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**ANNOUNCEMENT:** The *Strategic Finance* Self-Study Quiz is a program in which financial professionals can earn CPE credits for passing a test based on what they have learned about various topics from reading certain magazine articles. Two cutting-edge topics are presented each month that will provide the basis for a useful educational experience for finance and management accounting professionals and help them enhance their skills. Topics focus on Management, Accounting, Auditing, Consulting Services, Ethics, Taxation, and much more. Most of the authors of these topics are certified financial professionals.

The Quiz program is designed around learning objectives, review questions and feedback, and a final test. Review questions and feedback are included to ensure cohesive learning. One hour of CPE credit is awarded per month. IMA is in the process of securing NASBA approval to reflect the 2004 NASBA regulation changes. CPAs who wish to use the quizzes for CPE credit must contact their local State Board of Accountancy. Your State Board of Accountancy is the final authority on whether this course satisfies its rules regarding CPE, so please check with it regarding the Quiz program. Some states assign formal sponsorship numbers, and IMA's state numbers are:

Illinois: 158-000574, New York: 000349,  
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The quizzes qualify for continuing education credit for CMAs and CFMs in all states.

## How to Participate

1. Complete the quiz form located below.
2. To obtain maximum benefit from the quiz, we recommend that you work on the review questions first and study the feedback to your response. You will not earn CPE from passing the review questions.
3. Circle your answer for each quiz question on the final test.
4. Cut out the completed final test and order form, or copy both pages and mail or fax them to IMA with complete payment information.
5. You must be an active IMA member to participate in this program.
6. If you successfully answer 70% or more of the final test questions, you will be awarded 1 CPE credit. Partial CPE credit will not be given. A letter confirming the CPE credit will be mailed to you.

## STRATEGIC FINANCE SELF-STUDY QUIZ ORDER FORM

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Current *Strategic Finance* Quiz Participant:  Yes  No

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If you are a **NEW** participant, fax to (201) 474-1632; if you are an **EXISTING** participant, fax to (201) 474-1605.



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Outsourcing?... (p. 22)

**Field of Study: MANAGEMENT — Level: Intermediate**

**LEARNING OBJECTIVES**

1. Develop an understanding of the extent to which firms have chosen to outsource.
2. Develop an awareness of the risks that may be associated with the outsourcing decision.
3. Allow managers to develop an understanding of the strategic nature of the outsourcing decision.

**REVIEW QUESTIONS**

1. The recent growth of the Internet has led to offshore outsourcing of all of the following functions except:
  - a. Payroll processing.
  - b. Customer support.
  - c. Finance and accounting.
  - d. Tax preparation.
2. Of the IT functions outsourced, which is the area most highly represented?
  - a. Network management.
  - b. Application development and programming.
  - c. E-commerce.
  - d. Hardware/software/help desk support.
3. What is the most frequently cited reason for outsourcing?
  - a. Cost savings.
  - b. Opportunities to focus on the business's core competencies by shifting noncore activities off-site.
  - c. Opportunity to tap into external expertise.
  - d. Improve customer service.
4. Outsourcing by an enterprise can create all of the following types of risks except:
  - a. Reputation.
  - b. Environment.
  - c. Financial.
  - d. Operational.
5. Breaches in the effectiveness of product or service delivery and maintenance caused by outsourcing can be caused directly by all of the following except:
  - a. Poor training.
  - b. Suboptimal delivery of customer services.
  - c. Communication breakdowns due to cultural differences.
  - d. Ability to operate a 24/7 call center.
6. Inherent risks associated with offshore outsourcing via the Internet include all of the following except:
  - a. Computer viruses.
  - b. Denial-of-service attacks.
  - c. Firewalls.
  - d. Privacy issues.

A Modern View of Inventory (p. 30)

**Field of Study: ACCOUNTING — Level: Intermediate–Advanced**

**LEARNING OBJECTIVES**

1. Describe the primary roles of cycle inventory and safety inventory, and distinguish between them.
2. Describe three techniques for determining desired cycle inventory levels.
3. Describe three techniques for determining desired safety inventory levels.
4. Describe how technology advances have enabled developments in calculating desired inventory levels.

