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QUESTION 1

Positioning the market offering most likely require

- A. Establishing the offering in the minds of customers
- B. Entering a target market
- C. Anticipating or countering a competitor's move in a market
- D. Providing value to costumers

Correct Answer: A

Positioning is the process of designing the offering so that it will have a distinct and favorable place in the minds of customers, Thus, the firm's value proposition (the combination of benefits offered) should give customers in the target market good reason to purchase the offering.

QUESTION 2

The Hopkins Company has estimated that a proposed project's 10-year annual net cash benefit, received each year end. will be \$2,500 with an additional terminal benefit of \$5,000 at the end of the 10th year. Assuming that these cash inflows satisfy exactly Hopkins' required rate of return of 8%, calculate the initial cash outlay

- A. \$16,775
- B. \$19,090
- C. \$25,000
- D. \$30,000

Correct Answer: B

If the 8% return exactly equals the present value of the future flows ., NPV is zero), then simply determine the present value of the future inflows. Thus, Hopkins Company's initial cash outlay is \$19,090 [(\$2,500) (PVIFA at 8% for 10 periods) + (\$5,000)(PVIF at 8% for 10 periods (\$2,500)(6.710) + (\$5,000)(.463)].

QUESTION 3

The Red Company has a revolving line of credit of \$300,000 with a one-year maturity. The terms call for a 6% interest rate and a 1(2% commitment fee on the unused portion of the line of credit. The average loan balance during the year was \$100,000. The annual cost of this financing arrangement is

- A. \$8,000
- B. \$6,500
- C. \$7,000
- D. \$7,500



Correct Answer: C

The annual cost of Red's financing arrangement can be calculated as follows $Cost = (Amount\ borrowed \times Interest\ rate) + [(Credit\ limit - Amount\ borrowed) \times Commitment\ fee] = (\$100,000 \times 6\%) + [(\$300,000 - \$100,000) \times .05] = \$6,000 + \$1,000 = \$7,000$

QUESTION 4

Enert, Inc.'s current capital structure is shown below. This structure is optimal, and the company wishes to maintain it.
Debt 25% Preferred equity 5 Common equity 70

Enert's management is planning to build a \$75 million facility that will be financed according to this desired capital structure. Currently, \$15 million of cash is available for capital expansion. The percentage of the \$75 million that will come from a new issue of common stock is

- A. 52.50%.
- B. 50.00%.
- C. 7000%.
- D. 5600%.

Correct Answer: D

Because \$15 million is already available, the company must finance \$60 million (\$75 million -- \$15 million). Of this amount, 70%, or \$42 million, should come from the issuance of common stock to maintain the current capital structure. The \$42 million represents 56% of the total \$75 million.

QUESTION 5

What is the oldest and most basic form of direct marketing?

- A. Personal selling.
- B. Electronic mail.
- C. Customer-relationship marketing.
- D. Negotiating.

Correct Answer: A

Personal selling is the most basic (and the oldest) form of direct marketing. The great majority of industrial firms use a professional sales force or hire manufacturers' representative or other agents to perform the in person task of selling. Also, consumer firms (such as Avon) may engage in direct sales.

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