

100% Money Back
Guarantee

Vendor:IMANET

Exam Code:CMA

Exam Name:Certified Management Accountant

Version:Demo

QUESTION 1

Calamity Cauliflower Corporation is considering undertaking a capital project. The company would have to commit \$24,000 of working capital in addition to an immediate outlay of \$160,000 for new equipment. The project is expected to generate \$100,000 of annual income for 10 years. At the end of that time, the new equipment, which will be depreciated on a straight-line basis, is expected to have a salvage value of \$10,000. The existing equipment that would be sold to make room for the project has a historical cost of \$220,000 and accumulated depreciation of \$208,000. It has an estimated remaining useful life of 2 years and the remaining book value is being depreciated on a straight-line basis. A scrap dealer has agreed to buy it for \$8,000. The company's effective tax rate is 40%. Calamity Cauliflower's expected net cash inflow for the first year of the project is

- A. \$100,000
- B. \$65,200
- C. \$60,000
- D. \$54,800

Correct Answer: B

The annual expected net cash inflow from a capital project consists of the after-tax cash inflow from operations $\{ \$100,000 \text{ gross cash inflow} - (\$100,000 \times .40) \text{ income tax expense} \} = \$60,000$ plus the depreciation tax shield $[(\$15,000 \text{ annual depreciation expense on new equipment} - \$2,000 \text{ annual depreciation expense on old equipment}) \times .40] = \$5,200$, or \$65,200.

QUESTION 2

The following data pertain to a 4-year project being considered by Metro Industries:

A depreciable asset that costs \$1,200,000 will be acquired on January 1. The asset, which is expected to have a \$200,000 salvage value at the end of 4 years, qualifies as 3-year property under the Modified Accelerated Cost Recovery System (MACRS).

The new asset will replace an existing asset that has a tax basis of \$150,000 and can be sold on the same January 1 for \$180,000.

The project is expected to provide added annual sales of 30,000 units at \$20. Additional cash operating costs are: variable, \$12 per unit fixed, \$90,000 per year.

A \$50,000 working capital investment that is fully recoverable at the end of the fourth year is required.

Metro is subject to a 40% income tax rate and rounds all computations to the nearest dollar. Assume that any gain or loss affects the taxes paid at the end of the year in which it occurred. The company uses the net present value method to analyze investments and will employ the following factors and rates.

<u>Period</u>	<u>Present Value of \$1 at 12%</u>	<u>Present Value of \$1 Annuity at 12%</u>	<u>MACRS</u>
1	0.89	0.89	33%
2	0.80	1.69	45
3	0.71	2.40	15
4	0.64	3.04	7

4. The overall discounted-cash-flow impact of the working capital investment on Metro's project is

- A. \$(2,800)
- B. \$(18,000)
- C. \$(50,000)
- D. \$(59,200)

Correct Answer: B

The working capital investment is treated as a \$50,000 outflow at the beginning of the project and a \$50,000 inflow at the end of 4 years. Accordingly, the present value of the inflow after 4 years should be subtracted from the initial \$50,000 outlay. The overall discounted-cash-flow impact of the working capital investment is \$18,000 [$\$50,000 - (\$50,000 \times .64 \text{ PV of } \$1 \text{ at } 12\% \text{ for four periods})$].

QUESTION 3

Which of the following best describes a market synergy?

- A. Technology transfer from one product to another
- B. Bundling of products distributed through the same channels
- C. Production of multiple products at one facility
- D. Use of complementary management skills to achieve entry into a new market

Correct Answer: B

Market synergy arises when products or services have positive complementary effects. Shopping malls reflect this type of synergy. Also, bundling of products, distribution through the same distribution channels, and usage of the same sales force are other examples of market synergies.

QUESTION 4

An annual payment in perpetuity of \$1,000 per year beginning immediately is said to offer a 12% interest rate. What is its present value?

- A. \$8,33333
- B. \$9,33333
- C. \$10,000
- D. \$12,000

Correct Answer: B

At 12%, the factor for the present value of an annuity approaches 8.33333. That assumes the first payment is one year away. Since the first payment is today, 1.00 must be added to the above factor, resulting in 9.33333. Multiplying 933333 times \$1,000 results in a present value of \$9,333 33.

