

CMA

MCQ TEST BANK

PART 1

**Financial Planning, Performance,
& Analytics**

VOLUME 2

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11: (58) Business Process Improvement

- 1: (26) Value-Chain Analysis
- 2: (32) Other Process Improvement Tools

11: (58) Business Process Improvement

1: (26) Value-Chain Analysis

Study Unit 11: Business Process Improvement | Subunit 1: Value-Chain Analysis

- 1) A systematic approach to reaching targeted cost levels during value chain analysis is known as
- A. Value engineering.

Answer (A) is **correct**.

Value engineering is a means of reaching targeted cost levels. It is a systematic approach to assessing all aspects of the value chain cost buildup for a product.

- B. Life-cycle costing.
- C. Process value analysis.
- D. Activity analysis.

2) A company develops computer programs to meet customers' customized needs. How should it classify payments to employees who develop the programs?

A. As direct costs and value-adding costs.

Answer (A) is **correct**.

Direct costs can be specifically associated with a single cost object and assigned to it in an economically feasible way, i.e., traced to the object. Wages paid to employees that can be identified with a specific finished project are direct costs. Value-adding costs are costs of activities that cannot be eliminated without reducing the value of the product or service required by the customer. The amounts paid to the computer programmers add value to the computer programs.

B. As direct costs, but not as value-adding costs.

C. As neither direct costs nor value-adding costs.

D. As value-adding costs, but not as direct costs.

3) Which of the following is **not** a component of the value chain?

A. Primary activities.

B. Secondary activities.

Answer (B) is **correct**.

The value chain is a model for depicting the way in which every function in a company adds value to the final product. Primary activities deal with the product directly. Support activities lend aid to the primary activity functions.

- C. Support activities.
- D. The product.
- 4) A company has the following manufacturing-related activities:
- Setting up a machine for a new production run
 - Assembling the final product
 - Moving completed product to the warehouse
 - Painting the assembled product
 - Reworking defective parts
- Which of these are value-added activities?
- A. Setting up a machine for new production run and assembling the final product only.
- B. Assembling the final product and painting the assembled product only.

Answer (B) is **correct**.

A value chain depicts how costs and customer value

accumulate along a sequence of activities leading to an end product or service. Assembling the final product and painting the assembled product are the only activities that add value for the customer.

- C. Assembling the final product, painting the assembled product, and moving the completed product to the warehouse only.
 - D. Setting up a machine for a new production run, assembling the final product, painting the assembled product, and reworking defective parts.
- 5) The flow of materials and services from their original sources to final consumers is the
- A. Value chain.
 - B. Product chain.
 - C. Supply chain.

Answer (C) is **correct**.

The supply chain usually encompasses more than one firm. Firms seeking to improve performance and reduce costs must analyze all phases of the supply chain as well as the value chain.

- D. Value process.

- 6) Which of the following is **not** a phase in a value-chain analysis?
- A. Identify activities that are candidates for cost reduction.
 - B. Identify ways to generate additional customer value.
 - C. Identify means for improving product cost efficiency.

Answer (C) is **correct**.

The second step in a value-chain analysis is to determine how each value-creating activity can produce a competitive advantage for the firm. This step has multiple substeps:

1. Identify the firm's competitive advantage (e.g., cost reduction, product differentiation) so that the firm's position in the industry's value chain can be clarified.
2. Identify the ways in which the firm's value-creating activities can generate additional customer value.
3. Identify activities that are candidates for cost reduction or, in the case of non-core competencies, outsourcing.
4. Identify value-adding ways in which the firm's remaining activities can be linked.

- D. Identify the firm's competitive advantage.

- 7) An outside consultant has been hired by a manufacturing firm to evaluate each of the firm's major products, beginning with the design of the products and continuing through the manufacture, warehousing, distribution, sale, and service. The consultant has also been requested to compare the manufacturer's major products with firms that are manufacturing and marketing the same or similar products. The consultant is to identify where customer value can be increased; identify where costs can be reduced; and provide a better understanding of the linkages with customers, suppliers, and other firms in the industry. The type of analysis that the consultant **most** likely has been asked to perform for the manufacturing firm is called a
- A. Balanced scorecard study.
 - B. Benchmarking analysis.
 - C. SWOT (strengths, weakness, opportunities, threats) analysis.
 - D. Value-chain analysis.

