

ZAIN ACADEMY PRESENTS 2ND EDITION -
2019.

CERTIFIED MANAGEMENT ACCOUNTANT (CMA), US - PART 1.

A study book that delivers important concepts
required in a management accountant.

**EXCELLENCE, CREATIVITY
AND PATIENCE ARE KEY
INGREDIENTS TO BECOME A
STAR.**

MUHAMMAD ZAIN.



In the Name of Allāh, the Most Gracious, the Most Merciful

CERTIFIED MANAGEMENT ACCOUNTANT (CMA), US

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

STUDY NOTES

EFFECTIVE TILL 31 DECEMBER 2019

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CERTIFIED MANAGEMENT ACCOUNTANT (CMA) - PART 1

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Readers are welcomed to contact him for *online interactive sessions* for any part of CPA, CMA or CIA.



CERTIFIED MANAGEMENT ACCOUNTANT (CMA) - PART 1

07 October 2018

Dear **CMA**s,

السلام عليكم
peace be upon you

It is my great honor to present you the 2ND edition of **Certified Management Accountant (CMA) - Part 1 - Financial Reporting, Planning, Performance, and Control** Study Notes.

These Study Notes are not copyrighted and are universally accessible to all. You are permitted to use these notes and distribute them to the other candidates as well.

I have tried to keep the materials simple, clear and concise. I welcome feedback from the potential readers. These materials are relevant till 31 December 2019. However, please do check the Facebook page <https://www.facebook.com/zainacademy> for updates. Extreme care is required when rendering professional advice to clients.

Readers are encouraged to provide a review / feedback on the materials on <https://www.facebook.com/zainacademy/reviews/>. This review will help prospective candidates to benefit from improvements in the materials.

I dedicate this work to my family, teachers and colleagues who have always believed in my abilities and guided me through the toughest of times.

May the **ALLAH**, **Creator of the Heavens and Earths** bless you **ALL** in this Life and in particular the Life Hereafter as well.

With Love and Care,

Muhammad Zain
CPA, CMA, CIA



CERTIFIED MANAGEMENT ACCOUNTANT (CMA) - PART 1

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SECTION A – External Financial Reporting Decisions (Weightage 15%)

S.No	Questions	Answers
1.	Who are direct users of financial statements?	Direct users are directly affected by a company's financial results and stand to lose money if the company has financial problems. Direct users include investors and potential investors, employees, management, suppliers, and creditors.
2.	Who are indirect users of financial statements?	Indirect users are people or groups who represent direct users. Indirect users include financial analysts and advisors, stock markets, and regulatory bodies.
3.	What are the five financial statements?	<ol style="list-style-type: none"> 1) Balance Sheet (also called the Statement of Financial Position) 2) Income Statement 3) Statement of Cash Flows 4) Statement of Comprehensive Income 5) Statement of Changes in Stockholders' Equity
4.	What does the balance sheet show?	The balance sheet provides information about an entity's assets, liabilities, and owners' equity at a point in time .
5.	What are the elements of the balance sheet?	<ol style="list-style-type: none"> 1) Assets 2) Liabilities 3) Equity (or net assets)
6.	What is the proprietary theory?	Proprietary theory is way that the balance sheet presents the assets, liabilities, and equity, showing that the net assets belong to the owners of the company.
7.	What is an asset?	Future economic benefits obtained or controlled by an entity as a result of past transactions or events.
8.	What is a liability?	Probable future economic sacrifices of economic benefits that arise from the present obligations of the company to transfer assets or provide services to other entities in the future as a result of past transactions or events.
9.	What is equity?	The remaining balance of assets after the subtraction of all liabilities. This is the amount of the company's assets that are owned by and owed to the owners .
10.	What are current assets?	Assets that will be converted into cash or sold or consumed within 12 months or within one operating cycle if the operating cycle is longer than 12 months.
11.	What are current liabilities?	Obligations that will be settled through the use of current assets or by the creation of other current liabilities.
12.	What are the six categories of equity?	<ol style="list-style-type: none"> 1) Capital stock 2) Additional paid-in capital 3) Retained earnings 4) Accumulated other comprehensive income items 5) Treasury stock 6) Non-controlling interest
13.	What does the balance sheet help assess?	The balance sheet provides a basis for computing rates of return, evaluating the capital structure of the business, and predicting a company's future cash flows.

