

# IMANET-CMA<sup>Q&As</sup>

Certified Management Accountant (CMA)

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### QUESTION 1

Which of the following is false about international transfer prices for a multinational firm?

- A. Allows firms to attempt to minimize worldwide taxes.
- B. Allows the firm to evaluate each division.
- C. Provides each division with a profit-making orientation
- D. Allows firms to correctly price products in each country in which it operates.

Correct Answer: D

The calculation of transfer prices should be unique to each country. A scheme for calculating transfer prices for a firm may correctly price the firm's product in Country A but not in Country B. The product may be overpriced in Country B, and sales will be lower than anticipated. Alternatively, the product may be underpriced in Country B, and the authorities may allege that the firm is dumping its product there.

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### QUESTION 2

Book rate of return is an unsatisfactory guide to selecting capital projects because

- I. It uses accrual accounting numbers
- II. It compares a single project against the average of capital rejects.
- III.  
It uses cash flows to gauge the desirability of the project.

- A.  
I only.
- B.  
I and II.
- C.  
III only.
- D.  
I, II, and III.

Correct Answer: B

A common misstep in regard to capital budgeting is the temptation to gauge the desirability of a project by using accrual accounting numbers instead of cash flows. Net income and book value are affected by the company's choices of accounting methods. A project's true rate of return cannot be dependent on bookkeeping decisions. Another distortion inherent in comparing a single project's book rate of return to the current one for the company as a whole is that the

latter is an average of all of a firm's capital projects. Embedded in that average number may be a hand Full of good projects melding up for a large number of poor investments.

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**QUESTION 3**

Which of the following specifically measures the volatility of returns together with their correlation with the returns of other securities?

- A. Variance
- B. Standard deviation
- C. Coefficient of variation
- D. Covariance

Correct Answer: D

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**QUESTION 4**

The most fundamental responsibility center affected by the use of market-based transfer prices is a(n)

- A. Production center
- B. Investment center
- C. Cost center
- D. Profit center.

Correct Answer: D

Transfer prices are often used by profit centers and investment centers. Profit centers are the more fundamental of these two centers because investment centers are responsible not only for revenues and costs but also for invested capital.

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**QUESTION 5**

Just-in-time production is also called

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

Correct Answer: B

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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.

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#### QUESTION 6

Which of the following is not an attribute of a probability distribution?

- A. The total probability associated with all possible occurrences equals 1.
- B. It can be modeled by means that provide the probability for every possible outcome.
- C. Only one outcome is possible.
- D. It concerns a random variable.

Correct Answer: C

In a probability distribution, the probability of any event(s) is bounded by 0 (no chance) and 1 (certainty). The total probability of all possible outcomes must add up to 1. Also, a probability distribution models a random variable through the use of a formula or graph that provides the probability associated with the occurrence of certain values of the random variable. If only one outcome is possible, the variable is not random but rather constant and known with certainty.

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#### QUESTION 7

Pena Company is considering a project that calls for an initial cash outlay of \$50,000. The expected net cash inflows from the project are \$7,791 for each of 10 years. What is the PR of the project?

- A. 6%
- B. 7%
- C. 8%
- D. 9%

Correct Answer: D

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#### QUESTION 8

Which one of the following provides a spontaneous source of financing for a firm?

- A. Accounts payable
- B. Mortgage bonds

- C. Accounts receivable.
- D. Debentures.

Correct Answer: A

Trade credit is a spontaneous source of financing because it arises automatically as part of a purchase transaction. Because of its ease in use, trade credit is the largest source of short-term financing for many firms both large and small

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#### QUESTION 9

The working capital financing policy that subjects the firm to the greatest risk of being unable to meet the firm's maturing obligations is the policy that finances

- A. Fluctuating current assets with long-term debt.
- B. Permanent current assets with long-term debt.
- C. Permanent current assets with short-term debt.
- D. Fluctuating current assets with short-term debt.

Correct Answer: C

Fluctuating current assets can often be financed with short-term debt because the periodic liquidation of the assets provides funds to pay off the debt. However, financing permanent current assets with short-term debt is a risky strategy because the assets may not be liquidated in time to pay off the debt at maturity.

