Free Questions for CMA by braindumpscollection

Shared by Gordon on 20-10-2022

For More Free Questions and Preparation Resources

Check the Links on Last Page

Question 1

Question Type: **MultipleChoice**

The U.S. Postal Service is looking for a new machine to help sort the mail. Two companies have submitted bids to Cliff Kraven, the postal inspector responsible for choosing a machine. A cash flow analysis of the two machines indicates the following:

It the cost of capital for the Postal Service is 8%. which of the two mail sorters should Cliff choose and why?

Options:

A- Machine A . because NPV of A > NPV of B . by $1,044.

B- Machine B . because NPV of A > NPV of B . by $22,000.

C- Machine A . because NPV of A > NPV of B . by $8,000

D- Machine B . because IRR of A > IRR of B

Answer:

A

Explanation:

The NPV of both machines must be calculated and compared to determine which will yield a better return of cash flows. Machine A is calculated as one lump sum payable in 4 years minus the initial investment cost.

The NPV of Machine B is calculated as the present value of an ordinary annuity of

$13,000 for 4 years, minus the initial investment cost.

By comparing the NPV of both machines, Cliff would choose Machine A because NPV of A > NPV of B by $1,044.

Question 2

Question Type: **MultipleChoice**

The tax impact of equipment depreciation affects capital budgeting decisions. Currently, me Modified Accelerated Cost Recover' System (MACRS) is used as the depreciation method for most assets for tax purposes. When employing the MACRS method of depreciation in a capita) budgeting decision, the use of MACRS as compared with the straight-line method of depreciation will result in?

Options:

A- Equal total depreciation for both methods.

B- MACRS producing less total depreciation than straight line.

C- Equal total tax payments, after discounting for the time value of money.

D- MACRS producing more total depreciation than straight line

Answer:

A

Explanation:

For tax purposes. straight-line depreciation is an alternative to the MACRS method. Both methods will result in the same total depreciation over the life of the asset: however, MACRS will result in greater depreciation in the early years of the assets life because it is an accelerated method. Given that MACRS results in larger depreciation deductions in the earj years, taxes will be lower in the early years and higher in the later years. Because the incremental benefits will be discounted over a shorter period than the incremental depreciation costs. 'MACRS is preferable to the straight-line method,

Question 3

Question Type: **MultipleChoice**

The tax impact of equipment depreciation affects capital budgeting decisions. Currently, the Modified Accelerated Cost Recovery System (MACRS) is used as the depreciation method for most assets for tax purposes. The MACRS method of depreciation for assets with 3, 5. 7. and 1 0-year recovery periods is most similar to which one of the following depreciation methods used for financial reporting purposes?

Options:

A- Straight-line.

B- Units-of-production.

C- Sum-of-the-years'-digits.

D- 200% declining-balance.

Answer:

D

Explanation:

MACRS for assets with lives of 10 years or less is based on the 200% declining-balance method of depreciation. Thus, an asset with a 3-year life would have a straight-line rate of 33-113%. or a double- declining-balance rate of 66-2/3%.

Question 4

Question Type: MultipleChoice

Capital budgeting is used for the decision analysis of?

Options:

A- Adding product lines or facilities.

B- Multiple profitable alternatives.

C- Lease-or-buy decisions.

D- All of the answers are correct.

Answer:

D

Explanation:

The capital budgeting process is a method of planning the efficient expenditure of the firms 1Jesources on capital projects. Such planning is essential in view of the rising costs of scarce resources

Question 5

Question Type: **MultipleChoice**

Capital budgeting is concerned with?

Options:

A- Decisions affecting only capital intensive industries.

B- Analysis of short-range decisions.

C- Analysis of long-range decisions.

D- Scheduling office personnel in office buildings.

Answer:

C

Explanation:

Capital budgeting is concerned with long-range decisions, such as whether to add a product line, to build new facilities, or to lease or buy equipment Any decision regarding cash inflows and outflows over a period of more than 1 year probably needs capital

budgeting analysis.

Question 6

Question Type: **MultipleChoice**

Which of the following is irrelevant in projecting the cash flows of the final year of a capital project?

Options:

A- Cash devoted to use in project.

B- Disposal value of equipment purchased specifically for project

C- Depreciation tax shield generated by equipment purchased specifically for project.

D- Historical cost of equipment disposed of in the projects first year.

Answer:

D

Explanation:

Once an old piece of equipment has been disposed of, its histoncal cost no longer has an impact on a firms cash flows.

Question 7

Question Type: **MultipleChoice**

Assume that the old equipment must be sold in order to purchase the new equipment. Given a constant effective corporate income tax rate and straight-line depreciation on both disposed and newly purchased pieces of equipment, the depreciation tax shield dung the later years of a capital project, assuming the old equipment was not yet full depreciated when it was disposed of, is general?

Options:

A- Greater than that during the earlier years.

B- Less than that during the earlier years

C- The same as that during the earli or years.

D- Not determinable from the information given.

Answer:

A

Explanation:

Older equipment that is being disposed of is reaching the end of its productive he. Thus, in the early years of the project, the depreciation expense on the new equipment only provides an incremental tax benefit since there was some depreciation expense still being recognized on the old equipment. Once the time of the old equipment's useful life has passed, all the depreciation tax shield is being provided by the (higher) expense being recognized on the new equipment.