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QUESTION 1

The principal advantage of using commercial paper as a short-term financing instrument is that it

- A. Is usually cheaper than a commercial bank loan.
- B. Is readily available to almost all companies.
- C. Offers security, i.e., collateral, to the lender.
- D. Can be purchased without commission costs.

Correct Answer: A

Commercial papers form of unsecured note that is sold by only the most creditworthy companies. Leis issued ate discount from its face value and has a maturity period of less than 270 days. Commercial paper usually carries a low interest rate in comparison to other means of financing.

QUESTION 2

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 next-best 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 3

Mesa Company is considering an investment to open a new banana processing division. The project in question would entail an initial investment of \$45000, and as a result of the project cash inflows of \$20000 can be expected in each of the next 3 years. The hurdle rate is 10%. What is the profitability index for the project?

- A. 1.0784
- B. 1.1053
- C. 1.1379
- D. 1.1771



Correct Answer: B

QUESTION 4

Which of the following pricing policies involves the selling company setting freight charges to customers at the actual average freight cost?

- A. Freight absorption pricing
- B. Uniform delivered pricing
- C. Zone pricing
- D. FOB-origin pricing.

Correct Answer: B

In uniform delivered pricing, the company charges the same price, inclusive of shipping costs, to all customers regardless of their location. This price is the company's average actual freight cost. Thus, both nearby and distant customers are charged the same amount. This policy is easy to administer, permits the company to advertise one price nationwide, and facilitates marketing to faraway customers.

QUESTION 5

In marketing toothbrushes as its single product, Hollow Company uses one marketing mix, believing all toothbrush users have similar needs. Such an approach to target marketing is called

- A. Mass marketing
- B. Niche marketing.
- C. Micromarketing.
- D. Concentrated marketing.

Correct Answer: A

When the needs of all customers are considered to be the same, the product and the customers do not need to be differentiated, and the appropriate strategy is mass marketing.

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