

CMA Examination Sample Questions



IMA's Certification for Accountants and Financial Professionals in Business

CMA Part 1

Financial Reporting, Planning, Performance, and Analytics - Examination Sample Questions

- 1. When a fixed asset is sold for less than book value, which one of the following will decrease?
 - a. Total current assets.
 - b. Current ratio.
 - c. Net profit.
 - d. Net working capital.
- 2. For the fiscal year just ended, Doran Electronics had the following results.

Net income	\$920,000
Depreciation expense	110,000
Increase in accounts payable	45,000
Increase in accounts receivable	73,000
Increase in deferred income tax liability	16,000

Doran's net cash flow from operating activities is

- a. \$928,000.
- b. \$986,000.
- c. \$1,018,000.
- d. \$1,074,000.
- **3.** Which one of the following techniques would **most** likely be used to analyze reductions in the time required to perform a task as experience with that task increases?
 - a. Regression analysis.
 - b. Learning curve analysis.
 - c. Sensitivity analysis.
 - d. Normal probability analysis.
- **4.** The sales manager of Serito Doll Company has suggested that an expanded advertising campaign costing \$40,000 would increase the sales and profits of the company. He has developed the following probability distribution for the effect of the advertising campaign on company sales.

Sales increase

<u>(units)</u>	Probability
15,000	.10
30,000	.35
45,000	.10
60,000	.25
75,000	.20

The company sells the dolls at \$5.20 each. The cost of each doll is \$3.20. Serito's expected incremental profit, if the advertising campaign is adopted, would be

- a. \$6,500.
- b. \$46,500.
- c. \$53,000.
- d. \$93,000.

CMA Part 1

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- 5. Ming Company has budgeted sales at 6,300 units for the next fiscal year, and desires to have 590 good units on hand at the end of that year. Beginning inventory is 470 units. Ming has found from past experience that 10% of all units produced do not pass final inspection, and must therefore be destroyed. How many units should Ming plan to produce in the next fiscal year?
 - a. 6,890.
 - b. 7,062.
 - c. 7,133.
 - d. 7,186.
- 6. Randall Company uses standard costing and flexible budgeting and is evaluating its direct labor. The total budget variance can usually be broken down into two other variances identified as the
 - a. direct labor rate variance and direct labor efficiency variance.
 - b. direct labor cost variance and the direct labor volume variance.
 - c. direct labor rate variance and direct labor volume variance.
 - d. direct labor cost variance and direct labor efficiency variance.
- 7. Sara Bellows, manager of the telecommunication sales team, has the following department budget.

Billings - long distance	\$350,000
Billings - phone card	75,000
Billings - toll free	265,000

Her responsibility center is **best** described as a

- a. cost center.
- b. revenue center.
- c. profit center.
- d. investment center.
- 8. Kimber Company has the following unit cost for the current year.

Raw material	\$20.00
Direct labor	25.00
Variable manufacturing overhead	10.00
Fixed manufacturing overhead	15.00
Total unit cost	\$70.00

Fixed manufacturing cost is based on an annual activity level of 8,000 units. Based on these data, the total manufacturing cost expected to be incurred to manufacture 9,000 units in the current year is

- a. \$560,000.
- b. \$575,000.
- c. \$615,000.
- d. \$630,000.

CMA Part 1

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- **9.** Which one of the following options would allow multiple employees to use a browser to remotely access and use application software?
 - a. Virtualization.
 - b. Cloud computing.
 - c. Distributed ledger.
 - d. Blockchain.
- 10. Confidential data can be securely transmitted over the internet by using
 - a. single-use passwords.
 - b. firewalls.
 - c. encryption.
 - d. digital signatures.

1. Shown below are components of a company's financial statements.

\$600,000
300,000
2,400,000
1,500,000
120,000

What percentage value would net income be on a common size financial statement?

a. 5%.

b. 8%.

c. 20%.