QUESTION 5

Which of the following is the major difference between the capital asset pricing model (CAPM) and arbitrage pricing theory (APT)?

- A. CAPM uses discounted cash flows whereas APT does not.
- B. CAPM uses a single systematic risk factor to explain an asset's return whereas APT uses multiple systematic factors.
- C. APT uses a single systematic risk factor to explain an asset's return whereas CAPM uses multiple systematic factors.
- D. Under CAPM, the beta coefficient of the risk-free rate of return is assumed to be higher than that of any asset in the portfolio. Under APT, the beta coefficient of every asset in the portfolio is individual compared to the beta of the risk-free rate.

Correct Answer: B

CAPM uses a single systematic risk factor to explain an asset's return whereas APT uses multiple systematic factors.

QUESTION 6

A distinction between forecasting and planning

- A. Is not valid because they are synonyms
- B. Arises because forecasting covers the short term and planning does not
- C. Is that forecasts are used in planning
- D. Is that forecasting is a management activity, whereas planning is a technical activity

Correct Answer: C

Planning is the determination of what is to be done, and of how, when, where, and by whom it is to be done. Plans save

to direct the activated that all organizational members must undertake to move the organization from where it is to where it wants to be. Forecasting is the basis of planning because it projects the future. A variety of quantitative methods are used in forecasting

QUESTION 7

Henderson, Inc. has purchased a new fleet of trucks to deliver its merchandise. The trucks have a useful life of 8 years and cost a total of \$500,000. Henderson expects its net increase in after-tax cash flow to be \$150,000 in Year 1, \$175,000 in Year 2, \$125,000 in Year 3, and \$100,000 in each of the remaining years. If the net cash flow is \$130,000 a year, what is the payback time for Henderson's fleet of trucks?

- A. 3years.
- B. 3.15years.
- C. 3.85 years.
- D. 4years.

Correct Answer: C

payback period for an investment, ignoring the time value of money, can be found by accumulating each year's net cash flows until the initial investment is recovered. Therefore, dividing the \$500,000 initial investment by the annual \$130,000 inflow gives a payback time of 3.85 years.

QUESTION 8

If firm increases its cash balance by issuing additional shares of common stock, networking capital

- A. Remains unchanged and the current ratio remains unchanged.
- B. Increases and the current ratio remains unchanged.
- C. Increases and the current ratio decreases.
- D. Increases and the current ratio increases.

Correct Answer: D

Net working capital is the excess of current assets over current liabilities. The current ratio equals current assets divided by current liabilities. Selling stock for cash increases current assets and stockholders' equity, with no effect on current liabilities. The result is an increase in working capital and the current ratio.

QUESTION 9

Average daily collection of checks for a firm is \$40,000. The firm also writes on the average \$35,000 of checks daily. If the collection period for checks is 5 days, calculate the net float.

- A. \$25,000

- B. \$40,000
- C. \$175,000
- D. \$200,000

Correct Answer: A

The difference between collections and payables is \$5,000 daily. Five day's worth amounts to \$25,000 of float.

QUESTION 10

Which one of the following statements about the payback method of investment analysis is correct? The payback method

- A. Does not consider the time value of money.
- B. Considers cash flows after the payback has been reached.
- C. Uses discounted cash flow techniques.
- D. Generally leads to the same decision as other methods for long-term projects.

Correct Answer: A

The payback method calculates the amount of time required to complete the return of the original investment, i.e. the time it takes for a new asset to pay for itself. Although the payback method is easy to calculate, it has inherent problems. The time value of money and returns after the payback period are not considered.

QUESTION 11

Which form of business market segmentation may be determined by customer technology?

- A. Demographic
- B. Purchasing
- C. Operational
- D. Situational

Correct Answer: C

Operational segmentation is determined by the element(s) of customer technology that the firm wants to emphasize, the degree of customer usage (for example, from nonusers to heavy users), or customers' service (from few to many).

QUESTION 12

Which pricing objective is stated as a percentage ratio of profits to sales?

- A. Image enhancement

B. Stabilization.

C. Target margin maximization.

D. Achievement of market share.

Correct Answer: C

Pricing objectives include profit maximization. Classical economic theory assumes all firms select the price that results in the highest profit. An alternative objective is target margin maximization. This objective is stated as a percentage ratio of profits to sales.