

2015

IMA's OFFICIAL
CMA PREP MATERIALS

Wiley CMAexcel Learning System

EXAM REVIEW

PARTICIPANT GUIDE

PART 1: FINANCIAL REPORTING, PLANNING, PERFORMANCE, AND CONTROL



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in Business

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Wiley
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Exam Review 2015

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Wiley CMAexcel Learning System Exam Review 2015

Participant Guide

*Part 1: Financial Reporting, Planning,
Performance, and Control*

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Acknowledgments of Subject Matter Experts

The Wiley CMAexcel Learning System (WCMALS) content is written to help explain the concepts and calculations from the Certified Management Accountant (CMA) exam Learning Outcome Statements (LOS) published by the Institute of Certified Management Accountants (ICMA)

IMA would like to acknowledge the team of subject matter experts who worked together in conjunction with IMA staff to produce this version of the Wiley CMAexcel Learning System.

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For the Student

This course is part of the comprehensive Wiley CMAexcel Learning System (WCMALS) exam preparation program. Your classroom materials consist of a *Participant Guide* that includes all the instructor slides. In addition to the classroom materials, the WCMALS Part 2 includes a self-study book and the Online Test Bank. The course makes frequent reference to these tools and uses material from the self-study book as part of the class.

Many of the slides you will see in this course pose a question with an answer appearing on the slide after another mouse *click*. The complete slide with answer appears in your *Participant Guide*. This was done to facilitate study and allow you to focus on the discussion of the question, rather than copying the answer. You are encouraged to answer the questions first without referring to your *Participant Guide*.

Also included in your *Participant Guide* is a number of case study exercises. These exercises are inserted throughout the course at appropriate places to help reinforce learning on particular topics. An answer sheet is provided; however, it is recommended you work on the exercises right in your guide allowing for easy reference when reviewing. As you complete the exercises in class, write your own answers first and then check the answer sheet. Be sure to discuss any questions you may have and come up with methods to develop the answers with your instructor.

Another feature of the course is the in-class review of practice questions for each of the five sections. These questions appear at the end of the respective section in the self-study book. It is important that you have sufficient practice and in-class review of exam-style questions. Therefore, ensure that you participate in the in-class review of these questions and that you fully use the online question tool.

The final session of the course focuses on essay questions, which are part of the Part 2 exam. The session features a discussion of question scoring, example scorecards from ICMA, and strategies for writing answers to essay questions. The final session includes time to complete the practice essay questions in the self-study book.

Updates and Errata Notification

Please be advised that our materials are designed to provide thorough and accurate content with a high level of attention to quality. From time to time there may be clarifications, corrections, or updates that are captured in an Updates and Errata Notification.

To ensure you are kept abreast of changes, this notification will be available on Wiley's CMA update and errata page. You may review these documents by going to www.wiley.com/go/cmaerrata2015.

Session 1

Course Introduction



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**Part 1: Financial Reporting, Planning,
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Session 1

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Part 1: Financial Reporting, Planning, Performance, and Control

- Section A: External Financial Reporting Decisions
- Section B: Planning, Budgeting, and Forecasting
- Section C: Performance Management
- Section D: Cost Management
- Section E: Internal Controls

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Course Sessions

Session 1

- Introduction to CMA Credential and Wiley CMAexcel Learning System
- Section A, Topics 1 and 2

Session 2

- Exam Study Tips
- Section A, Topic 2, continued
- Section B, Topic 1

Session 3

- Section B, Topics 2 and 5

Session 4

- Section B, Topics 5 (continued), 4, and 6

Session 5

- Section B, Topic 3

Session 6

- Section C, Topic 1

Session 7

- Section C, Topics 2 and 3

Session 8

- Section D, Topics 1 and 2

Session 9

- Section D, Topic 2 (continued)

Session 10

- Section D, Topics 3, 4, and 5

Session 11

- Section E, Topics 1, 2, and 3

Session 12

- Test-Taking Tips
- Writing an Essay Question

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Session 1

- Introduction to CMA Credential and Wiley CMAexcel Learning System
- Section A, Topic 1: Financial Statements
- Section A, Topic 2: Recognition, Measurement, Valuation, and Disclosure: Fair Value Standards and Measurement, Cash and Cash Equivalents, Accounts and Notes Receivable, Inventory
- Section A, Topic 2 (cont.): Recognition, Measurement, Valuation, and Disclosure: Investments; Property, Plant, and Equipment; Intangibles, Current Liabilities
- Exercise 1: Inventory Valuation, LIFO to FIFO
- Exercise 2: Investments