- d. 40%.
- 2. In analyzing the short-term liquidity of a firm, many analysts prefer to use the quick (or acid test) ratio rather than the current ratio. The primary reason for this preference is that the
 - a. quick ratio excludes account receivables.
 - b. current ratio includes marketable securities which may be mispriced.
 - c. pro-forma cash flow statements focus on cash only.
 - d. Conversion of inventory into cash is less reliable.
- **3.** Frasier Products has been growing at a rate of 10% per year and expects this growth to continue and produce earnings per share of \$4.00 next year. The firm has a dividend payout ratio of 35% and a beta value of 1.25. If the risk-free rate is 7% and the return on the market is 15%, what is the expected current market value of Frasier's common stock?
 - a. \$14.00.
 - b. \$16.00.
 - c. \$20.00.
 - d. \$28.00.
- 4. Powell Industries deals with customers throughout the country and is attempting to more efficiently collect its accounts receivable. A major bank has offered to develop and operate a lock-box system for Powell at a cost of \$90,000 per year. Powell averages 300 receipts per day at an average of \$2,500 each. Its short-term interest cost is 8% per year. Using a 360-day year, what reduction in average collection time would be needed in order to justify the lock-box system?
 - a. 0.67 days.
 - b. 1.20 days.
 - c. 1.25 days.
 - d. 1.50 days.
- 5. Breakeven quantity is defined as the volume of output at which revenues are equal to
 - a. marginal costs.
 - b. total costs.
 - c. variable costs.
 - d. fixed costs.
- 6. In a management decision process, the cost measurement of the benefits sacrificed due to selecting an alternative

CMA Part 2 Strategic Financial Management - Examination Sample Questions

use of resources is **most** often referred to as a(n)

- a. relevant cost.
- b. sunk cost.
- c. opportunity cost.
- d. differential cost.
- 7. Allstar Company invests in a project with expected cash inflows of \$9,000 per year for four years. All cash flows occur at yearend. The required return on investment is 9%. If the project generates a net present value (NPV) of \$3,000, what is the amount of the initial investment in the project?
 - a. \$11,253.
 - b. \$13,236.
 - c. \$26,160.
 - d. \$29,160.
- **8.** Diane Harper, Vice President of Finance for BGN Industries, is reviewing material prepared by her staff prior to the board of directors meeting at which she must recommend one of four mutually exclusive options for a new product line. The summary information below indicates the initial investment required, the present value of cash inflows (excluding the initial investment) at BGN's hurdle rate of 16%, and the internal rate of return (IRR) for each of the four options.

	Pres	sent Value of	
Option	Investment	Cash Inflows at 16%	IRR
Х	\$3,950,000	\$3,800,000	15.5%
Υ	3,000,000	3,750,000	19.0%
Z	2,000,000	2,825,000	17.5%
W	800,000	1,100,000	18.0%

If there are no capital rationing constraints, which option should Harper recommend?

- a. Option X.
- b. Option Y.
- c. Option Z.
- d. Option W.
- **9.** Even though a company implements an enterprise risk management program, it still is likely to have risk. This risk is considered
 - a. tolerable risks.
 - b. inherent risks.
 - c. residual risks.
 - d. uninsurable risks.

CMA Part 2 Strategic Financial Management - Examination Sample Questions

- **10.** Quint Company uses the payback method as part of its analysis of capital investments. One of its projects requires a \$140,000 investment and has the following projected before-tax cash flows.
 - Year 1 \$60,000
 - Year 2 60,000
 - Year 3 60,000
 - Year 4 80,000
 - Year 5 80,000

Quint has an effective tax rate of 40%. Based on these data, the after-tax payback period is

- a. 1.5.
- b. 2.3.
- с. 3.4.
- d. 3.7.

Answers CMA Part 1

- 1. Correct answer c. The sale of a fixed asset for less that book value will decrease net profit as the loss on the sale will be recognized on the Income Statement.
- 2. Correct answer c. Doran's net cash flow from operating activities is \$1,018,000 as shown below.

Net income	\$920,000
Depreciation expense	+110,000
Increase in payables	+45,000
Increase in receivables	-73,000
Increase in tax liability	+16,000
Cash flow	\$1,018,000

3. Correct answer b. Learning curve analysis is a function that shows how labor hours per unit decline as units of production increase due to workers learning and becoming better at their jobs.

