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QUESTION 1

Rohan Transport is considering two alternative busses to transport people between cities that are in the Southeastern U.S., such as Baton Rouge and Gainesville. A gas-powered bus has a cost of \$55,000, and will produce end-of-year net cash flows of \$22,000 per year for 4 years. A new electric bus will cost \$90,000, and will produce cash flows of \$28,000 per year for 8 years. The company must provide bus service for 8 years, after which it plans to give up its franchise and to cease operating the route. Inflation is not expected to affect either costs or revenues during the next 8 years. If Rohan Transport's cost of capital is 16%, by what amount will the better project increase the company's value?

- A. \$6,556
- B. \$(14,432)
- C. \$13,112
- D. \$31,632

Correct Answer: D

QUESTION 2

In the strategic marketing stage, the firm

- A. Delivers and communicates value
- B. Provides customer value profitably
- C. Plans the marketing mix
- D. Choose the value to be delivered

Correct Answer: D

The firm chooses the value to be delivered in the strategic marketing stage. This stage consists of market segmentation and choosing target markets. Segments are defined by analysis of buyer differences (income, age, location, attitude, etc). Choosing target markets is the determination of the best marketing opportunities.

QUESTION 3

When managing cash and short-term investments, a corporate treasurer is primarily concerned with

- A. Maximizing rate of return.
- B. Minimizing taxes.
- C. Investing in Treasury bonds since they have no default risk.
- D. Liquidly and safety.



Correct Answer: D

Cash and short-term investments are crucial to a firm's continuing success. Sufficient liquidity must be available to meet payments as they come due. At the same time, liquid assets are subject to significant control risk. Therefore, liquidity and safety are the primary concerns of the treasurer when dealing with highly liquid assets. Cash and short-term investments are held because of their ability to facilitate routine operations of the company. These assets are not held for purposes of achieving investment returns.

QUESTION 4

Capacity expansion is also referred to as

- A. Market penetration
- B. Market development
- C. Product development
- D. Diversification

Correct Answer: A

Market penetration is growth of existing products or development of existing markets. It occurs in mature firms within an industry

QUESTION 5

Find the required rate of return for equity investors of a firm with a β of 1.2 when the risk-free rate is 6%, the market risk premium is 4%, and the return on the market is 10%.

- A. 4.80%
- B. 6%
- C. 10%
- D. 10.80%

Correct Answer: D

The capital asset pricing model adds the risk-free rate to the product of the coefficient (a measure of risk) and the difference between the market return and the risk-free rate. Thus, the required rate of return is 10.8% [$6\% + 1.2(4\%)$].

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