IMANET-CMA Q&As

Certified Management Accountant (CMA)

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QUESTION 1

If Williams, Inc. needs a total of $200,000. the firm\\'s weighted-average cost of capital would be

A. 19.8%

B. 4.8%

C. 6.5%

D. 6.8%

Correct Answer: C

Williams\\' preferred capital structure is 50% common stock. However, $ 100.000 of retained earnings (50% of the required $200,000 of capital) will be used before any common stock is issued. Thus, the weighted-average cost of capital will be determined based on the respective costs of the bonds, preferred stock. and retained earnings. The cost of the bonds is given as 4.8%, the cost of the preferred stock is 8%, and the cost of the retained earnings is 7% ($7 dividend -- $100 market price of the common stock). These three costs are then weighted by the preferred capital structure ratios: 30%x4.8% 1.44% 20% x 8.0% 1.60% 50% x 7.0% 3.50% Total 6.54% Rounding to the nearest tenth produces the correct answer of 6.5%. Williams, Inc. is interested in measuring its overall cost of capital and has gathered the following data. Under the terms described as follows, the company can sell unlimited amounts of all instruments. Williams can raise cash by selling $1,000, 8%. 20- year bonds with annual interest payments. In selling the issue, an average premium of $30 per bond would be received, and the firm must pay flotation costs of $30 per bond. The after-tax cost of funds is estimated to be 4.8%. Williams can sell $8 preferred stock at par value, $105 per share. The cost of issuing and selling the preferred stock is expected to be $5 per share. Williams\\' common stock is currently selling for $100 per share. The firm expects to pay cash dividends of $7 per share next year, and the dividends are expected to remain constant. The stock will have to be under priced by $3 per share, and flotation costs are expected to amount to $5 per share. Williams expects to have available $100,000 of retained earnings in the coming year, once these retained earnings are exhausted, the firm will use new common stock as the form of common stock equity financing. Williams\\' preferred capital structure is Long-term debt 30% Preferred stock 20% Common stock 50%

QUESTION 2

If Carlisle Company did not have preferred stock, the degree of total leverage would

A. Decrease in proportion to a decrease in financial leverage.

B. Increase in proportion to an increase in financial leverage.

C. Remain the same.

D. Decrease but not be proportional to the decrease in financial leverage.

Correct Answer: A

QUESTION 3

When a firm finances each asset with a financial instrument of the same approximate maturity as the life of the assets, it is applying

A. Working capital management

B. Return maximization

C. Financial leverage

D. A hedging approach

Correct Answer: D

Maturity matching, or equalizing the life of an asset and the debt instrument used to finance that asset, is a hedging approach. The basic concept is that the company has the entire life of the asset to recover the amount invested before having to pay the lender.

QUESTION 4

Pena Company is considering a project that calls for an initial cash outlay of $50,000. The expected net cash inflows from the project are $7,791 for each of 10 years. What is the PR of the project?

A. 6%

B. 7%

C. 8%

D. 9%

Correct Answer: D

QUESTION 5

Which of the following qualitative factors favors the buy choice in an insourcing vs. outsourcing decision?

A. Maintaining a long-run relationship with suppliers is desirable.

B. Quality control is critical.

C. Idle capacity is available.

D. All of the answers are correct.

Correct Answer: A

The maintenance of long-run relationships with suppliers may become paramount in a make-or-buy decision. Abandoning long-run supplier relationships may cause difficulty in obtaining needed parts when terminated suppliers find it advantageous not to supply parts in the future.