# IMANET-CMA Q&As

Certified Management Accountant (CMA)

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**QUESTION 1**

Which of the following is the most significant disadvantage of a cost-based transfer price?

A. Requires internally developed information

B. Imposes market effects on company operations.

C. Requires externally developed information.

D. May not promote long-term efficiencies.

Correct Answer: CD

A cost-based transfer price is a price charged in an intracompany transaction that covers only the selling subunits costs. However, by ignoring relevant alternative market prices, a company may pay more than is necessary to produce goods and services internally.

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**QUESTION 2**

Union Electric Company must clean up the water released from its generating plant. The company\\'s cost of capital is 12 percent for average risk projects, and that rate is normally adjusted up or down by 2 percentage points for high- and low- risk projects. Clean-Up Plan A. which is of average risk, has an initial cost of $10 million, and its operating cost will be $1 million per year for its 10-year life. Plan B, which is a high-risk project, has an initial cost of $5 million, and its annual operating cost over Years 1 to 10 will be $2 million. What is the approximate PV of costs for the better project?

A. $15,432,000

B. $15,650,000

C. $16,300,000

D. $17,290,000

Correct Answer: B

The cash flows of Plan A are discounted at 12%, the company\\'s cost of capital for average risk projects.

Plan B is evaluated with a lower cost of capital that reflects a greater risk of the cash outflow of the project.

Thus, the cash flows of Plan B are discounted at 10% (12% -- 2%). the company\\'s adjusted cost of capital

for high risk projects. The net present value of each plan is the initial cost plus the present value of an

annuity for 10 years at the appropriate rate multiplied times the annual operating cost. The present value

factors are found in the tools section of CMA Test Prep.

Plan A NPV = $10,000,000 + ($1,000,000 x 5.650)

Plan A NPV = $15,650,000

Plan B NPV = $5,000,000 + ($2,000,000 x 6.145)

Plan B NPV = $17,290,000

Plan A has a lower NPV and thus is the better project.

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**QUESTION 3**

The degree of operating leverage for Carlisle Company is

A. 24

B. 178

C. 1.35

D. 1.2

Correct Answer: B

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**QUESTION 4**

By using the dividend growth model, estimate the cost of equity capital for a firm with a stock price of $30 00, an estimated dividend at the end of the first year of $300 per share, and an expected growth rate of 10%.

A. 21.1%

B. 122%

C. 110%

D. 200%

Correct Answer: D

Under the dividend growth model, the cost of equity equals the expected growth rate plus the quotient of the next dividend and the current market price. Thus the cost of equity capital is 20% [10% + ($3 + 11$30)].This model assumes that the payout ratio, retention rate, and the earnings per share growth rate are all constant.

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**QUESTION 5**

The cost of funds from retained earnings for Williams, Inc. is

A. 7.0%

B. 7.6%

C. 7.4%

D. 8.1%

Correct Answer: A