IMANET CMA Practice Questions

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Question 1

Question Type: MultipleChoice

The average collection period for a firm measures the number of days

Options:

A- After a topical credit sale is made until the firm receives the payment.
B- Foray pica check to'' clear'' through the banking system.
C- Beyond the end of the credit period before atypical customer payment is received.
D- Before a typical account becomes delinquent.

Answer:

A

Explanation:

The average collection period measures the number of days between the date of sale and the date of collection. It should be related to a firm's credit terms. For example. a firm that allows terms of 2/151 net 301 should have an average collection period of somewhere between 15 and 30 days.

Question 2

Question Type: MultipleChoice

The one item listed below that would warrant the least amount of consideration in credit and collection policy decisions is the

Options:

A- Quality of accounts accepted.
B- Quantity discount given.
C- Cash discount given.
D- Level of collection expenditures.

Answer:

B

Explanation:

A quantity discount is an attempt to increase sales by reducing the unit price on bulk purchases. It concerns only the price term of an agreement, not the credit term, and thus is unrelated to credit and collection policy.

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Question 3

Question Type: MultipleChoice

Merkle, Inc. has a temporary need for funds. Management is trying to decide between not taking discounts from one of their three biggest suppliers, or a 14.75% per annum renewable discount loan from its bank for 3 months. The suppliers' terms are as follows:

Using a 360-day year, the cheapest source of short-term financing in this situation is ,/16

Options:

A- The bank.
B- Fort Co
C- Riley Manufacturing Co.
D- Shad, Inc.

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Answer:

D

Explanation:

The first step is to determine the actual annual percentage interest rate for each of the four options. Assuming a $100 invoice, the Fort Company discount represents interest of $1 on a loan of $99 for 20 days (30-day credit period - 10-day discount period). The annual interest rate is 18.1818% ((360 20) periods x ($1 $99)). The Riley Company discount represents an interest charge of $2 on a loan of $98; i.e., by not paying on the 15th day, the company will have the use of $98 for 45 days (60-day credit period - 15-day discount period). The number of periods in a year would be 8(360 45). The interest would be 16.326% ($2 $98 x 8 periods) The Shad loan would be for $91 at a cost of $3. The loan would be for 75 days (90 - 15). Given 4.8 interest

periods in a year (360 75), the annual interest rate would be 14.845% ($3 $97 x 4.8). The bank loan was quoted at 14.75% on a discount basis. On a $100 note, the borrower would only receive $85.25, giving an interest rate of 17.302% ($14.75 $85.25). Thus, not paying Shad, Inc.'s invoices on time would be the lowest cost source of capital.

Question 4

Question Type: MultipleChoice

Which of the following qualitative factors favors the buy choice in an insourcing vs. outsourcing decision?

Options:

A- Maintaining a long-run relationship with suppliers is desirable.
B- Quality control is critical.
C- Idle capacity is available.
D- All of the answers are correct.

Answer:

A

Explanation:

The maintenance of long-run relationships with suppliers may become paramount in a make-or-buy decision. Abandoning long-run supplier relationships may cause difficulty in obtaining needed parts when terminated suppliers find it advantageous not to supply parts in the future.

Question 5

Question Type: MultipleChoice

SWOT analysis is concerned primarily with Which option best two factors?

Options:

A- The internal environment and the external environment
B- Market share and market growth
C- Product profitability and economic resources
D- Customers' and competitors' profiles

Answer:

A

Explanation:

A SWOT analysis is a process whereby a firm identifies its own strengths and weaknesses (the internal environment) and the opportunities and threats facing it (the external environment)

Question 6

Question Type: MultipleChoice

After the goals of the company have been established and communicated, the next step in the planning process is development of the

Options:

A- Production budget.
B- Direct materials budget.
C- Selling and administrative budget.
D- Sales budget.

Answer:

D

Explanation:

The sale budge is the first step in the operating budget process because it is needed to prepare all of the other budgets. For example, the production budget cannot be prepared until the sales department has determined how many units are needed.

Question 7

Question Type: MultipleChoice

An inventory management technique designed to minimize inventory investment by having materials arrive at the time they are needed for use is known as

Options:

A- The economic order quantity model (EOQ).
B- Materials requirements planning (MRP).
C- First-in first-out (FIFO).
D- Just-in-time (JIT).

Answer:

D

Explanation:

A just-in-time (JIT) inventory management system limits the output of each manufacturing operation to the demand of the next operation. Shipment of raw materials from vendors are scheduled to arrive ''just in time'' to be used in the production process. Inventory storage is considered a nonvalue-adding activity, and raw materials on hand are thus kept to a minimum.

Question 8

Question Type: MultipleChoice

The use of an accelerated method instead of the straight-line method of depreciation in computing the net present value of a project has the effect of

Options:

A- Raising the hurdle rate necessary to justify the project.
B- Lowering the net present value of the project.
C- Increasing the present value of the depreciation tax shield.
D- Increasing the cash outflows at the initial point of the project.

Answer:

C

Explanation:

Accelerated depreciation results in greater depreciation in the early years of an asset's life compared with the straight-line method. Thus, accelerated depreciation results in lower income tax expense in the early years of a project and higher income tax expense in the later years. By effectively deferring taxes, the accelerated method increases the present value of the depreciation tax shield.

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Question 9

Question Type: MultipleChoice

Growl Corporation's $1,000 par value convertible debentures are selling at $1,040 when its stock is selling for $46.00 per share. If the conversion ratio is 20, what will be the conversion price?

Options:

A- $22.61
B- $46.00
C- $50.00
D- $52.00

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Answer:

C

Explanation:

The conversion price is the assumed price of the stock, which was set at the time the bonds were issued. Dividing the $1,000 face value by the 20 shares results in a conversion price of $50.

Question 10

Question Type: MultipleChoice

The modeling technique to be employed in a situation involving a sequence of events with several possible outcomes associated with each event is

Options:

A- Cost-benefit analysis.
B- Decision tree analysis.
C- The Monte Carlo method.
D- Linear programming.

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Answer:

B

Explanation:

Decision trees may be used to describe complex decision situations. Each branch of the tree represents a different decision, and each twig extending from each branch represents several possible outcomes of the decision.

Question 11

Question Type: MultipleChoice

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A manufacturing company produces plastic utensils for a particular segment at the lowest possible cost. The company is pursuing a cost?

Options:

A- Leadership strategy
B- Focus strategy
C- Differentiation strategy
D- Containment strategy

Answer:

B

Explanation:

A cost focus strategy aims at cost leadership in a particular segment, such as a regional market or a specialty product line. The rationale for a focus strategy is that the narrower market can be better served.

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Question 12

Question Type: MultipleChoice

The process of dividing all potential consumers into smaller groups of buyers with distinct needs, characteristics, or behaviors, who might require a similar product of service mix, is called

Options:

A- Strategic planning.
B- Market segmentation.
C- Product positioning.
D- Objective setting.

Answer:

B

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Explanation:

Market segmentation is the process of dividing all potential consumers into smaller groups of buyers with distinct needs, characteristics, or behaviors, who might require a similar product or service mix.

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