# IMA

## Exam Questions CMA-Strategic-Financial-Management

CMA Part 2: Strategic Financial Management Exam

**NEW QUESTION 1**
- (Topic 1)
Below is the income statement and balance sheet for a retail corporation.

| | Year 1 | Year 2 |
|---|---|---|
| Sales | $2,500 | $5,000 |
| Cost of goods sold | 750 | 2,000 |
| Gross Profit | 1,750 | 3,000 |
| | | |
| Operating expense | 500 | 700 |
| | | |
| Operating income | 1,250 | 2,300 |
| | | |
| Non-operating expense | 450 | 300 |
| | | |
| Net Income | $ 800 | $2,000 |
| | | |
| Cash | $1,000 | $2,000 |
| Accounts receivable | 500 | 1,500 |
| Inventory | 500 | 800 |
| Prepaid expenses | 200 | 500 |
| Fixed assets | 4,500 | 4,000 |
| Total assets | $6,700 | $8,800 |
| | | |
| Accounts payable | $800 | $1,400 |
| | | |
| Accrued expenses | 1,000 | 1,250 |
| Short-term debt | 750 | 500 |
| Long-term debt | 1,000 | 500 |
| Total liabilities | 3,500 | 3,650 |
| Equity | 3,150 | 5,150 |
| Total Liabilities & equity | $6,700 | $8,800 |

What is the corporation??s return on equity in Year 2?

A. 23%
B. 26%
C. 39%
D. 48%

**Answer:** D

**NEW QUESTION 2**
- (Topic 1)
The Transformer Division of Keller Electrical Supply IS developing its Budget for next year Preliminary estimates for the next year are as follows.
• Sales of 10.000 units

• Variable cost of $350 per unit
• Fixed costs of $800,000
. Net assets utilized on the Transformer Division are $7 million
• Target rate of return on investment required by Keller is 15%
If the Transformer Division utilizes cost-based pricing and uses a markup based on its target rate of return, what price per unit (rounded to the nearest dollar) should it use for the budget?

A. $430
B. $495
C. $506
D. $535

**Answer:** D

**NEW QUESTION 3**
- (Topic 1)
The production process of a company s main product yields a by-product Production costs or $700,000 are incurred during this process and $300,000 m additional costs are incurred to finalize the main product. The by-product can be sold for $200 000 without further processing A manager proposed the conversion of the by-product into another product that would cost $100,000 and generate revenue of $250,000. When deciding on this proposal the company should

A. select an approbate cost allocation method to allocate the $1 100 000 joint costs
B. evaluate whether other nonfinancial factors outweigh the Si 50.000 in incremental income
C. treat the $100,000 conversion cost as the marginal cost 1o produce the new product
D. ignore the $200 000 sales revenue for the by-product because it Is irrelevant

**Answer:** C

**NEW QUESTION 4**
- (Topic 1)
Sigma industries is considering purchasing Lambda Products in a cash transaction Sigma financial analysts Dave conducted an extensive amount of negotiation and due diligence and nave summarized the following financial information for management.
• Assets having a 10-year remaining life can be acquired for $22 million
• Assets are to De depreciated over their remaining life on a straight-line basis for Doth book and tax purposes
• Current liabilities of Lambda amounting to S3 million must be assumed by Sigma
• Lambda operations are expected to produce annual pre-tax cash Don of S7 million for the remaining 10 years of operation
• A16% return on investment is required by Sigma for acquisitions of this type
• Sigma's marginal Income tax rate is 35%
What is the net present value to Sigma of the Lambda acquisition rounded to the nearest thousand?

