

Session 1 (3 hours)

Course Introduction



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Wiley CMAexcel Learning System Exam Review 2019 Part 2: Financial Decision Making

Learning Outcome Statements (LOS) identifiers appear on the slides as applicable to highlight where we address each LOS within the material.

Part 2: Financial Decision Making

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Open file: CMALS2_session1_ver2010.ppsx

Introduce yourself and welcome participants to the instructor-led course for Wiley's *CMAexcel Learning System, Part 2: Financial Decision Making*.

Explain that while the primary focus of the course is to prepare participants for the CMA Part 2 certification exam, it is also an excellent professional development tool for helping participants advance their careers in accounting, finance, or business management.

Tell participants who are preparing for the CMA Part 2 exam that the course and the materials follow the CMA body of knowledge provided by the Institute of Certified Management Accountants (ICMA) and that the course follows the general order of the WCMALS Part 2 self-study book.



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Part 2: Financial Decision Making

- Section A: Financial Statement Analysis
- Section B: Corporate Finance
- Section C: Decision Analysis
- Section D: Risk Management
- Section E: Investment Decisions
- Section F: Professional Ethics

Part 2: Financial Decision Making

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Tell the participants that Part 2 deals with the very broad subject of financial decision making. In this course financial decision making comprises the six major topics that appear on this slide. These six major topics appear in Part 2 Sessions 1 through 12.



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Course Sessions

Session 1

- Section A, Topic 1

Session 2

- Section A, Topic 2

Session 3

- Section A, Topic 3
- Section A, Topic 4

Session 4

- Section B, Topic 1
- Section B, Topic 2

Session 5

- Section B, Topic 2 (continued)
- Section B, Topic 3

Session 6

- Section B, Topic 4
- Section B, Topic 5
- Section B, Topic 6

Session 7

- Section C, Topic 1
- Section C, Topic 2

Session 8

- Section C, Topic 3

Session 9

- Section D, Topic 1

Session 10

- Section E, Topic 1
- Section E, Topic 2

Session 11

- Section E, Topic 3
- Section E, Topic 4

Session 12

- Section F, Topic 1
- Section F, Topic 2

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Distribute and **review** the course syllabus with the session dates and durations for the specific course you are teaching.

Session 1 Overview



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Session 1 Overview

Introduction to CMA Credential and Wiley CMAexcel Learning System

Section A: Financial Statement Analysis

- Topic 1: Basic Financial Statement Analysis
- CMA Exam Study Tips

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Explain that Session 1 introduces the CMA Learning System and how to use its components, explain some key points about the CMA exam, and discuss the advantages of IMA membership.

Explain that Session 1 covers the course content of Section A, Topic 1: Basic Financial Statement Analysis.

Let's begin with an overview of the IMA and CMA program.

Introduction to CMA Credential and Wiley CMAexcel Learning System



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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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Begin by talking a bit about the IMA, the benefits of registering early as a CMA candidate, and the CMAexcel Learning System and how participants should use the tools and features of the system. These bullet points are reviewed in the next few slides.



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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
- 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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Explain to participants that there are six key benefits of joining IMA. When they register as a CMA candidate, they automatically become IMA members; however, even if they are taking this course as continuing education and don't think they will work toward their CMA certification, the benefits of joining IMA are still valuable.

IMA's chapter network is significant both within the United States and around the globe. Chapters are filled with people who are passionate about the accounting and finance profession. The chapters offer a way to connect with these people, their knowledge, insight, and experience, and the job connections they can offer.

Strategic Finance magazine is produced by IMA and is filled each month with timely articles written by those most influential in the profession. It is a must for staying on top of what is happening today and the hot topics emerging for those in the accounting and finance field.

IMA's Professional Development team offers a wide range of online learning programs including a very popular free webinar series.

IMA constantly is investing in new ways to bring relevant content and connections to its members.

IMA also offers a host of research papers and statements of management accounting.

