

IMA

Exam Questions CMA-Strategic-Financial-Management

CMA Part 2: Strategic Financial Management Exam



NEW QUESTION 1

- (Topic 1)

Custom Ceramics produces two hand-painted items a large bowl and a large platter. Relevant information for each of these items is shown below

- A. The company should produce only bowls because the contribution margin per bowl is higher.
- B. The company should produce only platters because the variable cost per platter is lower
- C. The company should produce only bowls because the sales price per Bowl is higher
- D. The company should produce only platters because the contribution margin per painting hour is higher

Answer: D

NEW QUESTION 2

- (Topic 1)

A company's balance sheet information at the end of July is shown below (in\$000s).

Cash	\$1,000
Marketable securities	900
Accounts receivable	770
Inventory	670
Property, plant, and equipment	<u>550</u>
Total assets:	<u><u>\$3,890</u></u>
Accounts payable	\$1,260
Long-term notes payable	1,040
Common stock	1,000
Retained earnings	<u>590</u>
Total liabilities and shareholders' equity:	<u><u>\$3,890</u></u>

What is the company's financial leverage ratio?

- A. 1.69
- B. 2.45
- C. 3.74
- D. 3.89

Answer: A

NEW QUESTION 3

- (Topic 1)

Which one of the following moral philosophies states that the morality of an action is inherent and not based on the consequences of the action?

- A. Utilitarianism
- B. Deontology
- C. Teleology
- D. Relativism

Answer: B

NEW QUESTION 4

- (Topic 1)

IF a company does not have a code of conduct, the company most likely

- A. is missing important guidance on ethical decision making
- B. will lack an expressed statement of values regarding ethical behavior
- C. can use its statement of values instead to implement ethics in daily decision making
- D. must find another way to express its ethical principles

Answer: A

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 if 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 high-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)

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 per 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 per year. Which roaster should L&H purchase to maximize its profit?

- A. Economy
- B. Regular
- C. Super

Answer: B

NEW QUESTION 8

- (Topic 1)

The internal audit division of a company is investigating a potential fraud in the Accounts Payable department. Someone in the department has been writing checks to fictitious vendors and collecting the cash. The primary suspect is an employee who has worked with the company for twelve years and recently lost his bid for promotion to Director of Accounts Payable, a position which would have given him a 25% salary increase. This employee has been heard complaining to several other employees in the department that he was cheated out of his raise. Which one of the following elements of the fraud triangle is this employee exhibiting?

- A. Pressure
- B. Rationalization
- C. Motive
- D. Opportunity

Answer: B

NEW QUESTION 9

- (Topic 1)

When evaluating a capital Budgeting proposal, an advantage of using the payback method is that Bits process

- A. assesses the liquidity of the project.
- B. considers the time value of money.
- C. incorporates all of the project's cash inflows and outflows
- D. objectively determines if the proposal should be accepted or rejected.

Answer: A

NEW QUESTION 10

- (Topic 1)

A company produces 10,000 units of Product A monthly at the costs shown below.

Direct materials	\$ 90,000
Direct labor	25,000
Variable overhead costs	48,000
Fixed overhead costs	40,000

The company estimates that 30% of the fixed overhead costs allocated to Product A are avoidable if the company chooses to outsource the production If the company purchases Product A from an outside supplier for \$18 per unit what would be the net effect on its operating income?

- A. \$23,000
- B. \$5,000
- C. (\$5,000)
- D. (\$17,000)

Answer: C

NEW QUESTION 10

- (Topic 1)

Which one of the following statements regarding working capital management is not correct?

- A. An attempt to minimize carrying costs and shortage costs associated with inventory levels is an objective of working capital management
- B. The cash, inventory accounts payable and accounts receivable components of working capital are constantly changing during the operating cycle
- C. Seasonal demand for me products can cause working capital problems that must De anticipated and managed
- D. Increasing costs associated with the manufacture and sale of products will not impact the short-term management of working capital

Answer: D

NEW QUESTION 11

- (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 12

- (Topic 1)

All of the following describe ethical leaders except

- A. dedicated leaders who can keep promises and commitment
- B. flexible leaders how new ethical behavior to be negotiable
- C. supportive leaders who encourage employees to adhere to company policy
- D. leaders who demonstrate high ethical standards

Answer: B

NEW QUESTION 13

- (Topic 1)

Which one of the following moral philosophies states that the morality of an action is inherent and not based on the consequences of the action?

- A. Utilitarianism
- B. Deontology
- C. Teleology
- D. Relativism

Answer: B

NEW QUESTION 18

- (Topic 1)

SSA inc. issues 4% bonds with a face value of \$500,000 when the market rate of interest is 3% for similar bonds. The bonds mature in 10 years, and pay interest every six months. Which one of the following is closest to the amount of cash SSA will receive upon issued.