A. $6, 921,000)
B. $712,000
C. $3,712,000

**Answer:** B

**NEW QUESTION 5**
- (Topic 1)
A company??s balance sheet information at the end of July is shown below (in$000s).

| | |
|---|---|
| Cash | $1,000 |
| Marketable securities | 900 |
| Accounts receivable | 770 |
| Inventory | 670 |
| Property, plant, and equipment | 550 |
| Total assets: | $3,890 |
| | |
| Accounts payable | $1,260 |
| Long-term notes payable | 1,040 |
| Common stock | 1,000 |
| Retained earnings | 590 |
| Total liabilities and shareholders' equity: | $3,890 |

What is the company's financial leverage ratio?

A. 1.69
B. 2.45
C. 3 74
D. 3.89

**Answer:** A

**NEW QUESTION 6**
- (Topic 1)
IF a company does not have a code of conduct, the company most likely

A. is missing important guidance on ethical decision making
B. will lack an expressed statement of values regarding ethical behavior
C. can use its statement of values instead to implement ethics in daily decision making
D. must find another way to express its ethical principles

**Answer:** A

**NEW QUESTION 7**
- (Topic 1)
Sunnyvale Gas Company had a $50 million issue of 30-year mortgage bonds issued at par 10 years ago The coupon rate on the bonds is 15% and Interest is payable semi-annually on March 1 and September 1. The bonds are currently trading at SI 300. The can provision of the issue states that the bonds are callable after the S-year deferral period at 108 plus accrued interest. If Sunnyvale calls the bonds effective June 1 what is the cash payment, ignoring taxes, to the bondholders?

A. $51875 000
B. $55 875 000
C. $57 750 000
D. $66,875,000

**Answer:** C

**NEW QUESTION 8**
- (Topic 1)
Abex Employment Agency has requested an increase in the firm's line of credit, and the bank is reviewing Abex's sales and collections history Although the firm's sales have increased the bank is concerned about the credit quality of the firm's customers Based on the following information calculate the average collection period for the firm Use a 365-day year in your calculations.

| (numbers in 000) | Year 2 | Year 1 |
|---|---|---|
| Sales | $22,800 | $18,400 |
| Accounts receivable | 6,290 | 3,720 |
| Accounts payable | 2,280 | 1,750 |
| Net income | 5,122 | 3,980 |

A. 80 days
B. 88 days
C. 99 days
D. 101 days

**Answer:** A

**NEW QUESTION 9**
- (Topic 1)
Company Y records a receivable from a foreign customer in Company Y's functional currency. The receivable is due in 90 days and is to be paid in the customer s currency. This is an example of which type of risk exposure?

A. Economic risk
B. Transaction risk
C. Foreign investment risk
D. Translation risk

**Answer:** B

**NEW QUESTION 10**
- (Topic 1)
The CFO at GameX, a handheld game manufacturer has asked a financial analyst to provide an analysis and evaluation of the company versus three of its competitors. The analyst prepared the following report.

Comparative Balance Sheets As of June 30, Year 1

| | GameX | Competitor A | Competitor B | Competitor C |
|---|---|---|---|---|
| Cash | 5% | 10% | 10% | 20% |
| Accounts receivable | 5% | 10% | 15% | 15% |
| Inventories | 40% | 20% | 5% | 15% |
| Net property, plan and equipment | 50% | 60% | 70% | 50% |
| Total assets | 100% | 100% | 100% | 100% |
| Accounts payable | 25% | 30% | 30% | 20% |
| Long-term debt | 50% | 40% | 30% | 30% |
| Total liabilities | 75% | 70% | 60% | 50% |
| Common stock | 10% | 10% | 15% | 25% |
| Retained earnings | 15% | 20% | 25% | 25% |
| Total equity | 25% | 30% | 40% | 50% |
| Total liabilities and equity | 100% | 100% | 100% | 100% |

Based or the analysis the analyst is justified to write in his evaluation mat in order to Improve its position in the market. GameX should

A. reduce its debt load
B. increase its inventory

**Answer:** A

**NEW QUESTION 10**
- (Topic 1)
The internal audit division of a company is investigating a potential fraud in the Accounts Payable department Someone in the department has been writing checks to fictitious vendors and collecting the cash The primary suspect Is an employee who has own with the company for twelve years and recently lost his Did for promotion to Director of Accounts Payable a position which would have given mm a 25% salary increase This employee has been heard complaining to several other employees in the department that he was cheated out of his raise. Which one of the following elements of the fraud triangle is this employee exhibiting?