Answer (D) is **correct**.

Value-chain analysis for assessing competitive advantage is an integral part of the strategic planning process. Value-chain analysis is a continuous process of gathering, evaluating, and communicating information for business decision making. A

value chain depicts how customer value accumulates along a chain of activities that lead to an end product or service. A value chain consists of the activities required to research and develop, design, produce, market, deliver, and support its product. Extended value-chain analysis expands the view of the parties involved to include those upstream (e.g., suppliers) and downstream (e.g., customers).

- 8) In the value creation chain model, the primary activities include
A. Logistics, operations, marketing and sales, and service.

Answer (A) is **correct**.

The model consists of primary and supporting activities. The primary activities are inbound logistics, operations, outbound logistics, marketing and sales, and service. Inbound logistics activities involve the firms' capture of materials to be processed. Operations activities are conversion processes. Outbound logistics activities include shipment of products. Marketing and sales activities are the promotion and sale of final products. Service activities provide customer service. The four support activities are infrastructure (e.g., administration, finance, and planning), procurement, human resources, and technology development.

- B. Procurement, infrastructure, operations, and service.
- C. Procurement, infrastructure, operations, and technology development.
- D. Procurement, infrastructure, human resources, and technology development.
- 9) Customer relationship management is **best** defined as
- A. Coordination with members of the firm's supply chain.
- B. Maximizing short-term sales to customers.
- C. Market sensing.
- D. Maximizing customer loyalty by managing customer "touchpoints."

Answer (D) is **correct**.

Customer relationship management can be defined as "the process of managing detailed information about individual customers and carefully managing all the customer 'touchpoints' with the aim of maximizing customer loyalty." Its purpose is to create optimal customer equity. Thus, the process involves more than merely attracting customers (through media advertising, direct mail, etc.) and satisfying them (something competitors also may do).

- 10) Customer satisfaction is related to the degree of customer loyalty. High customer loyalty
- A. Requires a high degree of satisfaction of other stakeholders.
 - B. Results when quality, service, and price increase.
 - C. Depends on the effectiveness of the firm's core business processes.

Answer (C) is **correct**.

High customer loyalty is an emotional as well as a rational bond that develops when a firm provides high customer value. To obtain such loyalty, the firm needs to develop a value proposition that has superior competitiveness in the target market segment.

- D. Is directly proportional to customer expectations.
- 11) The firm should emphasize customer retention
- A. By creating low switching costs.
 - B. By maximizing customer churn.
 - C. Although new customers are less costly than old customers.
 - D. Because the customer base is an intangible asset.
-

Answer (D) is **correct**.

Customer retention through customer satisfaction is a key to profitability. The firm should emphasize customer retention because the customer base is an important intangible asset.

- 12) Which one of the following **best** shows the sequence of business functions in the value chain?
- A. Research and Development, Design of Products and Processes, Production, Marketing, Distribution, Customer Service.

Answer (A) is **correct**.

The correct sequence of business functions in the value chain is Research and Development, Design of Products and Processes, Production, Marketing, Distribution, and Customer Service.

- B. Design of Products and Processes, Research and Development, Finance, Production, Distribution, Customer Service.
- C. Design of Products and Processes, Finance, Research and Development, Production, Distribution, Customer Service.

- D. Research and Development, Finance, Design of Products and Processes, Production, Distribution, Customer Service.
- 13) A company desires to prepare two sets of financial statements. Conventional financial statements would be prepared along with a set that is totally consistent with value-chain analysis. How would customer service costs be treated in the two statements?

	Conventional Financial Statements	Value-Chain Financial Statements
A.	Inventoriable cost	Product cost
B.	Inventoriable cost	Non-product cost
C.	Noninventoriable cost	Product cost

Answer (C) is **correct**.

In conventional financial statements, customer service costs are generally part of sales and administrative costs and not associated with a product. In value-chain statements, customer service is treated as part of the value chain and therefore associated with product cost.

- D. Noninventoriable cost Non-product cost

- 14) Which one of the following lists of functions is in proper value-chain order?
- A. Research and development, marketing, and customer services.

