PassQueen
a.k.a dumpsqueen.com

CMA Part 2: Strategic Financial Management Exam

IMA CMA-Strategic-Financial-Management

Version Demo

Total Demo Questions: 18

Total Premium Questions: 181

Buy Premium PDF

https://passqueen.com

support@passqueen.com

Topic Break Down

Topic	No. of Questions
Topic 1, Financial Statement Analysis	33
Topic 2, Corporate Finance	39
Topic 3, Business Decision Analysis	49
Topic 4, Enterprise Risk Management	18
Topic 5, Capital Investment Decisions	17
Topic 6, Professional Ethics	25
Total	181

QUESTION NO: 1

Slam-Dunk Shoes has 5,000 pairs or damaged shoes in inventory. The cost of these shoes was $51,000. in their present condition, the shoes may be sold at clearance prices for $29,000 Slam-Dunk can have the shoes repaired at a cost of $77,000 after which they can be sold for $100,000. What is the opportunity cost of selling the shoes in their present damaged condition?

A. $23,000

B. $71.000

C. $77, 000

D. $100, 000

ANSWER: A

Explanation:

$23,000 is the opportunity cost of selling the shoes in their current damaged condition. Opportunity cost is the benefit that is forgone when one available alternative is selected instead of another. If Slam-Dunk sells the damaged shoes now, it gives up the opportunity to repair them and earn the net amount available from that repair-and-sell alternative. The repaired shoes would generate sales proceeds of $100,000, but undertaking that alternative requires an additional repair expenditure of $77,000. Thus, the net benefit available from repairing and then selling the shoes is $23,000 ($100,000 − $77,000). That $23,000 benefit is sacrificed when the company elects to sell the shoes as damaged inventory, making it the opportunity cost of that decision. The $51,000 original inventory cost was incurred previously and does not change between the current alternatives; therefore, it is not part of the opportunity-cost calculation. This treatment reflects the CMA focus on decision analysis using relevant future costs and benefits. See the IMA's CMA Part 2: Strategic Financial Management overview and its CMA Content Specification Outline.

QUESTION NO: 2

SSA inc. issues 4% bonds with a lace value of $500,000 when the market rate of interest is 3% for similar bonds. The bonds mature in 10 years, and pay interest every six months. Which one of the following is closest to the amount of cash SSA will receive upon issued.

A. $459,000

B. $500,000

C. $505,000

D. $543,000

ANSWER: D

Explanation:

$543,000 is the closest issue-price cash receipt. A bond's issue price equals the present value of its contractual semiannual coupon payments plus the present value of the face value repaid at maturity, discounted using the market yield applicable at issuance. The $500,000 face value carries a 4% annual stated rate, so the cash coupon is $10,000 every six months ($500,000 × 4% ÷ 2). Because interest is paid semiannually, the 3% annual market rate is converted to 1.5% per six-month period, and the 10-year term becomes 20 periods. The present value is therefore $10,000 × [1 − $(1.015)^{-20}$] ÷ 0.015, plus $500,000 × $(1.015)^{-20}$. These components are approximately $171,700 and $371,200, respectively, for a total near $542,900. Rounded to the available choices, SSA receives approximately $543,000. This premium arises because the bond's 4% stated coupon rate exceeds the 3% market yield investors require; investors therefore pay more than face value for the higher contractual cash interest. See the bond-pricing discussion in OpenStax Principles of Financial Accounting and the present-value framework in OpenStax.

QUESTION NO: 3

A company has hired a consultant to propose a way to increase the company's revenues. The consultant has evaluated two mutually exclusive projects with me following information provided for each project.

	Project A	Project B
Capital investment	$1,105,000	$625,000
Annual cash flows	180,000	105,000
Estimated useful life	10 years	10 years

The company uses a discount rate of 9% to evaluate both projects Based on the net present value, the company should invest in

A. project A only

B. project B only

C. project A and project B

D. neither project

ANSWER: A

Explanation:

project A only is the appropriate investment decision. Net present value is calculated by discounting each project's expected future cash inflows and outflows at the company's required return of 9%, then combining those present values with the initial investment. The relevant decision rule is to accept a project with a positive NPV because it is expected to add value above the return required by capital providers. When projects are mutually exclusive, however, the company cannot undertake both alternatives; it should select the one that produces the greater NPV, provided that NPV is positive. Based on the cash-flow information supplied for the two projects, Project A has the superior NPV at the 9% discount rate. Accordingly, undertaking Project A is expected to create more value for the company than choosing the alternative or declining both investments. This application of NPV is particularly appropriate because it incorporates the timing of cash flows and uses the organization's stated opportunity cost of capital. For additional discussion of the NPV decision rule and discounting cash flows, see OpenStax, Evaluating Capital Investment Projects and Investor.gov, What Is Compounding?.

