# IMANET-CMA Q&As

Certified Management Accountant (CMA)

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**QUESTION 1**

Brent Co. has intracompany service transfers from Division Core, a cost center, to Division Pro, a profit center. Under stable economic conditions, which of the following transfer prices is likely to be most conducive to evaluating whether both divisions have met their responsibilities?

A. Actual cost.

B. Standard van able cost.

C. Actual cost plus markup

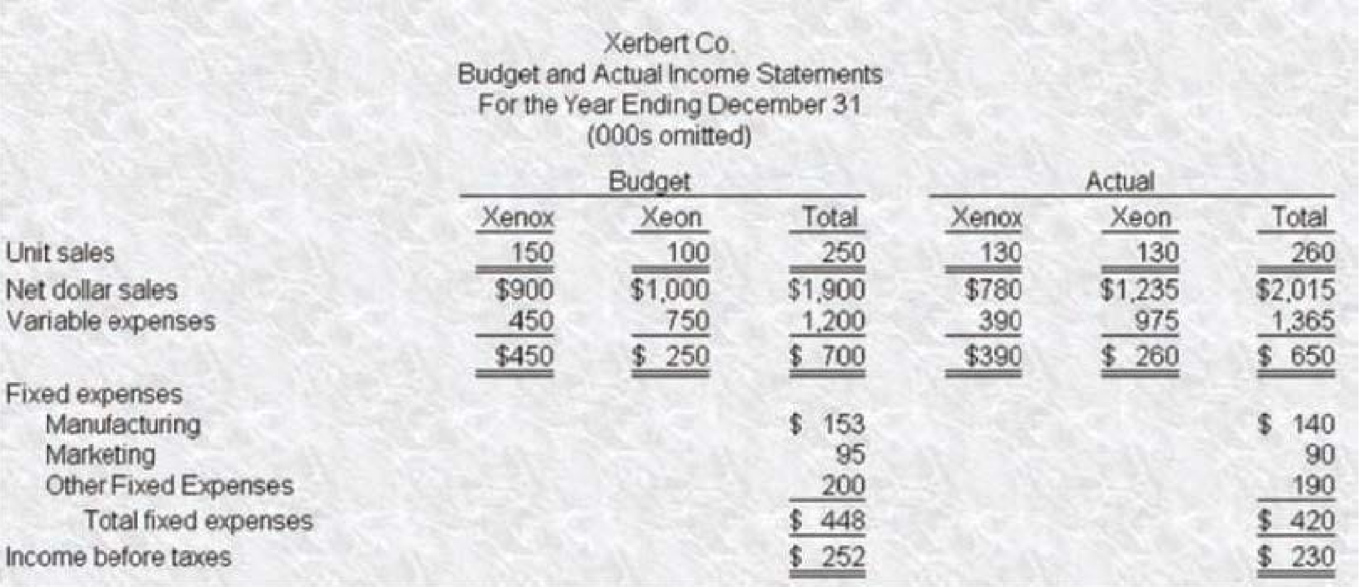
D. Negotiated price.

Correct Answer: B

A cost center is responsible for costs only. A profit center is responsible for costs and revenues. Hence, the transfer from the cost center must, by definition, be at a cost-based figure The transfer should be at standard variable cost so as to isolate any variance resulting from Core\\'s operations. Assuming fixed costs are not controllable in the short run, the relevant variance is the difference between actual cost and the standard vanable cost.

**QUESTION 2**

Exhibit



Xerbert Co.
Budget and Actual Income Statements
For the Year Ending December 31
(000s omitted)

| | Budget | | | Actual | | |
|---|---|---|---|---|---|---|
| | Xenox | Xeon | Total | Xenox | Xeon | Total |
| Unit sales | 150 | 100 | 250 | 130 | 130 | 260 |
| Net dollar sales | $900 | $1,000 | $1,900 | $780 | $1,235 | $2,015 |
| Variable expenses | 450 | 750 | 1,200 | 390 | 975 | 1,365 |
| | $450 | $ 250 | $ 700 | $390 | $ 260 | $ 650 |
| Fixed expenses | | | | | | |
| Manufacturing | | | $ 153 | | | $ 140 |
| Marketing | | | 95 | | | 90 |
| Other Fixed Expenses | | | 200 | | | 190 |
| Total fixed expenses | | | $ 448 | | | $ 420 |
| Income before taxes | | | $ 252 | | | $ 230 |

The percentage difference between the actual and the budgeted breakeven point in units was that actual was