A. Pressure
B. Rationalization
C. Motive
D. Opportunity

**Answer:** B

**NEW QUESTION 12**
- (Topic 1)
Risk maps are used in companies' enterprise risk management system because risk maps
A. provide a quantitative tool that measures the probability of occurrence and the potential impact to calculate a potential loses
B. rank risks Based on the potential loss that could occur it a risk were to materialize
C. are a generic set of risks for the company's industry that can then be used as a foundation for further risk-identification techniques to specify the risks relevant for the company.
D. compares the impact of a risk and the likelihood of occurrence to provide a qualitative assessment of the risk

**Answer:** D

**NEW QUESTION 13**
- (Topic 1)
Which one of the following would best ensure the effectiveness of an organization s code of conduct?

A. Hold periodic employee workshops that illustrate expected behaviors in business situations in which ethical issues may arise
B. Incorporate ethics training for all new employees as a standard part of the orientation process
C. Distribute the document internally to staff and externally to suppliers and distributors to increase awareness of ethics considerations
D. Require executives and managers to take individual responsibility for practicing ethical behavior

**Answer:** A

**NEW QUESTION 18**
- (Topic 1)
A company produces 10,000 units of Product A monthly at the costs shown below.

| | |
|---|---|
| Direct materials | $ 90,000 |
| Direct labor | 25,000 |
| Variable overhead costs | 48,000 |
| Fixed overhead costs | 40,000 |

The company estimates that 30% of the fixed overhead costs allocated to Product A are avoidable if the company chooses to outsource the production If the company purchases Product A from an outside supplier for $18 per unit what would be the net effect on its operating income?

A. $23,000
B. $5,00C
C. ($5,000)
D. ($17,000)

**Answer:** C

**NEW QUESTION 19**
- (Topic 1)
Slam-Dunk Shoes has 5,000 pairs or damaged shoes in inventory. The cost of these shoes was $51,000. in their present condition, the shoes may be sold at clearance prices for $29,000 Slam-Dunk can have the shoes repaired at a cost of $77,000 after which they can be sold for $100,000. What is the opportunity cost of selling the shoes in their present damaged condition?

A. $23.000
B. $71.000
C. $77, 000
D. $100, 000

**Answer:** A

**NEW QUESTION 24**
- (Topic 1)
Southwest Supplies Inc. (SSI) is considering the following two projects with cash-flows discounted at SSI's weighted average cost of capital.

| Project | Discounted Net Cash-flows |
|---|---|
| A | $265,000 |
| B | $230,000 |

SSI can only afford to invest in one of the projects. Which statement would most likely explain why SSI would choose Project B over project A?

A. Project B results in a higher cumulative accounting income
B. Project B generates significantly more non-cash expenses
C. Project B cash-flows are relatively more certain
D. Project B cash-flows are to be received sooner

**Answer:** D

**NEW QUESTION 29**
- (Topic 1)
A group of nations is considering me formation of a cartel associated with the manufacture and distribution of a product that they each export. Which one of the following outcomes would not be consistent with me formation of a carter?

