IMANET-CMA Q&As

Certified Management Accountant (CMA)

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QUESTION 1

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).

QUESTION 2

A sampling plan must determine the

I. Size of the sample.

II. Stratification method used. Ill. Random sampling method.

IV.

Sampling unit.

A.

II, Ill, and IV only.

B.

I and IV only.

C.

I, II, and Ill only.

D.

I and Ill only.

Correct Answer: B

The sampling plan is based on determination of the sampling unit (such as choice of lips of people to be interviewed), the size of the sample needed to achieve reliable results at reasonable cost, and the sampling method (e.g., simple random sampling, stratified sampling, or judgment sampling).

QUESTION 3

Which of the following is correct for a firm with $100000 in net earnings, 10,000 shares, and a 30% payout ratio?

A. Retained earnings will increase by $30,000.

B. Each share will receive a $0.30 dividend.

C. $30,000 will be spent on new investment.

D. The dividend per share will equal $3.00.

Correct Answer: D

Earnings per share is and10 ($100,000 ?10,000 shares). Of the $10,30% or $3 is paid out as dividend.

QUESTION 4

Which level of relationship marketing entails continuous assistance to big customers?

A. Reactive marketing.

B. Proactive marketing.

C. Accountable marketing.

D. Partnership marketing.

Correct Answer: D

A firm must determine the appropriate investment in building customer relationships. The levels of investment depend on unit profit margins and the numbers of customers. According to Kilter, partnership marketing entails continuous assistance to big customers. This level of investment is appropriate when margins are high and customers are few.

QUESTION 5

A preferred stock is sold for $101 per share, has a face value of $100 per share, underwriting fees of $5 per share, and annual dividends of $10 per share If the tax rate is 40%, me cost of funds (capital) for the preferred stocks

A. 4.2%

B. 6.2%

C. 10.0%

D. 10.4%

Correct Answer: D

Because the dividends on preferred stock are not deductible for tax purposes, the effect of income taxes is ignored. Thus, the relevant calculation is to divide the $10 annual dividend by the quantity of funds received at the time the stock is issued. In this case, the funds received equal $96 ($101 selling price -- $5 underwriting fee). Thus, the cost of capital is 10.4% ($10 + $96)

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