Obviously, the CMA program itself is a huge benefit—the IMA is filled with many experts and resources who manage the CMA body of knowledge and support the CMA candidates.

Last, IMA has a top-notch ethics resource center, including an advisor. Members can use the center to get support when dealing with professional ethical situations.



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Part 2 Exam Content Specifications

- Exam: 4 hours total
 - ▶ 100 multiple-choice questions (3 hours to complete)
 - ▶ 2 essay questions (1 hour to complete)
- Six sections:
 - ▶ Section A: Financial Statement Analysis (25%)
 - ▶ Section B: Corporate Finance (20%)
 - ▶ Section C: Decision Analysis (20%)
 - ▶ Section D: Risk Management (10%)
 - ▶ Section E: Investment Decisions (15%)
 - ▶ Section F: Professional Ethics (10%)

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Explain the content specifications for the Part 2 CMA exam.

Ask participants to open their self-study book and look for the Learning Outcome Statements (LOS) at the back of the book. The LOS describe all the knowledge and skills that make up the CMA body of knowledge, broken down by part, section, and topic.

The WCMALS supports and is aligned with the LOS.

Tell participants that the LOS should not be used as proxies for the actual certification exam questions; they should be used as guides for studying and learning the content of the WCMALS.



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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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Explain: Registering as a CMA candidate is easy—follow these two steps:

1. Become an IMA member.
2. 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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Explain the key benefits of registering as a CMA candidate early in the exam preparation process.

Reinforce that becoming recognized as part of the CMA candidate community provides a support system to ensure a candidate's success.



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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.

Tell participants that you will discuss study tips and techniques at the end of this session.

Note that one action that is key to their success is setting a clear goal as to when they will sit for the exam.

Registering for an exam provides a target. Sitting for the exam soon after they complete the course and their individual studies allows them to have the content fresh in their mind and be more confident in their knowledge of it.



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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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Inform participants that ICMA offers the Part 1 and 2 exams during specific windows each year.

It is important that they set a goal for completing the exam based on the window that will follow as soon as possible after their studies are complete.



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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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Explain the components of the Wiley CMAexcel Learning System and how participants can use them to ensure their studies are successful.

In the self-study book, **review** the “How to Use the Wiley CMAexcel Learning System” section. **Explain** that the book is broken down by section and topic. **Ask** participants to turn to the end of Section A, Topic 1, and point out the knowledge checks. **Explain** that these are not exam questions; rather, they are short questions they can use to check that they understood the content covered in each topic.

Ask them to turn to the end of Section A, and **point out** the practice questions. **Explain** that these questions are samples of exam questions, which will not only reinforce their learning but also give them more experience with the style of the exam. **Explain** that the print book contains only about 75 practice questions. As part of the WCMALS, they also receive access to an Online Test Bank with more than 1,000 multiple-choice practice questions. More details on this online portion of the system are provided shortly. Make sure that the participants understand the importance of taking the online practice tests multiple times to gain exposure to many questions.

Another important part of the system is the Essay Exam Support Materials section at the end of the self-study book that shows how essay questions are graded, provides tips for writing an essay answer, and includes some 20 sample essay questions that participants can practice.

Finally, **ask** participants to turn to the Suggested Study Process Map in the “How to Use the Wiley CMAexcel Learning System” section of the Self-Study Guide book. **Tell** them that their *Participant Guide* contains images of all the slides you will present and that they can take additional notes in their *Participant Guide* as you discuss topics in class. However, strongly **recommend** that they follow the study process presented in the self-study book—they should come to class having read the content you are going to cover. The classes are meant to supplement the self-study book, not take the place of reading and using it.



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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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Explain that the WCMALS books use a number of features to draw attention to certain types of content:

Key terms are bolded where they appear in the text with their definition, to allow users to scan through quickly and study them.

Key formulas are indicated with a “key” symbol. Participants should be sure that they understand these formulas and practice applying them.

