

## Question: #101551 – Video Lecture: Financial Statements

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Accrual Accounting	<b>Part 1 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 1111.01-.04	<b>Part 1 CMA Outline 2020</b> 1A1 - Balance Sheet

### Question Statement:

On July 15, a company entered into a three-month agreement to rent a machine the company needed to complete a special order. The machine would be delivered on August 1, and rental payments are due on the first day of each rental month. The effect this event would have on the company's July 31 financial statements would be to:

- >> cause no change in assets, liabilities, or income.
- increase both assets and income.
- increase both assets and liabilities.
- increase liabilities and decrease income.

### Question Explanation:

English

As of July 31, the company has no right to use the machine (asset) and no obligation to pay the rental company (liability) because the rental company has not yet delivered the machine. Because the company has not benefited from the asset's use, it also has no expense associated with it and therefore income is unaffected.

## Question: #101559 – Video Lecture: Revenue Recognition

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Recognition Revenues	<b>Part 1 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 1124.09	<b>Part 1 CMA Outline 2020</b> 1B4 - Revenue Recognition

### Question Statement:

A consulting company won a \$20.8 million three-year contract. The contract requires software development, hosting, and maintenance over three years. The total estimated cost of the project is \$17 million, with \$10 million expected in year one, \$5 million in year two, and \$2 million in year three. The billing schedule shows that \$5 million will be billed upon start of the work, and then \$5 million at each year end. At the end of the first year, the actual cost incurred is \$9 million, and total estimated costs are unchanged at \$17 million. If the company recognizes revenue over time based on contract progress, how much revenue (rounded to the nearest million) should be recognized at the end of the first year?

- >> \$11 million
- \$10 million
- \$5 million
- No revenue

### Question Explanation:

English

Recognizing revenue over time requires companies to recognize revenue in each period based on the percentage of costs that the company has incurred relative to total costs to complete the project. In the first year the company has completed 52.9% of the project ( $\$9\text{M costs} / (\$17\text{M total costs to complete})$ ). The company then applies this percentage to the project's total revenue of \$20.8 million, for revenue of \$11 million ( $52.9\% \times \$20.8\text{M}$ ; rounded). Recognized revenue is not affected by the timing of the cash received.



## Question: #101564 – Video Lecture: Strategic Planning

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Strategic Decisions	<b>Part 1 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 1212.01-.05	<b>Part 1 CMA Outline 2020</b> 2A1 - Analysis of External and Internal Factors Affecting Strategy

### Question Statement:

The management of a food-processing company is analyzing its internal strengths and weaknesses as part of its strategic planning process. Which one of the following is **most** likely considered a strategic internal variable for the company?

- Changes in the legal code for food processors
- The economic forces that regulate the local labor supply
- Technological changes in food-processing methods
- >> The culture at the company's food-processing plant

### Question Explanation:

English

The culture at a company is internal. Changes in the legal code, economic forces, and technological changes in the industry are external to the company, and would be considered (external) threats.

## Question: #101570 – Video Lecture: Budgeting Concepts

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Budget	<b>Part 1 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 1224.01-.06	<b>Part 1 CMA Outline 2020</b> 2B4 - Other Budgeting Concepts

### Question Statement:

When properly developed and administered, budgets provide the following advantages to the organization **except** to:

- provide a structure for measuring performance.
- motivate managers and other employees.
- >> ensure that the organization makes a profit.
- promote the efficient allocation of resources.

### Question Explanation:

English

Budgets are estimated or proposed spending of an organization. They do not ensure that any of the budgeted items are achieved. Rather, they provide a blueprint or goal for the organization to follow during the time period covered under the budget. Budgets provide a structure for measuring performance by comparing actual performance to budgeted performance. They motivate employees to achieve the goals outlined in the budget and they promote the efficient allocation of resources by planning for the standard spending related to the resources available to the company.

## Question: #101584 – Video Lecture: Performance Measures

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Assets	<b>Part 1 CMA</b>	<b>Part 1 CMA</b>
		Net Income	<b>Outline 2020</b>	<b>Outline 2020</b>
		Return on Investment (ROI)	Surgent CMA Exam Reference Volume(s) 1334.01-.02	3C4 - Return on Investment

### Question Statement:

A company has recently implemented responsibility accounting in all 7 segments of the company. The following information is available for Segment W for the last quarter.

