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QUESTION 1

The recommended technique for evaluating projects when capital is rationed and there are no mutually exclusive projects from which to choose is to rank the projects by

- A. Accounting rate of return.
- B. Payback.
- C. Internal rate of return.
- D. Profitability index.

Correct Answer: D

The profitability index (P1) is often used to decide among investment alternatives when more than one is acceptable. The profitability index is the ratio of the present value of future net cash inflows to the initial net cash investment. The P1, although a variation of the net present value method, facilitates comparison of different-sized investments.

QUESTION 2

The statement of income for Dimmell Co. presented below represented the operating result for the fiscal year just ended. Dimmell had sales of 1,800 tons of product during the current year. The manufacturing capacity of Dimmell's facilities is 3,000 tons of product.

Dimmell Co.
Statement of Income
For the Year Ended December 31, 2002

Sales	<u>\$900,000</u>
Variable costs	
Manufacturing	\$315,000
Selling costs	<u>180,000</u>
Total variable costs	<u>\$495,000</u>
Contribution margin	<u>\$405,000</u>
Fixed costs	
Manufacturing	\$ 90,000
Selling	112,500
Administration	<u>45,000</u>
Total fixed costs	<u>\$247,500</u>
Net income before income taxes	\$157,500
Income taxes (40%)	<u>(63,000)</u>
Net income after income taxes	<u><u>\$ 94,500</u></u>

The breakeven volume in tons of product for 2002 is ?

- A. 400 tons B. 1,100 tons
- C. 900 tons
- D. 550 tons

Correct Answer: B

QUESTION 3

Which mutually exclusive project would you select if both are priced at \$1,000 and your discount rate is 14%: Project A, with three annual cash flows of \$1 .000, Project B, with three years of zero cash flow followed by three years of \$1,500 annually?

- A. Project A.
- B. Project B.
- C. The IRRs are equal, hence you are indifferent.

D. The NPVs are equal, hence you are indifferent.

Correct Answer: B

QUESTION 4

The terms direct cost and indirect cost are commonly used in accounting. A particular cost might be considered a direct cost of a manufacturing department but an indirect cost of the product produced in the manufacturing department. Classifying a cost as either direct or indirect depends upon

- A. The behavior of the cost in response to volume changes.
- B. Whether the cost is expensed in the period in which it is incurred.
- C. The cost object to which the cost is being related.
- D. Whether an expenditure is unavoidable because it cannot be changed regardless of any action taken.

Correct Answer: C

A direct cost can be specifically associated with a single cost object in an economically feasible way. An indirect cost cannot be specifically associated with a single cost object. Thus, the specific cost object influences whether a cost is direct or indirect. For example, a cost might be directly associated with a single plant. The same cost, however, might not be directly associated with a particular department in the plant.

QUESTION 5

Which one of the following will not occur in an organization that gives managers throughout the organization maximum freedom to make decisions?

- A. Individual managers regarding the managers of other segments as they do external parties
- B. Two divisions of the organization having competing models that aim for the same market segments.
- C. Delays in securing approval for the introduction of new products
- D. Greater knowledge of the marketplace and improved service to customers.

Correct Answer: C

Decentralization is beneficial because it creates greater responsiveness to the needs of local customers, suppliers, and employees. Managers at lower levels are more knowledgeable about local markets and the needs of customers, etc. A decentralized organization is also more likely to respond flexibly and quickly to changing conditions, for example, by expediting the introduction of new products. Furthermore, greater authority enhances managerial morale and development. Disadvantages of decentralization include duplication of effort and lack of goal congruence.

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