Study tips offer ideas and strategies for studying and preparing for the exam and are indicated with a “book” symbol.

Knowledge checks are indicated with a “lightbulb” symbol—note that the answers are provided after all the questions. These appear at the end of each topic.

Practice questions are indicated with a “question mark” symbol. These are presented at the end of each section.



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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.

Use the Wiley CMAexcel website to access your online practice test. Visit www.wileycma.com.

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Explain the importance of using the Online Test Bank during the course. The section-specific tests provide questions related to the section content. Participants should read and learn a section and then practice the online questions related to the section. Doing this also helps indicate whether participants should study the section content further before moving to the next section.

Section A: Financial Statement Analysis



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Section A: Financial Statement Analysis

- Topic 1: Basic Financial Statement Analysis
- Topic 2: Financial Ratios
- Topic 3: Profitability Analysis
- Topic 4: Special Issues

Part 2: Section A: Financial Statement Analysis
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Explain that Section A covers financial statement analysis. Topic 1 is included in this session. Topic 2 is included in Session 2. Topics 3 and 4 are included in Session 3. Financial ratios are calculated using the formulas that are tested on the CMA exam.

The next four slides include financial statement warm-up questions.



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Basic Finance and Analysis Dividends and Cash Flows

Dividends paid to company shareholders would be shown on the statement of cash flows as:

- a. cash flows from investing activities.
- b. operating cash inflows.
- c. cash flows from financing activities.
- d. operating cash outflows.

Answer: c.

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Ask participants to answer the question, then **click** to reveal the answer.

Answer c is correct because dividends are based on share holdings of the investor and are considered to be a form of return on the shareholder's investment, which is a form of financing for the entity.

Answer a is incorrect because investing activities are activities of the investor such as acquiring and selling fixed assets or equity investments.

Answer b is incorrect because dividends are distinguished from revenues, expenses, gains and losses and are reported differently than these income statement items.

Answer d is incorrect because while dividends are an outflow they are not part of operating outflows.



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Basic Finance and Analysis Elements of an Income Statement

All of the following are elements of an income statement except:

- a. gains and losses.
- b. shareholders' equity.
- c. expenses.
- d. revenue.

Answer: b.

Part 2: Section A: Financial Statement Analysis
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Ask participants to answer the question, then **click** to reveal the answer.

Answer b is correct because shareholders' equity is part of the balance sheet (sometimes referred to as the statement of financial position).

Answer a is incorrect because gains and losses are part of the income statement.

Answer c is incorrect because expenses are part of the income statement.

Answer d is incorrect because revenues are part of the income statement.



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Basic Finance and Analysis Operations over Time

The financial statement that provides a summary of the firm's operations for a period of time is the:

- a. statement of financial position.
- b. statement of retained earnings.
- c. statement of shareholders' equity.
- d. income statement.

Answer: d.

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Ask participants to answer the question, then **click** to reveal the answer.

Answer d is correct because the income statement reports revenues, expenses, gains and losses of the entity's operations for a specific time period. The statement of retained earnings is also for a specific time period but only reports net income or net loss, dividends declared and certain prior period adjustments.

Answer a is incorrect because the statement of financial position is prepared as of a point in time.

Answer b is incorrect because while the statement of retrained earnings is prepared for a period of time

Answer c is incorrect because the statement of shareholders' equity is part of the balance sheet (statement of financial position).



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Basic Finance and Analysis Annual Report Usefulness

The financial statements included in the annual report to the shareholders are least useful to which one of the following?

- a. Competing businesses.
- b. Stockbrokers.
- c. Managers in charge of operating activities.
- d. Bankers preparing to lend money.

Answer: a.

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Ask participants to answer the question, then **click** to reveal the answer.

Answer a is correct because the other three choices are all directly interested in the entity's financial statements included in the annual report. Competing businesses may be curious but have no direct interest in the annual reports of other entities.

