition rounded to the nearest thousand?

A. $6, 921,000)
B. $712,000
C. $3,712,000

Answer: B

NEW QUESTION 3
- (Topic 1)
As the number of stocks in a portfolio increases, unsystematic risk

A. decreases and systematic risk decreases
B. increases, and systematic risk increases
C. decreases and systematic risk does not change
D. increases, and systematic risk does not change

Answer: C

NEW QUESTION 4
- (Topic 1)
Sunnyvale Gas Company had a $50 million issue of 30-year mortgage bonds issued at par 10 years ago The coupon rate on the bonds is 15% and Interest is payable semi-annually on March 1 and September 1. The bonds are currently trading at SI 300. The can provision of the issue states that the bonds are callable after the S-year deferral period at 108 plus accrued interest. If Sunnyvale calls the bonds effective June 1 what is the cash payment, ignoring taxes, to the bondholders?

A. $51875 000
B. $55 875 000
C. $57 750 000
D. $66,875,000

Answer: C

NEW QUESTION 5
- (Topic 1)
A management accountant overheard the company's procurement manager discussing a kickback payment for one of the company s recent projects. The procurement manager promised to pay a share to the other person II the arrangement was kept confidential According to the IMA Statement of Ethical Professional Practice which one of the following is the most appropriate action for the management accountant to take?

A. Take no action since the incident is not related to the accounting department
B. Report the information directly to a nigh-level company executive since it is a serious matter
C. Call the company's ethics helpline and report the matter anonymously
D. Discuss the incident with his or her own attorney and consider disassociating from the company

Answer: B

NEW QUESTION 6
- (Topic 1)
Abex Employment Agency has requested an increase in the firm's line of credit, and the bank is reviewing Abex's sales and collections history Although the firm's sales have increased the bank is concerned about the credit quality of the firm's customers Based on the following information calculate the average collection period for the firm Use a 365-day year in your calculations.

(numbers in 000)	Year 2	Year 1
Sales	$22,800	$18,400
Accounts receivable	6,290	3,720
Accounts payable	2,280	1,750
Net income	5,122	3,980

A. 80 days
B. 88 days
C. 99 days
D. 101 days

Answer: A

NEW QUESTION 7
- (Topic 1)
The CFO at GameX, a handheld game manufacturer has asked a financial analyst to provide an analysis and evaluation of the company versus three of its competitors. The analyst prepared the following report.

Comparative Balance Sheets As of June 30, Year 1

	GameX	Competitor A	Competitor B	Competitor C
Cash	5%	10%	10%	20%
Accounts receivable	5%	10%	15%	15%
Inventories	40%	20%	5%	15%
Net property, plan and equipment	50%	60%	70%	50%
Total assets	100%	100%	100%	100%
Accounts payable	25%	30%	30%	20%
Long-term debt	50%	40%	30%	30%
Total liabilities	75%	70%	60%	50%
Common stock	10%	10%	15%	25%
Retained earnings	15%	20%	25%	25%
Total equity	25%	30%	40%	50%
Total liabilities and equity	100%	100%	100%	100%

Based or the analysis the analyst is justified to write in his evaluation mat in order to Improve its position in the market. GameX should

A. reduce its debt load
B. increase its inventory

Answer: A

NEW QUESTION 8
- (Topic 1)
L&H Sports owns and operates several stadiums used for baseball and soccer games Management is considering installing machines that would be used to roast peanuts on the premises. This equipment would allow L&H to sell freshly roasted peanuts rather than the pre-roasted peanuts that are currently sold Marketing studies suggest that this feature would increase peanut sales.
The roasters can be purchased in several sizes, and the annual rental fees and operating costs vary with the size of the roaster Information about the roasters is shown below.

	Roaster Models		
	Economy	Regular	Super
Annual capacity	100,000 bags	300,000 bags	600,000 bags
Annual roaster equipment rental	$22,000	$25,000	$36,000
Raw peanut cost per bag	0.20	0.26	0.30
Other costs per bag	0.30	0.20	0.12
Packaging cost per bag with logo	0.06	0.06	0.06

L&H currently sells pre-roasted peanuts for $0 60 pet bag. Management plans to sell the freshly roasted peanuts for a higher price but at no more than a 10% increase. The demand for freshly roasted peanuts is estimated to be 250, 000 bags pet year. Which roaster should L&H purchase to maximize its profit?