Net working capital	\$1,200,000
Property, plant and equipment, net	3,175,000
Revenues	8,000,000
Cost of sales	6,350,000
General and administrative expenses	180,000

Based on the information provided, if the company treats Segment W as an investment center, what is the return on investment for the last quarter?

- >> 33.6%
- 37.7%
- 46.3%
- 74.4%

### Question Explanation:

English

The formula for calculating Return on Investment (ROI) is:

$$\text{ROI} = \frac{\text{Net income}}{\text{Total Assets}}$$

For this problem, ROI is calculated as:

$$\text{ROI} = \frac{8,000,000 - 6,350,000 - 180,000}{1,200,000 + 3,175,000} = \frac{1,470,000}{4,375,000} = 33.6\%$$

## Question: #101585 – Video Lecture: Responsibility Centers and Reporting Segments

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Cost Center	<b>Part 1 CMA</b>	<b>Part 1 CMA</b>
		Investment	<b>Outline 2020</b>	<b>Outline 2020</b>
		Center	Surgent CMA Exam	3B1 - Types of
		Profit Center	Reference	Responsibility
		Revenue Center	Volume(s)	Centers
			1321.01-.04	

### Question Statement:

A company's production manager is accountable for controlling costs while manufacturing quality products. The manager also provides recommendations for equipment improvements and replacements. In this market, customers are very sensitive to the product's quality. What type of responsibility center is the production manager in charge of?

- >> Cost center
- Investment center
- Profit center
- Revenue center

### Question Explanation:

English

A cost center is responsible only for costs and is evaluated on its success in controlling costs within its budget. It is not responsible for revenues, as investment, profit, and revenue centers are.

## Question: #101588 – Video Lecture: Fixed and Variable Costs

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Allocation	<b>Part 1 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 1431.03	<b>Part 1 CMA Outline 2020</b> 4C1 - Fixed and Variable Overhead Expenses

### Question Statement:

A manufacturing company uses machine hours as the only overhead cost allocation base. The accounting records contain the following information.

	<u>Estimated</u>	<u>Actual</u>
Manufacturing overhead costs	\$200,000	\$240,000
Machine hours	40,000	50,000

Using actual costing, the amount of manufacturing overhead costs allocated to jobs is:

- \$300,000.
- \$250,000.
- >> \$240,000.
- \$200,000.

### Question Explanation:

English

An actual costing system would allocate the actual overhead costs to jobs (\$240,000). A normal costing system would use a predetermined overhead rate (Estimated annual overhead / estimated activity base) and apply that to actual activity to allocate overhead. At the end of the period, under- or over-allocated overhead would require an adjustment.

## Question: #101590 – Video Lecture: Measurement Concepts Part 2

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Spoilage	<b>Part 1 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 1414.01-1414.05	<b>Part 1 CMA Outline 2020</b> 4A4 - Absorption (Full) Costing

### Question Statement:

A company produces disk brakes for mountain bikes. During the current reporting period, the company has normal spoilage of 700 units. At the beginning of the current reporting period, the company had 3,400 units in inventory and started and completed 5,600 units. 4,900 units were transferred out, and ending inventory had 3,100 units. In this reporting period, the abnormal spoilage for the company disk brakes production was:

- >> 300 units.
- 400 units.
- 1,000 units.
- 5,200 units.

### Question Explanation:

English

At the end of the period, there should be 4,100 units, not accounting for spoilage. This is calculated as follows:

Beginning inventory	3,400
+ Units started/completed	5,600
- Units transferred out	4,900
- Ending inventory	3,100
Units	4,100

Ending inventory was 3,100, a difference of 1,000. If normal spoilage is 700 units., abnormal spoilage is 300 units.

## Question: #101586 – Video Lecture: Performance Measures

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Accounting	<b>Part 1 CMA</b>	<b>Part 1 CMA</b>
		Profit	<b>Outline 2020</b>	<b>Outline 2020</b>
		Costs	Surgent CMA Exam	3C1 - Product
		Static	Reference	Profitability
			Volume(s)	Analysis
			1331.01-.02	

### Question Statement:

A restaurant chain has 30 different hamburger choices and has recently added the Come Hungry, a quadruple burger, to its menu for a three-month trial period. The product's partial income statement after three months is shown below.