Answer b is incorrect because financial statements included in the annual report are very useful for stockbrokers to prepare their analyses.

Answer c is incorrect because managers are often evaluated based on their performance as indicated by operating activities under their care.

Answer d is incorrect because bankers are very much interested in financial statements included in the annual reports of their clients to determine whether the entity is worthy of credit extended and to predict the client's ability to repay loans and interest in a timely manner.

Section A, Topic 1: Basic Financial Statement Analysis



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LOS P2.A.1.a., b., and c.

Topic 1: Basic Financial Statement Analysis

- Common-size financial statements
 - ▶ Common-size balance sheet
 - ▶ Common-size income statement
- Common base-year financial statements
- Growth analysis

Explain that Topic 1 outlines some basic financial statement analysis concepts. We'll be looking at how common-size statements can be used to perform analysis and gain an understanding of how to analyze a company's growth over time.

There are two general types of common-size financial statements: vertical and horizontal. Vertical common-size financial statements often depict the complete income statements or complete balance sheets, though either may be condensed or summarized. Common-size income statements often focus on net income as the bottom line, however other "bottom lines" may be used instead, such as EBIT.



Question: How Common-Sized Financial Statements May Be Used

A common-size statement is helpful:

- a. for determining the next investment the company should make.
- b. for considering whether to buy or sell assets.
- c. in comparing companies of different sizes.
- d. for figuring out how assets are allocated.

Answer: c.

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Ask participants to answer the question, then **click** to reveal the answer.

Answer c is correct because a common-size statement shows each major section of the financial statement valued at 100%, with its elements as percentages of the total, and is helpful when comparing companies of different sizes and when making comparisons from one year to another within the same company.

Answer a is incorrect because while common-size financial statements of potential investments may be useful in making investment decisions, it is highly unlikely that an investor would make the investment decision based solely on common-size statements.

Answer b is incorrect because for the entity to decide whether to buy or sell assets would be based on many considerations about the future of the entity's operations.

Answer d is incorrect because figuring out how assets are allocated would best be determined by reviewing the balance sheet.



Question: Common-Size: Balance Sheet and Income Statement

When preparing common-size statements, items on the Balance Sheet are generally stated as a percentage of _____ and items on the Income Statement are generally stated as a percentage of _____.

- a. total assets; net income.
- b. total shareholders' equity; net income.
- c. total shareholders' equity; net sales.
- d. total assets; net sales.

Answer: d.

Ask participants to answer the question, then **click** to reveal the answer.

Answer d is correct because common-size balance sheets express all assets, liabilities, and equities as a percent of the balance sheet footing (total assets). Common-size income statements express all sales adjustments, expenses, gains, losses, other revenues, and taxes as a percent of sales.

Answer a is incorrect because the income statement comparison is based on net sales, not net income.

Answer b is incorrect because the balance sheet comparison is based on total assets, not shareholders' equity and the income statement comparison is based on net sales, not net income.

Answer c is incorrect because the balance sheet comparison is based on total assets, not shareholders' equity.



How Common-Size Financial Statements May Be Used

Common-size statements can be used in several ways:

- To compare elements in a single year's financial statements
- To analyze trends across a number of years for one business
- To compare businesses of differing sizes within an industry (such as Wal-Mart to Target)
- To compare the company's performance and position with an industry average

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Remind candidates that the analyst must use judgment to resolve the issue of actual comparability between individual companies in different industries where common-size statements reflect the fundamental differences in conducting business in these industries.

Comparing common-size statements of companies within an industry or with common-size composite statistics of that industry can bring to light variations in account structure or distribution that require the analyst to explore and explain the reasons for differences.



Common-Size: Balance Sheet and Income Statement

- Common-Size Balance Sheet
- Common-Size Income Statement

Explain that common-size statements can be created for both the balance sheet and the income statement. Remember that common-size financial statements are not required by GAAP but are likely prepared from GAAP financial statements. They are a form of financial statement analysis often prepared by external parties to the company. Of course they can also be prepared by management of the company.

