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QUESTION 1

A proposed investment is not expected to have any salvage value at the end of its 5-year life. Because of realistic depreciation practices, the net carrying amount and the salvage value are equal at the end of each year. For present value purposes, cash flows are assumed to occur at the end of each year. The company uses a 12% after-tax target rate of return.

Year	Purchase Cost and Carrying Amount	Annual Net After-Tax Cash Flows	Annual Net Income
0	\$500,000	\$ 0	\$ 0
1	336,000	240,000	70,000
2	200,000	216,000	78,000
3	100,000	192,000	86,000
4	36,000	168,000	94,000
5	0	144,000	102,000

Discount Factors for a 12% Rate of Return		
Year	Present Value of \$1 at the End of Each Period	Present Value of an Annuity of \$1 at the End of Each Period
1	.89	.89
2	.80	1.69
3	.71	2.40
4	.64	3.04
5	.57	3.61

The net present value is

- A. \$304,060
- B. \$212,320
- C. \$(70,000)
- D. \$712,320

Correct Answer: B

QUESTION 2

Which of the following internal controls is not one typically eliminated when a just-in-time inventory system is introduced?

- A. Sophisticated inventory tracking system.



- B. Central receiving dock
- C. Statical methods for quality assurance.
- D. Hard copy receiving report.

Correct Answer: C

Under a JIT system, the quality of parts provided by suppliers is verified by use of statistical controls rather than inspection of oncoming goods. Storage, counting, and inspection are eliminated in an effort to perform only value-adding work.

QUESTION 3

Which of the following is irrelevant in projecting the cash flows of the final year of a capital project?

- A. Cash devoted to use in project.
- B. Disposal value of equipment purchased specifically for project
- C. Depreciation tax shield generated by equipment purchased specifically for project.
- D. Historical cost of equipment disposed of in the project's first year.

Correct Answer: D

Once an old piece of equipment has been disposed of, its historical cost no longer has an impact on a firm's cash flows.

QUESTION 4

Which of the following is an impediment to global competition?

- A. Lack of world demand.
- B. Global experience.
- C. Product redefinition.
- D. Broad line global competition.

Correct Answer: A

Global introduction of a product may be hindered by lack of world demand. The reason may be that the product lacks appeal except in a few markets or that it is in an early stage of the product life cycle of world trade. Thus, initial introduction should be in a few markets where the product has the greatest appeal. Over time, with product imitation and technology diffusion, the product may spread to new markets.

QUESTION 5

Conversion costs do not include



- A. Depreciation.
- B. Direct materials.
- C. Indirect labor.
- D. Indirect materials.

Correct Answer: B

Conversion costs are necessary to convert raw materials into finished products. They include all manufacturing costs, for example, direct labor and factory overhead, other than direct materials.

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