A. An increase in the output of the manufactured product
B. An increase in the selling price of the manufactured product
C. An increase m the net profits for each of the individual cartel members
D. A selling price where marginal revenue equals marginal cost

**Answer:** A

**NEW QUESTION 34**
- (Topic 1)
Willcox Company plans to sell 100 000 units of Us only product for $300 per unit to its existing customers It has received a new customer request for 10,000 units at a selling price of $2S0 per unit Willcox's cost structure is shown below.

| | |
|---|---|
| Variable costs | $110 per unit |
| Fixed manufacturing costs | $11,000,000 |
| Fixed selling and administrative costs | $3,300,000 |

Capacity exists lo produce an additional 10 000 units and accepting the order would have no long-term implications If the order is accepted however a specialized piece of equipment costing S25 000 would need to I purchased If Wilcox accepts the special order its income would increase by

A. $1400, 000.00
B. $1,375,000.00
C. $375,000.00
D. $75,000.00

**Answer:** B

**NEW QUESTION 39**
- (Topic 1)
A retail company sells numerous products m its one department store. The income statements tot two of these products are shown below

| | Product A | Product B |
|---|---|---|
| Sales | $140,000 | $250,000 |
| Cost of goods sold | (80,000) | (150,000) |
| Commissions | (15,000) | (25,000) |
| Product manager's salary | (50,000) | (50,000) |
| Occupancy costs (heating, etc.) | (15,000) | (20,000) |
| Allocated corporate charges | (25,000) | (25,000) |
| Income (loss) | $(45,000) | $(20,000) |

After reviewing the income statements, the president is considering drooping one or both products. Which produces), if any should the company discontinue?

A. Both Product A and Product B
B. Product A only
C. Product B only
D. Neither Product A nor Product B

**Answer:** B

**NEW QUESTION 42**
- (Topic 1)
Marlow Company s partial balance sheet indicated the following.

| | |
|---|---|
| Total assets | $20,000,000 |
| Liabilities: | |
| Accounts payable | 200,000 |
| Notes payable (due in 11 months) | 550,000 |
| Current portion of long-term debt | 2,500,000 |
| Bonds payable (due in 11 years) | 10,250,000 |
| Total liabilities | $13,500,000 |

A. 2.08

B. 1.96
C. 1.58
D. 0.51

**Answer:** C

**NEW QUESTION 44**
- (Topic 1)
Genco Healthcare has asked ns controller to summarize the company??s financial performance for the past two years. The accountant provided the following two years financial ratios for reference.

A. Less liquid mote profitable more solvent
B. Less liquid mote profitable less solvent
C. More Liquid Less profitable less solvent
D. More liquid, less profitable mote solvent

**Answer:** B

**NEW QUESTION 48**
- (Topic 1)
A company manufactures two products Product X and Product Y, during a joint process Product Y canoe processed further to create Product Z Relevant data are shown below.

| | X | Y |
|---|---|---|
| Units | 1,000 | 2,000 |
| Selling price per unit | $ 18 | $ 20 |
| Selling price after further process | – | 30 |
| Costs after split-off point | – | 15,000 |

A. Product Y should be processed further because me selling once of Product Z Is higher than Product Y
B. Product Y should he processed further because an additional S5.000 profit can be achieved by processing further
C. Product y should not be processed further because an additional S35 000 loss can be achieved by processing further
D. Product Y should be processed further because an additional $45,000 prof* can be achieved by processing further

**Answer:** B

**NEW QUESTION 50**
- (Topic 1)
Essentials inc. operates two segments. Segment A and Segment B information about the revenues and costs for Essentials tot the previous year (by segment) is shown below
The above analysis shows that Segment A is not profitable if Segment A is dropped, the revenues associated with the account will be lost and the related variable costs win be eliminated Also, the space freed by this product line will be rented for $40.000. The operating profit (loss) after dropping Segment A will be

A. ($35,000)
B. $5,000
C. $50.000
D. $90.000

**Answer:** B

**NEW QUESTION 51**
- (Topic 1)
A corporation??s financial analyst has identified four potential protects that ate mutually exclusive. Each protect will produce a constant annual cash flow for years 1 through 4, and have an initial investment at time 0 shown below. If the corporation has a weighted average cost of capital of 10%, which project should be selected?