Sales	\$ 550,000
Variable costs	375,000
Product advertising (2/3 for product launch, 1/3 ongoing)	180,000
Allocated fixed direct restaurant costs	120,000
Profit (loss) before allocation of corporate costs	\$(125,000)

The effect on the company's profit because of the addition of this new product was to:

- >> decrease income by \$5,000.
- increase income by \$115,000.
- decrease income by \$125,000.
- increase income by \$175,000.

### Question Explanation:

English

To determine the effect on profit or loss attributed to the new product, only revenues that would not have been earned or costs that could have been avoided are considered. The only expense that is not a direct result of the new product is the allocated fixed costs. All other revenues and expenses are directly attributable to the new burger. The \$120,000 fixed cost allocation is added back to the \$125,000 loss, for a net loss of \$5,000 attributable to the new product.

## Question: #201512 – Video Lecture: CVP Analysis

## Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Direct Labor Direct Material	<b>Part 2 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 2131.02	<b>Part 2 CMA Outline 2020</b> 3A2 - Profit Performance and Alternative Operating Levels

## Question Statement:

A detergent company sells large containers of industrial cleaner at a selling price of \$12 per container. Each container of cleaner requires \$4.50 of direct materials, \$2.50 direct labor, and \$1.00 of variable overhead. The company has total fixed costs of \$2,000,000 and an income tax rate of 40%. Management has set a goal to achieve a targeted after-tax net income of \$2,400,000. What amount of dollar sales must the company achieve in order to meet its goal?

- \$14,400,000
- >> \$18,000,000
- \$22,000,000
- \$24,000,000

## Question Explanation:

English

We can set up a formula to determine the amount of dollar sales needed to achieve the goal of an after-tax net income of \$2,400,000. X will be the variable representing the amount of dollar sales the company needs to achieve the goal of \$2,400,000. Variable costs total to \$8 per unit (\$4.50+\$2.50+\$1.00) which is 66.67% of the sales price per container (\$8/12). If the after-tax net income is \$2,400,000, then the pre-tax net income would be \$4,000,000 (\$2,400,000/1-.4). The formula would therefore be:

$$\$4,000,000 = X - .6667X - \$2,000,000 \text{ of fixed costs}$$

Then we get:

$$\$6,000,000 = .3333X$$

$$X = \$18,000,000$$



## Question: #201513 – Video Lecture: Profitability Analysis

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Breakeven	<b>Part 2 CMA</b>	<b>Part 2 CMA</b>
		Fixed Cost	<b>Outline 2020</b>	<b>Outline 2020</b>
		Margin of Safety	Surgent CMA Exam Reference	1C3 - Cost of Sales Analysis
			Volume(s)	
			2123.01	

### Question Statement:

Projected sales for a tent manufacturer are \$510,000. Each tent sells for \$850 and requires \$350 of variable costs to produce. The tent manufacturer's total fixed costs are \$145,000. The tent manufacturer's margin of safety is:

- >> 310 units.
- 710 units.
- 730 units
- 1,310 units.

### Question Explanation:

English

Margin of safety equals projected sales less breakeven sales. First, we must compute the breakeven point in units. We can use the following formula:

$$\$0 = \$850X - \$350X - \$145,000$$

\$0 represents the desired net income of 0 (breakeven), \$850X represents the sales price  $\times$  units sold/produced (X), \$350X represents the variable cost  $\times$  units sold/produced (X), and \$145,000 represents the fixed costs. X, the variable, represents the number of units sold/produced.

The formula then works out to  $\$500X = \$145,000$ , and X computes to 290. Therefore, the breakeven point in units is 290 units.

If projected sales are \$510,000, and the sales price per unit is \$850, then the projected sales in units are 600 units ( $\$510,000/\$850$ ).

We can now use the margin of safety formula of projected sales less breakeven sales.  
600 units (projected sales in units) – 290 units (breakeven sales in units) = 310 units

## Question: #201516 – Video Lecture: Marginal Analysis

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Incremental Indirect Costs	<b>Part 2 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 2322.01	<b>Part 2 CMA Outline 2020</b> 3B2 - Marginal Costs and Marginal Revenue

### Question Statement:

A company plans to add a new product that would affect its indirect labor costs in two ways. First, the production manager from an existing product would serve as manager of the new product. Her current assistant manager would be promoted and assume her previous position. Second, the existing maintenance staff would provide facility and machine maintenance that would require 30 hours of labor each month, but no increase in their total weekly hours worked. The company's production managers earn \$60,000 annually, assistant production managers are paid \$50,000 each year, and maintenance employees earn \$20 per hour. No additional hiring is planned. The annual relevant indirect labor costs for adding the new product would total:

\$67,200.