**REVIEW QUESTIONS**

1. The main role of safety inventory is to:
  - a. Provide a buffer against variation in demand.
  - b. Enable the company to realize operational efficiencies and economies of scale.
  - c. Buffer against inventory uncertainty.
  - d. Protect against price fluctuations.
  - e. Provide a buffer against variation in supply.
2. The most common techniques for determining safety inventory focus primarily on:
  - a. Understanding demand uncertainty.
  - b. Understanding demand variability.
  - c. Minimizing total costs.
  - d. Minimizing inventory holding costs.
3. Analyzing inventory uncertainty for determining safety inventory levels:
  - a. Is equivalent to using demand uncertainty to determine safety inventory levels.
  - b. Is the basis of many common safety inventory analysis tools.
  - c. Is worse than using demand uncertainty to determine safety inventory levels.
  - d. Is the ideal approach to determine safety inventory levels.
4. Material requirements planning (MRP):
  - a. Determines inventory requirements for all inventory items.
  - b. Accounts for resources/capacity constraints.
  - c. Directly accounts for costs.
  - d. Accounts for interdependencies of different items.
5. Items that experience high variability in demand:
  - a. Should have relatively high safety inventory levels.
  - b. Compute their safety inventory level as a function of the variability.
  - c. Should use EOQ methods to compute the desired cycle inventory level.
  - d. Would likely benefit from using a safety policy based on periods cover instead of absolute levels.
  - e. Should have relatively high cycle inventory levels.

Outsourcing?... (p. 22)

Field of Study: **MANAGEMENT** — Level: **Intermediate**

1. a. Correct. Payroll processing has been outsourced for decades. Such outsourcing is usually more local and not offshore.  
b. Incorrect. Customer support is often outsourced to Asian nations.  
c. Incorrect. Finance and accounting are sometimes outsourced to Asian nations.  
d. Incorrect. Tax preparation has recently been the subject of outsourcing to Asian nations, particularly India.
2. a. Incorrect. Network management composes only 18% of IT functions outsourced.  
b. Incorrect. Application development and programming represent 16% of IT functions outsourced.  
c. Incorrect. E-commerce represents 15% of IT functions outsourced.  
d. Correct. Hardware/software/help desk support represent 26% of the IT functions outsourced.
3. a. Incorrect. Cost savings are cited by only 20% of companies as the basis for their outsourcing decision.  
b. Incorrect. Opportunities to focus on core competencies are given as the basis by 17% of companies.  
c. Correct. Surprisingly, more companies give “the opportunity to tap into external expertise” as the reason for outsourcing than any other reason. About 24% of companies give this as the reason.  
d. Incorrect. The improvement of customer service is given as a reason for outsourcing by 12% of companies.
4. a. Incorrect. This is a type of risk that can result from outsourcing.  
b. Correct. Environmental risk is not likely to be the result of an outsourcing decision.  
c. Incorrect. Financial risk is a type of risk that can result from outsourcing.  
d. Incorrect. Operational risk can result from outsourcing decisions.
5. a. Incorrect. Poor training of outsourcer employees is sometimes a problem.  
b. Incorrect. Suboptimal delivery of services may hurt a company’s customer base.  
c. Incorrect. Communication breakdowns due to cultural or language differences can be a problem.  
d. Correct. The ability to operate a 24/7 call center is often enhanced by outsourcing, so this is rarely a problem.
6. a. Incorrect. Computer viruses are a risk of doing business via the Internet.  
b. Incorrect. Denial-of-service attacks are a risk of doing business on the Internet.  
c. Correct. Firewalls are a means of internal control that are designed to keep out intruders.  
d. Incorrect. Privacy issues are a risk of doing business via the Internet.

A Modern View of Inventory (p. 30)

