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Certified Management Accountant (CMA)

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**QUESTION 1**

A change in credit policy has caused an increase in sales, an increase in discounts taken, a decrease in the amount of bad debts, and a decrease in the investment in accounts receivable. Based upon this information, the company's

- A. Average collection period has decreased.
- B. Percentage discount offered has decreased.
- C. Accounts receivable turnover has decreased.
- D. Working capital has increased.

Correct Answer: A

An increase in discounts taken accompanied by declines in receivables balances and doubtful accounts all indicate that collections on the increased sales have been accelerated. Accordingly, the average collection period must have declined. The average collection period is a ratio calculated by dividing the number of days in a year (365) by the receivable turnover. Thus, the higher the turnover, the shorter the average collection period. The turnover increases when either sales (the numerator) increase, or receivables (the denominator) decrease. Accomplishing both higher sales and a lower receivables increases the turnover and results in a shorter collection period.

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**QUESTION 2**

Bakker Industries seals three products (Products 611, 613, and 615) that it manufactures in a factory consisting of one department. Both labor and machine time are applied to the products. Bakker's management is planning its production schedule for the next several months. There are labor shortages in the community. Some of the machines will be out of service for extensive overhauling. Available machine and labor time for each of the next 6 months is listed below. If Bakker's strategy is to maximize dollar profits, how many units of product 615 will be produced?



Monthly Capacity Availability	
Normal machine capacity in machine hours	3,500
Capacity of machines being repaired in machine hours	(500)
Available machine capacity in machine hours	3,000
Labor capacity in direct labor hours	4,000
Available labor in direct labor hours	3,700

  

Labor and Machine Specifications per Unit of Product		
Product	Labor and Machine Time	
611	Direct labor hours	2
	Machine hours	2
613	Direct labor hours	1
	Machine hours	1

- A. 400 units
- B. 500 units.
- C. 800 units
- D. 1,000 units.

Correct Answer: C

When a company has a scarce resource machine hour capacity, the company should maximize contribution per machine hour to maximize overall profits. Because product 615 has the lowest contribution per machine hour of the three products, product 615 will be produced using the remaining hours after product 613 and product 611 have been produced to equal demand. Therefore the 400 hours needed to produce product 613 and the 1,000 hours needed to produce product 611 are subtracted from the 3,000 available machine hours. This leaves a total of 1,600 machine hours for product 615, which equates to 800 units being produced.

### QUESTION 3

The internal rate of return for a project can be determined

- A. If the internal rate of return is greater than the firm's cost of capital.
- B. Only if the project cash flows are constant.
- C. By finding the discount rate that yields a net present value of zero for the project.
- D. By subtracting the firm's cost of capital from the project's profitability index.

Correct Answer: C



The IRR is a capital budgeting technique that calculates the interest rate that yields a net present value equal to \$0. It is the interest rate that will discount the future cash flows to an amount equal to the initial cost of the project. Thus, the higher the PR, the more favorable the ranking of the project.

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#### QUESTION 4

A proposed transfer price may be based upon the outlay cost. Outlay cost plus opportunity cost is the

- A. Retail price
- B. Price representing the cash outflows of the supplying division plus the contribution to the supplying division from an outside sale
- C. Price usually set by an absorption-costing calculation
- D. Price set by charging for variable costs plus a lump sum or an additional markup, but less than full markup

Correct Answer: B

At this price, the supplying division is indifferent as to whether it sells internally or externally. Outlay cost plus opportunity cost therefore represents a minimum acceptable price for a seller. However, no transfer price formula is appropriate in all circumstances.

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#### QUESTION 5

A statement that "80% of our profits come from 20% of our products" is an example of the application of

- A. Pareto analysis
- B. Benchmarking
- C. Value chain analysis
- D. Life-cycle costing

Correct Answer: A

Pareto analysis assumes that 80% of results are caused by 20% of people or events.

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