CMA COURSE DEMO LINKS

1	CMA Part 1	https://youtu.be/2YeeJnLyz8c
		https://youtu.be/p9NhNxX7s8Q
2	CMA Part 2	https://youtu.be/MHc5cP6PcdA
		https://youtu.be/HqjRNB67gyw

CMA MCQ's

CMA Part1 MCQ's

1. A budget manual, which enhances the operation of a budget system, is most likely to include

A. A chart of accounts.

B. Distribution instructions for budget schedules.

C. Employee hiring policies.

D. Documentation of the accounting system software.

Explanation

Answer (A) is incorrect. A chart of accounts is included in the accounting manual.

Answer (B) is correct. A budget manual describes how a budget is to be prepared. Items usually included in a budget manual are a planning calendar and distribution instructions for all budget schedules. Distribution instructions are important because, once a schedule is prepared, other departments within the organization will use the schedule to prepare their own budgets. Without distribution instructions, someone who needs a particular schedule may be overlooked.

Answer (C) is incorrect. Employee hiring policies are not needed for budget preparation. They are already available in the human resources manual.

Answer (D) is incorrect. Software documentation is not needed in the budget preparation process.

2. Which one of the following is not an advantage of a participatory budgeting process? A.

Coordination between departments.

B. Communication between departments.

C. Goal congruence.

D. Control of uncertainties.

Explanation

Answer (A) is incorrect. Participatory budgeting involves extensive coordination between departments.

Answer (B) is incorrect. Participatory budgeting involves extensive communication between departments.

Answer (C) is incorrect. Goal congruence is one of the advantages of participatory budgeting.
Answer (D) is correct. Uncertainties can be prepared for, but they cannot be subjected to human control through any budget process.

3. When developing a budget, an external factor to consider in the planning process is A.

A change to a decentralized management system.

B. The implementation of a new bonus program.

C. New product development.

D. The merger of two competitors.

Explanation

Answer (A) is incorrect. Changes in management is an internal factor.

Answer (B) is incorrect. Employee compensation is an internal factor.

Answer (C) is incorrect. A new product line is an internal factor.

Answer (D) is correct. Several planning assumptions should be made at the beginning of the budget process. Some of these assumptions are internal factors; others are external to the company. External factors include general economic conditions and their expected trend, governmental regulatory measures, the labor market in the locale of the company's facilities, and activities of competitors, including the effects of mergers.

4. The financial statements included in the annual report to the shareholders are least useful to which one of the following? a. Stockbrokers.

b. Bankers preparing to lend money.

c. Competing businesses.

d. Managers in charge of operating activities.

Explanation

Correct answer: D

The annual report to shareholders is prepared in accordance with generally accepted accounting principles and is designed to provide information that is pertinent to investors and other external users. Managers responsible for operating activities use internal reports designed to provide information about various aspects of internal functions that measure the effectiveness and efficiency of operations.

5. An advantage of participative budgeting is that it A.

Minimizes the cost of developing budgets.

B. Reduces the effect on the budgetary process of employee biases.

C. Yields information known to management but not to employees.

D. Encourages acceptance of the budget by employees.

Explanation

Answer (A) is incorrect. Disadvantages of participative budgeting and standard-setting include the cost in terms of time and money.

Answer (B) is incorrect. The quality of participation is affected by the goals, values, beliefs, and expectations of those involved.

Answer (C) is incorrect. An advantage of participative budgeting is that it yields information known to employees but not to management.

Answer (D) is correct. Participative (grass-roots) budgeting and standard-setting use input from lower-level and middle-level employees. Participation encourages employees to have a sense of ownership of the output of the process. The result is an acceptance of and commitment to the goals expressed in the budget.

CMA Part2 MCQ's

1.Fact Pattern: Skytop Industries is analyzing a capital investment project using discounted cash flow (DCF) analysis. The new equipment will cost $250,000. Installation and transportation costs aggregating $25,000 will be capitalized. Annual incremental pre-tax cash inflows are estimated at $75,000. Skytop's effective income tax rate is 40%.

In this scenario, Skytop will immediately sell existing equipment after installation of the new equipment. The existing equipment has a tax basis of $100,000 and an estimated market value of $80,000. Skytop estimates that the new equipment's capacity will generate additional receivables and inventory of $30,000, while payables will increase by $15,000. Total after-tax cash outflows occurring in Year 0 would be

A. $177,000

B. $182,000

C. $198,000

D. $202,000

Explanation

Answer (D) is correct.