A. Economy
B. Regular
C. Super

Answer: B

NEW QUESTION 9
- (Topic 1)
If a CMA is asked to conduct a financial assessment of a company owned by a close relative, what would be the proper response under the credibility standard of the IMA Statement of Ethical Professional Practice?

A. Advise all parties of a potential conflict of interest
B. Keep information confidential except when authorized By the relative
C. Communicate the existence of a constraint that might preclude responsible judgment
D. Provide an assessment that is timely and accurate despite the personal relationship

Answer: A

NEW QUESTION 10
- (Topic 1)
In March 20X2, an investor purchased a government bond with a face value of $100 that matures in 30 years. The issue price was $94 and the bond offered a yield to maturity of 5.6% One year later, the investor sold the bond at a price of S105 after receiving an interest payment of $6. The total return is

A. 5.6%
B. 6.0%
C. 11.7%
D. 18.1%

Answer: D

NEW QUESTION 10
- (Topic 1)
Genco Healthcare has asked ns controller to summarize the company??s financial performance for the past two years. The accountant provided the following two years financial ratios for reference.

A. Less liquid mote profitable more solvent
B. Less liquid mote profitable less solvent
C. More Liquid Less profitable less solvent
D. More liquid, less profitable mote solvent

Answer: B

NEW QUESTION 11
- (Topic 1)
A furniture retail company uses the LIFO inventory method Due to the nigh inflation rate in me past year, the company's

A. current ratio may be overstated
B. quick ratio may be understated
C. net income may be understated
D. quick ratio may be overstated

Answer: C

NEW QUESTION 12
- (Topic 1)
Safety Strollers was recently sued by several people who alleged harmful and unsafe strollers. The management team was largely unconcerned about these lawsuits due to the apparent negligence of the plaintiffs However, a consumer grassroots effort Drought these dangers into the public eye and the management team now fears for their brand s reputation and the sales o' their products. The facts are staring to get distorted and some stores are electing to no longer carry this brand. This situation could best be considered a

A. hazard loss mal can be mitigated with liability insurance
B. cost of doing business mat the company's m-house legal counsel will hand.
C. financial risk managed through product diversification
D. catastrophic force that could have been managed better with a robust crisis management plan

Answer: A

NEW QUESTION 14
- (Topic 1)
It is possible to eliminate risk in a two-stock portfolio of common stocks if

A. there perfect positive correlation between the stocks
B. there is perfect negative correlation between the stocks
C. there is no correlation between the stocks.
D. the two stocks have equal positive beta coefficients

Answer: B

NEW QUESTION 18
- (Topic 1)
FumiSelf is a global manufacturer of consumer-assembled furniture with a business presence in nearly every country. The Vice President of Production was presented with the following information by the Vice President of Finance as of the end of the current quarter.

A. Asian division has the highest days' sales in inventory
B. North American division has the lowest days' sales in Inventory.
C. African division is the most efficient in manage its inventory
D. Europe division is the most inefficient in managing its inventory

Answer: D

NEW QUESTION 20
- (Topic 1)
An accountant for a company has not used readily available professional development opportunities to stay aware of changes in tax laws and applied previous tax rules to the most recent tax return, resulting in an overpayment of income tax Using IMA's Statement of Ethical Professional Practice, how would the accountant's behavior best be described?

A. The accountant has complied with the competence standard if the lack of professional development is disclosed to supervisors
B. The accountant has complied with the competence standard if the lack of professional development is disclosed in any reports or analyses the accountant produces
C. The accountant has not complied with the credibility standard but has complied with thecompetence standard
D. The accountant has not complied with the competence standard

Answer: D

NEW QUESTION 23
- (Topic 1)
A company has hired a consultant to propose a way to increase the company's revenues. The consultant has evaluated two mutually exclusive projects with me following information provided for each project.

