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QUESTION 1

The budget data for the Bid well Company appear below.

Sales (100,000 units)			\$1,000,000
Costs	Fixed	Variable	
Direct materials	\$ 0	\$300,000	
Direct labor	0	200,000	
Manufacturing overhead	100,000	150,000	
Selling and administrative costs	110,000	50,000	
Total costs	<u>\$210,000</u>	<u>\$700,000</u>	910,000
Budgeted operating income			<u>\$ 90,000</u>

If the Bid well Company is subject to an effective income tax rate of 40%, the number of units Bid well must sell to earn an after-tax profit of \$90,000 is?

- A. 100,000 units.
- B. 120,000 units
- C. 102.858 units.
- D. 145,000 units

Correct Answer: B

Because the tax rate is 40%, the \$90,000 after-tax profit is 60% of pre-tax income. Thus, to earn an income of \$90,000 after tax, the pre-tax income must be \$150,000 ($\$90,000 \div .6$). Dividing the fixed costs of \$210,000 plus the desired before-tax income of \$150,000 by the \$3 contribution margin per unit gives a breakeven point of 120,000 units,

QUESTION 2

Just-in-time production is also called

- A. Kaizen.
- B. Lean manufacturing
- C. Activity-based management
- D. Backflush costing

Correct Answer: B

To implement a just-in-time(JIT) approach to inventory management and to eliminate waste of materials,labor,factory space,and machine usage,the factory is reorganized to permit what is often called lean production.plant layout in a JIT-lean production environment is not arranged by functional department or process but by manufacturing cells(work cells).central support departments are reduced or eliminated,space is saved,fewer and smaller factories may be required,and materials and tools are brought close to the point of use.

QUESTION 3

Incremental cost is

- A. The difference in total costs that results from selecting one choice instead of another.
- B. The profit forgone by selecting one choice instead of another.
- C. A cost that continues to be incurred in the absence of activity.
- D. A cost common to all choices in question and not clearly or feasibly allocable to any of them.

Correct Answer: A

Incremental cost is the difference in total cost between two courses of action. "Decremental cost" is the term used when the difference is noted as a decline although "incremental" is the more common term. Incremental cost is also referred to as differential cost.

QUESTION 4

The first step in the sales planning process is to

- A. Assemble all the data that are relevant in developing a comprehensive sales plan
- B. Develop management guidelines specific to sales planning, including the sales planning process and planning responsibilities
- C. Prepare a sales forecast consistent with specified forecasting guidelines, including assumptions
- D. Secure management commitment to attain the goals specified in the comprehensive sales plan

Correct Answer: B

Sales planning is a starting point for many other plans. The resources required, revenues to be earned, and costs to be incurred depend on sales. The sales plan of an operating unit should include as much specific information from that unit's management as possible, but must conform to the strategic plans or corporate management. Thus, top management must provide a context within which operational managers can prepare their plans. Corporate support include economic forecasts, overall market sales forecasts, and capital budgets.

QUESTION 5

Managers must make decisions in many different situations. A manager must make a subjective decision when the environment is one in which

- A. Uncertainty exists.
- B. Risk exists.
- C. Certainty may be achieved.
- D. Probabilities can be calculated.

Correct Answer: A

Uncertainty exists when the results of possible outcomes cannot even be estimated using the tools of statistical probability. This environment is the most difficult for decision making because objective mathematical analyses cannot be made. Hence, creativity is required in the decision-making process, and reliance on the educated guess rather than the probabilistically calculated estimate is necessary.

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