QUESTION NO: 4

Sunnyvale Gas Company had a $50 million issue of 30-year mortgage bonds issued at par 10 years ago The coupon rate on the bonds is 15% and Interest is payable semi-annually on March 1 and September 1. The bonds are currently trading at SI 300. The can provision of the issue states that the bonds are callable after the S-year deferral period at 108 plus accrued interest. If Sunnyvale calls the bonds effective June 1 what is the cash payment, ignoring taxes, to the bondholders?

A. $51875 000

B. $55 875 000

C. $57 750 000

D. $66,875,000

ANSWER: B

Explanation:

The cash payment is **$55,875,000**. A call price of 108 means that the issuer must pay 108% of the bonds' $50,000,000 principal amount: $50,000,000 × 1.08 = $54,000,000. Because the call is effective on June 1, the issuer must also pay interest accrued since the most recent scheduled interest payment date, March 1. The annual coupon is 15% of par, or $7,500,000 annually. Since interest is paid semiannually, each six-month coupon is $3,750,000. June 1 falls three months into the March 1–September 1 interest period, so accrued interest equals one-half of the semiannual coupon: $3,750,000 × 3/6 = $1,875,000. Adding the call price and accrued interest produces the required payment of $54,000,000 + $1,875,000 = $55,875,000. The bonds' current trading price does not affect the contractual amount paid in a call; the indenture's specified call price and accrued interest determine the payment. FINRA discusses bond interest and principal payments at https://www.finra.org/investors/investing/investment-products/bonds, and the MSRB defines accrued interest at https://www.msrb.org/Glossary/Definition/ACCRUED-INTEREST.

QUESTION NO: 5

Safety Strollers was recently sued by several people who alleged harmful and unsafe strollers. The management team was largely unconcerned about these lawsuits due to the apparent negligence of the plaintiffs However, a consumer grassroots effort Drought these dangers into the public eye and the management team now fears for their brand s reputation and the sales o' their products. The facts are staring to get distorted and some stores are electing to no longer carry this brand. This situation could best be considered a

A. hazard loss that can be mitigated with liability insurance

B. cost of doing business that the company's in-house legal counsel will handle

C. financial risk managed through product diversification

D. reputational crisis that could have been managed better with a robust crisis management plan

ANSWER: D

Explanation:

A reputational crisis that could have been managed better with a robust crisis management plan is the best characterization because the primary exposure has expanded beyond the underlying product-liability claims. Public attention, distorted information, concern about brand reputation, and retailers discontinuing the product all indicate a rapidly developing stakeholder-confidence crisis. A crisis management plan provides a structured process for identifying an emerging issue, assigning decision authority, verifying facts, communicating promptly and consistently with consumers and retailers, and implementing corrective actions where needed. These actions are central to protecting organizational value when public perception and distribution relationships are at risk. Effective enterprise risk management considers how an event can affect strategic objectives, including revenue, customer trust, and market access, rather than limiting the assessment to the immediate legal claim. COSO's enterprise risk management guidance emphasizes integrating risk considerations with strategy and performance; see COSO Enterprise Risk Management. Preparedness also requires communications and response procedures that can be activated quickly during an incident, as described in Ready.gov's business preparedness guidance. Here, coordinated crisis response is essential to contain misinformation, address stakeholder concerns, and preserve the company's reputation and sales channels.

QUESTION NO: 6

if a company increases the price of its product from $3010 $35, demand would decrease from 30, 000 units to 20.000 units. What is the price elasticity of demand for the company using the midpoint formula?

A. 0.4

B. 0.5

C. 2.0

D. 2.7

E. 2.6

ANSWER: E

Explanation:

Using the midpoint formula and interpreting the stated price change as an increase from $30 to $35, the price elasticity of demand is 2.6 (in absolute-value terms). First, calculate the percentage change in quantity demanded using the average quantity: (20,000 − 30,000) ÷ [(20,000 + 30,000) ÷ 2] = −10,000 ÷ 25,000 = −0.40, or −40%. Next, calculate the percentage change in price using the average price: ($35 − $30) ÷ [($35 + $30) ÷ 2] = $5 ÷ $32.50 = 0.153846, or approximately 15.38%. Price elasticity of demand equals the percentage change in quantity demanded divided by the percentage change in price: −40% ÷ 15.38% = −2.6. Elasticity is commonly reported as an absolute value, so the result is 2.6. The midpoint method is appropriate because it produces the same elasticity measure regardless of whether the change is evaluated from the initial point to the final point or in reverse. See OpenStax, Price Elasticity of Demand and IMA CMA Certification.

