

CMA (Certified Management Accountant) — Practice Study Guide (Sampler)

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Part I — Essay Questions & Model Answers (20)

Essay 1: Cost Behavior & CVP

A company sells a product at \$50 with variable cost \$30 and monthly fixed cost \$120,000. Target profit is \$40,000. Compute units to sell and margin of safety if expected sales are 10,000 units.

Model answer: Contribution margin/unit = \$20. Units for target = $(120,000 + 40,000)/20 = 8,000$ units. At 10,000 units, MOS (units) = 2,000; MOS % = $2,000/10,000 = 20\%$.

Essay 2: Absorption vs. Variable Costing

Explain how inventory level changes can cause operating income differences between absorption and variable costing.

Model answer: Under absorption, fixed manufacturing OH is inventoried; increasing inventory defers some fixed OH to future periods, raising current income relative to variable costing; decreasing inventory releases OH, lowering income.

Essay 3: Joint Costs & By-Products

Describe two acceptable methods for accounting for by-product revenue in process industries.

Model answer: Method 1: treat as other revenue when sold; Method 2: reduce COGS or joint costs at split-off. Choice affects gross margin timing but not total profit over the life cycle.

Essay 4: Relevant Costing

A machine can be repaired for \$90,000 to last 3 years or replaced now for \$260,000 to last 6 years with \$10,000 annual savings vs. the old machine. Evaluate using relevant cash flows (ignore tax).

Model answer: Repair path 3 yrs: \$90,000 outflow. Replace path 6 yrs: \$260,000 outflow offset by $\$10,000 \times 6 = \$60,000$ savings $\Rightarrow$ net \$200,000 over 6 yrs; normalized per 3-yr horizon or via EAC: replacement likely more costly unless quality/uptime benefits exist.

Essay 5: Make-or-Buy

A part costs \$8 variable and \$2 fixed per unit internally; a supplier offers \$9. Capacity freed can save \$50,000 fixed annually. For 100,000 units, decide.

Model answer: Relevant internal = $\$8 \times 100k = \$800k$; buy = \$900k; savings from freed capacity = \$50k $\Rightarrow$ net buy cost \$850k vs. make \$800k $\rightarrow$ continue making unless strategic/quality factors dominate.

Essay 6: Standard Costing & Variance

Compute materials price and quantity variances given: Std \$4.00/lb, 50,000 lbs allowed; Actual: 52,000 lbs at \$3.80.

Model answer: $MPV = (AP - SP) \times AQ = (3.80 - 4.00) \times 52,000 = \$10,400 \text{ F.}$ $MQV = (AQ - SQ) \times SP = (52,000 - 50,000) \times 4.00 = \$8,000 \text{ U.}$

Essay 7: Budgeting Approaches

Contrast zero-based budgeting (ZBB) and rolling forecasts in volatile environments.

Model answer: ZBB justifies each activity from zero—good for cost discipline but heavy; rolling forecasts update driver-based outlooks each period—good for agility and scenario planning.

Essay 8: Cash Budget & WC

Outline the components of a quarterly cash budget and key working-capital levers.

Model answer: Components: cash receipts, disbursements, financing. Levers: AR days, inventory turns, AP terms, early-pay discounts, credit lines; monitor minimum cash and covenants.

Essay 9: Capital Budgeting: NPV vs. IRR

Explain pitfalls of IRR and why NPV is preferred for mutually exclusive projects.

Model answer: IRR assumes reinvestment at IRR, may have multiple IRRs with non-conventional cash flows, and misranks scale/timing differences. NPV measures dollar value at the firm's WACC and aligns with value creation.

Essay 10: EVA & Residual Income

Define Economic Value Added (EVA) and managerial implications.

Model answer: $EVA = NOPAT - (WACC \times \text{invested capital})$. Positive EVA indicates value creation; encourages asset efficiency and profitable growth; adjust for accounting distortions as needed.

Essay 11: Financial Ratio Analysis

Diagnose liquidity, solvency, and profitability using common ratios and red flags.

Model answer: Liquidity: current, quick, cash conversion cycle; Solvency: debt-to-equity, interest coverage; Profitability: margins, ROA/ROE; Watch trends, off-balance obligations, and window dressing.

Essay 12: Forecasting Methods

Compare exponential smoothing vs. regression for revenue forecasting.