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IMA and CMA Program Overview

- Benefits of IMA membership
- Content specifications for CMA exam
- Becoming a CMA candidate
- Taking an exam: registration, testing locations, testing windows
- Wiley CMAexcel Learning System features and overview
- How to access the online practice tests

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Benefits of IMA Membership

- Face-to-face networking and professional development opportunities—over 200 chapters around the world
- Subscription to IMA's award-winning publication: *Strategic Finance*
- Online learning courses—learn at your own pace
- Online library—let IMA's cybrarian brainstorm your research requirements
- Opportunity to pursue CMA designation
- Access to IMA's Ethics Center: tools, resources, and advice on ethically sound practices in global business

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Part 1 Exam Content Specifications

- Exam: 4 hours total
 - ▶ 100 multiple-choice questions (3 hours to complete)
 - ▶ 2 essay questions (1 hour to complete)
- Five sections:
 - ▶ Section A: External Financial Reporting Decisions (15%)
 - ▶ Section B: Planning, Budgeting, and Forecasting (30%)
 - ▶ Section C: Performance Management (20%)
 - ▶ Section D: Cost Management (20%)
 - ▶ Section E: Internal Controls (15%)

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Steps to Become a CMA Candidate

- Become a member of the Institute of Management Accountants (IMA)
 - ▶ Visit the IMA Web site at www.imanet.org
- Pay the CMA Program Entrance Fee

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Become a CMA Candidate Early!

By enrolling early you can:

- Receive the monthly CMA *Connect* online newsletter filled with articles and tips.
- Gain access to the ICMA online candidate community.
- Have time to review and prepare all certification requirements and ensure you receive key updates and communications from ICMA.
- Ensure you are eligible to sit for an exam part (only registered candidates can sit for an exam).

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How to Register for an Exam Part

After becoming an IMA member and entering the CMA program:

- Complete the online Exam Registration Form; select the exam(s) you plan to take and pay the associated fee(s).
- Receive a registration acknowledgment with exam authorization number, authorization window, and instructions on how to schedule an exam.
- Schedule your exam appointment with Prometric.
 - ▶ See www.prometric.com/ICMA for a list of test sites.
- Exam(s) must be taken within the assigned authorization window.

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WCMALS Exam Testing Windows

- Both exams (Parts 1 and 2):
 - ▶ January and February
 - ▶ May and June
 - ▶ September and October
- Scores are not available immediately, because the essay response section of the exam must be corrected manually.

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How to Use the Wiley CMAexcel Learning System

- Read the self-study book.
- Use the participant guide to take notes.
- **Use the Online Test Bank.**
 - ▶ Multiple-choice questions.
 - ▶ Essay questions in Resources section.

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WCMALS Book Content Features: Helpful Symbols

- Key terms appear in **boldface** where they are defined in text.
-  • Key formulas highlighted with a “key” symbol.
-  • Study tips highlighted with “book” symbol.
-  • Knowledge checks highlighted with “lightbulb” symbol.
-  • Practice questions highlighted with “question mark” symbol.

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Online Test Bank

- Integrate the online tests throughout your study program.
- Use the grade book function to track your progress over time.
- Check the Resources section for any additional study documents.
- Practice tests are drawn from a large bank of questions. Be sure to repeat the tests many times to ensure you have seen all questions.
- Be sure to understand all concepts—don't just memorize questions and answers.