A. 500% above budget

B. 6.67% below budget.

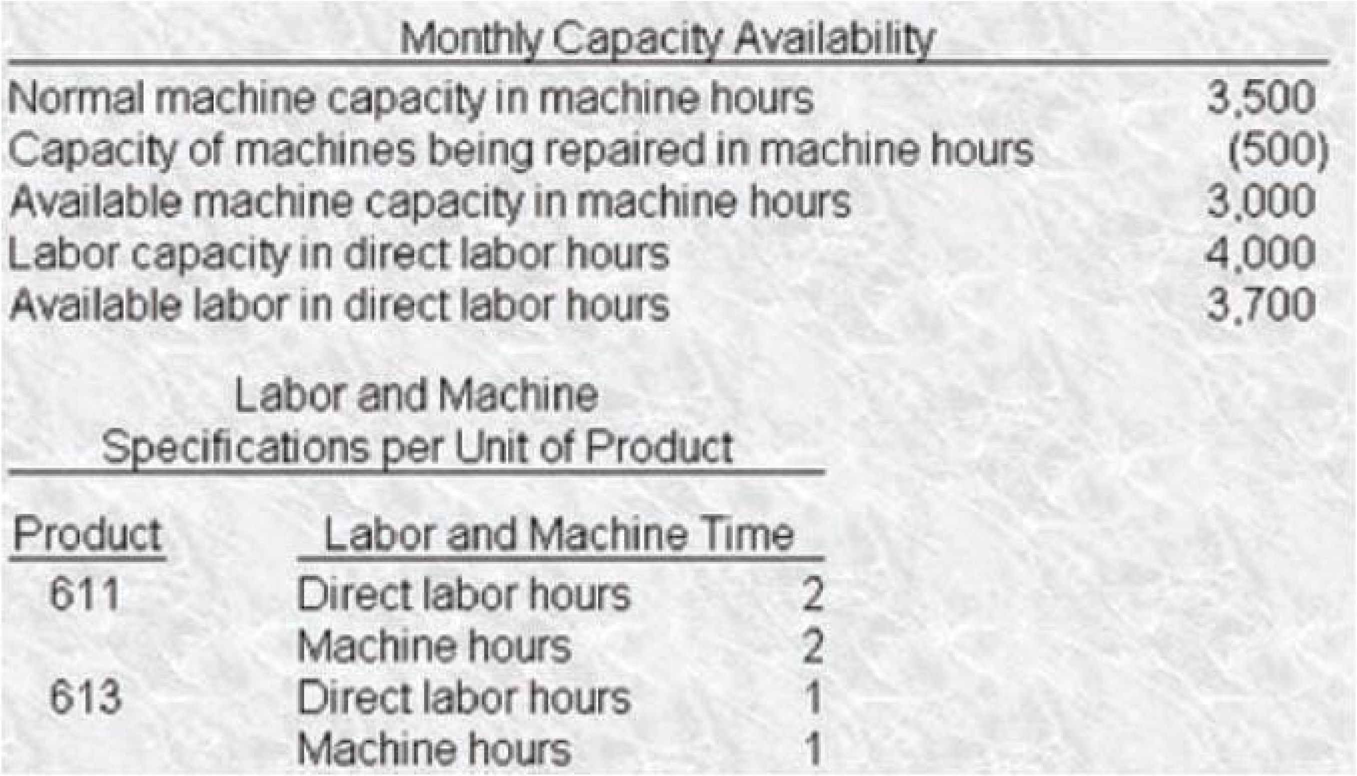
C. 6.67% above budget

D. 5.00% below budget.

Correct Answer: A

**QUESTION 3**

Bakker Industries sells three products (Products 611.613. and 615) that it manufactures in a factory consisting of one department Both labor and machine time are applied to the products. Bakker\\'s management is planning its production schedule for the next several months. There are labor shortages in the community. Some of the machines will be out of service for extensive overhauling Available machine and labor time for each of the next 6 months is listed below. Monthly Capacity Availability What is the excess (deficiency) for labor hours?



| Monthly Capacity Availability | |
|---|---|
| Normal machine capacity in machine hours | 3,500 |
| Capacity of machines being repaired in machine hours | (500) |
| Available machine capacity in machine hours | 3,000 |
| Labor capacity in direct labor hours | 4,000 |
| Available labor in direct labor hours | 3,700 |

Labor and Machine
Specifications per Unit of Product

| Product | Labor and Machine Time | |
|---|---|---|
| 611 | Direct labor hours | 2 |
| | Machine hours | 2 |
| 613 | Direct labor hours | 1 |
| | Machine hours | 1 |

A. (100) hours

B. 300 hours.

C. 700 hours

D. 1.800 hours.

Correct Answer: B

The excess (deficiency) for labor hours in a given department is found by initial\\' multipl\\'4ng the labor hours required to produce a product by the demand for that product. The totals would then be 1.000 for product 611,400 for product 613, and 2.000 for product 615. The totals are then added together to get 3,400 hours. This number is then subtracted from labor hours available, 3,700. to get an excess of 300 labor hours.

**QUESTION 4**

Global Company Press has $150 par value preferred stock with a market price of $120 a share, The organization pays a $15 per share annual dividend. Global\\'s current marginal tax rate is 40%. Looking to the future, the company anticipates maintaining its current capital structure. What is the component cost of preferred stock to Global?

