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QUESTION 1

A company wants to open a new store in one of three nearby shopping malls. In Mall A. the rent will be \$300,000 per year. In Mall B. the rent will be 4% of gross revenues In Mall C. the rent will be \$150,000 per year pius 3% of gross revenues. Assume that revenues and and other elements under consideration are the same for all three malls. Which mall should the company choose it revenues are expected to be \$6,000,000 per year?

A. Mall A.

B. Mall B.

C. Mall C.

D. The company will be indifferent between two of the Choices.

Correct Answer: C

The answer depends on the expected level of revenues. If the company expects revenues to be 6,000,000 per year, the calculation is as follows: Mall A: 300.000 Mall B $6,000,000 \times 4\% = 240,000$ 1Mall C: $6,000,000 \times 3\%$ 180000 + 150,000 \$330.000 Thus, Mall B is preferable

QUESTION 2

A company is deciding whether to purchase an automated machine to manufacture one of its products. Cash flows from this decision depend on several factors, interactions among those factors, and the probabilities associated with different levels of those factors. The method that the company should use to evaluate the distribution of net cash flows from this decision and changes in net cash flows resulting from changes in levels of various factors is

A. Simulation and sensitivity analysis.

- B. Linear programming.
- C. Correlation analysis.
- D. Differential analysis.

Correct Answer: A

Simulation is a technique used to describe the behavior of real-world system overtime. This technique usually employs a computer program to perform the simulation computations. Sensitivity analysis examines how outcomes change as the model parameters change.

QUESTION 3

The maximum benefit forgone by using a scarce resource for a given purpose and not for the next-best alternative is called?

- A. Opportunity cost.
- B. Sunk cost.



- C. Incremental cash flow.
- D. Net initial investment.

Correct Answer: A

An opportunity cost is the maximum benefit forgone by using a scarce resource for a given purpose and not for the nextbest alternative. In capital budgeting, the most basic application of this concept is the desire to place the company\\'s limited funds in the most promising capital project(s).

QUESTION 4

Which industry factor does not contribute to competitive rivalry?

A. Price-cutting, large advertising budgets, and frequent introduction of new products.

- B. A form\\'s growth must come from winning, other firms\\' customers.
- C. High costs of switching suppliers.
- D. High fixed costs.

Correct Answer: C

If it is expensive to switch suppliers, customers will be less motivated to respond competitor advances.

QUESTION 5

The Dawson Corporation projects the following for the year Earrings before interest and taxes \$35 million

Earrings before interest and taxes	\$35 million
Interest expense	\$5 million
Preferred stock dividends	\$4 million
Common stock dividend-payout ratio	30%
Common shares outstanding	2 million
Effective corporate income tax rate	40%

The expected common stock dividend per share for Dawson Corporation is The company\\'s net income is \$18,000,000 [(35,000,000 EBIT - 55,000,000 interest) x (1.0 – .4 tax rate)]. Thus, the earnings available to common shareholders equal \$14,000,000 (\$18,000,000 - \$4,000,000 preferred dividends), and EPS is \$7 (\$14,000,000 ÷ 2,000,000 common shares). Given a dividend-payout ratio of 30%, the dividend to common shareholders is expected to be \$2.10 per share (\$7 x 30%).

A. \$2.34



B. \$2.70

C. \$1.80

D. \$2.10

Correct Answer: D

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