QUESTION NO: 7

An accounting manage' is deciding which performance measurement tool would be most appropriate to compare firms within their company s industry given that the firms vary in size significantly. Which one of the following analysis methods would be the most appropriate?

A. Cash flow analysis

B. Horizontal analysis

C. Sensitivity analysis

D. Vertical analysis

ANSWER: D

Explanation:

Vertical analysis is the most appropriate method when comparing companies of substantially different sizes because it converts financial-statement amounts into percentages of a common base. On an income statement, each line item is commonly expressed as a percentage of sales; on a balance sheet, each account may be stated as a percentage of total assets. This common-size presentation removes much of the distortion created by differing dollar volumes, allowing an analyst to compare such measures as gross margin, operating-expense structure, net profit margin, inventory composition, and financing mix across firms in the same industry.

For example, a large company may report much higher dollar selling expenses than a smaller competitor, but vertical analysis can show whether those expenses consume a larger or smaller proportion of revenue. The resulting percentages support meaningful benchmarking of operating efficiency and financial structure even when the companies have very different asset bases, sales levels, or market scale. This is why common-size, or vertical, financial statements are widely used for cross-sectional industry comparisons. See the CFA Institute’s overview of financial analysis techniques and the SEC’s guidance on using financial statements to evaluate companies.

QUESTION NO: 8

A manufacturing company has unused capacity and is considering a one-time order for 4,000 units at $28 per unit. Variable manufacturing cost is $19 per unit, and the order would require special packaging costing $2 per unit. Fixed manufacturing overhead of $6 per unit is allocated to all products. What is the incremental operating income if the company accepts the order?

A. $4,000

B. $20,000

C. $28,000

D. $52,000

ANSWER: C

Explanation:

$28,000 is the incremental operating income from accepting the order. The order generates incremental revenue of $112,000, calculated as 4,000 units × $28. Relevant incremental costs are variable manufacturing cost of $76,000, calculated as 4,000 × $19, and special packaging cost of $8,000, calculated as 4,000 × $2.

Incremental operating income is therefore $112,000 − $76,000 − $8,000 = $28,000. The allocated fixed manufacturing overhead is not relevant because it will be incurred whether or not the special order is accepted. Since unused capacity exists, the order does not displace regular sales or create an opportunity cost. See OpenStax’s discussion of relevant-cost decisions.

QUESTION NO: 9

A company can by identical raw materials from four suppliers. Each supplier offers a different term of sale. Which one of the following terms of sale has the highest effective annual interest rate if the company does not take the cash discount?

A. 1/10, net 90

B. 1/30, net 90

C. 1/10, net 45

D. 1/30 net 45

ANSWER: D

Explanation:

1/30 net 45 has the highest effective annual interest rate because declining the discount means that the company effectively borrows the discounted portion of the invoice price for only the period between the discount date and the final due date. The periodic financing cost is calculated as the discount percentage divided by one minus the discount percentage: 1% ÷ 99% = 1.0101% for each financing period. Under these terms, the financing period is only 15 days, from day 30 through day 45. This short period permits the cost to recur approximately 365 ÷ 15, or 24.33, times annually. Compounding produces an effective annual rate of approximately $(1.010101)^{24.33} - 1$, or about 27.7%.

The relevant analysis is based on the incremental credit period, not the entire 45-day invoice period: the company can pay 99% on day 30 or retain that amount for 15 additional days and pay 100% on day 45. This application of discount terms and annualized financing costs is consistent with the CMA Part 2 focus on short-term financial management and working-capital decisions. See the IMA's CMA Exam Content Specification Outline and OpenStax's discussion of trade credit.

QUESTION NO: 10

A company has incurred $2,500 to produce its four products. These products can either be sold as is or processed further. The selling prices and additional costs necessary to finish these products ace shown below

Product	Unfinished Selling Price	Additional Processing Costs	Finished Selling Price
A	$1,350	$900	$2,200
B	450	225	630
C	900	450	1,325
D	90	45	180

A. Products A

B. Products B

C. Product C

D. Product D

ANSWER: D

Explanation:

Product D is the appropriate product to process further because its incremental revenue from further processing exceeds the additional processing cost shown in the schedule. The decision is made by comparing the increase in selling price that results from completing the product with the separable, post-split-off cost required to obtain that increase. A positive incremental benefit means that processing creates additional profit rather than simply adding cost.

