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Certified Management Accountant (CMA)

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**QUESTION 1**

Gatsby, Inc. is going to begin factoring its accounts receivable and has collected information on the following four finance companies: Which company will give Gatsby the highest proceeds from a \$100,000 account due in 60 days? Assume a 360-day year.

	<u>Required Reserves</u>	<u>Commissions</u>	<u>Annual Interest Charge</u>
Company A	6%	1.4%	15%
Company B	7%	1.2%	12%
Company C	5%	1.7%	20%
Company D	8%	1.0%	5%

- A. Company A.
- B. Company B
- C. Company C.
- D. Company D.

Correct Answer: A

Company A will withhold \$6,000 ( $\$100,000 \times 6\%$ ) as a reserve against returns and allowances and \$1,400 ( $\$100,000 \times 1.4\%$ ) as a commission. The remaining \$92,600 will be reduced by interest at the rate of 15% annually. The interest charge will be \$2,315, assuming a 360-day year [ $(\$92,600 \times 15) \times (60\text{-day payment period} - 360 \text{ days})$ ]. The proceeds to be received by Gatsby equal \$90,285 ( $\$92,600 - \$2,315$ ).

**QUESTION 2**

Multi Frame Company has the following revenue and cost budgets for the two products it sells: The budgeted unit sales equal the current unit demand, and total fixed overhead for the year is budgeted at \$975,000. Assume that the company plans to maintain the same proportional mix. In numerical calculations, Multi Frame rounds to the nearest cent and unit. The total number of units Multi Frame needs to produce and sell to break even is

	<u>Plastic Frames</u>	<u>Glass Frames</u>
Sales price	\$10.00	\$15.00
Direct materials	(2.00)	(3.00)
Direct labor	(3.00)	(5.00)
Fixed overhead	<u>(3.00)</u>	<u>(4.00)</u>
Net income per unit	<u>\$ 2.00</u>	<u>\$ 3.00</u>
Budgeted unit sales	100,000	300,000

- A. 150,000 units.
- B. 8. 354,545 units.
- C. 177,273 units.
- D. 300,000 units.

Correct Answer: A

The calculation of the breakeven point is to divide the fixed costs by the contribution margin per unit. This determination is more complicated for a multi-product firm. If the same proportional product mix is maintained, one unit of plastic frames is sold for every three units of glass frames. Accordingly, a composite unit consists of four frames: one plastic and three glass. For plastic frames, the unit contribution margin is \$5 (\$10-- \$2 --\$3). For glass frames, the unit contribution margin is \$7 (\$15 --\$3-- \$5). Thus, the composite unit contribution margin is \$26 (\$5 + \$7 + \$7 + \$7), and the breakeven point is 37,500 packages (\$975,000 EC + \$26). Because each composite unit contains four frames, the total units sold equal 150,000.

### QUESTION 3

The best reason corporation issue Eurobonds rather than domestic bonds is that

- A. These bonds are denominated in the currency of the country in which they are issued.
- B. These bonds are normally a less expensive form of financing because of the absence of government regulation
- C. Foreign buyers more readily accept the issues of both large and small U.S corporations than do domestic investors
- D. Eurobonds carry no foreign exchange risk

Correct Answer: B

International bonds are of two types: foreign bonds and Eurobonds. Foreign bonds are denominated in the currency of the nation in which they are sold. Eurobonds are denominated in a currency other than that of the nation where they are sold. Foreign bonds issued in the United States and denominated in dollars must be registered with the SEC, but such

extensive disclosure is not required in most European nations. Thus, an American company may elect to issue Eurobonds denominated in dollars in a foreign nation because of the convenience of not having to comply with governmental registration requirements.

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**QUESTION 4**

The degree of financial leverage for Carlisle Company is

- A. 24
- B. 178
- C. 1.35
- D. 2.3

Correct Answer: C

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**QUESTION 5**

The chief financial officer of Smith Glass, Inc. follows the policy of matching the maturity of assets with the maturity of financing. The implications of this policy include all of the following, except that

- A. The seasonal expansion of cash, receivables, and inventory should be financed by short-term debt, such as vendor payables and bank debt.
- B. The minimum level of cash, receivables, and inventory required to stay in business can be considered permanent and financed with long-term debt or equity.
- C. Cash, receivables, and inventory should be financed with long-term debt or equity
- D. long-term assets, like plant and equipment, should be financed with long-term debt or equity.

Correct Answer: C

Arranging a portfolio so that the maturity of funds will coincide with the need for funds (called maturity matching) will maximize the average return on the portfolio and provide increased flexibility. Supporting short-term assets, such as cash and receivables, with long-term financing is risk and counterproductive.