| Project | Time 0 Investment | Annual Cash Flow (Years 1-4) |
|---|---|---|
| Project 1 | $1,000,000 | $500,000 |
| Project 2 | $2,000,000 | $800,000 |
| Project 3 | $3,000,000 | $1,000,000 |
| Project 4 | $4,000,000 | $1,500,000 |

A. Protect 1
B. Protect 2
C. Protect 3
D. Protect 4

**Answer:** D

**NEW QUESTION 55**
- (Topic 1)
Which one of the following statements with respect to ethics is correct?

A. Every organization that follows the law is ethical
B. Good ethics stems from formal education
C. Ethics and laws are not closely related
D. One may act legally and still be acting unethically

**Answer:** D

**NEW QUESTION 60**
- (Topic 1)
Plenary Inc specializes in overnight package delivery. Total packages delivered last year were 10 000.000. and this quantity is expected to remain unchanged in the coming year. Unit contribution margin is $4,50 and total fixed costs are S40.000,000. The firm's 300 delivery truck drivers are seeking a S10 000 raise in annual salary In addition to a current base salary of $45 000 per year, the drivers receive a commission of $0 50 per package delivered If the firm grants the $10,000 salary increase to each driver and seeks to maintain the same level of pre-tax operating profit what is the maximum amount of commission the firm can pay its drivers per package delivered?

A. $0.0
B. $0.20
C. $0.30
D. $0.35

**Answer:** B

**NEW QUESTION 65**
- (Topic 1)
Which one of the following situations describes a secondary offering of stock by a company?

A. The company has an initial public offering of its stock and its investment bank needs to add mote shares to the initial public offering to meet excess demand by investors
B. After the lockup period of the initial public offering ends, the company 3 founders sell some of their shares to the public
C. The company repurchases shares of its stock in the open market, but it then later sells these shares in the open market
D. After completing its initial public offering, the company sells more new shares of its stock

**Answer:** B

**NEW QUESTION 69**
- (Topic 1)
A company can by identical raw materials from four suppliers. Each supplier offers a different term of sale. Which one of the following terms of sale has the highest effective annual interest rate if the company does not take the cash discount?

A. 1/10, net 90
B. 1/30, net 90
C. 1/10, net 45
D. 1/30 net 45

**Answer:** D

**NEW QUESTION 71**
- (Topic 1)
A company had an operating cycle of 110 days, a cash cycle of 40 days, and an accounts receivable period of so days. The company s inventory period and accounts payable period are

A. inventory period = 50 days ana accounts payable period - 150 flays
B. inventory period = 70 flays and accounts payable period = 50 flays
C. inventory period = 10 days and accounts payable period = 50 days
D. inventory period = 50 days and accounts payable period = 70 days

**Answer:** D

**NEW QUESTION 75**
- (Topic 1)
A company plans to purchase equipment for $110 000. The equipment is expected to generate an annual cash flow o( $44 500 (of the next three years The company has a predetermined hurdle rate of 9% Using the internal rate of return (IRR). should the company purchase this equipment?

A. No, the IRR is less than the hurdle rate
B. No, the IRR is greater than the hurdle rate
C. Yes, the IRR is less than the hurdle rate

D. Yes, the IRR is greater than the hurdle rate

**Answer:** D

**NEW QUESTION 80**
- (Topic 1)
With respect to the COSO Enterprise Risk Management Integrated Framework (2017), which one of the following statements is true regarding Governance & Culture and Performance?

A. They are both components of the Integrated Framework
B. Governance & Culture is a principle and Performance is a component of the Integrated Framework
C. They are both principles of the Integrated Framework
D. Performance is a principle and Governance & Culture is a component of the Integrated Framework

**Answer:** A

**NEW QUESTION 84**
- (Topic 1)
The human resources manager of BankUS has noted mat me company s employee turnover has increased. He has also had his budget cut, and will have to reduce training for new associates. He has a meeting scheduled with the CFO lo go over risks that his department faces. What should the human resources manager tell the CFO about risk?