\$60,600.

>> \$10,000.

\$7,200.

### Question Explanation:

English

The relevant indirect labor costs would be only the costs that are incurred in addition to the costs that are already being incurred. These are the incremental (additional) costs. There are no additional relevant costs for the maintenance staff, since there is no increase to their weekly hours worked. The only incremental change is that the assistant manager (\$50,000 salary) would be promoted to production manager (\$60,000 salary), which is a \$10,000 increase. This \$10,000 is the only relevant cost for adding the new product.



## Question: #201518 – Video Lecture: Marginal Analysis

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Fixed Cost	<b>Part 2 CMA</b>	<b>Part 2 CMA</b>
		Idle Capacity	<b>Outline 2020</b>	<b>Outline 2020</b>
		Variable Cost	Surgent CMA Exam Reference	3B3 - Special Orders and Pricing
			Volume(s) 2323.01	

### Question Statement:

A company's budget indicated the following cost per unit for the company's most popular product.

Variable manufacturing costs	\$64
Fixed manufacturing overhead	45
Sales commissions	3
Fixed selling and administrative costs	32

Although this product normally sells for \$160 per unit, the company received a special order from a new customer. If the company has idle capacity, its income would increase by accepting the order if the selling price per unit for the order was greater than:

- \$64.
- >> \$67.
- \$109.
- \$144.

### Question Explanation:

English

Fixed costs are not relevant in this situation if the company has idle capacity: fixed costs would not increase if production increased. Therefore, only the variable costs are considered. The total variable costs are \$67 (\$64 manufacturing and \$3 sales commissions). Any sales price over \$67 would result in incremental net income.

## Question: #201527 – Video Lecture: Capital Budgeting Process

## Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Cash Flow Depreciation Income Tax	<b>Part 2 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 1512.01	<b>Part 2 CMA Outline 2020</b> 5A2 - Incremental Cash Flows

## Question Statement:

At the conclusion of a capital budgeting project, a piece of equipment is expected to be sold for \$500,000. At the time of sale, the book value of the equipment would be \$400,000. If the income tax rate is 35%, what is the after-tax cash flow from the sale of the machine?

- \$325,000
- \$400,000
- >> \$465,000
- \$535,000

## Question Explanation:

English

If the equipment sales price is \$500,000 and the book value (cost – accumulated depreciation) is \$400,000, there will be a gain on the sale of \$100,000, which is taxable.  $35\% \times \$100,000 = \$35,000$  tax on the gain. The cash proceeds of \$500,000 for the sale less the \$35,000 income tax on the gain = \$465,000 after-tax cash flow from the sale of the machine.

## Question: #201528 – Video Lecture: Basic Financial Statement Analysis

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Financial Statements	<b>Part 2 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 2111.01-.02	<b>Part 2 CMA Outline 2020</b> 1A1 - Common Size Financial Statements

### Question Statement:

Shown below are components of a company's financial statements.

Sales revenue	\$600,000
Cost of goods sold	300,000
Total assets	2,400,000
Total equity	1,500,000
Net income	120,000

What percentage value would net income be on a common size financial statement?

- 5%
- 8%
- >> 20%
- 40%

### Question Explanation:

English

A common-sized income statement sets sales at 100% and looks at each component as a % of sales. A common-sized balance sheet sets total assets (and total liabilities + equity) at 100% and looks at each component as a % of total asset (which is equal to total liabilities + equity). Sales revenue of \$600,000 would be shown as 100%. Cost of goods sold would be shown a 50% ( $\$300,000/\$600,000$ ). Total assets of \$2,400,000 would be shown as 100%. Total equity would be shown as 62.5% ( $1,500,000/2,400,000$ ). Net income would be shown as 20% ( $\$120,000/\$600,000$ ).

