# CMA$^{Q\&As}$

Certified Management Accountant

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**QUESTION 1**

Which of the following internal controls is not one typically eliminated when a just-in- time inventory system is introduced?

A. Sophisticated inventory tracking system.

B. Central receiving dock

C. Statical methods for quality assurance.

D. Hard copy receiving report.

Correct Answer: C

Under a JIT system,the quality of parts provided by suppliers is verified by use of statistical controls rather han inspection if oncoming goods.storage,counting,and inspection are eliminated in an effort to perform only value-adding work.

**QUESTION 2**

A proposed investment is not expected to have any salvage value at the end of its 5-year life. Because of realistic depreciation practices, the net carrying amount and the salvage value are equal at the end of each year. For present value purposes, cash flows are assumed to occur at the end of each year. The company uses a 12% after-tax target rate of return.

| Year | Purchase Cost and Carrying Amount | Annual Net After-Tax Cash Flows | Annual Net Income |
|---|---|---|---|
| 0 | $500,000 | $ 0 | $ 0 |
| 1 | 336,000 | 240,000 | 70,000 |
| 2 | 200,000 | 216,000 | 78,000 |
| 3 | 100,000 | 192,000 | 86,000 |
| 4 | 36,000 | 168,000 | 94,000 |
| 5 | 0 | 144,000 | 102,000 |

Discount Factors for a 12% Rate of Return

| Year | Present Value of $1 at the End of Each Period | Present Value of an Annuity of $1 at the End of Each Period |
|---|---|---|
| 1 | .89 | .89 |
| 2 | .80 | 1.69 |
| 3 | .71 | 2.40 |
| 4 | .64 | 3.04 |
| 5 | .57 | 3.61 |

The traditional payback period is

A. Over5years.

B. 2.23years.

C. 1.65years.

D. 2.83 years.

Correct Answer: B

The payback period is the number of years required to complete the return of the original investment. The cash flows are not time adjusted. When the annual cash flows are not uniform, a cumulative computation is necessary. Thus, the total paybackafter2years is $456,000 ($240,000 + $216,000), and another $44,000 ($500,000 -- $456,000) must be recovered in the third year. The third year fraction is found by assuming that cash flows occur evenly throughout the period. Dividing $44,000 by the $192,000 of third year inflows yields a ratio of .23. Hence, the payback period is 2.23 years.

**QUESTION 3**

A cost that may be eliminated by performing an activity more efficiently is a(n)

A. Opportunity cost.

B. Avoidable cost.

C. Cost driver.

D. Indirect cost.

Correct Answer: B

Avoidable costs are those that may be eliminated by not engaging in an activity or by performing it more efficiently.

**QUESTION 4**

Multi Frame Company has the following revenue and cost budgets for the two products it sells:

| | Plastic Frames | Glass Frames |
|---|---|---|
| Sales price | $10.00 | $15.00 |
| Direct materials | (2.00) | (3.00) |
| Direct labor | (3.00) | (5.00) |
| Fixed overhead | (3.00) | (4.00) |
| Net income per unit | $ 2.00 | $ 3.00 |
| Budgeted unit sales | 100,000 | 300,000 |

The budgeted unit sales equal the current unit demand, and total fixed overhead for the year is budgeted at $975,000. Assume that the company plans to maintain the same proportional mix. In numerical calculations, Multi Frame rounds to the nearest cent and unit.The total number of units needed to break even if sales were budgeted at 150,000 units of plastic frames and 300,000 units of glass frames with all other costs remaining constant is

A. 171,958 units.

B. 418,455 units.

C. 153,947 units.

D. 365,168 units.

Correct Answer: C

**QUESTION 5**

Which lye of target market selection occurs when multiple products are sold to one customer group?

A. Market specialization.

B. Full market coverage.

C. Product specialization

D. Selective specialization

Correct Answer: A

Market specialization entails selling multiple products to one customer group. Hence, the risk is that the group will suffer a loss of purchasing power. The advantage is that the firm may develop considerable customer equity among the members of the targeted group. The market specialist may then be able to leverage that equity to sell other products to the group.