The net initial investment for a capital project consists of three components: the purchase of new equipment, the increase in working capital, and the after-tax proceeds from the disposal of old equipment. For Skytop, the first of these is $275,000 ($250,000 purchase price + $25,000 installation and transportation) and the second is $15,000 ($30,000 increase in working capital – $15,000 increase in payables). The calculation of the after-tax proceeds from the disposal of the old equipment is as follows:

Proceeds from sale of old equipment $80,000 Tax

effect:

Salvage value $ 80,000

Less: Current book value (100,000)

Accrual-basis loss on disposal $ (20,000)

Times: Tax rate × 40%

Tax benefit from loss on disposal 8,000

After-tax cash inflow from disposal $88,000

The total after-tax cash outflows occurring in Year 0 are therefore calculated as follows:

Full cost of new equipment $275,000

Net increase in working capital 15,000

After-tax cash inflow from disposal of old equipment (88,000)

Net initial investment $202,000

2.A company, which is subject to an effective income tax rate of 30%, is evaluating a proposed capital project. Relevant information for the proposed project is summarized below.

Initial investment $500,000

Annual operating cash inflows for

the first 3 years:

Year 1 185,000

Year 2 175,000

Year 3 152,000

Depreciation will be calculated under the straight-line method using an 8-year estimated service life and a terminal

value of $50,000. In determining the estimated total after-tax cash flow in Year 2 of the project, the company should

consider the after-tax operating cash A.

Inflow only.

B. Inflow plus annual depreciation expense.

C. Inflow plus annual depreciation tax shield.

D. Inflow plus the net impact of the annual depreciation expense and depreciation tax shield

Explanation

Answer (C) is correct.

The estimated incremental after-tax operating cash flows for each year of a capital project consist of two components, the after-tax cash inflows from operations and the depreciation tax shield on the new equipment. Therefore, the company should consider the after-tax operating cash inflow plus the annual depreciation tax shield.

3.A firm is considering a $1 million investment in stamping equipment to produce a new product.

The equipment is expected to last 9 years, produce revenue of $700,000 per year, and have related cash expenses of $450,000 per year. At the end of the ninth year, the equipment is expected to have a salvage value of $100,000 and cost $50,000 to remove. The IRS categorizes this as 5-year Modified Accelerated Cost Recovery System (MACRS) property subject to the following depreciation rates.

Year Rate

1 20.00%

2 32.00%

3 19.20%

4 11.52%

5 11.52%

6 5.76%

The firm’s effective income tax rate is 40%, and the firm expects to continue to be profitable and have significant

taxable income. If the firm uses the net present value method to analyze investments, what is the expected net tax impact on cash flow in Year 2 before discounting? A. Positive $28,000 impact.

B. $0 impact.

C. Negative $100,000 impact.

D. Negative $128,000 impact

Explanation

Answer (A) is correct.

The firm’s pre-tax impact from the new equipment for Year 2 can be calculated as follows:
Revenue $700,000

Less: Related cash expenses (450,000)

Less: Depreciation expense ($1,000,000 × 32.00%) (320,000)

Operating loss $ (70,000)

The net tax benefit resulting from this operating loss is a $28,000 positive impact ($70,000 × 40%).

4.The stage of the capital budgeting process that has the most risk is A.

Identifying alternative possible projects.

B. Forecasting cash flow.

C. Raising funds to initially support the project.

D. Evaluating performance and learning

Explanation

Answer (B) is correct.

Forecasting cash flows has the most risk in the capital budgeting process. The economic benefit or cost must be estimated period by period. In addition, the economic life, depreciable life, and salvage value of the asset must be estimated. All of these estimates help forecast the cash flows for the project. Because this step requires the most use of estimates, it is said to be the riskiest in the capital budgeting process.

5.A company owns a building that originally cost $400,000 and has a current book value of

$250,000. The building was financed by a loan that has one payment of $20,000 outstanding, which must be paid off upon the sale of the building. The company would like to purchase a new building for $600,000. If the new building is purchased, the existing building would be sold for $380,000. The company’s income tax rate is 40%. If the new building is purchased, the relevant initial cash flows would total

A. $272,000

B. $292,000

C. $372,000

D. $392,000

Explanation

Answer (B) is correct.

The relevant initial cash flows total $292,000. The project will require an initial outlay of $600,000 for the new building and an outflow of $20,000 for the loan payment, which must be paid off upon the sale of the building. In order to calculate the after-tax proceeds from disposal of the existing building, firstcalculate the tax gain or loss, which is equal to a gain of $130,000 ($380,000 disposal value – $250,000 book value). The after-tax effect on cash can then be calculated as follows: $380,000 disposal value – $52,000 ($130,000 gain × 40% tax rate) tax cost on gain = $328,000 aftercash inflow Thus, the total initial cash outflow is equal to $292,000 ($600,000 initial outflow + $20,000 debt outflow – $328,000 after-tax inflow from sale of old building).