A. He should notify the CFO of a potential operations risk
B. Me does not need to notify me CFO of a potential risk
C. He should notify the CFO of a potential internal factor risk
D. He should notify the CFO of a need for additional funding

**Answer:** A

**NEW QUESTION 89**
- (Topic 1)
if a company increases the price of its product from $3010 $35, demand would decrease from 30, 000 units to 20.000 units. What is the price elasticity of demand for the company using the midpoint formula?

A. 0.4
B. 0.5
C. 2.0
D. 2.7

**Answer:** D

**NEW QUESTION 91**
- (Topic 1)
Clark inc, expects to incur the following selected costs an a new product being planned for introduction early next.
? Design an development costs of $100,000 that will be incurred this year.
? Marketing costs of $50,000 to be incurred %50 this year %50 year
? Manufacturing costs of $500,000 to be incurred next year.
? In addition to external market factors, the pricing decision should be based on cost. The product cost that should be used is

A. $500,000
B. $525, 000
C. $550,000
D. $650, 000

**Answer:** D

**NEW QUESTION 95**
- (Topic 1)
A company has hired a consultant to propose a way to increase the company's revenues. The consultant has evaluated two mutually exclusive projects with me following information provided for each project.

| | Project A | Project B |
|---|---|---|
| Capital investment | $1,105,000 | $625,000 |
| Annual cash flows | 180,000 | 105,000 |
| Estimated useful life | 10 years | 10 years |

The company uses a discount rate of 9% to evaluate both projects Based on the net present value, the company should invest in

A. project A only
B. project B only
C. project A and project B
D. neither project

**Answer:** A

**NEW QUESTION 97**
- (Topic 1)
An accountant is employed in the financial reporting department of a publicly-traded company. The company s compensation plan includes a year-end bonus based on the entity's financial performance and stock option rewards based on individual performance Using iMAs Statement of Ethical Professional Practice, identify the ethical Issues, if any, that may Be presented by this company s compensation plan.

A. The plan could threaten the accountant's integrity
B. The pan could threaten the accountant s competence
C. The plan could threaten the accountant s credibility
D. No significant potential threats are presented by the plan

**Answer:** A

**NEW QUESTION 98**
- (Topic 1)
Harris Wholesale Grocery Company has gross sales per year of $7 million and grants credit terms to its customers of 2/5. net 15 As a result. 60% of customers pay on the discount date 20% pay on the net due date, and 20% pay on average 10 days after the due date Assuming that sales are uniform throughout the year and using a 360-day year In the calculation what is the approximate annual amount of discount that Hams customers are allowed to take?

A. $28,000
B. $84,000
C. $140, 000
D. $210,000

**Answer:** C

**NEW QUESTION 103**
- (Topic 1)
Accounts receivable turnover increases from 4.0 times to 6.0 times. It all sales are on account when one of the following must decrease?

A. Cash
B. Days sales in receivables
C. Sales
D. Accounts receivable

**Answer:** B

**NEW QUESTION 107**
CORRECT TEXT - (Topic 2)
Discuss whether the demand for OLI??s new business English course is elastic and explain how OLI can use this information in determining the product price.
Essay
Online Learning Inc. lOLI) is a privately-held company based in the IUC that specializes in providing online courses in English as a Second Language (ESL). OLI is trying to set up a new sales office in a foreign country. It needs a business license to operate in that country. The license normally lakes six months to obtain. An official of that country said that he could expedite the process for a fee of €300.
OLI estimates the new sales office can bring €300,000 incremental profit annually OLI has just launched a new online 40-houi course to help adult ESL learners master basic business English. The price of the new course is €500 per student, the variable cost is €300 per student, and the total fixed cost of the new course is €300.000 per year OLI spent €200.000 to develop the new course before launching it. There are many online course providers in the marketplace, and each has its own feature However, OLI's highly qualified staff and good reputation have enabled it to charge a premium price compared to its major competitors. Recent market research indicates that if OLI raises the price of its new business English course by 10V the student enrollment would decrease by 5V A regional airlines company in Asia has approached OLI and offered to enroll 1.000 of its employees in the new course if OLI would agree to a special price of €350 per employee If OLI accepts this offer, an additional €10,000 onetime cost would be required to temporally expand its capacity to accommodate the new students.