		The balance sheet helps to assess the company's liquidity, financial flexibility, solvency, and risk.
14.	What are some of the limitations of the balance sheet?	<ul style="list-style-type: none"> • Many assets are not reported on the balance sheet. • Values of certain assets are measured at historical cost. • Judgments and estimates determine the value of many items reported in the balance sheet. • Most liabilities are valued at the present value of cash flows discounted at the rate that was current when the liability was incurred, not at the present value of cash flows discounted at the current market interest rate.
15.	What does the income statement show?	The results of a company's operations during a given period of time.
16.	What does the income statement help assess?	The amounts, timing, and uncertainty of (or prospects for) future cash flows.
17.	What are the four elements of the income statement?	<ol style="list-style-type: none"> 1) Revenues 2) Expenses 3) Gains 4) Losses
18.	What are revenues?	Revenues represent inflows of assets or reductions in liabilities as a result of delivering goods or providing services that are the entity's main or central operations .
19.	What are expenses?	Expenses are outflows of cash or other assets or the incurrence of liabilities as a result of purchasing goods or services that are necessary to provide the entity's main or central operations .
20.	What are the three methods of recognizing expenses?	<ol style="list-style-type: none"> 1) Cause and effect 2) Systematic and rational allocation 3) Immediate recognition
21.	What are gains?	Increases in equity as a result of transactions that are not part of the company's main or central operations and that do not result from revenues or investments by the owners of the entity.
22.	What are losses?	Decreases in equity as a result of transactions that are not part of the company's main or central operations and that do not result from expenses or distributions made to owners of the entity.
23.	What is a discontinued operation?	A disposal of a component or group of components that is either disposed of or held for sale and represents a strategic shift that has or will have a major effect on the entity's operations and financial results.
24.	What is the primary purpose of the statement of cash flows?	The primary purpose of the statement of cash flows is to provide information regarding receipts and uses of cash for the company during a specified period of time.
25.	What are the three categories of activities on the statement of cash flows?	<ol style="list-style-type: none"> 1) Operating activities 2) Investing activities 3) Financing activities



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26.	What are the two methods of preparing the statement of cash flows?	<ol style="list-style-type: none"> 1) Direct method 2) Indirect method
27.	Under the indirect method, what account is adjusted to calculate cash flows from operations?	Net income is adjusted under the indirect method.
28.	What are the five categories of adjustments under the indirect method?	<ol style="list-style-type: none"> 1) Eliminate noncash income and expense items. 2) Eliminate investing and financing activity events whose results are included in the income statement. 3) Include the effect of any operating activities that were not included in net income but did have a cash effect and exclude (eliminate) the effect of any events that are included in net income but did not have a cash effect. 4) Adjust cash flows from the purchase, sale, and maturity of trading securities. 5) Specific disclosures required with the indirect method.
29.	What is the adjustment to net income for an increase in the net receivable position during the year?	<p>The amount of the increase in net accounts receivable is subtracted from net income because the cash corresponding to this amount of revenue recognized during the period was not received during the period.</p> <p>A decrease in receivables during the period is added to income.</p>
30.	What is the adjustment to net income for the change in an asset during the period?	<ul style="list-style-type: none"> • The amount of an increase in an asset account should be deducted from net income. • The amount of a decrease in an asset account should be added to net income.
31.	What is the adjustment to net income for the change in a liability during the period?	<ul style="list-style-type: none"> • The amount of an increase in a liability account should be added to net income. • The amount of a decrease in a liability account should be deducted from net income.
32.	How are noncash investing and financing activities reported on the statement of cash flows?	Separately in a schedule at the end of the statement of cash flows.
33.	What is included in the statement of comprehensive income?	Comprehensive income includes all transactions of the company except for those transactions that are made with the owners of the company (such as distribution of dividends or the sale of shares).
34.	What are the four basic principles of accounting used to record and report transactions?	<ol style="list-style-type: none"> 1) Measurement 2) Revenue recognition 3) Expense recognition 4) Full disclosure
35.	What are different bases of measurement?	<ol style="list-style-type: none"> 1) Historical cost 2) Fair value
36.	What is matching?	Revenues should be recognized in the same period as the expenses that generated those revenues are expensed.



