



# IMANET-CMA<sup>Q&As</sup>

Certified Management Accountant (CMA)

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### QUESTION 1

The process of developing plans for a company's expected operations and controlling the operations to help carry out those plans is?

- A. Preparing a period budget.
- B. Preparing a master budget.
- C. Budgetary control
- D. Participative budgeting.

Correct Answer: C

The budget has the same structure as the organization itself. It is made up of a hierarchy of smaller budgets, each representing the plan of a division, department, or other unit in the organizational structure. Successful budgeting requires completion of a plan that states organizational goals before the budgeting process. Prevention and detection of deviations from the budget are the control purposes of budgets.

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### QUESTION 2

Flex Corporation is studying a capital acquisition proposal in which newly acquired assets will be depreciated using the straight-line method. Which one of the following statements about the proposal would be incorrect if a switch is made to the Modified Accelerated Cost Recovery System (MACRS)?

- A. The net present value will increase.
- B. The internal rate of return will increase.
- C. The payback period will be shortened.
- D. The profitability index will decrease.

Correct Answer: D

MACRS is an accelerated method of depreciation under which depreciation expense will be greater during the early years of an asset's life. Thus, the outflows for income taxes will be less in the early years, but greater in the later years<sup>1</sup> and the NPV (present value of net cash inflows -- investment) will be increased. The profitability index (present value of net cash inflows ÷ the investment) must increase if the NPV increases.

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### QUESTION 3

The costs described in situations 2, 3, and 5 are

- A. Sunk costs.
- B. Discretionary costs.
- C. Relevant costs.



D. Differential costs.

Correct Answer: A

Joint production costs are irrelevant to deciding whether to sell at split-off or to process further. Similarly, already incurred RandD costs and the costs of obsolete inventory are irrelevant to future decisions. Thus, these are examples of sunk costs. Sunk costs are unavoidable. They are the result of a past irrevocable decision and thus have no relevance to future decisions.

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#### QUESTION 4

Which one of the following is least likely to be an objective of a cost accounting system?

- A. Product costing.
- B. Department efficiency.
- C. Inventory valuation.
- D. Sales commission determination.

Correct Answer: D

A cost accounting system has numerous objectives, including product costing, assessing departmental efficiency, inventory valuation. income determination, and planning, evaluating, and controlling operations. Determining sales commissions is not an objective of a cost accounting system because such commissions are based on sales, not costs.

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#### QUESTION 5

"Committed costs" are

- A. Costs which management decides to incur in the current period to enable the company to achieve objectives other than the filling of orders placed by customers.
- B. Costs which are likely to respond to the amount of attention devoted to them by a specified manager.
- C. Costs which are governed mainly by past decisions that established the present levels of operating and organizational capacity and which only change slowly in response to small changes in capacity.
- D. Amortization of costs which were capitalized in previous periods.

Correct Answer: C

Committed costs are those which are required as a result of past decisions.

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