# IMANET-CMA Q&As

Certified Management Accountant (CMA)

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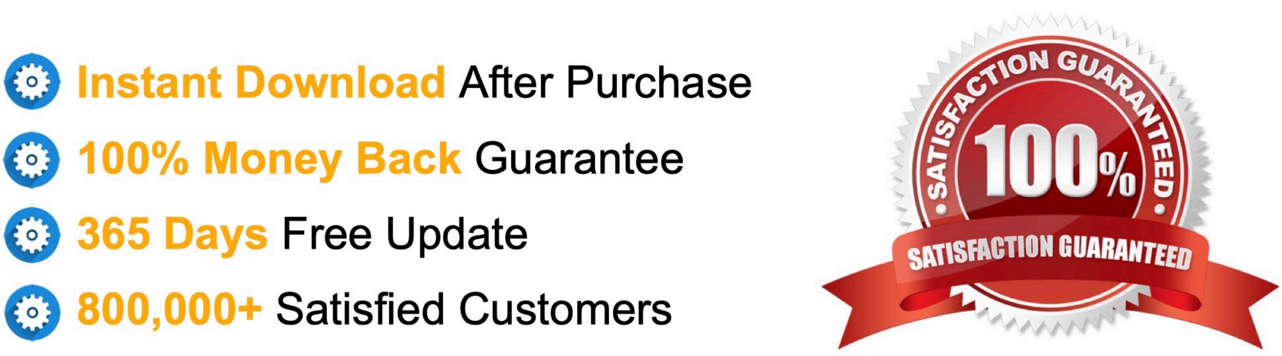

**QUESTION 1**

Mason Compass board of directors has determined 4 options to increase working capital next year.

Option 1 is to increase current assets by $120 and decrease current liabilities by $50.

Option 2 is to increase current assets by $180 and increase current liabilities by $30.

Option 3 is to decrease current assets by $140 and increase current liabilities by $20.

Option 4 is to decrease current assets by $100 and decrease current liabilities by $75.

Whitch option should Mason choose to maximize networking capital?

A. Option 1.

B. Option 2.

C. Option 3.

D. Option 4.

Correct Answer: A

Net working capital is the excess of current assets over current liabilities. An increase in current assets or a decrease in current liabilities will increase networking capital. Option 1 maximizes Mason Doman\\'s networking capital, increasing it by $170 ($120 + $50).

**QUESTION 2**

Moorhead Manufacturing Company produces two products for which the following data have been tabulated. Fixed manufacturing cost is applied at a rate of $1 .00 per machine hour. The sales manager has had a $160,000 increase in the budget allotment for adverbsing and wants to apply the money to the most profitable product. The products are not substitutes for one another in the eyes of the company\\'s customers.

| Per Unit | XY-7 | BRA |
|---|---|---|
| Selling price | $4.00 | $3.00 |
| Variable manufacturing cost | $2.00 | $1 .50 |
| Fixed manufacturing cost | $ .75 | $ .20 |
| Variable selling cost | $1 .00 | $1 .00 |

Suppose the sales manager chooses to devote the entire $160,000 to increased advertising for XY-7, The minimum increase in sales units of XY-7 required to offset the increased advertising is

A. 640,000 units.

B. 160,000 units.

C. 128,000 units.

D. 80,000 units.

Correct Answer: B

The contribution margin (CM) for XY-7 is $1 per unit ($4 sales price --$3 variable costs). Thus, 160,000 units of XY-7 will generate an additional $160,000 of CM, which is sufficient to cover the increase in adverting cost

**QUESTION 3**

Parkinson Company can increase annual sales by $150,000 if it sells to a new, riskier group of customers. The uncollectible accounts expense is expected to be 16% of sales, and collection costs will be 4%. The company\\'s manufacturing and selling expenses are 75% of sales, and its effective tax rate is 38%. If Parkinson accepts this opportunity, its after-tax income will increase by

A. $2,850

B. $4,650

C. $7,500

D. $8,370

Correct Answer: B

The compass manufacturing and selling costs exclusive of bad debts equal 75% of sales. Hence, the gross profit on the $150,000 increase in sales will be $37,500 ($150,000 x 25%). Assuming $24,000 ($150,000 x 16%) of bad debts and $6,000 ($150,000 x4%) of collection expense, the increase in pretax income will be $7,500 ($37,500 -- $30,000). Consequently, after4ax income will increase by $4,650 [$7,500 -- ($7,500 x 38%)].

**QUESTION 4**

The carrying costs associated with inventory management include

A. Insurance costs, shipping costs, storage costs, and obsolescence.

B. Storage costs, handling costs, capital invested, and obsolescence.

C. Purchasing costs, shipping costs, set-up costs, and quantity discounts lost.

D. Obsolescence, set-up costs, capital invested, and purchasing costs.

Correct Answer: B

Carrying costs include storage costs, handling costs, insurance costs, and interest on capital invested, and obsolescence.

**QUESTION 5**

Multi Frame Company has the following revenue and cost budgets for the two products it sells:

| | Plastic Frames | Glass Frames |
|---|---|---|
| Sales price | $10.00 | $15.00 |
| Direct materials | (2.00) | (3.00) |
| Direct labor | (3.00) | (5.00) |
| Fixed overhead | (3.00) | (4.00) |
| Net income per unit | $ 2.00 | $ 3.00 |
| Budgeted unit sales | 100,000 | 300,000 |

The budgeted unit sales equal the current unit demand, and total fixed overhead for the year is budgeted at $975,000. Assume that the company plans to maintain the same proportional mix. In numerical calculations, Multi Frame rounds to the nearest cent and unit.The total number of units needed to break even if sales were budgeted at 150,000 units of plastic frames and 300,000 units of glass frames with all other costs remaining constant is

A. 171,958 units.

B. 418,455 units.

C. 153,947 units.

D. 365,168 units.

Correct Answer: C