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37.	What items are included in cash?	1) Cash (of any currency) 2) Savings accounts 3) Checking accounts
38.	What are cash equivalents?	Very short-term, highly-liquid investments that have a maturity of three months or less when acquired by the company.
39.	What are the two allowed methods for valuing accounts receivable?	1) Percentage of sales method 2) Percentage of receivables method
40.	What is calculated and what is a residual balance under the percentage of sales method?	The amount of bad debt expense is calculated and the ending balance in the allowance account is the residual amount.
41.	What is calculated and what is a residual balance under the percentage of receivables method?	The ending balance in the allowance account is calculated and the amount of bad debt expense is the residual amount.
42.	What are the two ways that receivables may be factored?	1) Without recourse 2) With recourse
43.	How is the cash to be received by the seller of receivables calculated?	Face value of the accounts receivable – Factoring fee (a % of the face value of the receivables) – Factor's holdback for merchandise returns (a % of the <u>face value of the receivables</u>) = <u>Funds deposited to the seller's account</u> – Interest expense = Cash available to the seller to withdraw
44.	What value should inventory be recorded at when it is purchased?	Inventory should be recorded in the books at the amount that includes all of the costs paid for getting the inventory ready and available for sale . Costs include the cost of the inventory, shipping costs to receive the inventory, insurance, taxes and tariffs, duties, and all other costs related to receiving the inventory to sell to the customer.
45.	Are in-transit goods included in inventory?	The owner of the goods at year-end is determined by the terms of shipping. <ul style="list-style-type: none"> • Goods sent FOB Shipping Point belong to the buyer from the moment the seller gives them to the shipping company. • Goods sent FOB Destination belong to the seller until the buyer receives them.
46.	When are consigned goods included in inventory?	Consigned goods are included in the inventory of the company has the goods out on consignment. Ownership of the consigned goods transfers directly from the producer of the goods to the final purchaser.
47.	What are the cost flow assumptions for inventory?	1) First in First Out (FIFO) 2) Last in First Out (LIFO) 3) Average Cost 4) Specific Identification

48.	Which inventory method is not permitted under IFRS?	LIFO is prohibited under IFRS.
49.	When prices are rising, which inventory method has the highest balance of ending inventory?	FIFO
50.	When prices are rising, which inventory method has the highest COGS?	LIFO
51.	When prices are rising, what inventory method has the highest gross profit?	FIFO
52.	Under Lower of Cost or Market, what is the ceiling value and how it is calculated?	<p>The ceiling value is the net realizable value.</p> $\begin{array}{r} \text{Selling price} \\ - \text{Cost to complete and dispose} \\ = \text{Net realizable value} \end{array}$
53.	Under Lower of Cost or Market, what is the floor value and how it is calculated?	The floor value is the net realizable value minus a normal profit margin.
54.	What are the three methods used to account for investments and when are they used?	<ol style="list-style-type: none"> 1) Fair value method – used when the investor owns less than 20% of the investee company's stock 2) Equity method – used when the investor owns 21-50% of the investee company's stock 3) Consolidation - used when the investor owns 51% of the investee company's stock
55.	What are the three classifications of debt securities using the fair value method?	<ol style="list-style-type: none"> 1) Trading 2) Held-to-maturity 3) Available-for-sale
56.	What are the two classifications of equity securities using the fair value method?	<ol style="list-style-type: none"> 1) Trading 2) Available-for-sale
57.	Where is the holding gain or loss reported for trading securities?	On the income statement.
58.	Where is the holding gain or loss reported for available-for-sale securities?	On the statement of other comprehensive income.
59.	What are the main adjustments in the consolidation process?	<ol style="list-style-type: none"> 1) Eliminating intercompany receivables and payables 2) Eliminating the effect of intercompany sales of inventory 3) Eliminating the effect of intercompany sales of fixed assets 4) Eliminating the parent's investment account