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#### QUESTION 10

The costs described in situations 2, 3, and 5 are

- A. Sunk costs.
- B. Discretionary costs.
- C. Relevant costs.
- D. Differential costs.

Correct Answer: A

Joint production costs are irrelevant to deciding whether to sell at split-off or to process further. Similarly, already incurred R&D costs and the costs of obsolete inventory are irrelevant to future decisions. Thus, these are examples of sunk costs. Sunk costs are unavoidable. They are the result of a past irrevocable decision and thus have no relevance to future decisions.

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#### QUESTION 11

When a decision is made in an organization, it is selected from a group of alternative courses of action. The loss associated with choosing the alternative that does not maximize the benefit is the

- A. Net realizable value.
- B. Expected value.
- C. Opportunity cost.
- D. Incremental cost.

Correct Answer: C

Opportunity cost is the maximum benefit obtainable from the next best alternative use of a resource. It is the benefit given up by not selecting that option.

**QUESTION 12**

Moorhead Manufacturing Company produces two products for which the following data have been tabulated. Fixed manufacturing cost is applied at a rate of \$1.00 per machine hour. The sales manager has had a \$160,000 increase in the budget allotment for advertising and wants to apply the money to the most profitable product. The products are not substitutes for one another in the eyes of the company's customers.

<u>Per Unit</u>	<u>XY-7</u>	<u>BD-4</u>
Selling price	\$4.00	\$3.00
Variable manufacturing cost	\$2.00	\$1.50
Fixed manufacturing cost	\$ .75	\$ .20
Variable selling cost	\$1.00	\$1.00

Suppose Moorhead has only 100,000 machine hours that can be made available to produce additional units of XY-7 and BD-4. If the potential increase in sales units for either product resulting from advertising is far in excess of this production capacity, which product should be advertised and what is the estimated increase in contribution margin earned?

- A. Product XY-7 should be produced, yielding a contribution margin of \$75,000.
- B. Product XY-7 should be produced, yielding a contribution margin of \$133,333.
- C. Product BD-4 should be produced, yielding a contribution margin of \$187,500.
- D. Product BD-4 should be produced, yielding a contribution margin of \$250,000.

Correct Answer: D

**QUESTION 13**

Donnelly Corporation manufactures and sells T-shirts imprinted with college names and slogans. Last year, the shirts sold for \$750 each, and the variable cost to manufacture them was \$2.25 per unit. The company needed to sell 20,000 shirts to break even. The net income last year was \$5,040. Donnelly's expectations for the coming year include the following: The sales price of the T-shirts will be \$9 Variable cost to manufacture will increase by one-third Fixed costs Will increase by 10% The income tax rate of 40% will be unchanged

The number of T-shirts Donnelly Corporation must sell to break even in the coming year is?

- A. 17,500
- B. 19,250
- C. 20,000
- D. 22,000

Correct Answer: B

The breakeven point (BEP) in units equals fixed cost divided by UCM. Fixed cost for the previous year was \$105,000 (20,000 units at breakeven x \$5.25 UCM). Fixed cost for the current year is \$115,500 (\$105,000 x 110%) The new UCM is \$6 (\$9 selling price \$3 variable cost). Accordingly, the BEP is 19,250 units (\$115,500 / \$6).

#### QUESTION 14

A company's product has an expected 4-year life cycle from research, development, and design through its withdrawal from the market. Budgeted costs are Upstream costs (RandD, design) \$2,000,000 Manufacturing costs 3,000,000 Downstream costs (marketing, distribution, customer service) 1,200,000 After-purchase costs 1,000,000 The company plans to produce 200,000 units and price the product at 125% of the whole-life unit cost. Thus, the budgeted unit selling price is

- A. \$15
- B. \$31
- C. \$36
- D. \$45

Correct Answer: D

#### QUESTION 15

In which industry structure is differentiation absent, and all sellers charge the same price?

- A. Monopoly
- B. Monopolistic competition
- C. Oligopoly
- D. Pure competition

Correct Answer: D

An industry consists of firms selling products or services that are substitutes. One way to describe an industry considers the number of sellers and the extent of differentiation of products and services. In pure competition, differentiation is absent and the same prices are charged by all sellers.

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