Analysis of common-size balance sheets is useful because each item in it is related to the central value of assets, liabilities or equity, whereas common-size income statements usually have only one central value. Of course the most common depiction for the common-size balance sheet is to combine total liabilities and total equity, which then equals total assets. For example, the company can determine whether its accounts receivable balance increased or decreased from the prior period. It can also determine whether accounts receivable consists of approximately the same percentage of total assets.

Analysis of common-size income statements is useful because each item in it is related to the central value of sales or net sales. Most expense items (except fixed costs) are affected to some extent by sales volume. Therefore, it is helpful to know what proportion of the sales dollar each of the various costs and expenses represents.

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LOS P2.A.1.a.

Vertical Common-Size Balance Sheet

Assets		
Total current assets	\$350,000	70%
Net fixed assets	<u>150,000</u>	<u>30%</u>
Total assets	<u><u>\$500,000</u></u>	<u><u>100%</u></u>
Liabilities and equity		
Liabilities:		
Total current liabilities:	\$200,000	40%
Long-term liabilities:	<u>50,000</u>	<u>10%</u>
Total liabilities	<u><u>250,000</u></u>	<u><u>50%</u></u>
Shareholders' equity:		
Common stock, \$ par value	25,000	5%
Additional paid-in capital	100,000	20%
Retained earnings	<u>125,000</u>	<u>25%</u>
Total shareholders' equity	<u><u>250,000</u></u>	<u><u>50%</u></u>
Total liabilities and equity	<u><u>\$500,000</u></u>	<u><u>100%</u></u>

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Explain that this is a vertical common-size balance sheet.

In vertical common-size statements, a base amount (generally total assets on the balance sheet and net sales on the income statement) is valued at 100%, and the elements within that statement are expressed as a percentage of the total (total assets or net sales).

A vertical common-size balance sheet is used to understand the relationship between total assets and other items included on the balance sheet of a company.

While it may go without saying, care must be taken when preparing common-size financial statements to assure that balance sheet captions correspond to balance sheet captions of the comparative entity or entities. In the example above, there can be many variations for current asset captions. When the components that make up “current assets” are individually significant, for example, the comparative company has significant trading securities classified as current assets and the other company does not have significant trading securities, the caption “current assets” can be ambiguous.



Vertical Common-Size Income Statement

Sales	\$250	100%
Cost of goods sold	<u>120</u>	<u>48%</u>
Administration expense	85	34%
Other expenses	<u>10</u>	<u>4%</u>
EBIT:	<u><u>\$35</u></u>	<u><u>14%</u></u>

Explain that this is a vertical common-size income statement. **Note** that all elements in the income statement are divided by total sales, which is the base amount. It is not uncommon for companies to use the caption “Net Sales” rather than “Total Sales” for this calculation.

This is a simplified income statement. Typically, there are many other categories of expenses. Also **note** that the bottom line is EBIT, earnings before interest and taxes. Preparers and analysts should make it clear when EBIT is being shown rather than Net Income or some other bottom line.

A vertical common-size income statement is used to understand the relationship between sales and other items included on the income statement of a company.



Question: Vertical Analysis

In assessing the financial prospects for a firm, financial analysts use various techniques. An example of vertical, common-size analysis is:

- a. a comparison in financial form between two or more firms in different industries.
- b. a comparison in financial ratio form between two or more firms in the same industry.
- c. advertising expense is 2 percent of sales.
- d. an assessment of the relative stability of a firm's level of vertical integration.

Answer: c.

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Ask participants to answer the question, then **click** to reveal the answer.

Answer c is correct because vertical analysis looks at all items in the income statement (sales adjustments, expenses, gains, losses, other revenues, and taxes) and will include a column which shows these items as a percent of sales. This approach allows the analyst to compare the income statements of different size companies, since the comparison will be done on a percentage basis, rather than on an absolute dollar basis.