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60.	Fixed assets are recorded using what cost?	Fixed assets are recorded at historical cost, which is the amount paid for the asset and all other costs that are necessary to get the asset ready for use.
61.	What is depreciation?	Depreciation is the systematic and rational allocation of the costs of a fixed asset over its expected useful life. This is the process by which the expense of the asset is matched with the revenue it generates.
62.	What are the methods of depreciation?	<ol style="list-style-type: none"> 1) Straight-line 2) Double declining balance 3) Sum-of-the-years'-digits 4) Units of production
63.	When are intangible assets amortized?	<p>Whether an intangible asset is amortized or not depends on its useful life:</p> <ul style="list-style-type: none"> • If the asset has a determinable, limited life, it is amortized over that useful life. • If the asset does not have a determinable useful life, the asset is not amortized, but it must be tested regularly for impairment.
64.	What is goodwill and how is it reported on the balance sheet?	<p>Goodwill is the amount that a purchaser has paid for a company that is greater than the fair value of the net identifiable assets.</p> <p>Purchased goodwill must be reported as a separate line item on the balance sheet.</p>
65.	What are the two types of warranties?	<ol style="list-style-type: none"> 1) An expense warranty is a manufacturer's warranty given along with the sale of the product. It requires no additional payment from the customer. 2) A sales warranty is an extended warranty that is sold separately from the product. Sales warranties may be sold by the manufacturer, a reseller, or a third party.
66.	What are common types of off-balance sheet financing?	<ol style="list-style-type: none"> 1) Operating leases 2) Selling of receivables 3) Joint ventures 4) Non-consolidated subsidiaries 5) Variable interest entities
67.	What is book income and what is taxable income?	<p>Book income is the company's income as calculated according to US GAAP.</p> <p>Taxable income is the income on which the company must pay taxes as calculated according to the tax code.</p>
68.	How do temporary timing differences arise?	Temporary timing differences arise when an item is not recognized for both book and taxable income in the same period.
69.	What is a deferred tax asset and how does it arise?	<p>A deferred tax asset is in essence an "overpayment" of taxes when taxable income is higher than book income.</p> <p>A deferred tax asset is created by either of the following:</p> <ul style="list-style-type: none"> • An item that is taxable revenue in the current period but is not included in book revenue. • An expense that is reported on the income statement for the current period but is not deductible for tax purposes.

70.	What is a deferred tax liability and how does it arise?	<p>A deferred tax liability is in essence an “underpayment” of taxes because taxable income is lower than book income.</p> <p>A deferred tax liability is created by either of the following:</p> <ul style="list-style-type: none"> • An item included in revenue for book purposes but not included in revenue for tax purposes. • An expense that is deductible for tax purposes but is not an expense for book purposes.
71.	How is the deferred income tax or expense calculated?	It is calculated as the amount of change in the total deferred tax asset and liability position of the company during the period .
72.	How are deferred tax assets and liabilities presented on the balance sheet?	<p>Deferred tax assets may be current or non-current and deferred tax liabilities may also be current or non-current.</p> <p>An individual deferred tax liability or asset is classified as current or non-current based on the classification of the related asset or liability for financial reporting purposes.</p> <p>A deferred tax item that is not related to an asset or liability for financial reporting is classified as current or non-current according to when the reversal is expected to occur.</p>
73.	What is a permanent timing difference?	<p>Permanent timing differences are items that cause differences between taxable income and book income that do not reverse over time.</p> <p>Permanent differences do not give rise to deferred tax assets or liabilities because a permanent timing difference will be recognized for either book or tax purposes, not both.</p>
74.	How are net operating losses treated?	<p>The company may elect to carry back the net operating loss two years and receive refunds for up to 100% of income taxes paid in those years.</p> <p>Any loss that remains after the 2-year carryback may be carried forward up to 20 years to offset future taxable income.</p>
75.	What is a lease?	A lease is an agreement between a lessor (the owner of an asset) and a lessee (the entity that is going to use the asset) that conveys the right to use specific property for a stated period of time in exchange for a stated payment.
76.	What are the two classifications of leases?	<ol style="list-style-type: none"> 1) Operating leases – a rental agreement 2) Finance leases – a purchase/sale agreement
77.	What are the criteria for a capital lease?	<p>If any one of these four criteria is met, it is a capital lease.</p> <ol style="list-style-type: none"> 1) Ownership transfers at the end of the lease. 2) The lease includes a written bargain purchase option. 3) The PV of the minimum lease payments is equal to or more than 90% of the fair market value of the asset at the time the lease is entered into. 4) The lease term is 75% or more of the remaining estimated economic useful life of the asset at the time the lease is entered into.
78.	What are the types of dividends that a company can pay?	<ol style="list-style-type: none"> 1) Cash dividend 2) Liquidating dividend 3) Property dividend