Model answer: Smoothing captures recent trends with minimal data; regression models drivers/seasonality but needs diagnostics (autocorrelation, multicollinearity). Hybrid approaches often win.

Essay 13: Performance Measurement & BSC

Design a Balanced Scorecard for a mid-size manufacturer.

Model answer: Perspectives: Financial (EVA, margin), Customer (OTIF, NPS), Internal (yield, cycle time), Learning (training hours, Kaizen). Link initiatives to strategy map and set owner & cadence.

Essay 14: Transfer Pricing

Discuss market-based vs. cost-based transfer pricing and tax considerations.

Model answer: Market-based aligns with external opportunities; cost-based (std/full/variable) can motivate inefficiency if not designed carefully. Multinationals must comply with arm's-length rules and documentation to manage tax risk.

Essay 15: Internal Controls & COSO

Summarize COSO components and a simple control design for AP process.

Model answer: COSO: control environment, risk assessment, control activities, information/communication, monitoring. AP controls: 3-way match, segregation of duties, approval limits, vendor master controls, and reconciliations.

Essay 16: Ethics (IMA Statement)

Apply IMA's ethical principles to a pressure to shift revenue into Q4 to meet bonus targets.

Model answer: Principles: honesty, fairness, objectivity, responsibility. Standards: competence, confidentiality, integrity, credibility. Decline improper entries, escalate, and document; consider whistleblower protections.

Essay 17: Technology & Analytics

What data governance issues matter when automating close and dashboards?

Model answer: Master data ownership, access controls, change logs, data lineage, segregation of duties, privacy/security, and validation rules; design with auditability and versioning.

Essay 18: Financial Reporting (IFRS vs. GAAP)

List two key differences relevant to management accountants (e.g., inventory and development costs).

Model answer: IFRS allows capitalization of development (when criteria met); GAAP usually expenses. Inventory: IFRS prohibits LIFO; GAAP permits. Disclosure and impairment rules also differ.

Essay 19: Cost of Capital & WACC

Compute WACC with 40% debt at 5% after-tax and 60% equity with 10% cost.

Model answer: $WACC = 0.4 \times 5\% + 0.6 \times 10\% = 2\% + 6\% = 8\%$.

Essay 20: Sensitivity & Scenario

Explain how to build tornado and scenario analyses for a plant expansion.

Model answer: Tornado ranks NPV sensitivity to single variables (price, volume, capex); scenarios bundle correlated changes (recession, base, boom). Use to set ranges, triggers, and decision rules.

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Part II — Multiple-Choice Questions with Explanations (20)

MCQ 1. Which costing method defers fixed manufacturing OH in inventory?

- | |
|-----------------------|
| A) Variable costing |
| B) Absorption costing |
| C) Throughput costing |
| D) Direct costing |

Explanation: Absorption inventories fixed OH, causing income to vary with inventory levels.

MCQ 2. Contribution margin ratio equals:

- | |
|---|
| A) $(\text{Sales} - \text{Variable cost}) / \text{Sales}$ |
| B) $(\text{Sales} - \text{Fixed cost}) / \text{Sales}$ |
| C) $(\text{Sales} - \text{COGS}) / \text{Sales}$ |
| D) $\text{Gross margin} / \text{Sales}$ |

Explanation: CMR expresses variable cost structure as % of sales.

MCQ 3. In CVP, the break-even point in units is:

- | |
|--|
| A) $\text{Fixed cost} / \text{unit selling price}$ |
| B) $\text{Fixed cost} / \text{unit CM}$ |
| C) $\text{Fixed cost} / \text{unit variable cost}$ |
| D) $\text{Fixed cost} / \text{margin of safety}$ |

Explanation: $\text{Units} = \text{Fixed costs} \div \text{CM per unit}$.

MCQ 4. Under IFRS, LIFO is:

- | |
|---------------|
| A) Allowed |
| B) Prohibited |
| C) Required |
| D) Preferred |

Explanation: IFRS does not allow LIFO.

MCQ 5. Economic Value Added (EVA) is best described as:

- | |
|--|
| A) $\text{NOPAT} - (\text{WACC} \times \text{invested capital})$ |
| B) $\text{EBIT} \times (1 - \text{tax})$ |

- | |
|--------------------------------|
| C) Net income – dividends |
| D) Operating cash flow – capex |

Explanation: Measures value creation above capital charge.