- A. \$459,000
- B. \$500,000
- C. \$505,000
- D. \$543,000

Answer: D

NEW QUESTION 20

- (Topic 1)

A retail company sells numerous products in its one department store. The income statements for two of these products are shown below

	<u>Product A</u>	<u>Product B</u>
Sales	\$140,000	\$250,000
Cost of goods sold	(80,000)	(150,000)
Commissions	(15,000)	(25,000)
Product manager's salary	(50,000)	(50,000)
Occupancy costs (heating, etc.)	(15,000)	(20,000)
Allocated corporate charges	(25,000)	(25,000)
Income (loss)	<u>\$(45,000)</u>	<u>\$(20,000)</u>

After reviewing the income statements, the president is considering dropping one or both products. Which products, if any should the company discontinue?

- A. Both Product A and Product B
- B. Product A only
- C. Product B only
- D. Neither Product A nor Product B

Answer: B

NEW QUESTION 23

- (Topic 1)

A corporation has \$80 million in current assets comprised of \$30 million in inventory and \$50 million in cash and marketable securities it has current liabilities of \$50 million. If the corporation purchases an additional \$10 million in inventory with trade credit this would

- A. increase its current ratio and increase its quick ratio
- B. not change its current ratio and decrease its quick ratio
- C. not change its current ratio and not change its quick ratio
- D. decrease its current ratio and decrease its quick ratio

Answer: D

NEW QUESTION 27

- (Topic 1)

London Corporation has in the following cost structure for two of its product.

	<u>Product A</u>	<u>Product B</u>
Fixed costs	\$100,000	\$220,000
Variable cost/unit	\$20/unit	\$10/unit
Sales price/unit	\$30/unit	\$50/unit

Assume that the current sales level is 15,000 units of Product A and 5,000 units of Product B. Using cost-volume-profit analysis, which of the following courses of action would maximize profit in the short term? Assume that fixed costs are sunk costs in the short term.

- A. Continue to make and sell Product A only.
- B. Continue to make and sell Product B only.
- C. Continue to make and sell both Product A and Product B.
- D. Discontinue making and selling both products.

Answer: A

NEW QUESTION 31

- (Topic 1)

On January 1, 2008, the exchange rate between the U.S. dollar (\$) and Indian Rupee (Rs) was \$1 = Rs 39.2676. On January 1, 2009, the rate was Rs 1 = \$0.0205. Based only on the relative currency appreciation or depreciation, which country's exports would likely have increased?

- A. India
- B. U.S.
- C. Neither India or U.S.
- D. Both India and U.S.

Answer: B

NEW QUESTION 33

- (Topic 1)

A risk with a high frequency of occurrence but with a low impact, is best managed by which one of the following risk response strategies?

- A. Risk avoidance
- B. Risk acceptance
- C. Risk transfer
- D. Risk reduction

Answer: D

NEW QUESTION 34

- (Topic 1)

Amy Curtin sells used cars of a reliable brand. Curtin has no knowledge of the history or any of the specific cars. She believes that the brand is reliable, and is considering whether it is acceptable to offer only this general information rather than specific information regarding the cars when trying to complete each sale. The company has always preferred to make the sale and worry about any warranty issues later, and there are no legal disclosure requirements in their jurisdiction. Curtin considers herself to be an ethical person but she does not want to lose out on any potential sales of vehicles that are most likely in good mechanical condition. Which one of the following statements best represents what Curtin should consider related to the meaning of ethics?

- A. Ethics is driven by compliance with a set of regulations or laws.
- B. Ethics is about being consistent with the ethical tone set by the organization.
- C. Ethics is about the integrity of the decision-making process to resolve issues.
- D. Ethics is about decisions where the relevant policies are informal and not documented.

Answer: C

NEW QUESTION 38

- (Topic 1)

Which one of the following situations describes a secondary offering of stock by a company?

- A. The company has an initial public offering of its stock and its investment bank needs to add more shares to the initial public offering to meet excess demand by investors.
- B. After the lockup period of the initial public offering ends, the company's founders sell some of their shares to the public.
- C. The company repurchases shares of its stock in the open market, but it then later sells these shares in the open market.
- D. After completing its initial public offering, the company sells more new shares of its stock.

Answer: B

NEW QUESTION 43

- (Topic 1)

Which one of the following statements regarding portfolio diversification is not correct?

