



CMA Accounting

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Practice Questions

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1. Which budget is the starting point and foundation for nearly all other operating budgets in a manufacturing firm?

- A. The cash budget
- B. The sales budget
- C. The production budget
- D. The capital budget

2. A favorable variance generally occurs when:

- A. Actual cost exceeds standard cost
- B. Actual cost is less than standard cost
- C. Actual revenue is less than budgeted revenue
- D. Actual output equals budgeted output

3. Direct materials and direct labor together are referred to as:

- A. Conversion costs
- B. Prime costs
- C. Period costs
- D. Overhead costs

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4. The COSO Internal Control - Integrated Framework defines internal control objectives in three categories: operations, compliance, and:

- A. Liquidity
- B. Reporting
- C. Taxation
- D. Marketing



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5. Current assets are \$300,000 and current liabilities are \$150,000. The current ratio is:

- A. 0.5
- B. 2.0
- C. 3.0
- D. 1.5

6. The present value of a future amount will be higher when:

- A. The discount rate is higher
- B. The discount rate is lower
- C. The time period is longer at a constant rate
- D. Compounding is more frequent

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7. A product sells for \$50 with variable cost of \$30 and total fixed costs of \$200,000. The breakeven point in units is:

- A. 4,000 units
- B. 10,000 units
- C. 6,667 units
- D. 20,000 units

8. The IMA Statement of Ethical Professional Practice includes which four overarching standards?

- A. Honesty, Fairness, Loyalty, Diligence
- B. Competence, Confidentiality, Integrity, and Credibility
- C. Independence, Objectivity, Skepticism, Care
- D. Accuracy, Timeliness, Relevance, Reliability

9. A master budget is best described as:

- A. A budget covering only cash inflows and outflows
- B. A budget for a single department
- C. A comprehensive set of interrelated budgets covering all operations for a period
- D. A budget revised continuously each month

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10. Standard material price is \$5/lb. The firm bought 10,000 lbs at \$5.30/lb. The materials price variance is:

- A. \$3,000 unfavorable
- B. \$3,000 favorable
- C. \$2,650 unfavorable
- D. \$5,000 unfavorable

11. Direct labor plus manufacturing overhead is referred to as:

- A. Prime cost
- B. Period cost
- C. Conversion cost
- D. Selling cost

12. Which is one of the five components of the COSO internal control framework?

- A. Profitability
- B. Liquidity
- C. Control environment
- D. Capital structure

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13. Current assets are \$300,000, including \$90,000 of inventory and \$10,000 prepaid expenses. Current liabilities are \$100,000. The quick (acid-test) ratio is:

- A. 3.0
- B. 2.1
- C. 2.0
- D. 1.0

14. \$1,000 invested at 10% compounded annually grows to what amount after 2 years?

- A. \$1,200
- B. \$1,100
- C. \$1,210
- D. \$1,000



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15. With a contribution-margin ratio of 40% and fixed costs of \$200,000, the breakeven point in sales dollars is:

- A. \$80,000
- B. \$200,000
- C. \$500,000
- D. \$333,333

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16. Under the IMA standard of Competence, a management accountant should:

- A. Maintain professional expertise by continually developing knowledge and skills
- B. Disclose confidential information freely
- C. Subordinate judgment to a superior's wishes
- D. Avoid all financial analysis

17. Under zero-based budgeting, each budgeting period a manager must:

- A. Justify all expenditures from a zero base rather than from the prior year's level
- B. Increase the prior-year budget by an inflation factor
- C. Allocate costs only to the most profitable products
- D. Budget only for discretionary costs

18. Standard usage is 2 lbs per unit at \$5/lb. For 4,000 units, 8,400 lbs were used. The materials quantity (usage) variance is:

- A. \$2,000 favorable
- B. \$2,000 unfavorable
- C. \$400 unfavorable
- D. \$42,000 unfavorable

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19. Which is a period cost rather than a product cost?

- A. Sales commissions
- B. Direct materials
- C. Factory depreciation
- D. Indirect labor in the plant



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20. The 'tone at the top' set by management and the board is part of which COSO component?

- A. Control environment
- B. Control activities
- C. Monitoring
- D. Information and communication

21. Cost of goods sold is \$600,000 and average inventory is \$100,000. Inventory turnover is:

- A. 6.0 times
- B. 0.17 times
- C. 60 times
- D. 5.0 times

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22. A project costs \$10,000 today and returns \$6,000 at the end of year 1 and \$6,000 at year 2. At a 10% discount rate (PV factors 0.909 and 0.826), the NPV is:

- A. \$410
- B. \$2,000
- C. \$1,200
- D. -\$410

23. Using CM per unit of \$20 and fixed costs of \$200,000, the units needed to earn a target profit of \$60,000 are:

- A. 13,000 units
- B. 10,000 units
- C. 3,000 units
- D. 16,000 units

24. The IMA Confidentiality standard requires a member to:

- A. Share information to advance their career
- B. Refrain from using or disclosing confidential information except when authorized or legally required
- C. Disclose data to competitors
- D. Ignore confidentiality after leaving a job



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25. A flexible budget differs from a static budget in that it:

- A. Is prepared only at the end of the period
- B. Cannot be used for variance analysis
- C. Is adjusted to reflect the actual level of activity achieved
- D. Ignores variable costs

26. Standard labor rate is \$20/hr; actual was \$21/hr for 3,000 actual hours. The labor rate variance is:

- A. \$3,000 favorable
- B. \$3,000 unfavorable, then reversed
- C. \$3,000 unfavorable
- D. \$60,000 unfavorable

27. Job-order costing is most appropriate for:

- A. Refining crude oil
- B. Building custom homes
- C. Producing identical cans of soda
- D. Generating electricity

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28. Segregation of duties separates which key functions?