## Question: #201542 – Video Lecture: Profitability Analysis

## Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Cost of Goods Sold Inventory	<b>Part 2 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 2133.01	<b>Part 2 CMA Outline 2020</b> 1C3 - Cost of Sales Analysis

## Question Statement:

A company's finished goods inventory was miscounted, and the correct balance is \$130,000 lower. Management is concerned about correcting the error because bonuses are only earned if the minimum gross profit margin is 45%. Selected financial information is shown below.

Revenues	\$1,000,000
Cost of goods sold	500,000
Salaries	57,000
Accounts receivable	22,000
Cash	43,000

With the corrected inventory, will the bonus target be met?

Yes, the gross profit margin will increase.

No, the working capital will decrease.

Yes, the gross profit margin will not change.

>> No, the cost of goods sold will increase.

## Question Explanation:

English

Cost of Goods Sold (COGS) = Cost of Goods Available for Sale (COGAS) – Ending Inventory

Sales (Revenue) – COGS = Gross Profit

Gross Profit / Sales (Revenue) = Gross Profit Margin

Uncorrected computation: \$1,000,000 – \$500,000 = \$500,000 (Gross Profit Margin = 50%)

If ending inventory is \$130,000 lower, then as per the COGS formula, if ending inventory, which is subtracted from COGAS, is decreased, then COGS will increase.

Corrected computation:  $\$1,000,000 - \$630,000 = \$370,000$  (Gross Profit Margin = 37%)

## Question: #201551 – Video Lecture: Risk and Return

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Capital Asset Pricing Model	<b>Part 2 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 2213.40	<b>Part 2 CMA Outline 2020</b> 2A1 - Calculating Return

### Question Statement:

An investor is evaluating the common stock of a technology company which has a beta of 1.8. The expected return for the securities market as a whole is 8%. The investor could receive a risk-free return of 2% on a U.S. Treasury bill. Based on the capital asset pricing model (CAPM), what is the expected risk adjusted return of the technology company's common stock?

- 10.8%
- >> 12.8%
- 16.4%
- 20.0%

### Question Explanation:

English

The capital asset pricing model (CAPM) formula is Risk Free Return + (Beta Coefficient × (Market Return – Risk Free Return)).

Risk Free Rate of Return	2%
Beta Coefficient	1.8
Market Return	8%

$$2\% + (1.8 \times (8\% - 2\%)) = 12.8\%$$

## Question: #201544 – Video Lecture: Profitability Analysis

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Cost of Goods Sold	<b>Part 2 CMA Outline 2020</b>	<b>Part 2 CMA Outline 2020</b>
		Income Tax	Surgent CMA Exam Reference	1C4 - Expense Analysis
			Volume(s) 2134.01-.03	

### Question Statement:

A company's Year 4 gross profit margin remained unchanged from Year 3. However, the company's Year 4 net profit margin increased from Year 3. Which one of the following could explain the change from Year 3 to Year 4?

Sales decreased at a faster rate than operating expenses.

>> Corporate income tax rates decreased.

Preferred dividends increased.

Cost of goods sold decreased relative to sales.

### Question Explanation:

English

Gross Profit = Sales – Cost of Goods Sold

Gross Profit Margin = Gross Profit ÷ Sales

Operating Profit Margin = Operating Income ÷ Sales

If corporate tax rates decreased, operating income would increase as income tax expense would be reduced. However, this would have no impact on gross profit margin, as sales and cost of goods sold would remain the same.

## Question: #201533 – Video Lecture: Leverage Ratios

### Research items:

References:	Authorities:	Terms:	Book References:	Categories:
		Degree of Financial Leverage	<b>Part 2 CMA Outline 2020</b> Surgent CMA Exam Reference Volume(s) 2122.01-.03	<b>Part 2 CMA Outline 2020</b> 1B2 - Leverage

### Question Statement:

An accountant has determined that last year a company had earnings before interest and tax of \$750,000, interest expense of \$125,000, and an income tax rate of 40%. What was the company's degree of financial leverage last year?

- 0.80
- >> 1.20
- 1.67
- 2.00

### Question Explanation:

English

Degree of financial leverage (DFL) is the percentage change in earnings available to common stockholders related to a given percentage change in EBIT (earnings before interest and taxes).

$$\text{DFL} = \frac{\text{EBIT}}{\text{EBIT} - \text{Interest}}$$

$$\text{DFL} = \frac{\$750,000}{\$750,000 - \$125,000}$$

$$\text{DFL} = \frac{\$750,000}{\$625,000} = 1.2$$