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# Question 1

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**Question Type:** MultipleChoice

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The CEO of a rapidly growing high-technology firm has exercised centralized authority over all corporate functions. Because the company now operates in four states, the CEO is considering the advisability of decentralizing operational control over production and sales. Which of the following conditions probably will result from and be a valid reason for decentralizing"

## Options:

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- A- Greater local control over compliance with federal regulations.
- B- More efficient use of headquarters staff officials and specialists.
- C- Quicker and better operating decisions
- D- Greater economies in purchasing

## Answer:

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C

## Explanation:

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Decentralization results in greater speed in making operating decisions because they are made by lower-level managers instead of being referred to top management. The quality of operating decisions should also be enhanced, assuming proper training of managers, because those closest to the problems should be the most knowledgeable about them.

## Question 2

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**Question Type:** MultipleChoice

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Which of the following is not a cost of decentralization?

### Options:

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- A-** Dysfunctional decision making owing to disagreements of managers regarding overall goals and subgoals of the individual decision makers
- B-** A decreased understanding of the overall goals of the organization.
- C-** Increased costs for developing the information system.
- D-** Decreased costs of corporate-level staff services and management talent

### Answer:

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D

### **Explanation:**

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The costs of centralized staff may actually decrease under decentralization. On the other hand, the corporate staff and the various services they provide may have to be duplicated in various divisions, thereby increasing overall costs. Suboptimal decisions may result from disharmony among organizational goals, subgoals of the division, and the individual goals of managers. The overall goals of the firm may more easily be misunderstood because individual managers may not see the larger picture. Moreover, the information system necessary for adequate reporting in a decentralized mode will tend toward redundancy, which increases costs.

## **Question 3**

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**Question Type:** MultipleChoice

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Which of the following is most likely to be a disadvantage of decentralization?

### **Options:**

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**A-** Lower-level employees will develop less rapidly than in a centralized organization.

- B-** Lower-level employees will complain of not having enough to do.
- C-** Top management will have less time available to devote to unique problems.
- D-** Lower-level managers may make conflicting decisions.

**Answer:**

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D

**Explanation:**

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The disadvantages of decentralization include a tendency to focus on short-run results to the detriment of the long-term health of the entity, an increased risk of loss of control by top management, the increased difficulty of coordinating interdependent units, and less cooperation and communication among competing decentralized unit managers

## Question 4

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**Question Type:** MultipleChoice

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The primary difference between centralization and decentralization is

### Options:

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- A- Separate offices for all managers.
- B- Geographical separation of divisional headquarters and central headquarters.
- C- The extent of freedom of decision making by many levels of management
- D- The relative size of the firm.

### Answer:

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C

### Explanation:

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The primary distinction is in the degree of freedom of decision making by managers at many levels. In decentralization, decision making is at as low a level as possible. The premise is that the local manager can make more informed decisions than a centralized manager. Centralization assumes decision making must be consolidated so that activities throughout the organization may be more effectively coordinated. In most organizations, a mixture of these approaches is best.

## Question 5

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**Question Type:** MultipleChoice

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Butteco has the following cost components for 100,000 units of product for the year Raw materials \$200,000 Direct labor 100,000 Manufacturing overhead 200,000 Selling/administrative expense 150,000 All costs are variable except for \$100,000 of manufacturing overhead and \$100,000 of selling and administrative expenses. The total costs to produce and sell 110,000 units are

### Options:

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- A- \$650,000.
- B- \$715,000.
- C- \$695,000.
- D- \$495,000.

### Answer:

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C

### Explanation:

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Raw materials unit costs are strictly variable at \$2 (\$200,000 / 100,000 units). Similarly, direct labor has a variable unit cost of \$1 (\$100,000 / 100,000 units). The \$200,000 manufacturing overhead for 100,000 units is 50%. The variable unit cost is \$1. Selling costs are \$100,000 fixed and \$50,000 variable for production of 100,000 units, and the variable unit selling expenses is \$0.50 (\$50,000 / 100,000 units). The total unit variable cost is therefore \$4.50 (\$2 + \$1 + \$1 + \$0.50). Fixed costs are \$200,000. At a production level of 110,000 units, variable costs are \$495,000 (\$4.50 x 110,000 units). Hence, total costs are \$695,000 (\$495,000 + \$200,000).

## Question 6

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**Question Type:** MultipleChoice

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Ordinarily, the most appropriate basis on which to evaluate the performance of a division manager is the division's.

### Options:

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- A- Contribution margin.
- B- Net revenue minus controllable division costs.
- C- Gross profit
- D- Net income minus the division's fixed costs.

### Answer:

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B

### Explanation:

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Managerial performance should be evaluated on the basis of those factors controllable by the manager. Managers may control revenues, costs, and/or investment in resources. A well-designed responsibility accounting system establishes responsibility centers within the organization.

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