MCQ 6. A flexible budget is prepared:

- | |
|--|
| A) For a single activity level |
| B) After the period using actual activity levels |
| C) Only for cash budgets |
| D) Only for capital projects |

Explanation: It adjusts for actual output to isolate variances.

MCQ 7. A favorable direct material price variance occurs when:

- | |
|--------------|
| A) $AP < SP$ |
| B) $AQ < SQ$ |
| C) $SP < AP$ |
| D) $AQ > SQ$ |

Explanation: Paying less than standard yields a favorable price variance.

MCQ 8. The COSO framework component focusing on 'tone at the top' is:

- | |
|--------------------------------|
| A) Control activities |
| B) Control environment |
| C) Monitoring |
| D) Information & communication |

Explanation: Control environment sets discipline and structure.

MCQ 9. Regression forecasting is superior to naïve methods when:

- | |
|---|
| A) No drivers exist |
| B) Strong explanatory variables and seasonality are present |
| C) Data are purely random |
| D) Short horizons only |

Explanation: Explanatory power and seasonality handling improve accuracy.

MCQ 10. The most appropriate metric to compare mutually exclusive projects is:

- | |
|------------------------------|
| A) Payback period |
| B) Accounting rate of return |
| C) IRR |
| D) NPV |

Explanation: NPV aligns with value maximization and scale/timing.

MCQ 11. Under GAAP, development costs are:

- | |
|--------------------------------|
| A) Capitalized always |
| B) Expensed generally |
| C) Capitalized only above \$1m |
| D) Recorded off-balance |

Explanation: US GAAP typically expenses R&D; IFRS may capitalize development.

MCQ 12. A just-in-time system often leads to:

- | |
|--------------------------------------|
| A) Higher inventory carrying costs |
| B) Lower throughput |
| C) Shorter cycle times and lower WIP |
| D) Less need for quality |

Explanation: JIT reduces WIP and cycle time but requires quality focus.

MCQ 13. Debt-to-equity increases when:

- | |
|-----------------------------|
| A) Issuing equity |
| B) Profits retained |
| C) New debt issuance |
| D) Asset revaluation upward |

Explanation: More debt raises the ratio if equity constant.

MCQ 14. A primary purpose of transfer pricing policies is to:

- | |
|---|
| A) Reduce production cost |
| B) Allocate profits and motivate divisions fairly |
| C) Increase tax always |

D) Avoid performance measurement

Explanation: They align incentives and manage tax/financial reporting.

MCQ 15. Sensitivity analysis changes:

A) Multiple variables simultaneously

B) One variable at a time

C) Only fixed costs

D) Only tax rate

Explanation: It isolates the effect of single-variable changes.

MCQ 16. Which variance isolates efficiency of input usage?

A) Price variance

B) Quantity (usage) variance

C) Mix variance

D) Volume variance

Explanation: Quantity variance measures actual vs. standard quantity allowed.

MCQ 17. The DuPont ROE identity decomposes ROE into:

A) Margin $\times$ turnover $\times$ leverage

B) Margin $\times$ WACC $\times$ payout

C) Turnover $\times$ NPV $\times$ margin

D) Leverage $\times$ EVA $\times$ turnover

Explanation: Net margin $\times$ asset turnover $\times$ equity multiplier.

MCQ 18. An effective code of conduct should include:

A) Punishments only

B) Principles, reporting channels, and non-retaliation

C) Only legal citations

D) HR benefits

Explanation: Clarity, guidance, and safe reporting enable compliance.

MCQ 19. WACC typically increases if:

- | |
|--------------------------------------|
| A) Risk-free rate falls |
| B) Leverage rises with distress risk |
| C) Equity beta declines |
| D) Tax rate increases |

Explanation: More risk raises required returns; tax shield may offset only partly.

MCQ 20. A negative cash conversion cycle indicates:

- | |
|--|
| A) Slow collections |
| B) Paying suppliers faster than collecting |
| C) Collecting cash before paying suppliers |
| D) Inventory is obsolete |

Explanation: Good for liquidity—financed by suppliers.

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About This Study Guide

This sampler mirrors the full CMA pack: exam-style essays and MCQs with rationales across Part 1 (financial planning, performance, analytics) and Part 2 (strategic financial management).

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