Answer a is incorrect because common-sized financial statements in any form are not normally used to compare entities of different industries.

Answer b is incorrect because comparing financial ratios between two or more firms in the same industry is referred to as ratio analysis, not common-size financial statement comparison.

Answer d is incorrect because common-size financial statements have little if anything to do with vertical integration.



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LOS P2.A.1.b. and c.

Horizontal Analysis

	Year 0	Year 1	Year 2	Year 3	Year 4
Sales	\$200,000	\$210,000	\$250,000	\$260,000	\$300,000
Base-year multiplier	100%	105%	125%	130%	150%
Assets	\$400,000	\$440,000	\$520,000	\$600,000	\$640,000
Base-year multiplier	100%	110%	130%	150%	160%

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Explain that a horizontal common-size statement, also called a variation analysis or trend analysis, compares key financial statement values/relationships for the same company over a period of years. Such an analysis sets the base year at a value of 100% and shows subsequent years in relation to increases or decreases over the base year. The base year is often labeled year 0.

Ask participants to refer to the table shown and determine which item is growing faster: assets or sales.

Answer: Assets are growing faster than sales.

Horizontal/trend analysis is used to help analysts examine relationships of key financial numbers to detect strengths and weaknesses. In this example, managers need to better control asset purchases and use.

This analysis can reveal trends that help shed light on the direction, speed, and volume of change. Further analysis also can examine trends in related areas, such as a disparity between an increase in sales and a proportionately greater increase in receivables.

Analysts must use caution in interpreting results using horizontal common-size statements. Because items are expressed as percentages, analysts must keep in mind the size of the basis for comparison. For example, a 400% increase in net income might sound remarkable until analysts learn that last year's income was \$100.

Explain that common-size statements are useful when comparing businesses of different sizes because the financial statements of a variety of companies can be recast into the uniform common-size format regardless of the size of individual elements. Analysts must use judgment to resolve the issue of actual comparability between individual companies in situations in which common-size statements do not reflect the relative sizes of the individual companies.

Comparing common-size statements of companies within an industry or with common-size composite statistics of that industry can bring to light variations in account structure or distribution that require analysts to explore and explain the reasons for differences.



Question: True Statement

Which of the following statements is true regarding common-size statements?

- a. Common-size statements indexed over two years for two companies, with both showing a 10% increase in profits, show that both companies would make equally attractive investments.
- b. All of the other three answers are correct.
- c. Common-size statements can be used to compare companies of different sizes.
- d. Horizontal common-size statements can be made only for companies with at least ten years of operational data.

Answer: c.

Part 2, Section A, Topic 1: Basic Financial Statement Analysis

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Ask participants to answer the question, then **click** to reveal the answer.

Answer c is correct because common-size statements showing a 10% increase in profits for two companies do not alone indicate that both are equally attractive investments. One of the companies may have shown an increase in profits from \$10 to \$11, while the other may have shown an increase in profits from \$1,000,000 to \$1,100,000. Horizontal common-size statements do not require ten years of data.

Answer a is incorrect because common-size statements showing a 10% increase in profits for two companies do not alone indicate that both are equally attractive investments. One of the companies may have shown an increase in profits from \$10 to \$11, while the other may have shown an increase in profits from \$1,000,000 to \$1,100,000.

Answer b is incorrect because there is only one true statement in this question.

Answer d is incorrect because horizontal common-size statements do not require ten years of data.



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LOS P2.A.1.a.