		4) Stock dividend
79.	How is a stock dividend valued?	A small stock dividend (less than or exactly 25%) is valued at the fair value of the shares. A large stock dividend (more than 25%) is valued at the par value of the shares.
80.	What are the two types of dividends for preferred shares?	1) Noncumulative 2) Cumulative
81.	What are cumulative preferred dividends?	<ul style="list-style-type: none"> • A cumulative dividend is one that is earned each year by preferred shares. • For those years when the dividend is not paid, the amount not paid is "in arrears." • Dividends in arrears must be paid in full before common dividends are paid.
82.	What is treasury stock?	Treasury stock is shares of a company that have been sold to other parties and then reacquired by the company.
83.	What are the three classifications of shares on the balance sheet?	1) Authorized shares 2) Issued shares 3) Outstanding shares
84.	When is revenue recognized?	Revenue is recognized when it is: 1) Realized or realizable and 2) Earned
85.	When may revenue be recognized at the completion of production?	1) The item is readily saleable as soon as it is completed. 2) There is a known market price for the item and there are minimal selling costs. 3) The units are homogeneous (that is, identical to each other).
86.	When is the installment method of profit recognition used?	The installment method is used when an item is sold on credit, it will be paid over a period of time in the future, and the amount that will actually be collected is not certain .
87.	When is the cost recovery method of profit recognition used?	It is used when the company makes a credit sale and there is no basis to determine the collectability of the future payments . The cost recovery method is the most conservative method of income recognition.
88.	What are the two methods of accounting for long-term contracts?	1) Completed contract method 2) Percentage-of-completion method
89.	What are the three steps of the percentage-of-completion method?	1) Calculate the amount of the total expected profit on the project. 2) Determine what percentage the project is completed, based on costs incurred to date. 3) Determine how much of the profit should be recognized in the current period.
90.	How is the expected profit calculated for a long-term contract?	<p>Contract price</p> <p>– Costs actually incurred to date</p> <p>– Costs expected to be incurred in the future</p> <p>= Expected profit (loss) on the project</p>