The $2,500 already incurred to produce the four products is a joint cost incurred before the sell-or-process-further decision point. Because that amount has already been incurred and will not change regardless of whether Product D is sold now or completed, it is a sunk cost for this decision and must not affect the analysis. The relevant-cost approach therefore focuses only on future cash flows that differ between the alternatives: Product D's added sales proceeds and its added finishing cost.

This is consistent with the managerial-accounting treatment of joint-product decisions described by OpenStax, Principles of Managerial Accounting: Decision-Making and the relevant-cost framework discussed in AccountingCoach's relevant-cost explanation.

QUESTION NO: 11

If a CMA is asked to conduct a financial assessment of a company owned by a close relative, what would be the proper response under the credibility standard of the IMA Statement of Ethical Professional Practice?

A. Advise all parties of a potential conflict of interest

B. Keep information confidential except when authorized By the relative

C. Communicate the existence of a constraint that might preclude responsible judgment

D. Provide an assessment that is timely and accurate despite the personal relationship

E. Disclose the close-relative relationship as relevant information that could influence users' understanding of the assessment

ANSWER: E

Explanation:

Disclose the close-relative relationship as relevant information that could influence users' understanding of the assessment. Under the IMA credibility standard, management accountants must communicate information fairly and objectively and disclose all relevant information that could reasonably be expected to influence an intended user's understanding of a report, analysis, or recommendation. A close family ownership relationship is material contextual information because users of the assessment may reasonably consider whether the relationship could affect, or appear to affect, the objectivity of the analysis. Disclosure allows the organization and intended users to evaluate the assessment with appropriate transparency and determine whether additional review, safeguards, or reassignment is appropriate. This response directly applies the credibility requirement because it focuses on providing users with relevant information needed to understand the analysis. The IMA's ethical standards are available in the IMA Statement of Ethical Professional Practice. Additional context on the CMA program's emphasis on ethical professional conduct is provided by the IMA CMA Certification page.

QUESTION NO: 12 - (SIMULATION)

Explain one reason each Tot and against issuing bonds with a call feature

Essay

Quality Digital Design (QDD) Inc is a public-traded technology company Selected financial data of QDD for the prior year are as follows

Interest coverage ratio	8
Asset turnover ratio	2
Net profit margin	5%
ROA	10%
ROE	15%

QDD ' s stock was trading at $160 per share at the beginning of the yea: and at $176 per share by the end of the year. The company paid dividends of S5 per share. The company " s stock had a beta of 1 4 The stock market provided a total return of 12% last year, well above the 3°o risk free rate of return

QDD is considering the issuance of $200 million of bonds to fund the repurchase of $200 million of its stock. QDD is evaluating the bond, including its term structure, maturity, and whether it should be callable obtaining the lowest coupon interest is an important objective of QDD. The CFO has estimated that sales for the current year would remain the same as last year and the new bond would add S12 million in annual interest payments

ANSWER: See the explanation for the answer

Explanation:

For issuing callable bonds: A call feature gives QDD the right to redeem the bonds before maturity. If market interest rates decline (or QDD's credit quality improves), QDD can call the outstanding bonds and refinance the debt at a lower interest rate. This flexibility can reduce future financing costs.

Against issuing callable bonds: Investors face reinvestment/call risk because QDD is most likely to call the bonds when rates have fallen and investors cannot reinvest at the original yield. Therefore, investors generally require a **higher coupon rate** (and possibly a call premium) on callable bonds than on otherwise comparable noncallable bonds. This conflicts with QDD's objective of obtaining the lowest possible coupon interest rate.

QUESTION NO: 13

Southwest Supplies Inc. (SSI) is considering the following two projects with cash-flows discounted at SSI ' s weighted average cost of capital.

Project	Discounted Net Cash-flows
A	$265,000
B	$230,000

SSI can only afford to invest in one of the projects. Which statement would most likely explain why SSI would choose Project B over project A?

