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CMA Part 2: Strategic Financial Management Exam

IMA CMA-Strategic-Financial-Management

Version Demo

Total Demo Questions: 10

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Topic Break Down

| Topic | No. of Questions |
|--------------------|------------------|
| Topic 1, Section 1 | 98 |
| Topic 2, Section 2 | 25 |
| Total | 123 |

QUESTION NO: 1

A company manufactures two products Product X and Product Y, during a joint process Product Y can be 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 the selling price of Product Z is higher than Product Y
- B. Product Y should be processed further because an additional \$5,000 profit can be achieved by processing further
- C. Product Y should not be processed further because an additional \$35,000 loss can be achieved by processing further
- D. Product Y should be processed further because an additional \$45,000 profit can be achieved by processing further

ANSWER: B**QUESTION NO: 2**

If a company increases the price of its product from \$30 to \$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**QUESTION NO: 3**

In March 20X2, an investor purchased a government bond with a face value of \$100 that matures in 30 years. The issue price was \$94 and the bond offered a yield to maturity of 5.6%. One year later, the investor sold the bond at a price of \$105 after receiving an interest payment of \$6. The total return is

- A. 5.6%
- B. 6.0%
- C. 11.7%
- D. 18.1%

ANSWER: D**QUESTION NO: 4**

Marsalls Products Inc. manufactures and sells two products CD-ROMs and DVD's. The latest forecast on me products and their costs for the coming year is shown in the following table.

Note 1: Fixed manufacturing cost of Si.500 000 per year is allocated to products based on the number of machine hours required to produce the product at a rate of S3 per machine hour

The Manufacturing Team leader just informed the CEO that a fire occurred at one of the manufacturing lines and that line would be unavailable for the next 12 months. The result is that mere will only be 400 000 machine Hours available The CEO requested the management team to revise the plan for the coming year based on the new constraint. The Marketing Team leader stated that in order to minimize customer complaints about the shortage, a minimum of 100,000 units of each product should be produced With the new information from the Manufacturing and Marketing teams what is the optimal product mix for the coming 12 months" Assume Marsalls can sell allot its production.

- A. 100,000 CD-ROM's and 150,000 DVD'[s
- B. 120.000 CD-ROM's 140,000 DVD.
- C. 150.000 CD-ROMS and 125.000 DVD
- D. 200,000 CD-ROm's a dn 100,000 DVD

ANSWER: D**QUESTION NO: 5**

Delman inc considering upgrading its manufacturing facility, and it is expected that the new equipment will cost \$180,000. The project's is considering similar to the risk of the firm's other investments. the after-tax cash inflows attribute to this project are expected to increase by \$50,000 every year over the next five years. The firm's marginal tax rate is 30%, its debt-to-equal ratio (using market values) is 60%, and its pre-tax cost of debt and equity are 8% and 12% respectively. the weighted average cost of capital appropriate for evaluating this project is closest to

- A. 8.0%
- B. 8.2%
- C. 9.6%
- D. 10.5%

ANSWER: C**QUESTION NO: 6**

Which one of the following statements best describes an offering after an initial public offering where a benchmark stock price will already exist?

- A. Private placement
- B. Subsequent or secondary public offering.
- C. Over-the-counter offering
- D. Stock repurchase

ANSWER: B

QUESTION NO: 7

Javier makes hand-looted learner dog collars. The materials cost \$10 per collar and the collars are sold for \$50 each. Javier sells me collars at a local farmer's market mat charges S100 per month for space rental if Javier's income tax rate is 30%, how many collars must Javier sell each year to earn \$1,000 net income?

- A. 29
- B. 53
- C. 66
- D. 263

ANSWER: C

QUESTION NO: 8

Custom Ceramics produces two hand-painted items a large bowl and a large platter. Relevant information for each of these items is shown below

- A. The company should produce only bowls because the contribution margin per bowl is higher.
- B. The company should produce only platters because the variable cost per platter is lower
- C. The company should produce only bowls because the sales price per Bowl is higher
- D. The company should produce only platters because the contribution margin per painting hour is higher

ANSWER: D

QUESTION NO: 9 - (SIMULATION)

Mow many student enrolments per year ate required for the new busmen English course to break, even at its current price? Snow your calculations

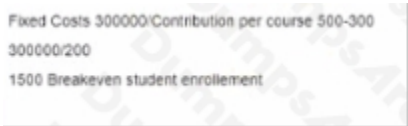
Essay

Online Learning Inc. (OLI) 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 takes 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-hour 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 10%, the student enrollment would decrease by 5%. 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 temporarily expand its capacity to accommodate the new students.

ANSWER: See the explanation for the answer.

Explanation:



Fixed Costs 300000/Contribution per course 500-300
300000/200
1500 Breakeven student enrollment

QUESTION NO: 10 - (SIMULATION)

Identify and describe two defenses Blue Moon could use if it does not wish to be acquired by Guda.

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 years 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-Go division only contribution 5% of FDL's total sales in 20X7 and is far behind in competing 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. Willey argues that her division had 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 |

ANSWER: See the explanation for the answer.

Explanation:

They can simply revalue their assets and hence ask for a higher price for their company or they can structure their financing structure by either issuing debts or reducing the equity by paying a special one-off dividend.