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QUESTION 1

Which factor most likely encourages entry into an existing market?

- A. Governmental subsidies for new investors.
- B. High product differentiation, principally produced by trademarks.
- C. Knowledge of the industry, with high investments in development.
- D. Low fixed exit costs.

Correct Answer: A

Subsidies for new firms lower entry barriers. Thus, new firms may enter the industry and intensify competition. Government policy also may affect competition via regulations that encourages or discourage substitutes or affect costs, that govern competitive behavior, or that limit growth. Government also may be a buyer or supplier.

QUESTION 2

When demand uncertainty is low, firms tend to adopt a strategy of preemptive expansion. The conditions for successful preemption expansion include which of the following?

- A. The firm should avoid market signals that alert competitors to the firm's plans.
- B. The expansion should be small relative to the market to minimize risk.
- C. Economies of scale should be large relative to demand.
- D. The business should be strategically vital to competitors.

Correct Answer: C

Economies of scale should be large in relation to demand, or the learning-curve effect should give an initial large investor a permanent cost advantage. For example, the preemptive firm may be able to secure too much of the market to allow a subsequent firm to invest at the efficient scale. That is, the residual demand available to be met by the later firm is less than the efficient scales of production. The later firm therefore must choose between intense competition at the efficient scale or a cost disadvantage.

QUESTION 3

JJ Motors, Inc. employs 45 sales personnel to market its line of luxury automobiles. The average car sells for \$23,000, and a 6% commission is paid to the salesperson. JJ Motors is considering a change to a commission arrangement that would pay each salesperson a salary of \$2,000 per month plus a commission of 2% of the sales made by that salesperson. The amount of total monthly car sales at which

JJ Motors would be indifferent as to which plan to select is

- A. \$2250,000
- B. \$3000,000



C. \$1500,000

D. \$1250,000

Correct Answer: A

QUESTION 4

Which relationship marketing level is appropriate for a low unit profit margin and many customers?

A. Reactive marketing.

B. Basic marketing.

C. Partnership marketing.

D. Proactive marketing.

Correct Answer: B

A firm must determine the appropriate investment in building customer relationships. The levels of investment depend on unit profit margins and the numbers of customers. Basic marketing consists only of selling (low-margin, many customers).

QUESTION 5

The following data pertains to XYZ Company for the current year of operations.

	<u>Total Cost</u>	<u>Unit Cost</u>
Sales (40,000 units)	\$1,000,000	\$25
Raw materials	160,000	4
Direct labor	280,000	7
Factory overhead:		
Variable	80,000	2
Fixed		360,000
Selling and general expenses:		
Variable	120,000	3
Fixed		225,000



Assuming that XYZ Company sells 80,000 units, what is the maximum that can be paid for an advertising campaign while still breaking even?

- A. \$135,000
- B. \$1,015,000
- C. \$535,000
- D. \$695,000

Correct Answer: A

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