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QUESTION 1

What strategy induces intermediaries to promote and sell the firm's products?

- A. Pull
- B. Push
- C. Focus
- D. Differentiation

Correct Answer:

One issue in distribution channel design is the degree of emphasis on a push strategy versus a pull strategy. A push strategy uses the firm's sales force and sales promotion resources to persuade channel intermediaries to stock, promote, and sell the firm's products. It is indicated Vivien customers have little brand loyal, impulse buying is common, and the benefits of me product are well known.

QUESTION 2

If a \$1,000 bond sells for \$1,125, which of the following statements are true?

- I. The market rate of interest is greater than the coupon rate on the bond.
- II. The coupon rate on the bond is greater than the market rate of interest.
- III. The coupon rate and the market rate are equal

IV.

The bond sells at a premium.

V.

The bond sells at a discount.

- A.
- I and IV
- B.
- I and V
- C.
- II and IV
- D.
- II and V



Correct Answer: C

The excess of the price over the face value is a premium. A premium is paid because the coupon rate on the bond is greater than the market rate of interest. In other words, because the bond is paying a higher rate than other similar bonds, its price is bid up by investors.

QUESTION 3

Oradell Company sells its single product at a price of \$60 per unit and incurs the following variable costs per unit of product

Direct material	\$16
Direct labor	12
Manufacturing overhead	<u>7</u>
Total variable manufacturing costs	\$35
Selling expenses	<u>5</u>
Total variable costs	<u><u>\$40</u></u>

Oradell's annual fixed costs are \$880,000, and Oradell is subject to a 30% income tax rate. A production and sales volume of 4,000 units of product per month would result in an annual after-tax income (loss) Oradell Comp of?

- A. \$80,000
- B. \$(800,000)
- C. \$56,000
- D. \$(560,000)

Correct Answer: C

QUESTION 4

Which of the following is not an assumption that is made when assuming rationality on the part of the company?

- A. The company chooses the decision that results in the maximum economic payoff.
- B. The criteria and alternatives can be ranked according to their importance.
- C. Specific decision criteria are constant and the weights assigned to them are stable over time.
- D. The company seeks solutions that minimize conflict.

Correct Answer: D



According to Robbins, Organizational Behavior (6th ed. Prentice-Hall, 1993), rationality has the same assumptions as the optimizing (outcome maximizing) model for decision making. Rational decision making is fully objective and logical. The model assumes that a single, well-defined goal is to be maximized; that all relevant criteria and feasible options are known; that the criteria and options can be assigned numerical values and ranked; that preferences are constant (criteria and their assigned weights do not change); and that the decision maker will choose the option with the highest rank (the maximum benefits). However, rationality does not require an assumption about the vacancy of conflict.

QUESTION 5

Clay Corporation follows an aggressive financing policy in its working capital management while Lott Corporation follows a conservative financing policy. Which one of the following statements is correct?

- A. Clay has a low ratio of short-term debt to total debt while Lott has a high ratio of short-term debt to total debt.
- B. Clay has a low current ratio while Lott has a high current ratio
- C. Clay has less liquidity risk while Lott has more liquidity risk.
- D. Clay's interest charges are lower than Lott's interest charges.

Correct Answer: B

A conservative working capital management financing policy uses permanent capital to finance permanent asset requirements and also some or all of the firm's seasonal demands. Thus, Lott's current ratio (current assets/current liabilities) will be high since its current liabilities will be relatively low. An aggressive policy entails financing some fixed assets and all the current assets with short-term capital. This policy results in a lower current ratio.

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