



# CMA<sup>Q&As</sup>

Certified Management Accountant

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### QUESTION 1

A weakness of the internal rate of return (IRR) approach for determining the acceptability of investments is that it

- A. Does not consider the time value of money.
- B. Is not a straightforward decision criterion.
- C. Implicitly assumes that the firm is able to reinvest project cash flows at the firm's cost of capital.
- D. Implicitly assumes that the firm is able to reinvest project cash flows at the project's internal rate of return.

Correct Answer: D

The IRR is the rate at which the discounted future cash flows equal the net investment ( $NPV = 0$ ). One disadvantage of the method is that inflows from the early years are assumed to be reinvested at the IRR. This assumption may not be sound. Investments in the future may not earn as high a rate as is currently available.

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### QUESTION 2

Donne Corporation manufactures and sells T-shirts imprinted with collage names and slogans. Last year, the shirts sold for \$750 each, and the variable cost to manufacture them was \$2.25 per unit. The company needed to sell 20,000 shirts to break even. The net income last year was \$5,040. Donnelly's expectations for the coming year include the following: The sales price of the T-shirts will be \$9 Variable cost to manufacture will increase by one-third Fixed costs will increase by 10% The income tax rate of 40% will be unchanged

121. If Donnelly Corporation wishes to earn \$22,500 in net income for the coming year, the company's sales volume in dollars must be?

- A. \$213.750
- B. \$257.625
- C. \$207.000
- D. \$229.500

Correct Answer: D

An after-tax net income of \$22,500 equals a pretax income of \$37,500 [ $\$22,500 + (140\% \text{ tax rate})$ ] With a

UCM of \$6 contributing toward the \$153,000 total of fixed cost (\$115,500) and desired profit (\$37,500).

25,500 units ( $\$153,000 \div \$6$ ) must be sold.

At \$9 per unit, sales revenue is \$229,500.

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### QUESTION 3

General Electric has popularized a model for competitive analysis. In this portfolio matrix,



- A. Each of the firm's businesses is represented by a circle proportional to its size.
- B. Business strength and market attractiveness are measured using a multifactor index.
- C. The number of cells varies with the number of factors used by the firm in its analysis.
- D. The four quadrants represent combinations of high or low market growth rates and business profitability.

Correct Answer: B

The GE model is a multifactor portfolio matrix with two variables. Business strength or competitive position (BUS) is on one axis, and market attractiveness (MAT) is on the other. To measure BUS and MAT, the firm must isolate the multiple factors affecting each, quantify them, and create an index. Factors will vary with business. The measurements will provide the values on the axes of the matrix.

#### QUESTION 4

The term referring to the excess of the price of a good over its cost is

- A. Consumer surplus
- B. Profit margin
- C. Contribution margin
- D. Value-added transfer

Correct Answer: B

To remain in the market, a product must provide value to the customer and a profit to the seller. The producer's profit (profit margin) is the difference between its costs and the price it charges for the product.

#### QUESTION 5

Cat fur Company has fixed costs of \$300,000. It produces two products, X and Y. Product X has a variable cost percentage equal to 60% of its \$10 per unit selling price. Product Y has a variable cost percentage equal to 70% of its \$30 selling price. For the past several years, sales of Product X have averaged 66% of the sales of Product Y. That ratio is not expected to change. What is Cat fur's breakeven point in dollars?

- A. \$300,000
- B. \$750,000
- C. \$857,142
- D. \$942,857

Correct Answer: D

A helpful approach in a multiproduct situation is to make calculations based on the composite unit, i.e., 2 units of Product X and 3 units of Product Y (a 66% ratio). The selling price of this composite unit is \$110 [(2 × \$10) + (3 × \$30)]. The UCM of the composite unit is \$35 [(2 × (\$10 - \$6)) + (3 × (\$30 - \$21))]. Consequently, the breakeven point in composite units is 8,571.43 (\$300,000 FC ÷ \$35 UCM), and the breakeven point in sales dollars is \$942,857 (8,571.43 ×



\$110)

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