- A. Sales and marketing
- B. Authorization, recordkeeping, and custody of assets
- C. Planning and forecasting
- D. Auditing and taxation

29. If inventory turnover is 6.0 times per year, the average days to sell inventory (using 360 days) is:

- A. 6 days
- B. 60 days
- C. 36 days
- D. 216 days



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30. Under the NPV rule, a firm should accept an independent project when its NPV is:

- A. Negative
- B. Positive
- C. Zero
- D. Equal to the payback period



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Answer Key & Explanations

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1. B — The sales budget

The sales forecast drives production, materials, labor, and overhead budgets, so the sales budget is prepared first and underpins the entire master budget.

2. B — Actual cost is less than standard cost

A cost variance is favorable when actual costs come in below standard, increasing income relative to plan.

3. B — Prime costs

Prime costs = direct materials + direct labor; conversion costs = direct labor + manufacturing overhead.

4. B — Reporting

COSO's three objective categories are operations, reporting, and compliance; the framework also defines five integrated components.

5. B — 2.0

Current ratio = Current assets / Current liabilities = 300,000 / 150,000 = 2.0.

6. B — The discount rate is lower

PV moves inversely with the discount rate; a lower rate discounts the future cash flow less, raising its present value.

7. B — 10,000 units

Contribution margin per unit = 50 - 30 = \$20. Breakeven units = Fixed costs / CM per unit = 200,000 / 20 = 10,000 units.

8. B — Competence, Confidentiality, Integrity, and Credibility

The IMA's four ethical standards for management accountants are Competence, Confidentiality, Integrity, and Credibility.

9. C — A comprehensive set of interrelated budgets covering all operations for a period

The master budget is the overall financial plan, integrating operating budgets and financial budgets into pro forma statements for the organization.

10. A — \$3,000 unfavorable

Price variance = (Actual price - Standard price) x Actual quantity = (\$5.30 - \$5.00) x 10,000 = \$3,000 unfavorable (paid more than standard).

11. C — Conversion cost

Conversion costs are the costs to convert raw materials into finished goods: direct labor plus manufacturing overhead.

12. C — Control environment

The five COSO components are control environment, risk assessment, control activities, information and



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communication, and monitoring activities.

13. C — 2.0

Quick assets = 300,000 - 90,000 inventory - 10,000 prepaid = 200,000. Quick ratio = 200,000 / 100,000 = 2.0.

14. C — \$1,210

FV = 1,000 x (1.10)² = 1,000 x 1.21 = \$1,210.

15. C — \$500,000

Breakeven sales = Fixed costs / CM ratio = 200,000 / 0.40 = \$500,000.

16. A — Maintain professional expertise by continually developing knowledge and skills

Competence requires maintaining an appropriate level of professional expertise, performing duties per relevant laws and standards, and providing accurate analysis.

17. A — Justify all expenditures from a zero base rather than from the prior year's level

Zero-based budgeting requires every activity and cost to be justified anew each cycle as if starting from zero, rather than carrying forward last year's amounts.

18. B — \$2,000 unfavorable

Standard quantity = 4,000 x 2 = 8,000 lbs. Variance = (8,400 - 8,000) x \$5 = \$2,000 unfavorable (used more than standard).

19. A — Sales commissions

Period costs (selling and administrative) are expensed as incurred; product costs (DM, DL, factory overhead) attach to inventory until sold.

20. A — Control environment

The control environment establishes the organization's integrity, ethical values, and governance tone, forming the foundation for all other components.

21. A — 6.0 times

Inventory turnover = COGS / Average inventory = 600,000 / 100,000 = 6.0 times per year.

22. A — \$410

PV of inflows = 6,000(0.909) + 6,000(0.826) = 5,454 + 4,956 = 10,410. NPV = 10,410 - 10,000 = \$410.

23. A — 13,000 units

Required units = (Fixed costs + Target profit) / CM per unit = (200,000 + 60,000) / 20 = 13,000 units.

24. B — Refrain from using or disclosing confidential information except when authorized or legally required

Confidentiality obliges members to keep information private, use it only for legitimate purposes, and refrain from leveraging it for personal gain.

25. C — Is adjusted to reflect the actual level of activity achieved

A flexible budget restates budgeted revenues and costs for the actual output level, isolating price/efficiency effects from volume effects.

26. C — \$3,000 unfavorable

Rate variance = (Actual rate - Standard rate) x Actual hours = (\$21 - \$20) x 3,000 = \$3,000 unfavorable.



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27. B — Building custom homes

Job-order costing accumulates costs by individual job or batch, fitting customized, distinguishable outputs; process costing fits homogeneous mass production.

28. B — Authorization, recordkeeping, and custody of assets

To prevent one person from both perpetrating and concealing fraud, authorization, custody, and recordkeeping should be assigned to different people.

29. B — 60 days

Days in inventory = $360 / \text{Inventory turnover} = 360 / 6 = 60$ days.

30. B — Positive

A positive NPV means the project earns more than the required rate of return, increasing shareholder wealth; accept it.



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