	Project A	Project B
Capital investment	$1,105,000	$625,000
Annual cash flows	180,000	105,000
Estimated useful life	10 years	10 years

The company uses a discount rate of 9% to evaluate both projects Based on the net present value, the company should invest in

A. project A only
B. project B only
C. project A and project B
D. neither project

Answer: A

NEW QUESTION 27
- (Topic 1)
Below is the income statement and balance sheet for a retail corporation.

	Year 1	Year 2
Sales	$2,500	$5,000
Cost of goods sold	750	2,000
Gross Profit	1,750	3,000
Operating expense	500	700
Operating income	1,250	2,300
Non-operating expense	450	300
Net income	$ 800	$2,000
Cash	$1,000	$2,000
Accounts receivable	500	1,500
Inventory	500	800
Prepaid expenses	200	500
Fixed assets	4,500	4,000
Total assets	$6,700	$8,800
Accounts payable	$800	$1,400
Accrued expenses	1,000	1,250
Short-term debt	750	500
Long-term debt	1,000	500
Total liabilities	3,500	3,650
Equity	3,150	5,150
Total Liabilities & equity	$6,700	$8,800

What is the corporation's debt to total capital in year 2?

A. 71%
B. 41%
C. 19%
D. 6%

Answer: C

NEW QUESTION 32
- (Topic 1)
Harris Wholesale Grocery Company has gross sales per year of $7 million and grants credit terms to its customers of 2/5. net 15 As a result. 60% of customers pay on the discount date 20% pay on the net due date, and 20% pay on average 10 days after the due date Assuming that sales are uniform throughout the year and using a 360-day year In the calculation what is the approximate annual amount of discount that Hams customers are allowed to take?

A. $28,000
B. $84,000
C. $140, 000
D. $210,000

Answer: C

NEW QUESTION 36
- (Topic 1)
Accounts receivable turnover increases from 4.0 times to 6.0 times. It all sales are on account when one of the following must decrease?

A. Cash
B. Days sales in receivables
C. Sales
D. Accounts receivable

Answer: B

NEW QUESTION 40
CORRECT TEXT - (Topic 2)
Discuss whether the demand for OLI??s new business English course is elastic and explain how OLI can use this information in determining the product price.
Essay
Online Learning Inc. lOLI) is a privately-held company based in the IUC that specializes in providing online courses in English as a Second Language (ESL). OLI is trying to set up a new sales office in a foreign country. It needs a business license to operate in that country. The license normally lakes six months to obtain. An official of that country said that he could expedite the process for a fee of €300.
OLI estimates the new sales office can bring €300,000 incremental profit annually OLI has just launched a new online 40-houi course to help adult ESL learners master basic business English. The price of the new course is €500 per student, the variable cost is €300 per student, and the total fixed cost of the new course is €300.000 per year OLI spent €200.000 to develop the new course before launching it. There are many online course providers in the marketplace, and each has its own feature However, OLI's highly qualified staff and good reputation have enabled it to charge a premium price compared to its major competitors. Recent market research indicates that if OLI raises the price of its new business English course by 10V the student enrollment would decrease by 5V A regional airlines company in Asia has approached OLI and offered to enroll 1.000 of its employees in the new course if OLI would agree to a special price of €350 per employee If OLI accepts this offer, an additional €10,000 onetime cost would be required to temporally expand its capacity to accommodate the new students.

A. Mastered
B. Not Mastered

Answer: A

Explanation:
it's in elastic and me percentage change in price is greater than the percentage change in the demand. A profile maximizing price where the marginal revenue is equal to marginal cost would be recommendable in this scenario.

NEW QUESTION 45
CORRECT TEXT - (Topic 2)
Identify the market structure in which OLI operates and explain how OLi's pricing is affected by this mantel structure
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A. Mastered
B. Not Mastered

Answer: A

Explanation:
The market is quite sensitive to prices as the change in price is affecting me demand However the company has less opportunity over here to increase the prices for its premium service as the customers would be willing to pay less and get the same service from the competitor.

