

IMANET

CMA Exam

IMANET Certified Management Accountant (CMA) Exam

Question: 1

A distinction between forecasting and planning

- A. Is not valid because that are synonyms
- B. Arises because forecasting covers the short term and planning does not
- C. Is that forecasts are used in planning
- D. Is that forecasting is a management activity, whereas planning is a technical activity

Answer: C

Explanation:

Planning is the determination of what is to be done, and of how, when, where. and by whom it is to be done. Plans serve to direct the activities that all organizational members must undertake to move the organization from where it is to where it wants to be. Forecasting is the basis of planning because it projects the future. A variety of quantitative methods are used in forecasting

Question: 2

Strategy is a broad term that usually means the selection of overall objectives. Strategic analysis ordinarily excludes the

- A. Trends that will affect the entity's markets
- B. Target product mix and production schedule to be maintained
- C. Forms of organizational structure that would best serve the entity
- D. Best ways to invest in research, design, production, distribution, marketing, and administrative activities

Answer: B

Explanation:

Strategic analysis is the process of long-range planning. It includes identifying organizational objectives, evaluating the strengths and weaknesses of the organization, such as market trends, changes in technology, international competition, and social change. The final step is to derive the best strategy for reaching the objectives. Setting the target product mix and production schedule for the current year is not a concern of strategic analysis because it is short-term activity.

Question: 3

Strategic planning, as practiced by most modern organizations, includes all of the following except

- A. Top-level management predication
- B. A long-term focus
- C. Strategies that will help in achieving long-range goals
- D. Analysis of the current month's actual variances from budget

Answer: D

Explanation:

Strategic planning is the process of setting overall organizational objectives and goals. It is a long-term process aimed at charting the future course of the organization. Strategic planning is based on assessing risk levels, evaluating the strengths and weaknesses of the organization, and forecasting the future direction and influences of factors relevant to the organization such as market trends, changes in technology, international competition, and social change. Analysis of the current month's budget variances is not an aspect of strategic planning.

Question: 4

Which one of the following reasons is not a significant reason for planning in an organization?

- A. Promoting coordination among operating units
- B. Forcing managers to consider expected future trends and conditions
- C. Developing basis for controlling operations
- D. Monitoring profitable operations

Answer: D

Explanation:

Monitoring profitable operations is not a significant reason for planning. Monitoring is a control function, whereas planning has a control purpose that precedes control in the planning-control cycle. Planning establishes standards against which the control function compares preliminary or final results.

Question: 5

Certain phases of the planning process should be formalized for all of the following reasons except that

- A. Informal plans and goals lack the necessary precision, understanding, and consistency.
- B. Formal plans can act as a constraint on the decision-making freedom of managers and supervisors
- C. Formalization requires the establishment and observance of deadlines for decision making and planning
- D. Formalization provides a logical basis for rational flexibility in planning

Answer: B

Explanation:

A formal plan is a prescription for organizational behavior and a set of goals. Management decision making is therefore necessarily constrained by the limitations established in the plan.

Question: 6

All of the following are characteristics of the strategic planning process except the

- A. Emphasis on the long run
- B. Analysis of external economic factors
- C. Review of the attributes and behavior of the organization's competition
- D. Analysis and review of department budgets

Answer: D

Explanation:

Strategic planning is the process of setting the overall organizational objectives and goals, and involves the drafting of strategic plans. Long-range (strategic) planning is based on identifying and specifying organizational goals and objectives, evaluating the strengths and weaknesses of the organization, assessing risk levels, forecasting the future direction and influences of factors relevant to the organization (such as market trend, changes in technology, international competition, and social change), and deriving the best strategy for reaching the objectives given the organization's strengths and weaknesses and the relevant future trends. Analyzing and reviewing department budgets is an aspect of operational management and not a part of strategic planning.

Question: 7

The first step in the sales planning process is to

- A. Assemble all the data that are relevant in developing a comprehensive sales plan
- B. Develop management guidelines specific to sales planning, including the sales planning process and planning responsibilities
- C. Prepare a sales forecast consistent with specified forecasting guidelines, including assumptions
- D. Secure management commitment to attain the goals specified in the comprehensive sales plan

Answer: B

Explanation:

Sales planning is a starting point for many other plans. The resources required, revenues to be earned, and costs to be incurred depend on sales. The sales plan of an operating unit should include as much specific information from that unit's management as possible, but must conform to the strategic plans or corporate management. Thus, top management must provide a context within which operational managers can prepare their plans. Corporate support include economic forecasts, overall market sales forecasts, and capital budgets.

Question: 8

Which of the following is a market-oriented definition of a business versus a product-oriented definition of a business?

- A. We make air conditioners and furnaces
- B. We supply energy

- C. We produce movies
- D. We sell men's shirts and pants

Answer: B

Explanation:

Business should be defined in market terms, that is, in terms of needs and customer groups. Moreover, a distinction should be made between a target market definition and as strategic market definitions. For example, a target market for a railroad might be freight hauling, but a strategic market might be transportation of any goods and people. Accordingly, stating that a business supplies energy is a market-oriented definition as opposed to the product-oriented definition. Moreover, it is also a strategic market definition.

Question: 9

The capital budget is a(n)

- A. Plan to ensure that sufficient funds are available for the operating needs of the company
- B. Exercise that sets the long-range goals of the company including the consideration of external influences
- C. Plan that coordinates and communicates a company's plan for the coming year to all departments and divisions
- D. Plan that assesses the long-term needs of the company for plant and equipment purchases

Answer: D

Explanation:

Capital budgeting is the process of planning expenditures for long-lived assets. It involves choosing among investment proposals using a ranking procedure. Evaluations are based on various measures involving rate of return on investment.

