# CMA[Q&As]

Certified Management Accountant

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**QUESTION 1**

The risk of a single asset is

A. Nonmarket risk

B. Total risk

C. Portfolio risk

D. Market risk

Correct Answer: B

Total risk is the risk of a single assets, whereas market is its risk if is held in a large portfolio of diversified securities. total risk therefore includes diversifiable and undiversifiable risk

**QUESTION 2**

Yipann Corporation is reviewing an investment proposal. The initial cost, as well as other related data for each year. are presented in the schedule below. All cash flows are assumed to take place at the end of the year. The salvage value of the investment at the Yipann uses a 24% after4axtargetrate of return for new investment proposals. The discount figures for a 24% rate of return are given.

| Year | Present Value of $1.00 Received at the End of Period | Present Value of an Annuity of $1.00 Received at the End of Each Period |
|---|---|---|
| 1 | .81 | .81 |
| 2 | .65 | 1.46 |
| 3 | .52 | 1.98 |
| 4 | .42 | 2.40 |
| 5 | .34 | 2.74 |
| 6 | .28 | 3.02 |
| 7 | .22 | 3.24 |

The net present value of the investment proposal is

A. $4,600

B. $10,450

C. $(55,280)

D. $115,450

Correct Answer: B

**QUESTION 3**

Willis, Inc. has a desired rate of return of 15% and is considering the acquisition of a new machine which costs $400,000 and has a useful life of 5 years. Willis projects that earnings and cash flow will increase as follows:

| Year | Net Earnings | After-Tax Cash Flow |
|---|---|---|
| 1 | $100,000 | $160,000 |
| 2 | 100,000 | 140,000 |
| 3 | 100,000 | 100,000 |
| 4 | 100,000 | 100,000 |
| 5 | 200,000 | 100,000 |

| | 15% Interest Rate Factors | |
|---|---|---|
| Period | Present Value of $1 | Present Value of an Annuity of $1 |
| 1 | 0.87 | 0.87 |
| 2 | 0.76 | 1.63 |
| 3 | 0.66 | 2.29 |
| 4 | 0.57 | 2.86 |
| 5 | 0.50 | 3.36 |

What is the payback period of Willis\\' investment?

A. 1.5 years.

B. 3.0 years.

C. 3.3 years.

D. 4.0 years.

Correct Answer: B

The payback method calculates the number of years required to complete the return of the original investment. The initial cost is $400,000, so Willis will recoup its investment in 3 years ($160,000 in year 1 + $140,000 inyear2 + $100,000 in year 3).

**QUESTION 4**

One of the major assumptions limiting the reliability of breakeven analysis is that

A. Efficiency and productivity will continually increase.

B. Total variable costs will remain unchanged over the relevant range.

C. Total fixed costs will remain unchanged over the relevant range.

D. The cost of production factors varies with changes in technology.

Correct Answer: C

The inherent simplifying assumptions used in CVP analysis are the following: Costs and revenues are predictable and are linear over the relevant range; variable costs change proportionally with activity level; changes in inventory are insignificant in amount fixed costs remain constant over the relevant range of volume; prices remain fixed; production equals sales; there is a relevant range in which the various relationships are true for a given time span; all costs are either fixed or variable; productive efficiency is constant; costs vary only with changes in sales volume; and there is a constant mix of products (or only one product).

**QUESTION 5**

Assume that the probability distribution of Nap\\'s is normal. The firm considers true risk occurring if the project results in a NPV that is zero or less. If the expected NPV is $1,000 and the standard deviation of NPV is $500, what is the probability that the project has an NPV of 0 or less?

A. Less than 3%.

B. Greater than 3%, but less than 9%.

C. Greater than 9%, but less than 16%.

D. Greater than 16%.

Correct Answer: A

Since three standard deviations incorporate over 99% of all observations, and two standard deviations incorporate over 95% of observations, it means less than 5% will not be included within two standard deviations, and this is divided between both ends of the normal curve. Therefore, less than 2.5% of the observations will be in the negative portion of the curve.