

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

Certified Management Accountant

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**QUESTION 1**

The Frame Supply Company has just acquired a large account and needs to increase its working capital by \$100,000. The controller of the company has identified the four sources of funds given below.

1.

Pay a factor to buy the company's receivables, which average \$125,000 per month and have an average collection period of 30 days. The factor will advance up to 80% of the face value of receivables at 10% and charge a fee of 2% on all receivables purchased. The controller estimates that the firm would save \$24,000 in collection expenses over the year. Assume the fee and interest are not deductible in advance.

2.

Borrow \$110,000 from a bank at 12% interest. A 9% compensating balance would be required.

3.

Issue \$110,000 of 6-month commercial paper to net \$100,000 (New paper would be issued every 6 months.)

4.

Borrow \$125,000 from a bank on a discount basis at 20%. No compensating balance would be required. Assume a 360-day year in all of your calculations. The cost of Alternative 1. to Frame Supply Company is

- A. 10.0%
- B. 12.0%
- C. 132%
- D. 16.0%

Correct Answer: D

The factor will advance \$100,000 ( $\$125,000 \times 80\%$ ). This amount is the average balance outstanding throughout the year. Thus, annual interest will be \$10,000 ( $\$100,000 \times 10\%$ ). In addition, the company will pay an annual fee of \$30,000 ( $\$125,000$  per month  $\times 2\% \times 12$  months), so the total annual net cost is \$16,000 ( $\$10,000 + \$30,000 - \$24,000$  savings). Hence, the annual cost is 16% ( $\$16,000 \div \$100,000$  loan).

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**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.

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**QUESTION 3**

A characteristic of the payback method (before taxes) is that it

- A. Incorporates the time value of money.
- B. Neglects total project profitability.
- C. Uses accrual accounting inflows in the numerator of the calculation.
- D. Uses the estimated expected life of the asset in the denominator of the calculation.

Correct Answer: B

The payback method calculates the number of years required to complete the return of the original investment. This measure is computed by dividing the net investment required by the average expected cash flow to be generated, resulting in the number of years required to recover the original investment. Payback is easy to calculate but has two principal problems: it ignores the time value of money, and it gives no consideration to returns after the payback period. Thus, it ignores total project profitability.

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**QUESTION 4**

Which of the following is a type of research approach used to gather primary information?

- A. Surveying of attitudes, awareness, and customer satisfaction levels.
- B. Using Internet search engines.
- C. Researching government publications.
- D. Subscribing to commercial services.

Correct Answer: A

The following are the types of research approaches used to gather primary information:

observations, e.g., of competitors\ customers, or employees; focus group discussions guided by a moderator and recorded for later analysis; surveys of attitudes, awareness, customer satisfaction levels, and other matters that provide descriptive information; customer behavior; and experimentation to determine the cause of some observed result by oting the effects of a variable.

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**QUESTION 5**

Any of the following are adjustments/preference items to corporate taxable income in calculating alternative minimum taxable income except

- A. Accelerated depreciation over straight line on most real property placed into service prior to 1987.
- B. Mining exploration and development costs
- C. A charitable contribution of appreciated property,
- D. Sales commission earned in the current year but paid in the following year

Correct Answer: D

Taxable income is adjusted to arrive at alternative minimum taxable income. Some of the common adjustments include gains or losses from long-term contracts, gains on installment sales of real property, mining exploration and development costs, charitable contributions of appreciated property, accelerated depreciation, the accumulated current earnings adjustment, and tax-exempt interest on private activity bonds issued after August 7, 1986. A sales commission accrued in the current year but paid in the following year is not an example of an AMT adjustment.

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