Variation Across Industries: Income Statement

	Manufacturer	Retailer	Pharmaceutical	Financial
Sales	\$500,000	\$500,000	\$500,000	\$500,000
COS	125,000	250,000	50,000	–
Gross Profit	375,000	250,000	450,000	500,000
R&D	50,000	–	100,000	25,000
Salcs	50,000	20,000	100,000	100,000
Interest	15,000	10,000	20,000	25,000
G&A	<u>50,000</u>	<u>25,000</u>	<u>20,000</u>	<u>40,000</u>
Operating Income	210,000	195,000	210,000	310,000
Income Tax	73,500	68,250	73,500	108,500
Net Income	<u><u>\$136,500</u></u>	<u><u>\$126,750</u></u>	<u><u>\$136,500</u></u>	<u><u>\$201,500</u></u>

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Explain that the four income statements depicted above illustrate how different industries may produce significantly different cost and net income characteristics even if each industry illustrated has the same sales figure for the starting point.

The information on this slide should be referred to when answering the question on the next slide.



Variation Across Industries: Income Statement Discussion Questions

Discussion Questions

1. Which of the four industries would have the highest cost of sales?
2. In which of the four industries is cost of sales irrelevant?
3. Which cost will be the most significant for a financial company?
4. Which cost will be most significant for a pharmaceutical company?

Remind participants that the four industries listed on the slide are: manufacturer, retailer, pharmaceutical, and financial.

Discuss each of the four questions listed on this slide.

- The *retailer* would have the highest cost of sales as its margins are the lowest.

Click to display question 2.

- Cost of sales is irrelevant for the *financial industry*. Banks and brokerage firms do not specifically sell any products.

Click to display question 3.

- *Interest costs* will be most significant for a financial company.

Click to display question 4.

- *Research and development (R&D) costs* will be most significant for a pharmaceutical company.



Question: Gordon

Gordon has had the following financial results for the last four years.

	Year 1	Year 2	Year 3	Year 4
Sales	\$1,250,000	\$1,300,000	\$1,359,000	\$1,400,000
Cost of goods sold	750,000	785,000	825,000	850,000
Gross profit	500,000	515,000	534,000	550,000
Inflation factor	1.00	1.03	1.07	1.10

Gordon has analyzed these results using vertical common-size analysis to determine trends. The performance of Gordon can best be characterized by which one of the following statements?

- The common-size trend in sales is increasing and is resulting in an increasing trend in the common-size gross profit margin.
- The increased trend in the common-size gross profit percentage is the result of both the increasing trend in sales and the decreasing trend in cost of goods sold.
- The common-size gross profit percentage has decreased as a result of an increasing common-size trend in cost of goods sold.
- The common-size trend in cost of goods sold is decreasing which is resulting in an increasing trend in the common-size gross profit percentage.

Answer: c.

Ask participants to answer the question, then **click** to reveal the answer.

Answer c is correct because calculations will show that the common-size gross profit percentage has decreased as a result of an increasing common-size trend in cost of goods sold.

Answer a is incorrect because calculations will show that the common-size gross profit percentage has decreased as a result of an increasing common-size trend in cost of goods sold.

Answer b is incorrect because calculations will show that the common-size gross profit percentage has decreased as a result of an increasing common-size trend in cost of goods sold.

Answer d is incorrect because calculations will show that the common-size gross profit percentage has decreased as a result of an increasing common-size trend in cost of goods sold.



Variation Across Industries: Balance Sheet

Assets	Manufacturer	Retailer	Pharmaceutical	Financial
Receivable	22.3%	1.9%	16.4%	12.8%
Inventory	3.4%	28.2%	8.1%	0%
Investments	23.8%	0%	7.6%	68.1%

Part 2, Section A, Topic 1: Basic Financial Statement Analysis

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Explain that common-size statement analysis can be done to compare the financial statements of companies operating in different industries.

Discuss the variations in detail and relate it to the nature of the industry. Give examples of commonly known companies to encourage discussion. Some examples would be companies that are major employers or have major presence in the area with which participants are familiar. As a default, use Dell, Wal-Mart, Pfizer, and Morgan Stanley.

Discuss why a retailer would have low receivables (cash business) and high inventory (merchandise on shelf) and a bank would have no inventory and high investments.