A. Project B results in a higher cumulative accounting income

B. Project B generates significantly more non-cash expenses

C. Project B cash-flows are relatively more certain

D. Project B cash-flows are to be received sooner

ANSWER: D

Explanation:

Project B cash-flows are to be received sooner is the most likely explanation because the timing of cash receipts can be important when a company is capital constrained and can fund only one project. Earlier inflows improve liquidity, allow the initial investment to be recovered more quickly, and can be reinvested or used to meet operating and financing needs sooner. Even when both projects' cash flows are discounted using the company's weighted average cost of capital, management may have a practical preference for the project with a faster cash-flow recovery profile, particularly if preserving financial flexibility is important. The discounting process recognizes the time value of money: a dollar received earlier has greater economic value than the same dollar received later, all else equal. Thus, a pattern in which Project B generates its expected receipts earlier can justify selecting it when SSI must make a mutually exclusive investment decision. This reasoning is consistent with capital-budgeting practice, in which the timing, magnitude, and risk of incremental cash flows are evaluated when assessing investment alternatives. See OpenStax, Capital Budgeting and IMA CMA Content Specification Outline.

QUESTION NO: 14

A group of nations is considering me formation of a cartel associated with the manufacture and distribution of a product that they each export. Which one of the following outcomes would not be consistent with me formation of a carter?

A. An increase in the output of the manufactured product

B. An increase in the selling price of the manufactured product

C. An increase m the net profits for each of the individual cartel members

D. A selling price where marginal revenue equals marginal cost

ANSWER: A

Explanation:

An increase in the output of the manufactured product would not be consistent with the intended economic effect of forming a cartel. A cartel is a group of otherwise independent producers that coordinates output and pricing decisions in an effort to exercise collective market power. In the standard economic model, cartel members seek to act like a monopolist: they select the total output level at which marginal revenue equals marginal cost and then use the market demand relationship to determine the price buyers will pay for that restricted quantity. Relative to the competitive outcome, this coordinated approach ordinarily reduces aggregate output, raises the market price, and can increase joint profits. Members may then allocate production quotas among themselves to support the agreed total output and preserve the higher price. Thus, expanding output would undermine the scarcity and price discipline that the cartel is designed to create. This reasoning reflects the standard monopoly/cartel framework used in strategic and international-market analysis. See the discussion of monopoly output and price determination in OpenStax Principles of Economics and the U.S. Federal Trade Commission's description of cartel conduct at FTC: Price Fixing.

QUESTION NO: 15

K Malone is a successful entrepreneur, Currently she is considering investing in a capital protect, which would benefit tourism in North Caroina Because of tourism, the State of North Carolina is willing to lent) her $150,000 at a rate of 5%. well below the market rate Her estimated net cash flows for the 3-year lifetime of the project are S15 000 $89,000 and $60,000 respectively Recommend whether or not Malone should undertake this project.

A. She should undertake this project because the present value (PV) of this project is $146,843

B. She should undertake this project because the net present value (NPV) is $31,022.

C. She should not undertake this project because the net present value NPV is ($14.051).

D. She should not undertake this project because the net present value (NPV) is ($3,157).

ANSWER: D

Explanation:

She should not undertake this project because the net present value (NPV) is ($3,157). The $150,000 loan represents the initial investment, and the project's expected annual net cash flows are discounted at the stated 5% financing rate. The present value of the first-year $15,000 cash flow is approximately $14,286; the present value of the second-year $89,000 cash flow is approximately $80,726; and the present value of the third-year $60,000 cash flow is approximately $51,831. Total present value is therefore approximately $146,843. Subtracting the $150,000 initial investment produces an NPV of approximately negative $3,157 ($146,843 − $150,000). Under the NPV decision rule, a project should be accepted only when its expected discounted cash inflows at least recover the initial outlay; a positive NPV indicates value creation after recognizing the time value of money. Because this project has a negative NPV, its forecast cash inflows do not fully recover the investment on the stated basis, so Malone should reject it. The IMA's CMA content includes capital-investment decision analysis and discounted-cash-flow techniques within strategic financial management; see the IMA CMA Exam Content Specification. For the general NPV decision framework, see Investor.gov's net present value overview.

QUESTION NO: 16

A retail company sells numerous products m its one department store. The income statements tot two of these products are shown below

	Product A	Product B
Sales	$140,000	$250,000
Cost of goods sold	(80,000)	(150,000)
Commissions	(15,000)	(25,000)
Product manager's salary	(50,000)	(50,000)
Occupancy costs (heating, etc.)	(15,000)	(20,000)
Allocated corporate charges	(25,000)	(25,000)
Income (loss)	$(45,000)	$(20,000)

After reviewing the income statements, the president is considering drooping one or both products. Which produces), if any should the company discontinue?