A. Mastered
B. Not Mastered

**Answer:** A

**Explanation:**
it's in elastic and me percentage change in price is greater than the percentage change in the demand. A profile maximizing price where the marginal revenue is equal to marginal cost would be recommendable in this scenario.

**NEW QUESTION 110**
CORRECT TEXT - (Topic 2)
Identify the market structure in which OLI operates and explain how OLi's pricing is affected by this mantel structure
Essay
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providing online courses in English as a Second Language (ESL). OLI is trying to set up a new sales office in a foreign country. It needs a business license to operate in that country. The license normally lakes six months to obtain. An official of that country said that he could expedite the process for a fee of €300.
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temporally expand its capacity to accommodate the new students.

A. Mastered
B. Not Mastered

**Answer:** A

**Explanation:**
The market is quite sensitive to prices as the change in price is affecting me demand However the company has less opportunity over here to increase the prices for its premium service as the customers would be willing to pay less and get the same service from the competitor.

**NEW QUESTION 114**
CORRECT TEXT - (Topic 2)
Assuming mere are no other imitations, should AMI accept the one-time order from a financial perspective? Explain your answer
Essay
Apex Manufacturing lnc. (AMI) is a Canada-based company that manufactures a manufactures and unique part for aircrafts. It has few competitors in the market. The company is exposed to exchange rate risk because about 90% of its products are exported to the U.S, and most of its sales contracts are in U.S. dollars. AMI has the capacity to manufacture 1,500 units of the part per year. For the year just ended. AMI manufactured and sold 1,000 units. The operating results are shown below.

| | |
|---|---|
| Sales | $2,000,000 |
| Variable manufacturing costs | 1,000,000 |
| Fixed manufacturing costs | 500,000 |
| Operating income | 500,000 |
| Income taxes (40%) | 200,000 |
| Net income | $ 300,000 |

Recently, A new customer made a one-area order of 500 units of the part at $1.200 per unit. The CTO asked the controller to analyze this offer. AMI is considering adjusting its sales price next year in a recent meeting, the CFO suggested to use the market-based approach for pricing decisions, bat the controller insisted that the cost-based approach is more favorable to the company.

A. Mastered
B. Not Mastered

**Answer:** A

**Explanation:**
As the price offered is $1200 which is greater than the contribution per unit of $1000, the project should be accepted.
It will increase the profits of me company by $100,000 (500 X $200)

**NEW QUESTION 115**
CORRECT TEXT - (Topic 2)
According to the IMA Statement of Ethical Professional Practice, identify and explain the standard(s) that Matthew would violate if he chooses not to report the issue regarding the accounting manager.
Apex Manufacturing lnc. (AMI) is a Canada-based company that manufactures a manufactures and unique part for aircrafts. It has few competitors in the market. The company is exposed to exchange rate risk because about 90% of its products are exported to the U.S, and most of its sales contracts are in U.S. dollars. AMI has the capacity to manufacture 1,500 units of the part per year. For the year just ended. AMI manufactured and sold 1,000 units. The operating results are shown below.

| | |
|---|---|
| Sales | $2,000,000 |
| Variable manufacturing costs | 1,000,000 |
| Fixed manufacturing costs | 500,000 |
| Operating income | 500,000 |
| Income taxes (40%) | 200,000 |
| Net income | $ 300,000 |

Recently, A new customer made a one-area order of 500 units of the part at $1.200 per unit. The CTO asked the controller to analyze this offer. AMI is considering adjusting its sales price next year in a recent meeting, the CFO suggested to use the market-based approach for pricing decisions, bat the controller insisted that the cost-based approach is more favorable to the company.