A. 4

B. 5%

C. 10%

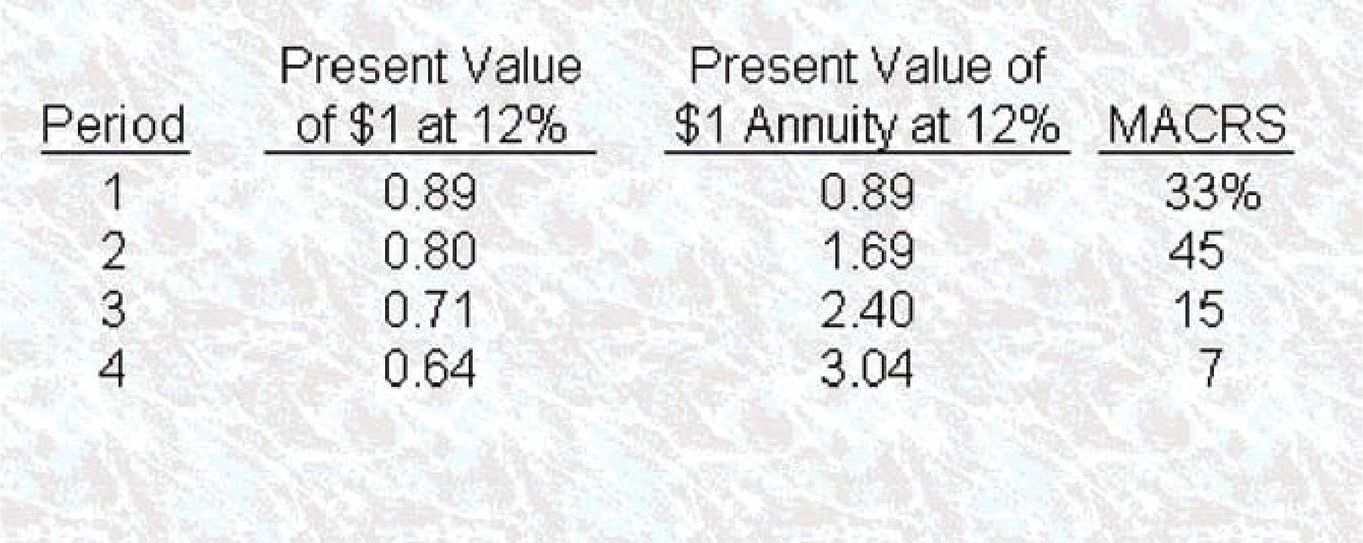
D. 125%

Correct Answer: D

The cost of preferred stock is the preferred dividend divided by the price. No tax adjustment is necessary because dividends are not deductible. If the market price is $120 when the dividend is $15, the cost of preferred capital is 12.5% ($15+ $120). Williams, Inc. is interested in measuring its overall cost of capital and has gathered the following data. Under the terms described as follows, the company can sell unlimited amounts of all instruments. Williams can raise cash by selling $1 .000.8%. 20- year bonds with annual interest payments. In selling the issue, an average premium of $30 per bond would be received, and the firm must pay flotation costs of $30 per bond. The after-tax cost of funds is estimated to be 4.8%. Williams can sell $8 preferred stock at par value, $105 per share. The cost of issuing and selling the preferred stock is expected to be $5 per share. Williams\\' common stock is currently selling for $100 per share. The firm expects to pay cash dividends of $7 per share next year. and the dividends are expected to remain constant. The stock will have to be under priced by $3 per share, and flotation costs are expected to amount to $5 per share. Williams expects to have available $100,000 of retained earnings in the coming year, once these retained earnings are exhausted, the firm will use new common stock as the form of common stock equity financing. Williams\\' preferred capital structure is Long-term debt 30% Preferred stock 20% Common stock 50%

**QUESTION 5**

The following data pertain to a 4-year project being considered by Metro Industries: ?A depreciable as set 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 (MACPS). 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.



| Period | Present Value of $1 at 12% | Present Value of $1 Annuity at 12% | MACRS |
|---|---|---|---|
| 1 | 0.89 | 0.89 | 33% |
| 2 | 0.80 | 1.69 | 45 |
| 3 | 0.71 | 2.40 | 15 |
| 4 | 0.64 | 3.04 | 7 |

The discounted cash flow for the fourth year MACPS depreciation on the new asset is

A. $0

B. $17,920

C. $21,504

D. $26,880

Correct Answer: C

Tax law allows taxpayers to ignore salvage value when calculating depreciation under MACPS. Thus1 the depreciation deduction is 7% of the initial $1 .200000 cost, or $84,000. Ata4O% tax rate, the deduction will save the company $33,600 in taxes in the fourth year. The present value of this savings is $21,504 ($33,600 x 0.64 present value of $1 at 12% for four periods).

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