Question: OmniCorp

The controller of OmniCorp asked a financial analyst to calculate common size financial statements for the past four years. The controller is most likely looking for which of the following?

- a. How the company is earning its profits.
- b. The growth rate for sales.
- c. Trends in expenses as a percentage of sales.
- d. How efficiently the company is using assets.

Answer: c.

Ask participants to answer the question, then *click* to reveal the answer.

Answer c is correct because common-size financial statements look at each element in the statement as a percentage of another total amount. Common-size income statements show expenses as a percent of sales, while common-size balance sheets show assets, liabilities, and equities as a percent of total assets. A series of common-size income statements will show trends in expenses as a percentage of sales.

Answer a is incorrect because common-size financial statements look at each element in the statement as a percentage of another total amount rather than at how a company earns its profits.

Answer b is incorrect because common-size income statements show expenses as a percent of sales

Answer d is incorrect because while common-size financial statements may be part of the analysis of how efficient the company is in using assets, it is unlikely that this would provide a definitive answer to the efficiency question.

CMA Exam Study Tips



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Study Tips

- Create a study plan.
- Schedule regular study times.
- Break study times into small segments.
- Highlight key ideas.
- Create mnemonics.
- Create flash cards of key terms and concepts.
 - ▶ Carry cards with you to take advantage of any study opportunity.
 - ▶ Use a flash card partner.
- Use other resources to augment study.

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Explain that there are many ways to study, and the plan participants create will depend on things such as their lifestyle (when and how they can schedule study time), their learning style, how familiar they are with the content, and how practiced they are at writing a formal exam. Only the individual participant can assess these factors and create a plan that will work for him- or herself. Following are some suggestions that other exam candidates have found helpful. For example identify a one-hour time block that you are certain you can use EVERY day for CMA preparation for three–four months before sitting for the CMA exams. Then stop after the one-hour study session until the next day.

- Schedule regular study times and stay on schedule.
- Avoid cramming by breaking your study times into small segments. For example, you may want to work intensively for 45 minutes with no interruptions, followed by a 15-minute break during which time you do something different. You may want to leave the room, have a conversation, or exercise.
- When reading, highlight key ideas, especially unfamiliar ones. Reread later to ensure comprehension.
- Pay particular attention to the terms and equations highlighted in the *Participant Guide* and the self-study text, and be sure to learn the acronyms in the CMA body of knowledge.
- Create personal mnemonics to help you memorize key information. For example: CCIC to remember the four ethical standards: competence, confidentiality, integrity, and credibility.



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Study Tips (cont.)

- Use Knowledge Checks to assess understanding of key points.
- Test yourself with the Online Test Bank.
 - ▶ No penalty for incorrect answers.
 - ▶ Self-checking of answers.
 - ▶ Explanation of correct answers.
 - ▶ Simulation of exam experience.
 - ▶ Test repetition allowed throughout subscription period.
- Revise and adjust study plan as needed.

Emphasize that participants should:

- Use the Knowledge Checks in the book to assess how well they understand the content just completed.
- Use the Online Test Bank to test their ability to answer multiple-choice practice questions on each section's content as it is finished.
- Review areas in the book that they were weak on in the practice test after completing the test for the first time. Then try the section test again.
- Revise and adjust the study plan as they learn more about what they need to do to prepare for the exam.

Session 1 Wrap-Up



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Session 1 Wrap-Up

Content covered in Session 1

- Introduction to CMA Credential and Wiley CMAexcel Learning System
- Section A, Topic 1: Basic Financial Statement Analysis
- CMA Exam Study Tips

Content to be covered in Session 2

- Section A, Topic 2: Financial Ratios

Part 2: Financial Decision Making

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Remind participants of the material covered in Session 1.

Ask participants if they have any questions on the material covered in Session 1.
Tell participants that Session 2 will cover Financial Ratios (Section A, Topic 2).