A. Mastered
B. Not Mastered

**Answer:** A

**Explanation:**
Mathew will breach credibility principle as it requires that the information when can affect management decision 4 should be disclosed. So if the does not informs what is known to him he will be breaching me standard of credibility as it is affecting adversely on the shareholders.

**NEW QUESTION 117**
CORRECT TEXT - (Topic 2)
Discuss whether AMI should use a cost-based or a market-based pricing approach. Explain your answer.
Essay
Food Depot Ltd, (FDL) is a privately-held company that provides catering services to airlines and operates several restaurant chains including fast food, casual dining, and fine dining restaurants, FDL has been profitable in recent years and has a very strong cash position. FDL's newest division. Food_TO-Go is an online meal ordering and delivery platform acquired by FDL two year ago.
In 20X7, sales for the entire company were $1 billion, with 50% of the business coming from the Airline Catering division. FDL is the country ??s leading airline catering services provider and control 60% of the market share. However, the outlook of the airline catering industry is gloomy. The compound annual growth rate of the industry for the past five years was only 0.5% as airline networks have increasingly dropped catering on short domestic flights.
The Food-To-division only contribution 5% of FDL??s total sales in 20X7 and is far behind in competing for marketing for market share of the online meal ordering and delivery industry, it is estimated that Food-To-Go??s sales were only 20% of the industry leader??s sales. However, the outlook for the online meal ordering and delivery services industry is bright. The compound annual growth rate of the industry since it started three years ago was 50%. It is estimated the rapid growth of the industry will continue in the foreseeable future.
Susan Willey, the head of Food-To-Go, does not agree that the Airline Catering division is the best-performing division in the company. Wiley argues that ber division bad the highest ROI in 20X7, and it deserves more capital finding. FDL??s requested rate of return is 12%. The selected financial data for the Airline Catering division and Food-To-Go division in 20X7 are as follow (in $ millions)

| | Airline Catering | Food-To-Go |
|---|---|---|
| Sales | $ 500 | $50 |
| Operating income | 300 | 5 |
| Net book value of assets (average for the year) | 2,000 | 10 |

A. Mastered
B. Not Mastered

**Answer:** A

**Explanation:**
It should continue using market based pricing as the bargaining power is with the company not with me customer the products they make are important for me customers and there is a few competition hence it is an opportunity for Item to charge a premium for their products.

**NEW QUESTION 121**
CORRECT TEXT - (Topic 2)
Explain now QDD's share repurchase plan would affect each of the following measures EPS, the degree of operating leverage, and the interest coverage ratio No calculations required
Essay
Quality Digital Design (QDD) Inc is a public-traded technology company Selected financial data of QDD for the prior year are as follows

| | |
|---|---|
| Interest coverage ratio | 8 |
| Asset turnover ratio | 2 |
| Net profit margin | 5% |
| ROA | 10% |
| ROE | 15% |

QDD's stock was trading at $160 per share at the beginning of the yea: and at $176 per share by the end of the year. The company paid dividends of S5 per share. The company "s stock had a beta of 1 4 The stock market provided a total return of 12% last year, well above the 3??o risk free rate of return
QDD is considering the issuance of $200 million of bonds to fund the repurchase of $200 million of its stock. QDD is evaluating the bond, including its term structure, maturity, and whether it should be callable obtaining the lowest coupon interest is an important objective of QDD. The CFO has estimated that sales for the current year would remain the same as last year and the new bond would add S12 million in annual interest payments

A. Mastered
B. Not Mastered

**Answer:** A

**Explanation:**
The share repurchase program will reduce the weighted average number of shares outstanding which is turn will increase the earning per share as the same income will be divided over a fewer number of shares
It has no impact on the operating leverage and me .Merest cover ratio as it has nothing to do with cost and interest expense (therefore profitability)
its an equity based transaction only

**NEW QUESTION 122**

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