CMA$^{Q\&As}$

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QUESTION 1

Which of the following is not a component of the value chain?

A. Primary activities

B. Secondary activities

C. Support activities

D. The product

Correct Answer: B

The value chain is a model for depicting the way in which every function in a company adds value to the final product. Primary activities deal with the product directly. Support activities lend aid to the primary activity functions.

QUESTION 2

An inventory management technique designed to minimize inventory investment by having materials arrive at the time they are needed for use is known as

A. The economic order quantity model (EOQ).

B. Materials requirements planning (MRP).

C. First-in first-out (FIFO).

D. Just-in-time (JIT).

Correct Answer: D

A just-in-time (JIT) inventory management system limits the output of each manufacturing operation to the demand of the next operation. Shipment of raw materials from vendors are scheduled to arrive "just in time" to be used in the production process. Inventory storage is considered a nonvalue-adding activity, and raw materials on hand are thus kept to a minimum.

QUESTION 3

A distinction between forecasting and planning

A. Is not valid because that 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 4

Residco; Inc expects net income of $800,000 for the next fiscal year. Its targeted and current capital structure is 40% debt and 60% common equity. The director of capital budgeting has determined that the optimal capital spending for next year is $1 2 million. If Residco follows a strict residual dividend policy, what is the expected dividend-payout ratio for next year\\'?

A. 90.0%

B. 66.7%

C. 40.0%

D. 10.0%

Correct Answer: D

Under the residual theory of dividends, the residual of earnings paid as dividends depends on the available investments and the debt-equity ratio at which cost of capital is minimized. The rational investor should prefer reinvestment of retained earnings when the return exceeds what the investor could earn on investments of equal risk. However, the firm may prefer to pay dividends when investment returns are poor and the internal equity financing would move the firm away from its ideal capital structure. If Residco wants to maintain its current structure, 60% of investments should be financed from equity. Hence, it needs $720,000 ($1,200,000 x 60%) of equity funds, leaving $80,000 of net income ($800,000 NI - $720,000) available for dividends. The dividend-payout ratio is therefore 10% ($80,000 --$800,000 NI)

QUESTION 5

Condensed monthly operating income data for Korbin, Inc. for May follows: Additional information regarding Korbin\\'s operations follows: One-fourth of each store\\'s direct fixed costs would continue if either store is closed. Korbin allocates common fixed costs to each store on the basis of sales dollars. Management estimates that closing the Suburban Store would result in a 10% decrease in the Urban Store\\'s sales, while closing the Urban Store would not affect the Suburban Store\\'s sales. The operating results for May are representative of all months. One-half of the Suburban Store\\'s dollar sales are from items sold at variable cost to attract customers to the store. Korbin is considering the deletion of these items, a move that would reduce the Suburban Store\\'s direct fixed expenses by 15% and result in a 20% loss of Suburban Store\\'s remaining sales volume. This change would not affect the Urban Store. A decision by Korbin to eliminate the items sold at cost would result in a monthly increase (decrease) in Korbin\\'s operating income of

	Urban Store	Suburban Store	Total
Sales	$80,000	$120,000	$200,000
Variable costs	32,000	84,000	116,000
Contribution margin	$48,000	$ 36,000	$ 84,000
Direct fixed costs	20,000	40,000	60,000
Store segment margin	$28,000	$ (4,000)	$ 24,000
Common fixed cost	4,000	6,000	10,000
Operating income	$24,000	$ (10,000)	$ 14,000

A. $(5,200)

B. $(1,200)

C. $(7,200)

D. $2,000

Correct Answer: B

If 50% of the Suburban Store\\'s sales are at variable cost, its contribution margin (sales- variable costs) must derive wholly form sales of other items. However, eliminating sales at variable cost reduces other sales by 20%. Thus, the effect is to reduce the contribution margin to $28,800 ($36,000x.8). Moreover, fixed costs will be reduced by 15% to $ 34,000 ($40,000x.85). Consequently, the new segment margin is $(5,200) ($34,000 direct fixed costs-$28,800 contribution margin), a decrease of $1,200 [$(5,200)-$(4,000)].

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