Question: 10

Capital budgeting techniques are least likely to be used in evaluating the

- A. Acquisition of new aircraft by a cargo company
- B. Design and implementation of a major advertising program
- C. Adoption of a new method of allocating nontraceable costs to produce lines
- D. Sale by a conglomerate of a non-profitable division

Answer: C

Explanation:

Capital budgeting is the process of planning expenditures for investments that are expected to generate returns over a period of more than one year. Thus, capital budgeting concerns the acquisition or disposal of long-term assets and the financing ramifications of such decisions. The adoption of a new method of allocating nontraceable costs to product lines has no effect on a

company's cash flows, does not relate to the acquisition of longterm assets , and is not concerned with financing. Hence, capital budgeting is irrelevant to such a decision.

Question: 11

The capital budgeting model that is ordinarily considered the best model for long-range decision making is the

- A. Payback model
- B. Accounting rate of return model
- C. Unadjusted rate of return model
- D. Discounted cash flow model

Answer: D

Explanation:

The capital budgeting methods that are generally considered the best for long-range decision making are the internal rate of return and net present value methods. These are both discounted cash flow methods

Question: 12

Effective cost capacity management

- A. Minimizes the value delivered to customers
- B. Maximizes required future investments
- C. Matches the firm's resources with current and future market opportunities
- D. Is limited to eliminating short-term worth

Answer: C

Explanation:

According to SMA 4Y, Measuring the Cost of Capacity, maximizing the value created within an organization starts with understanding the nature and capabilities of all of the company's resources. Capacity is defined from several different perspectives. Managing capacity cost starts when a product is first envisioned. It continues through the subsequent disposal of resources downstream. Effective capacity cost management requires supporting effective matching of a firm's resource with current and future market opportunities.

Question: 13

What is the key strategic issues when a firm is considering capacity expansion?

- A. Forecasting long-term demand
- B. Analyzing the behavior of competitors
- C. Identifying options
- D. Avoiding industry overcapacity

Answer: D

Explanation:

Whether to expand capacity is a major strategic decision because of the capital required, the difficulty of forming accurate expectations, and the long time frame of the lead times and the commitment. The key forecasting problems are long-term demand and behavior of competitors. The key strategic issue is avoidance of industry overcapacity. Undercapacity in a portable industry trends to be a short-term issue. Profits ordinarily lure additional investors. Overcapacity trends to be a long-term problem because firms are more likely to compete intensely rather than reverse their expansion

Question: 14

When demand uncertainty is low, firms tend to adopt a strategy of preemptive expansion. The conditions for successful preemption expansion include which of the following?

- A. The firm should avoid market signals that alert competitors to the firm's plans
- B. The expansion should be small relative to the market to minimize risk
- C. Economic of scale should be large relative to demand
- D. The business should be strategically vital to competitors

Answer: C

Explanation:

Economics of scale should be large in relation to demand, or the learning-curve effect should give an initial large investor a permanent cost advantage. For example, the preemptive firm may be able to secure too much of the market to allow a subsequent firm to invest at the efficient scale. That is, the residual demand available to be met by the later firm is less than the efficient scale of production. The later firm therefore must choose between intense competition at the efficient scale or a cost disadvantage.

Question: 15

Capacity expansion is also referred to as

- A. Market penetration
- B. Market development
- C. Product development
- D. Diversification

Answer: A

Explanation:

Market penetration is growth of existing products or development of existing markets. It occurs in mature firms within an industry

Question: 16

What type of synergy exists when products or services have positive complementary effects?

- A. Market synergy
- B. Cost Synergy
- C. Technological synergy
- D. Management synergy

Answer: A

Explanation:

Market synergy arises when products or services have positive complementary effects. Shopping malls reflect this type of synergy.

Question: 17

Which of the following is not an example of synergy?

- A. A shopping mall with several businesses providing different products and performing different services
- B. A store provides warranties on automobile parts in order to maximize customer value.
- C. A manufacturing company hires a new manager with technological experience lacking in the company
- D. Military Humvees are converted into sports utility vehicles for sale to civilians

Answer: B

Explanation:

Synergy occurs when the combination of formerly separate elements has a greater effect than the sum of their individual effects. It is unclear here whether the store is a car dealership or a parts shop. Therefore, this is seen more as an operational service strategy that seeks to gain a competitive advantage and maximize customer value by providing services such as warranties, rather than market synergy. Market synergy arises when products or services have positive complementary effects. (i.e., a parts shop and a service warranty on parts)

Question: 18

Which of the following best describes a market synergy?

- A. Technology transfer from one product to another
- B. Bundling of products distributed through the same channels
- C. Production of multiple products at one facility
- D. Use of complementary management skills to achieve entry into a new market

Answer: B

Explanation:

Market synergy arises when products or services have positive complementary effects. Shopping malls reflect this type of synergy. Also, bundling of products, distribution through the same distribution channels, and usage of the same sales force are other examples of market synergies.

Question: 19

Which of the following factors is not typical of an industry that faces intense competitive rivalry?

- A. Price-cutting
- B. Large advertising budgets
- C. Frequent introduction of new products
- D. Inelastic demand

Answer: D

Explanation:

Rivalry among existing firms will be intense when an industry has many strong competitors. Inelastic demand exists when quantity purchased is not greatly affected by price changes. Thus, price cutting does not increase sales for the industry and is therefore atypical of an intensely competitive industry.

Question: 20

Intense rivalry among firms in an industry increases when there is

- I- A low degree of product differentiation
- II- Low consumer switching costs

- A. I only
- B. II only
- C. Both I and II
- D. Neither I nor II

Answer: C

Explanation:

The degree of product differentiation and the costs of switching from one competitor's product to another increase the intensity of rivalry and competition in an industry. Less differentiation tends to heighten competition based on price, with price cutting leading to lower profits. Low costs of switching products also increase competition.