IMANET-CMA Q&As

Certified Management Accountant (CMA)

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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.The advertising expense estimated by Gleason for the introduction of the new products is an example of a(n)

A. Conversion cost.

B. Discretionary cost.

C. Committed cost.

D. Opportunity cost.

Correct Answer: B

Discretionary costs refer to fixed costs that are not absolutely necessary to operate in the current period. The level of these costs is subject to a decision made by management each period. A key characteristic of discretionary costs is that there is no clearly measurable relationship between input (the costs) and output. Advertising is a good example of a discretionary fixed cost.

QUESTION 2

A company\\'s breakeven point in sales dollars may be affected by equal percentage increases in both selling price and variable cost per unit (assume all other factors are constant within the relevant range). The equal percentage changes in selling price and variable cost per unit will cause the breakeven point in sales dollars to

A. Decrease by less than the percentage increase in selling price.

B. Decrease by more than the percentage increase in the selling price.

C. Increase by the percentage change in variable cost per unit.

D. Remain unchanged.

Correct Answer: D

QUESTION 3

When ranking two mutually exclusive investments with different initial amounts, management should give first priority to the project

A. That generates cash flows for the longer period of time.

B. Whose net after-tax flows equal the initial investment?

C. That has the greater accounting rate of return.

D. That has the greater profitability index.

Correct Answer: D

The profitability (excess present value) index facilitates the comparison of investments that have different initial costs. The profitability index equals the present value of future net cash inflows divided by the initial cash investment. The investment with the greater profitability index will be the preferred investment. However, if investments are mutually exclusive, the net present value method may be the better way of ranking projects. The excess present value index indicates the best return per dollar invested but does not consider the alternative possibilities for unused funds. Thus, the smaller of the mutually exclusive projects may have the higher index, but the incremental investment in the larger project may make it the better choice. For example, an $8,000,000 project may be a better use of funds than a combination of a $6,000,000 project with a higher index and the best alternative use of the remaining $2,000,000.

QUESTION 4

Obligations issued by federal agencies other than the U.S. Treasury Department are

A. Guaranteed by the U.S. government but not by the agency issuing the security.

B. Guaranteed neither by the agency issuing the security nor by the U.S. government.

C. Guaranteed by the agency issuing the security but not by the U.S. government.

D. Not easily marketed.

Correct Answer: C

Obligations issued by the Treasury Department are insured by the full faith and credit of the U.S. government. However, obligations of other federal agencies (agency securities) are guaranteed only by the issuing agency, not the federal government. Exceptions are securities issued by the Government National Mortgage Association (Ginny Mae), which have the full backing of the U.S. government.

QUESTION 5

Rosecrans Manufacturing produces kerosene lanterns. The company can sell all of its output. Each unit sells for $120. and direct materials costing $48 per unit are added at the start of the first operation. Other variable costs are immaterial. Production data for one of its products is presented below:

	Operation 1	Operation 2	Operation 3
Total capacity per year	200,000 units	150,000 units	180,000 units
Total output per year	150,000 units	150,000 units	150,000 units
Fixed cost of operations	$1,200,000	$1,800,000	$2,250,000

Tullahoma Company has offered to perform the Operation 2 function on 1,000 units at a unit price of $40, excluding direct materials cost. Chattanooga Company has offered to perform the Operation 1 function on 11000 units at a price of $7, excluding direct materials cost. Chickamauga Company has made an offer to perform the Operation 1 function on 5,000 units at a unit cost of $5 (excluding direct materials cost). Which of these mutually exclusive offers is acceptable to Rosecrans?

A. Tullahoma\\'s offer.

B. Chattanooga\\'s offer.

C. Chickamauga\\'s offer.

D. None of the offers should be accepted.

Correct Answer: A

Tullahoma\\'s offer should be accepted because its cost is $40,000 (1,000 units x $40), and the increase in throughput contribution is $72,000 [1,000 units x ($120 unit price--$48 DM per unit)]. Hence, the relevant cost of Tullahoma\\'s offer is less than the incremental throughput contributed. Tullahoma\\'s offer effectively increases the capacity of the bottleneck operation. Chattanooga\\'s and Chickamauga\\'s offers should both be