NEW QUESTION 46
CORRECT TEXT - (Topic 2)
Explain me concept of relevant cost in the season-making process and discuss whatever the €200, 000 course development coil is relevant to OLi's price decisions in future years
Essay
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A. Mastered
B. Not Mastered

Answer: A

Explanation:
Relevant com is cost which is incurred in future and incremental because of the division and in terms of cash other costs are considered to be relevant while making a decision. The development cost is a past cost incurred before mating the decision and hence irrelevant.

NEW QUESTION 48

CORRECT TEXT - (Topic 2)
Determine whether me €300 fee is a facilitating payment Essay
Online Learning Inc. lOLI) is a privately-held company based in the IUC that specializes in providing online courses in English as a Second Language (ESL). OLI is trying to set up a new sales office in a foreign country. It needs a business license to operate in that country. The license normally lakes six months to obtain. An official of that country said that he could expedite the process for a fee of €300.
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A. Mastered
B. Not Mastered

Answer: A

Explanation:
The 300 is a facilitating payment as it will speed up the process of getting the license 'cine company which normally requites 6 months

NEW QUESTION 49
CORRECT TEXT - (Topic 2)
How many units should be produced and sow it AMI'S target net income is $600,000? Snow your calculations.
Apex Manufacturing Inc. (AMI) is a Canada-based company that manufactures a manufactures and unique part for aircrafts. It has few competitors in the market. The company is exposed to exchange rate risk because about 90% of its products are exported to the U.S, and most of its sales contracts are in U.S. dollars. AMI has the capacity to manufacture 1,500 units of the part per year. For the year just ended. AMI manufactured and sold 1,000 units. The operating results are shown below.

Sales	$2,000,000
Variable manufacturing costs	1,000,000
Fixed manufacturing costs	500,000
Operating income	500,000
Income taxes (40%)	200,000
Net income	$ 300,000

Recently, A new customer made a one-area order of 500 units of the part at $1.200 per unit. The CTO asked the controller to analyze this offer. AMI is considering adjusting its sales price next year in a recent meeting, the CFO suggested to use the market-based approach for pricing decisions, bat the controller insisted that the cost-based approach is more favorable to the company.

A. Mastered
B. Not Mastered

Answer: A

Explanation:
$500000+($600000/1-0.4)

($2m-$1m)/1000
=$1m

$1000
=1000 units

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NEW QUESTION 52
CORRECT TEXT - (Topic 2)

Identify and explain the type of acquisition that would occur if Guda acquires Blue Moon.
Essay
Food Depot Ltd, (FDL) is a privately-held company that provides catering services to airlines and operates several restaurant chains including fast food, casual dining, and fine dining restaurants, FDL has been profitable in recent years and has a very strong cash position. FDL's newest division. Food_TO-Go is an online meal ordering and delivery platform acquired by FDL two year ago.
In 20X7, sales for the entire company were $1 billion, with 50% of the business coming from the Airline Catering division. FDL is the country ??s leading airline catering services provider and control 60% of the market share. However, the outlook of the airline catering
industry is gloomy. The compound annual growth rate of the industry for the past five years was only 0.5% as airline networks have increasingly dropped catering on short domestic flights.
The Food-To-division only contribution 5% of FDL??s total sales in 20X7 and is far behind in competing for marketing for market share of the online meal ordering and delivery industry, it is estimated that Food-To-Go??s sales were only 20% of the industry leader??s sales. However, the outlook for the online meal ordering and delivery services industry is bright. The compound annual growth rate of the industry since it started three years ago was 50%. It is estimated the rapid growth of the industry will continue in the foreseeable future.
Susan Willey, the head of Food-To-Go, does not agree that the Airline Catering division is the best-performing division in the company. Wiley argues that ber division bad the highest ROI in 20X7, and it deserves more capital finding. FDL??s requested rate of return is 12%. The selected financial data for the Airline Catering division and Food-To-Go division in 20X7 are as follow (in $ millions)

	Airline Catering	Food-To-Go
Sales	$ 500	$50
Operating income	300	5
Net book value of assets (average for the year)	2,000	10

A. Mastered
B. Not Mastered

Answer: A

Explanation:
The type of acquisition will be of a conglomerate as both of them are working in different industries. Guda is working in media industry where as blue moon is in real estate industry)

NEW QUESTION 56
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