IMANET-CMA Q&As

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QUESTION 1

Gleason Co. has two products, a frozen dessert and ready-to-bake breakfast rolls, ready for introduction. However, plant capacity is limited, and only one product can be introduced at present. Therefore, Gleason has conducted a market study, at a cost of $26,000, to determine which product will be more profitable. The results of the study follow.

Sales of Desserts at $1.80/unit		Sales of Rolls at $1.20/unit	
Volume	Probability	Volume	Probability
250,000	.30	200,000	.20
300,000	.40	250,000	.50
350,000	.20	300,000	.20
400,000	.10	350,000	.10

The costs associated with the two products have been estimated by Gleason\\'s cost accounting department and are shown as follows:

	Dessert	Rolls
Ingredients per unit	$ .40	$ .25
Direct labor per unit	.35	.30
Variable overhead per unit	.40	.20
Production tooling*	48,000	25,000
Advertising	30,000	20,000

Gleason treats production tooling as a current operating expense rather than capitalizing it as a fixed asset.Assuming that Gleason elects to produce the frozen dessert, the profit that would have been earned on the breakfast rolls is a(n)

A. Deferrable cost.

B. Sunk cost.

C. Avoidable cost.

D. Opportunity cost.

Correct Answer: D

An opportunity cost is the maximum return that could have been earned on the next best alternative use of a resource. In this case, the lost profit on the rolls is an opportunity cost. Regis Company manufactures plugs used in its manufacturing cycle at a cost of $36 per unit that includes $8 of fixed overhead

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

If Vp is the value of a put option, Vc is the value of a call option, Vs is the value of the stock, and Pve is the present value of the exercise price, what is the formula for the put- call theorem for European options?

A. Vs = Pve – Vp -Vc

B. Vs + Vp – Vc = Pve

C. Vs / Pve = Vp / Vc

D. Pve = Vs – Vp - vc

Correct Answer: B

For European option, given market equilibrium for all relevant prices (no arbitrage possibilities) , equal exercise prices for the put and the call, and the same expiration date, the put-call parity theorem states that a fixed relation applies to the market values of the put and call options on a security. For example, a strategy of selling one call option, buying one share of the stock, and buying one put option should result in a risk-free return. The gain (loss) from the stock and the put should equal gain (loss) on the call. If Vs is the value of the stock, Vp is the value of the put, Vc is the value of the call, and Pve is the present value of the exercise price (the time interval is the time to expiration), the formula for put-call parity may be stated as follows: Vs + Vp ?Vc = Pve

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QUESTION 4

City\\' Development, Inc. is considering a new investment project which will involve building a large office

block in Frankfurt-am-Main. The firm\\'s financial analysis department has estimated that the proposed

investment has the following estimated rate of return distributions. Rate of Return Probability\\' (5%) 30%

10% 50%

20% 20%

Calculate the expected rate of return.

A. 5.5%

B. 7.5%

C. 10.5%

D. 117%

Correct Answer: B

QUESTION 5

Customer lifetime value for a particular customer is the

A. Net present value of the cash flows related to a particular customer.

B. Sum of the customer\\'s purchases from the firm.

C. Undiscounted amount of the net cash flows related to a particular customer.

D. Customer equity.

Correct Answer: A

A firm should estimate customer lifetime value, the net present value of the cash flows (purchases -- costs of acquiring, selling to, and serving the customer) related to a particular customer. This amount indicates whether a given investment in a customer is justified.