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How to Access the Online Test Bank

- Use the Wiley CMAexcel Web site to access your online practice test. Visit www.wileycma.com

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Topic 1: Financial Statements

- Income Statement
- Statement of Changes in Shareholders' Equity
- Balance Sheet
- Statement of Cash Flows
- Limitations of Financial Statements
- Financial Statement Footnotes and Disclosures
- Users of Financial Statements

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Income Statement

- Commonly referred to as profit and loss (P&L) statement
- Measures earnings of an entity's operations over a given time period (e.g., one year, quarter, one month)
- Content of statement used to measure profitability, creditworthiness, and entity valuation
- Major components include: revenues, gains, expenses, and losses
- Two formats for presenting income statement
 - ▶ Single-step format
 - ▶ Multiple-step format (more commonly used)

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Other Comprehensive Income

- FASB Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income*, requires reporting of certain unrealized gains and losses outside of income as components of other comprehensive income (OCI).
- Comprehensive income (CI) = Net income +/- Items of other comprehensive income
- Current accounting standards require reporting of CI in one of two ways:
 - In a single continuous statement of CI that lists the components of net income and total net income, the components of OCI and total OCI, and the total of CI.
 - In a two-statement approach: an income statement, which must present the components of net income and total net income, and a statement of OCI—immediately following the income statement—which must present the components of OCI, a total for OCI, and a total for CI.

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Single-Step versus Multiple-Step

Single-Step format

- Begins with revenues and gains, and subtracts expenses and losses
- No attempt to categorize revenues, expenses, gains, losses or arrive at interim subtotals
- Simple and easy to prepare; however, not commonly used in practice

Multiple-Step format

- Disaggregates into operating and non-operating categories
- Revenues/expense = operating; Gains/losses = nonoperating
- Presents various subcategories (e.g., cost of goods sold, operating expenses, nonoperating revenues, gains, expense, losses)
- Presents various profitability subtotals (e.g., gross profit, income from operations, income before taxes, etc.)
- More commonly used; more useful for analysis

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Single-Step Income Statement

- Subtracts total expenses and losses from total revenues and gains

Revenues	
Net sales	\$2,734,620
Dividend revenue	90,620
Rental revenue	<u>67,077</u>
Total revenues	<u>2,892,317</u>
Expenses	
Cost of goods sold	1,823,938
Selling expenses	416,786
Administrative	322,709
Interest expense	115,975
Income tax expense	<u>61,579</u>
Total expenses	<u>2,740,987</u>
Net income	\$151,330
Earnings/common share	\$1.89

To Statement of Changes in Shareholders' Equity ←



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Example: Multiple-Step Income Statement

Sales Revenue	
Sales	\$2,808,835
Less: Sales discounts	\$22,302
Less: Sales returns and allowances	<u>51,913</u> <u>74,215</u>
Net Sales revenue	2,734,620
Cost of Goods sold	
Merchandise inventory, Jan 1, Y1	424,321
Net purchases (less freight-in)	<u>1,850,153</u>
Total merchandise available for sale	2,274,474
Less: Merchandise inventory, Dec. 31, Y1	450,536
Cost of goods sold	<u>\$1,823,938</u>
Gross profit on sales	910,682



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Example: Multiple-Step Income Statement (continued)

Operating Expenses		
Selling expenses	\$416,786	
Administrative expenses	<u>322,709</u>	<u>739,495</u>
Income from operations		171,187
Other Revenues and Gains		
Dividend and rental revenue		<u>157,697</u>
		<u>328,884</u>
Other Expenses and losses		
Interest on bonds and notes		<u>115,975</u>
Income before income tax		212,909
Income tax		<u>61,579</u>
Net income for the year		\$151,330
Earnings per common share		\$1.89

To Statement of Changes
in Shareholders' Equity ←

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Additional Income Statement Items

- Presented at bottom of income statement as separate line after “Income from Continuing Operations”; presented “net” of tax
- Discontinued operations (always presented first)
 - ▶ Component of an entity that has clearly distinguishable operations and cash flows is disposed of or meets the FASB’s criteria as “held for sale”
- Extraordinary items (always presented after discontinued operations)
 - ▶ Material items that are both unusual in nature and infrequent in occurrence
 - ▶ Items that are unusual but not infrequent in occurrence, or infrequent in occurrence but not unusual, are not reported as extraordinary. Must meet both the “unusual in nature” and the “infrequent in occurrence” criteria to qualify

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Presentation of Additional Income Statement Items

	Net Sales
	– <u>Cost of goods sold</u>
	Gross profit on sales
	– <u>Operating expenses</u>
	Operating income
• Located below income from continuing operations	+/- <u>Other gains and losses</u>
	Earnings before tax
• Shown net of tax	– <u>Tax expenses</u>
– Discontinued operations	Income from continuing operations
– Extraordinary items	+/- Discontinued operations
	+/- Extraordinary items
	+/- <u>Changes in accounting principle</u>
	Net income

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Question: Income Statement

In the preparation of a multiple-step income statement, all of the following would be part of income from operations with the except of:

- gross profit
- selling expenses
- interest expense
- cost of goods sold

Answer: c. Interest expense. In a multiple-step income statement, interest expense is shown below income from operations as part of “other expenses and losses”

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Question: Income Statement Additional Items

Which of the following would best exemplify an item that would warrant extraordinary classification in the income statement?