4. Correct answer c.

Increased units sold	=	.1 (15,000) + .35 (30,000) + .1 (45,000) + .25 (60,000) + .2 (75,000)
	=	1,500 + 10,500 + 4,500 + 15,000 + 15,000
	=	46,500 units
Increased profit	=	[46,500 × (\$5.20 - \$3.20)] - \$40,000
	=	\$93,000 - \$40,000
	=	<u>\$53,000</u>

5. Correct answer c. Ming should plan to produce 7,133 units next fiscal year.

Sales - Beg. Inventory + Er	nding In	ventory
6,300 - 470 + 590	=	6,420 units
To cover 10% scrap	=	$6,420 \div .9 = 7,133 \text{ units}$

- **6.** Correct answer a. The rate variance will show how the price paid for direct labor varies from the standard price. The efficiency variance shows how the number of direct labor hours used varies from the standard number of direct labor hours.
- 7. Correct answer b. A sales team is generally only accountable for sales dollars; this type of responsibility center is, therefore, a revenue center.

8. Correct answer c. Kimber's total manufacturing cost will be \$615,000 as shown below.

Variable cost:	9,000 units x (\$20 + \$25 + \$10)	=	\$495,000
Fixed cost:	8,000 units x \$15	=	120,000
	Total manufacturing cost		<u>\$615,000</u>

- **9.** Correct answer b. Cloud computing is the process of using a browser to remotely access software, data storage, hardware and applications.
- **10.** Correct answer c. Encryption technology converts data into a code. Unauthorized users may still be able to access the data, but without the encryption key, they will be unable to decode the information; thus encrypting confidential data is a secure way of transmitting it over the Internet.

- **1.** Correct answer c. 120,000/600,000 = 0.20 or 20%
- 2. Correct answer d. Both the current ratio and the quick ratio include cash, accounts receivable, and marketable securities; therefore a, b, and c are incorrect. Choice d is correct because the quick ratio does not include inventory, which is considered less liquid than the other current assets.
- **3.** Correct answer c. The expected current value of Frasier's common stock in \$20 as shown below.

Dividend	=	Payout ratio x Earnings per share
	=	.35 x \$4.00
	=	\$1.40
Required return	=	Risk-free rate + Beta (Market rate - Risk-free rate)
	=	.07 + 1.25 (.1507)
	=	.17
Value of stock	=	Dividend ÷ (Required return - Dividend growth rate)
	=	\$1.40 ÷ (.1710)
	=	<u>\$20.00</u>

4. Correct answer d. Powell would need to reduce its average collection time by 1.5 days in order to justify the use of the lockbox as shown below.

Daily collections:	300 x \$2,500	=	\$750,000
Daily interest:	\$750,000 x .08	=	\$60,000
Reduction in days:	\$90,000 ÷ \$60,000	=	1.5 days

- 5. Correct answer b. Breakeven quantity can be defined as the point where operating income is equal to zero. Therefore, revenue must equal total costs.
- 6. Correct answer c. The benefits sacrificed by selecting an alternative use of resources is opportunity cost. Opportunity cost is the contribution foregone by not using a limited resource in its next best alternative use.
- 7. Correct answer c. Allstar's initial investment is \$26,160 as shown below.

Present value of cash inflows	\$9,000 x 3.24 = \$29,160
Initial investment	\$29,160 - \$3,000 = \$26,160

- **8.** Correct answer c. BGN Industries should select Option Z as it has the highest net present value (\$2,825,000 \$2,000,000) and the internal rate of return is greater than the hurdle rate.
- 9. Correct answer c. Residual risk is the risk remaining after controls have been put in place to mitigate the inherent risk.
- 10. Correct answer d. Quint's payback period is 3.7 years as shown below.

	Atter-tax cash flow	Investment less cash flow
Year 1	\$60,000 x .6 = \$36,000	\$104,000
Year 2	\$60,000 x .6 = \$36,000	68,000
Year 3	\$60,000 x .6 = \$36,000	32,000
Year 4	\$80,000 x .6 = \$48,000	\$32,000 ÷ \$48,000 = .667
	Payback period = 3.7 years	