- A. A well diversified portfolio can eliminate systematic risk.
- B. A well diversified portfolio can minimize unsystematic risk.
- C. A well diversified portfolio should include individual stock investments having a balance of positive and negative betas.
- D. The standard deviation of a well diversified portfolio's percentage returns should be approximately equal to the standard deviation of the entire stock market's.

percentage returns.

Answer: A

NEW QUESTION 47

- (Topic 1)

Each of the following describes a limitation of financial statement analysis except

- A. financial statement analysis is based on historical costs rather than current costs which can lead to distortions in measurement
- B. financial statements may include significant estimated items which may distort results
- C. it is difficult to compare one company with another even within the same industry due to differences in accounting principles used.
- D. financial statement analysis can use more than one measure to examine the interrelationships among data

Answer: D

NEW QUESTION 52

- (Topic 1)

The human resources manager of BankUS has noted that the company's employee turnover has increased. He has also had his budget cut, and will have to reduce training for new associates. He has a meeting scheduled with the CFO to go over risks that his department faces. What should the human resources manager tell the CFO about risk?

- A. He should notify the CFO of a potential operations risk
- B. He does not need to notify the CFO of a potential risk
- C. He should notify the CFO of a potential internal factor risk
- D. He should notify the CFO of a need for additional funding

Answer: A

NEW QUESTION 53

- (Topic 1)

Which one of the following statements best describes an offering after an initial public offering where a benchmark stock price will already exist?

- A. Private placement
- B. Subsequent or secondary public offering.
- C. Over-the-counter offering
- D. Stock repurchase

Answer: B

NEW QUESTION 57

- (Topic 1)

Javier makes hand-knitted learner dog collars. The materials cost \$10 per collar and the collars are sold for \$50 each. Javier sells the collars at a local farmer's market that charges \$100 per month for space rental. If Javier's income tax rate is 30%, how many collars must Javier sell each year to earn \$1,000 net income?

- A. 29
- B. 53
- C. 66
- D. 263

Answer: C

NEW QUESTION 58

- (Topic 1)

A company currently offers all of its customers trade credit with terms of 1/15 net 45. Which of the following alternatives would not increase the company's average collection period from its current level?

- I. net 60.
- II. net 90.
- III. 2/10 net 45.
- IV. 2/10 net 30.

- A. I only.
- B. I and II only
- C. III only
- D. III and IV only.

Answer: B

NEW QUESTION 61

- (Topic 1)

Alliantz Company, a USA-based manufacturer needs to set up a hedge to protect against dollar exchange rate devaluation. The protection is necessary (or an

open balance of \$2478.450 Payment is to be settled in a rare currency 40 days from today excluding transaction fees which investment instrument would be used to provide the best hedge?

- A. Stock options
- B. Market-traded futures
- C. Forward agreement
- D. Currency warrant

Answer: C

NEW QUESTION 63

- (Topic 1)

K Malone is a successful entrepreneur, Currently she is considering investing in a capital protect, which would benefit tourism in North Carolina Because of tourism, the State of North Carolina is willing to lent) her \$150,000 at a rate of 5%. well below the market rate Her estimated net cash flows for the 3-year lifetime of the project are \$15 000 \$89,000 and \$60,000 respectively Recommend whether or not Malone should undertake this project.

- A. She should undertake this project because the present value (PV) of this project is \$146,843
- B. She should undertake this project because the net present value (NPV) is \$31,022.
- C. She should not undertake this project because the net present value NPV is (\$14.051).
- D. She should not undertake this protect because the net present value (NPV) is (\$3.157)

Answer: C

NEW QUESTION 65

- (Topic 1)

Given the financial information shown below, what amounts would be shown for sales revenue and for gross prom, respectively in a common size income statement?

- A. 100% and 20%
- B. 100% and 45%
- C. 222% and 225\$
- D. 100% and 55%

Answer: B

NEW QUESTION 70

- (Topic 1)

Delman inc considering upgrading its manufacturing facility, and it is expected that the new equipment will cost \$180,000. The project's is considering similar to the risk of the firm's other investments. the after-tax cash inflows attribute to this project are expected to increase by \$50,000 every year over the next five years. The firm's marginal tax rate is 30%, its debt-to-equal ratio (using market values) is 60%, and its pre-tax cost of debt and equity are 8% and 12% respectively. the weighted average cost of capital appropriate for evaluating this project is closest to

- A. 8.0%
- B. 8.2%
- C. 9.6%
- D. 10.5%

Answer: C

NEW QUESTION 73

CORRECT TEXT - (Topic 2)

Explain one reason each Tot and against issuing bonds with a call feature

Essay

Quality Digital Design (QDD) Inc is a public-traded technology company Selected financial data of QDD for the prior year are as follows

Interest coverage ratio	8
Asset turnover ratio	2
Net profit margin	5%
ROA	10%
ROE	15%