Answer (A) is **correct**.

These functions are in the proper order while in the other options the functions are out of order. Costs and customer value are added along the value-chain to provide an end product or service.

- B. Production, marketing, and product design.
- C. Production design, distribution, and marketing.
- D. Research and development, customer service, and distribution.
- 5) A small computer manufacturer employs 25 plant workers in its main manufacturing facility. The performance improvement team has identified the following activities and relative time demanded by each activity.

<u>Activities</u>	<u>Percentage of workers' time</u>
A. Assembly of the computer components	25%

B. Installing software	40%
C. Inspecting and testing the assembled units	25%
D. Moving the finished units into the storage area	10%

Classify the four activities as value-added and nonvalue-added.

<u>Value-added</u>	<u>Nonvalue-added</u>
--------------------	-----------------------

- | | | |
|----|-------------|---------|
| A. | A, B, and C | D |
| B. | A and B | C and D |

Answer (B) is **correct**.

A value-added activity increases the value of a product or service to the customer, while a nonvalue-added activity does not. Activities A and B add value to the customer, while activities C and D do not.

- | | | |
|----|-------------|---------|
| C. | A, B, and D | C |
| D. | B and C | A and D |

16) Which one of the following is a value-added activity for a company that manufactures bicycles?

- A. Moving a tire to the rework area.

- B. Placing a reworked brake on a bicycle.

Answer (B) is **correct**.

A value-added activity contributes to customer satisfaction or meets a need of the entity. A nonvalue-added activity does not make such a contribution. It can be eliminated, reduced, or redesigned without impairing the quantity, quality, or responsiveness of the product or service desired by customers or the entity. It is necessary to place a brake on a bicycle, whether the brake is reworked or new. The addition of the brake is required before the bicycle can be sold, which contributes to the customer's satisfaction.

- C. Reworking a bicycle for the second time.
D. Inspecting a reworked bicycle.

- 17) A manufacturing company incurred the following costs during the last quarter related to product development and production.

Materials storage	\$ 50,000
Product design	180,000
Materials handling and moving	41,000
Direct materials	400,000

Quality inspections 62,000

What amount of costs should be classified as value-added?

- A. \$491,000
- B. \$553,000
- C. \$580,000

Answer (C) is **correct**.

Value-added activities increase the value of a product or service to the customer. Examples include assembling the product and shipping it to the customer. Product design and direct materials both qualify as value-added activities (\$180,000 + \$400,000).

- D. \$642,000

18) Which of the following is a primary activity on the value chain?

- A. Research and development (R&D).

Answer (A) is **correct**.

A value chain depicts how costs and customer value accumulate along a sequence of activities leading to an end product or service. The primary activities on the value chain are (1) R&D, (2) product design, (3) manufacturing, (4) marketing and distribution, and (5) customer service.

-
- B. Inventory management.
C. Information technology.
D. Human resources.
- 19) A company's value chain can **best** be described as
A. An accumulation of costs and customer value.

Answer (A) is **correct**.

The value chain depicts how costs and customer value accumulate along a sequence of activities that lead to an end product or service. The primary activities on the value chain are (1) R&D, (2) product design, (3) manufacturing, (4) marketing and distribution, and (5) customer service.

- B. A supply chain.
C. Value engineering.
D. Process analysis.
- 20) A company's new CEO has asked the CFO to work with the COO to do a systematic assessment of all aspects of the company's value chain for its major products. The purpose is to determine whether costs can be reduced without decreasing customer satisfaction. This type of analysis is

- A. An activity-based cost audit.
- B. A continuous improvement process (CIP).
- C. Value engineering.

Answer (C) is **correct**.

Value engineering is the systematic assessment of all aspects of cost buildup along the value chain. The goal is to minimize costs without negatively affecting customer satisfaction.

- D. Business process reengineering (BPR).
- 21) The nonvalue-added activity for a manufacturing company is
- A. Assembling a product.
 - B. Adding new features to a product.
 - C. Shipping a product to a customer.
 - D. Inspection of a final product.

Answer (D) is **correct**.

Nonvalue-added activities do not increase the value of the product or service even if they are necessary. For example, inspection, although important, does not increase the value of the product.