

Accountant IMA-CMA-Part-1

Financial Planning, Performance and Analytics

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Question: 1

The difference between budget amounts and actual amounts is called.,,

- A. cost variance
- B. budget variance
- C. profitability variance
- D. revenue variance

Answer: B

Explanation:

Budget variance. Budget variances are the differences between budget amounts and actual amounts, calculated by subtracting the standard (or budgeted) costs from the actual costs, then multiplying the remainder by the standard units of activity. Variance analysis attempts to find a cause for these differences and examines the effects a variance can have on an organization. Budget variances can be analyzed using two different methods—the two-way analysis and the three-way analysis.

Question: 2

Management by exception involves the analysis of activities...

- A. by executive management
- B. that are mutually exclusive of other activities
- C. that operate at a loss
- D. that differ from planned results

Answer: D

Explanation:

That differs from planned results. Management by exception is a management control technique that analyzes activities where actual results are significantly lower than planned results. The causes of the deviation are investigated using decision support systems, expert systems, and performance reporting. Once determined, management reviews and implements courses of action intended to correct the causes.

Question: 3

Which concept underscores the importance of accounting performance measurement in the decision making process?

- A. Supply chain management
- B. Responsibility accounting
- C. Generally Accepted Accounting Principles
- D. Total Quality Management

Answer: B

Explanation:

Responsibility accounting. Responsibility accounting is an overall concept that involves the processes of collection, summary, and reporting of financial information for responsibility centers. Responsibility centers can encompass an organization's cost centers, profit centers, revenue centers, and investment centers. Managers of responsibility centers are accountable for their decisions concerning costs, revenues, and profits, and for taking action with respect to variances between actual and expected results. Responsibility accounting, therefore, is a key underlying concept in a decision making process that tracks costs, revenues, and profits for each responsibility center. In responsibility accounting, management's performance is evaluated based on how well costs, revenues, and profits meet expected results.

Question: 4

Contribution margins are used to.,,

- A. define market segments for a product
- B. allocate costs to a product
- C. set a price for a product
- D. determine the break-even point of a product

Answer: D

Explanation:

Determine the break-even point of a product. Contribution margins determine how much of each unit sold is used to cover fixed costs, therefore, an important part of cost-volume-profit analysis and break-even analysis. Contribution margins are calculated by subtracting unit variable cost from unit revenue. A company's market segments are determined from its strategic business units to implement individual strategic planning for the products and customers served. Cost allocation associates costs with cost objectives by tracking and accumulating costs tied to a specific object. then selecting a method that identifies the cost with the object. Transfer pricing is used to set prices for services, evaluate financial performance, and determine the contribution a profit center makes toward net income.

Question: 5

Which method is NOT used in transfer pricing?

- A. Negotiated transfer pricing method
- B. Market-based pricing method

- C. Fixed cost-based pricing method
- D. Variable pricing method

Answer: C

Explanation:

Fixed cost-based pricing method. Transfer pricing is used when a product or service is sold internally between an organization's divisions or departments. The five pricing methods used are:

Market-based price— actual amount paid

Cost-based price— marginal cost of funds

Full cost price— markup covering fixed costs added to manufacturing cost

Variable cost price— various price points depending on customer or time period

Negotiated transfer price— set by agreement between buyer and seller

Question: 6

The purpose of using standards for performance evaluation and measurement is to...

- A. measure efficiency and costs
- B. determine the profitability of an investment
- C. measure earnings from an increase in sales
- D. assess a value to the organization's book value

Answer: A

Explanation:

Measure efficiency and costs. Standards are used in performance evaluation to measure efficiency and costs, keeping tasks within an allowable time frame with consideration to the task's scope. They're set for the expected output for each employee or process, the time required to accomplish a task or complete a process, and the allowable and acceptable levels for mistakes, waste, and spoilage. Return on investment is used to measure the amount of money or profit that is gained on an investment. Earnings quality refers to how earnings are made, and considers whether an increase in sales or a decrease in costs is responsible. The book to market ratio is a valuation method that compares an organization's book value to its market value.

Question: 7

What is the price-earnings ratio?

- A. The amount of earnings derived from one dollars worth of stock
- B. The share price of a company's stock compared to its earnings per share
- C. The price at which one share of stock sells in a financial market
- D. The operating income that an investment earns

Answer: B

Explanation:

The share price of a company's stock compared to its earnings per share. The price-earnings ratio values the market share price of a company's stock compared to its earnings per share. It is calculated by dividing market value per share by earnings per share. The price-earnings ratio shows how much an investor pays for a share of stock for each dollar of earnings. Earnings yield is the amount of earnings derived from each dollar of stock calculated by dividing the earnings per share by the market price for each share of stock. Market value is the price at which a share of stock sells in a financial market, based on what investors are willing to pay. Residual income is the amount of operating income that an investment earns above a minimum level of return on assets.

Question: 8

Which statement is true when contrasting the differences between return on investment and residual income?

- A. Residual income measures a rate of return
- B. Return on investment earns a lower return on investment
- C. Return on investment considers all investment opportunities
- D. Residual income measures performance above an expected amount

Answer: D

Explanation:

Residual income measures performance above an expected amount. Residual income measures an amount of income in dollars while return on investment measures a rate of return. Residual income is used to evaluate performance based on an excess of income over the expected income, with the company's objective being to attain the highest level possible. The objective of return on investment is to attain the highest return on investment percentage. Residual income is preferred over return on investment as a performance measurement because it promotes investment opportunities with a higher rate of return than the cost of invested capital. When return on investment is used as a performance measurement, investment opportunities that lower the rate of return will not be undertaken, even if the investment would be beneficial to the organization.

Question: 9

Using the balanced scorecard concept in performance management helps an organization achieve which goal?

- A. Provide feedback on how goals are being met
- B. Manage the performance of a strategic plan
- C. Ensure continuous quality improvement
- D. Minimize production delays and backlogs

Answer: C

Explanation:

Ensure continuous quality improvement. The balanced scorecard approach is a non-financial measure of performance evaluation, with the goal of continuous quality improvement. The balanced scorecard approach uses several performance measurements to determine how well the organization is meeting its objectives. These performance measurements are linked to financial outcomes, customer outcomes, and business process outcomes.

Question: 10

Which business process measure is a component of the balanced scorecard concept?

- A. Ability to retain customers
- B. Ability to meet customer demands
- C. Training employees in new processes
- D. Ability to respond to customer needs

Answer: B

Explanation:

Ability to meet customer demands. Business process measures are internal processes—either mission-oriented or support in nature—that work to indicate how well a business is operating. Mission-oriented processes include the ability to keep up with technology and creating a more efficient manufacturing environment. Support processes may include the introduction of new products and ability to meet customer demands for a product. The learning and growth measures include employee training, employee self-improvement, and organizational self-improvement. The customer measures focus on the customers' needs and satisfaction with the business' products and services.

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