A. Both Product A and Product B

B. Product A only

C. Product B only

D. Neither Product A nor Product B

ANSWER: B

Explanation:

Product A only should be discontinued because a discontinuation decision must be based on relevant, avoidable revenues and costs rather than on the product's reported operating income after allocated common costs. The pertinent comparison is the sales revenue that will be lost if the product is dropped against the variable costs and product-specific fixed costs that will actually be eliminated. The income-statement information indicates that eliminating Product A produces a favorable effect on the company's total operating income: the avoidable costs associated with Product A exceed the contribution it provides toward fixed costs that will remain. Thus, retaining Product A would continue to reduce overall profitability. Costs that are allocated to a product but will continue regardless of whether it is sold are not savings from discontinuation; they remain with the department or are reassigned to other products. This relevant-cost approach is consistent with managerial-accounting practice for evaluating whether to retain or discontinue a product line. For additional discussion of using relevant information in short-term decisions, see OpenStax, Principles of Managerial Accounting, Chapter 11 and the IMA CMA certification overview.

QUESTION NO: 17

Plenary Inc specializes in overnight package delivery. Total packages delivered last year were 10 000.000. and this quantity is expected to remain unchanged in the coming year. Unit contribution margin is $4,50 and total fixed costs are S40.000,000. The firm's 300 delivery truck drivers are seeking a S10 000 raise in annual salary In addition to a current base salary of $45 000 per year, the drivers receive a commission of $0 50 per package delivered If the firm grants the $10,000 salary increase to each driver and seeks to maintain the same level of pre-tax operating profit what is the maximum amount of commission the firm can pay its drivers per package delivered?

A. $0.0

B. $0.20

C. $0.30

D. $0.35

ANSWER: B

Explanation:

$0.20 is the maximum commission that preserves the company's pre-tax operating profit. Granting each of the 300 drivers a $10,000 annual salary increase creates an additional annual fixed-cost burden of $3,000,000 (300 × $10,000). Because the number of packages is expected to remain at 10,000,000, Plenary must offset that $3,000,000 increase through an equivalent reduction in variable commission expense.

The required reduction per delivered package is therefore $0.30 ($3,000,000 ÷ 10,000,000 packages). Drivers currently receive $0.50 per package, so the commission after the salary increase must be reduced by $0.30, resulting in a maximum

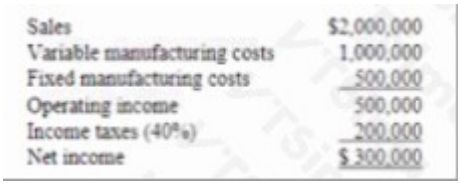
payable commission of $0.20 per package. This exactly maintains total operating income because the increase in fixed salaries is matched by an equal reduction in total commission expense at the unchanged activity level. This application follows cost-volume-profit principles: operating profit is maintained when the change in total contribution margin offsets the change in fixed costs. See the IMA's CMA exam resources and OpenStax's contribution-margin and CVP discussion.

QUESTION NO: 18 - (SIMULATION)

Calculate AMI's degree of operating leverage. Show your calculations.

Essay

Apex Manufacturing Inc. (AMI) is a Canada-based company that manufactures a manufactures and unique part for aircrafts. It has few competitors in the market. The company is exposed to exchange rate risk because about 90% of its products are exported to the U.S, and most of its sales contracts are in U.S. dollars. AMI has the capacity to manufacture 1,500 units of the part per year. For the year just ended. AMI manufactured and sold 1,000 units. The operating results are shown below.



Sales	$2,000,000
Variable manufacturing costs	1,000,000
Fixed manufacturing costs	500,000
Operating income	500,000
Income taxes (40%)	200,000
Net income	$ 300,000

Recently, A new customer made a one-area order of 500 units of the part at $1.200 per unit. The CTO asked the controller to analyze this offer. AMI is considering adjusting its sales price next year in a recent meeting, the CFO suggested to use the market-based approach for pricing decisions, bat the controller insisted that the cost-based approach is more favorable to the company.

ANSWER: See the explanation for the answer

Explanation:

AMI's degree of operating leverage (DOL) is 2.0.

Degree of operating leverage is calculated as:

```
DOL = Contribution Margin / Operating Income
```

Sales = $2,000,000
Variable manufacturing costs = $1,000,000
Contribution margin = $2,000,000 − $1,000,000 = $1,000,000
Operating income = $500,000

```
DOL = $1,000,000 / $500,000 = 2.0
```

Thus, a 1% change in sales would result in an approximately **2% change in operating income**, assuming the existing cost structure remains unchanged.