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**QUESTION 1**

The treasury analyst for Garth Manufacturing has estimated the cash flows for the first half of next year (ignoring any short-term borrowings) as follows: Garth has a line of creditor unto \$4 million on which it pays interest monthly ate rate of 1% of the amount utilized. Garth is expected to have a cash balance of \$2 million on January 1 and no amount utilized on its line of credit. Assuming all cash flows occur at the end of the month, approximately how much will Garth pay in interest during the first half of the year?

	Cash (millions)	
	Inflows	Outflows
January	\$2	\$1
February	2	4
March	2	5
April	2	3
May	4	2
June	5	3

- A. \$0
- B. \$61,000
- C. \$80,000
- D. \$132,000

Correct Answer: B

The sum of the beginning balance and inflows exceeds the outflows for the first 2 months. At the end of March, however, Garth must use \$2,000,000 of its line of credit (\$2,000,000 beginning balance + \$6,000,000 inflows--\$10,000,000 outflows). Thus, interest for April is \$20,000 (\$2,000,000 x 1%). The net cash outflow for April (ignoring short-term borrowings) is \$1,000,000 of an additional \$1,000,000 of the line of credit. However, the \$20,000 of interest for April must also be paid, so the amount of the line of credit used in May is \$3,020,000 (\$2,000,000 + \$1,000,000 + \$20,000). Interest for May is therefore \$30,200 (\$3,020,000 x 1%). Given the net cash inflow for May of \$2,000,000 (again ignoring short-term borrowings) and the borrowing of \$30,200 to pay the interest for May, the amount of the line of credit used in June is \$1,050,200. Interest in June is \$10,502 (\$1,050,200 x 1%), and total interest is \$60,702 (\$20,000 + \$30,200 + \$10,502). Consequently, the closest answer is \$61,000.

QUESTION 2

Mass marketing relies on

- A. Economies of scope.
- B. Economies of scale.



- C. Share of the customer.
- D. Customer retention.

Correct Answer: B

Mass marketing groups people into large categories based solely on their demographic traits, e.g., age, income, gender, or education level. It assumes most people in the same category will react similarly to one marketing message. Mass marketers primarily use mass media (television and print) to reach their targets in large numbers. Moreover, mass marketing relies on economies of scale and a large share of the largest possible market to reduce costs and thereby to lower prices or raise unit profit margins.

QUESTION 3

If a corporation holds a forward contract for the purchase of US Treasury bonds for 6 months and, during those 6 months, interest rates decline, at the end of the 6 months the value of the forward contract will have

- A. Depressed
- B. Increased.
- C. Remained constant,
- D. Any of the answers may be correct, depending on the extent of the decline in interest rates.

Correct Answer: A

Interest rate futures contracts mirror risk-free bonds, such as U.S. Treasury bonds. When interest rates decrease over the period of a forward contract, the value of the bonds and the forward contract increase

QUESTION 4

Future value is best described as

- A. The sum of dollars-in discounted to time zero.
- B. The sum of dollars-out discounted to time zero.
- C. The value of a dollar-in at a future time adjusted for any compounding effect
- D. The value of a dollar-in at a future time adjusted for any compounding effect and the value of a dollar-out at a future time adjusted for any compounding effect.

Correct Answer: D

The future value of a dollar is its value at a time in the future given its present value. The future value of a dollar is affected both by the discount rate and the time at which the dollar is received. Hence, both dollars-in and dollars-out in the future may be adjusted for the discount rate and any compounding that may occur.

QUESTION 5



UniCorp produces uniforms that it sells and rents to businesses. It recently acquired a textile mill that produces synthetic cloth. This acquisition is an example of

- A. Capacity expansion Forward integration
- B. Capacity expansion Backward integration
- C. Vertical Integration Forward integration
- D. Vertical Integration Backward integration

Correct Answer:

The degree of backward and forward vertical integration along the value chain varies with the industry. Unicorp acquired one of its suppliers, which is on a different level of the value chain. Thus, the combination involved vertical integration. Moreover, the acquisition of a supplier is characteristic of backward integration.

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