QDD's stock was trading at \$160 per share at the beginning of the yea: and at \$176 per share by the end of the year. The company paid dividends of \$5 per share. The company "s stock had a beta of 1 4 The stock market provided a total return of 12% last year, well above the 3??o risk free rate of return QDD is considering the issuance of \$200 million of bonds to fund the repurchase of \$200 million of its stock. QDD is evaluating the bond, including its term structure, maturity, and whether it should be callable obtaining the lowest coupon interest is an important objective of QDD. The CFO has estimated that sales for the current year would remain the same as last year and the new bond would add \$12 million in annual interest payments

- A. Mastered
- B. Not Mastered

Answer: A

Explanation:

A callable bond allows companies to pay off their debt early and benefit from favorable interest rate drops a callable bond benefit the issuer and so investors of these bonds are compensated with a more attractive interest rate than on otherwise similar non-callable bonds However callable bonds are more expensive.

NEW QUESTION 78

CORRECT TEXT - (Topic 2)

Discuss whether QDD stock provided a return that was Better, worse, or the same as its investors would have expected using CAPM show your calculations
 Essay

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- A. Mastered
- B. Not Mastered

Answer: A

Explanation:

As per CAPM Model the return is $3\% \cdot 1.2 (12-3)$
 13.8% TSR- $\frac{S_1 - S_0}{S_0} = \frac{176 - 160}{160} = 10\%$
 TSR-13.8% - 12%

The return provided of the company stock was lower as the return provided by the capm model was significantly higher than it

NEW QUESTION 79

CORRECT TEXT - (Topic 2)

Identify and describe two defenses Blue Moon could use if it does not wish to be acquired by Guda.

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 years 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-Go division only contributed 5% of FDL's total sales in 20X7 and is far behind in competing 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. Willey argues that her division had the highest ROI in 20X7, and it deserves more capital funding. 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 follows (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:

They can simply revalue their assets and hence ask for a higher price for their company or they can structure their financing structure by either issuing debts or reducing the equity by paying a special one-off dividend.

NEW QUESTION 82

CORRECT TEXT - (Topic 2)

Determine whether the €300 fee is a facilitating payment Essay

Online Learning Inc. (OLI) 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 takes 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-hour 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 10%, the student enrollment would decrease by 5%. 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 one-time cost would be required to temporarily expand its capacity to accommodate the new students.

- 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 requires 6 months

NEW QUESTION 86

CORRECT TEXT - (Topic 2)

How many units should be produced and sold if AMI's target net income is \$600,000? Show your calculations.

Apex Manufacturing Inc. (AMI) is a Canada-based company that manufactures a 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	<u>500,000</u>
Operating income	500,000
Income taxes (40%)	<u>200,000</u>
Net income	<u>\$300,000</u>

Recently, a new customer made a one-time 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, but the controller insisted that the cost-based approach is more favorable to the company.

- A. Mastered
- B. Not Mastered

Answer: A

Explanation:

$$\begin{aligned}
 & \$500,000 + (\$600,000 / (1 - 0.4)) \\
 & \text{-----} \\
 & (\$2\text{m} - \$1\text{m}) / 1000 \\
 & = \$1\text{m} \\
 & \text{-----} \\
 & \$1000 \\
 & = 1000 \text{ units}
 \end{aligned}$$

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NEW QUESTION 89

CORRECT TEXT - (Topic 2)

Explain why facilitating payments can create possible ethical and legal issues for a company

Essay

Online Learning Inc. (OLI) 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 takes 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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business English. The price of the new course is €500 per student, the variable cost is

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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 temporarily expand its capacity to accommodate the new students.

- A. Mastered
- B. Not Mastered

Answer: A

Explanation:

it can create ethical and legal issues as in some countries it might be considered as a bribe and would be illegal and secondly it gives undue favour to the company as compared to the company who has actually waited for 6 months to get the license.

NEW QUESTION 91

CORRECT TEXT - (Topic 2)

Identify and explain two ways for AMI to hedge its exchange rate risk. Essay

Apex Manufacturing Inc. (AMI) is a Canada-based company that manufactures a 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	<u>500,000</u>
Operating income	500,000
Income taxes (40%)	<u>200,000</u>
Net income	<u>\$300,000</u>

Recently, A new customer made a one-time 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, but the controller insisted that the cost-based approach is more favorable to the company.

- A. Mastered
- B. Not Mastered

Answer: A

Explanation:

Either enter into a forward contract for the used Or enter into a money market hedge to get the receivable at the current spot rate and take the loan in used to be paid by the customer when they are due for their payments.

NEW QUESTION 96

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