- a. Loss incurred because of a strike by employees.
- b. Material flood damage that occurred in an area known to be susceptible to such disasters.
- c. A loss incurred by a U.S. company whose property (located in South America) was expropriated (taken over) by a dictator unsympathetic to U.S. businesses.
- d. Early extinguishment of material bond debt.

Answer: c. A loss incurred by a U.S. company whose property (located in South America) was expropriated (taken over) by a dictator unsympathetic to U.S. businesses.

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Statement of Changes in Shareholders' Equity

- When balance sheet is issued, FASB requires disclosure of changes in each separate shareholders' equity account (commonly presented in the form of a statement).
- Includes several components: capital stock (common and preferred at par value), additional paid-in capital, retained earnings, accumulated other comprehensive income.
- Format of financial information includes in statement:
 - Beginning balance for the period
 - Additions
 - Deletions
 - Ending balance for the period

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Example: Statement of Changes in Shareholders' Equity

	Common Stock, \$1Par	Additional Paid-In Capital	Retained Earnings	Total
Balance, Jan. 1, Y1	\$24,680	\$345,520	\$90,251	\$460,451
Net income →	To Statement of Changes in Shareholders' Equity		From Income Statement →	151,330
Cash dividends paid			(33,330)	(33,330)
Common stock issued	1,000	14,800		15,800
Balance, Dec. 31, Y1	\$25,680	\$360,320	\$208,251	\$594,251

To Balance Sheet



Balance Sheet

- “Balance” expressed by accounting equation: Assets = Liabilities + Shareholders' Equity
- “Snapshot” of a company’s assets and the claims on those assets at a specific point in time.
- Helps financial statement users evaluate an entity’s capital structure and assess liquidity, solvency, financial flexibility, and operating capability.
- Divided into three sections: assets, liabilities, and shareholders' equity
 - Assets and liabilities are further categorized as “current” or “long-term” (long-term assets and liabilities appearing below the respective “current” subtotals)
 - Assets presented in order of liquidity; liabilities listed in the order in which they come due
- Sometimes referred to as “Statement of Financial Position”



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Major Components and Classifications of the Balance Sheet

Assets	<ul style="list-style-type: none"> • Current assets (cash, A/R, inventory) • Long-term investments • Property, plant, and equipment (PP&E) • Intangible assets • Other assets
Liabilities	<ul style="list-style-type: none"> • Current liabilities (A/P, interest payable, current portion of long-term debt) • Long-term liabilities (bonds, mortgages) • Other liabilities
Shareholders, equity	<ul style="list-style-type: none"> • Capital stock • Treasury stock (contra equity) • Additional paid-in capital • Accumulated other comprehensive income • Retained earnings

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Format of Balance Sheet

Asset		Liabilities & Equity	
Current assets:		Current liabilities:	
Cash, cash equivalents	\$24,628	A/P	\$175,321
Receivables	552,249	Current portion of L/T debt	<u>36,000</u>
Other Receivables	18,941	Other current liabilities	<u>147,500</u>
Note Receivable	80,532	Total current liabilities	358,821
Inventory	252,567	L/T debt	<u>117,343</u>
Prepaid insurance	<u>7,500</u>	Total liabilities	476,164
Total current assets	936,417	Shareholders' equity:	
Fixed assets:		Common stock, par	25,680
PP&E	<u>209,330</u>	APIC	360,320
Less: Account, depreciation	<u>(75,332)</u>	Retained earnings	208,251
Net fixed assets	<u>133,998</u>	Total shareholders' equity	<u>594,251</u>
Total assets	<u>\$1,070,415</u>	Total liabilities and equity	<u>\$1,070,415</u>

From Statement of Changes in Shareholders' Equity

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