CMA$^{Q\&As}$

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QUESTION 1

A firm has daily cash receipts of $300,000 and is interested in acquiring a lockbox service in order to reduce collection time. Bank l\\'s lockbox service costs $3,000 per month and will reduce collection time by 3 days. Bank 2\\'s lockbox service costs $5,000 per month and will reduce collection time by 4 days. Bank 3\\'s lockbox service costs $500 per month and will reduce collection time by 1 day. Bank 4\\'s lockbox service costs $1,000 per month and will reduce collection time by 2 days. If money market rates are expected to average 6% during the year, and the firm wishes to maximize income, which bank should the firm choose?

A. Bank 1.

B. Bank2.

C. Bank3.

D. Bank4.

Correct Answer: D

Because collections made using Bank 4\\'s lockbox service will be accelerated by 2 days at a rate of $300,000 per day, the firm will have an additional $600,000 to invest. At a rate of 6%, the interest earned will be $36,000 per year. However, the bank will charge $12,000 ($1,000 per month x 12 months) for its services. Thus, the firm will gain $24,000 ($36,000 --$12,000).

QUESTION 2

Licensing, a method of expanding into international markets,

A. Occurs Vivien goods are produced in one country and sold in another.

B. Is cooperation by two or more firms to produce a product that is sold under one brand name.

C. Allows a foreign firm to produce products in a specific geographic area for a fee.

D. Is the production of parts in one country and assembly in another.

Correct Answer: C

Licensing gives firms in foreign countries the nghtto produce or market products or services within a geographical area for a fee. Licensing a process, patent, trade secret, etc., is a way to gain a foothold in a foreign market with little immediate risk. However, the hcensor may have insufficient control over the licensees operations, profits are lost if the arrangement succeeds, and the licensee ultimately may become a competitor.

QUESTION 3

company wants to open a new store in one of three nearby shopping malls. In Mall A, the rent will be $300,000 per year. In 4all B, the rent will be 4% of gross revenues. In Mall C, the rent will be $150,000 per year plus 3% of gross revenues Assume hat revenues and all other elements under consideration are the same for all three malls. If the company expects revenues to be $ 10.000.000 per year. which mall should be chosen?

A. Mall A,

B. Mall B.

C. Mall C.

D. The company will be indifferent between two of the choices.

Correct Answer: C

It the company expects revenues to be $10,000,000 per year. the calculation is as follows. Mall A. $300.000 Mall B: $10,000,000 x 4% = $400,000 Mall C: $10,000.000 x 3% $300,000 + $150.000 $450,000 Thus, Mall A is preferable

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QUESTION 4

Business risk is the risk inherent in a firm\\'s operations that excludes financial risk. It depends on all of the following factors except the

A. Amount of financial leverage.

B. Sales price variability.

C. Demand variability.

D. Input price variability.

Correct Answer: A

Business risk is the risk of fluctuations in earnings before interest and taxes or in operating income when the firm uses no debt. It depends on factors such as demand variability, sales price variability, input price variability, and the amount of operating leverage. Financial leverage affects financial risk and is not a factor affecting business risk.

QUESTION 5

Which one of the following is not a determinant in valuing a can option?

A. Exercise pence

B. Expiration date.

C. Forward contract price.

D. Interest rate.

Correct Answer: C

The exercise price, the expiration date, and the interest rate are all determinants in veiling a call option.