Field of Study: **ACCOUNTING** — Level: **Intermediate–Advanced**

1. a. Incorrect. Demand variation does not directly imply inventory (or even demand) uncertainty.  
b. Incorrect. That is the role of cycle inventory.  
c. Correct. The role of safety inventory is to make sure adequate inventory is available even though the actual inventory level will differ from planned levels.  
d. Incorrect. Safety inventory focuses on availability, not on cost.  
e. Incorrect. Supply variation does not directly imply inventory (or even supply) uncertainty.
2. a. Correct. The most common techniques focus on understanding demand uncertainty since it is a significant contributor to inventory uncertainty.  
b. Incorrect. Early techniques focused on demand variability, but the trend has been to focus more on demand uncertainty.  
c. Incorrect. Safety inventory focuses on availability and not on costs.  
d. Incorrect. Safety inventory focuses on availability and not on costs.
3. a. Incorrect. Demand uncertainty is one component of inventory uncertainty. Supply uncertainty is another component.  
b. Incorrect. Most safety inventory analysis focuses on demand uncertainty.  
c. Incorrect. Inventory uncertainty addresses the true role of safety inventory more so than demand uncertainty.  
d. Correct. It addresses the true role of safety inventory.
4. a. Incorrect. MRP does not address finished goods.  
b. Incorrect. MRP assumes unlimited resources and capacity.  
c. Incorrect. MRP is not aware of costs.  
d. Correct. In fact, this is the basis for MRP.
5. a. Incorrect. High variability does not necessarily imply high uncertainty.  
b. Incorrect. Safety inventory levels should be a function of inventory uncertainty—or at least demand uncertainty.  
c. Incorrect. One cannot directly conclude what cycle inventory techniques should be used based on demand variability.  
d. Correct. Periods cover is generally preferred with seasonal or variable demand items.  
e. Incorrect. Demand variability does not directly impact cycle inventory.

Please circle your answer for each question

Outsourcing?... (p. 22)

Field of Study: **MANAGEMENT** — Level: **Intermediate**

1. The hardest offshore outsourcing risk to measure is:
  - a. Reputation risk.
  - b. Legal/regulatory risk.
  - c. IT risk.
  - d. Financial risk.
2. Which area of business represents the greatest use of outsourcing?
  - a. Supply chain management processes.
  - b. Claims processing.
  - c. Financial services.
  - d. Investment securities transaction processing.
3. Opponents of outsourcing argue that the emphasis on reasons other than cost savings is merely a public relations tactic to distract from the real motivation for outsourcing, which is:
  - a. To focus on core competencies.
  - b. To save on labor costs.
  - c. To improve customer service.
  - d. To tap into external expertise.
4. Confidentiality problems with outsourcing include all of the following except:
  - a. Differences in corporate culture and governance.
  - b. Differences in accepted professional ethics across domestic settings.
  - c. Laws equivalent to U.S. laws designed to protect confidential information may not be found in other countries.
  - d. Differences in outsourcer interaction with customers.
5. Financial cash-flow risks associated with offshore outsourcing include all of the following except:
  - a. Costs associated with performing vendor due diligence evaluations.
  - b. Costs associated with ramping up infrastructure to support off-site operations.
  - c. Costs associated with employee layoffs and other restructurings.
  - d. Costs associated with operational slowdowns.

A Modern View of Inventory (p. 30)

Field of Study: **ACCOUNTING** — Level: **Intermediate–Advanced**

6. The main role of cycle inventory is to:
  - a. Provide a buffer against variation in demand.
  - b. Enable the company to realize operational efficiencies and economies of scale.
  - c. Buffer against inventory uncertainty.
  - d. Protect against price fluctuations.
7. Techniques for determining cycle inventory focus primarily on:
  - a. Understanding variability in supply and demand.
  - b. Minimizing variable costs.
  - c. Minimizing total costs.
  - d. Minimizing inventory holding costs.
8. Operations managers are challenged with:
  - a. Minimizing inventory overall.
  - b. Achieving desired service levels while minimizing inventory.
  - c. Achieving desired service levels at minimal overall cost.
  - d. Maximizing throughput.
  - e. Maximizing service levels regardless of costs.
9. Advanced planning systems (APS) applications would most likely be used to plan:
  - a. Critical items.
  - b. Indirect items.
  - c. Low-value items.
  - d. Commodity items.
10. Demand uncertainty:
  - a. Significantly influences cycle stock.
  - b. Is a commonly used surrogate measure for computing safety stock.
  - c. Has little impact in inventory planning.
  - d. Is not improved by demand planning/forecasting applications.

I have read the articles in *Strategic Finance* upon which the questions are based and have personally prepared the answers without the assistance of any other person.

Signature \_\_\_\_\_

Date \_\_\_\_\_

Print Name \_\_\_\_\_

Member Number \_\_\_\_\_