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91.	How is the percent complete calculated?	<u>Total Costs Incurred to Date (including prior periods)</u> Costs Incurred to Date + Estimated Cost to Complete		
92.	How is the profit to be recognized under the completed contract method calculated?	Expected Profit × Percentage Complete = Total Profit to Be Recognized to Date – Profit Previously Recognized = Profit to Recognize This Period		
93.	How are expected losses recognized in long-term contracts?	Under both methods, losses are recognized in full as soon as there is an expected loss on a contract.		
94.	How are gains or losses from discontinued operations reported ?	All gains or losses that are incurred by the discontinued segment are reported in the period in which the gain or loss occurred and the gains or losses are reported net of associated taxes.		
95.	How are short-term receivables valued for the financial statements?	For financial statement presentation, short-term receivables are valued and reported at net realizable value , or the net amount of cash expected to be received. The net amount the firm expects to receive is most likely different from the amount that is legally due. This difference between these two amounts is because some customers will not pay what they owe and there may be returns expected in the future. Therefore, determining the net realizable value of accounts receivable involves estimation of uncollectible receivables and any returns or allowances to be granted .		
96.	How do LIFO and FIFO impact inventory calculations under rising and falling prices ?	Ending Inventory	Cost of Goods Sold	Gross Profit
		Rising Prices FIFO Higher	LIFO Higher	FIFO Higher
		Falling Prices LIFO Higher	FIFO Higher	LIFO Higher
97.	How does IFRS differ from US GAAP ?	While IFRS is principles-based, US GAAP is rules-based with extensive interpretive guidance for individual industries and specific examples for auditors and practitioners.		
98.	How does the percentage of receivables method calculate potentially collectible receivables ?	Under the percentage of receivables method, the company estimates what percentage of its outstanding receivables will not be collected and then calculates what the ending balance in the allowance account needs to be so that the net receivables balance will be equal to the amount that the company expects to collect.		
99.	How does the percentage of sales method calculate potentially collectible receivables ?	The percentage of sales method uses the amount of credit sales made during the period to estimate the percentage of those credit sales that will not be collectible. The company may use historical data or any other method that makes sense to determine the percent of sales that will not be collected.		

100.	How is double declining balance depreciation calculated?	<p>In double declining balance (DDB) method we use a rate that is two times the percentage that would be recognized under the straight-line method. In addition, that percentage is applied to the net book value of the asset at the beginning of each year. The annual depreciation expense is calculated as:</p> <p>Double declining rate × book value of the asset at the beginning of the year</p>
101.	How is straight-line depreciation calculated?	<p>Straight-line depreciation (STL) is the simplest method and results in an equal amount of depreciation expense charged to the income statement each period. It is calculated as:</p> <p>Depreciable Amount ÷ Estimated Useful Life</p>
102.	How is sum-of-the-years'-digits depreciation calculated?	<p>In the sum-of-the-years'-digits method, the amount of depreciation to be recorded for any given period is calculated using fractions based on the estimated useful life of the asset. Under the sum-of-the-years'-digits method the depreciable base is multiplied by a fraction that is determined using the useful life of the asset. The denominator (bottom number) is a sum of all of its expected years of life.</p> <p>Sum of the Years' Digits = $[n(n + 1)] \div 2$</p>
103.	How is units of production depreciation calculated?	<p>Under the units of production method, the number of units the asset will be able to produce over its useful life is determined. Then the appropriate ratio of the depreciable amount is recognized as depreciation expense for each year of the asset's estimated useful life, based on the actual production of the asset during that period.</p>
104.	What are appropriated retained earnings and what are some examples ?	<p>Appropriated retained earnings are retained earnings that are not distributed to the shareholders. A company may decide to appropriate retained earnings for several reasons:</p> <ul style="list-style-type: none"> • Creating a reserve to build a plant. • Acquisitions. • Debt reduction. • Meeting the requirements of a bond or a restriction on the payment of dividends imposed by a loan covenant. • Providing for research and development or new product development. • Marketing campaigns. • As a reserve against an expected loss. • Simply providing for the future.
105.	What are authorized shares, issued shares, and outstanding shares ?	<p>The number of authorized shares is the total number of shares that the company has registered. The number of authorized shares is the maximum number that can be sold. Authorized shares can be issued or unissued, or outstanding or not outstanding.</p> <p>The number of issued shares is the number of shares that have been sold to an outside party at any point in the past. Issued shares may</p>

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		<p>currently be held either by others or by the company itself as treasury shares.</p> <p>The number of outstanding shares is the number of shares that are currently owned by other parties. Outstanding shares will be equal to the number of issued shares minus the number of shares held as treasury shares by the company itself.</p>
106.	What are callable preferred shares ?	Callable preferred shares can be retired at the option of the corporation.
107.	What are cash equivalents ?	<p>Cash equivalents are defined as very short-term, highly-liquid investments that have a maturity of three months or less when acquired by the company. It is important that the calculation in respect to the time to maturity is made from the time that the company acquired the item, not from its original maturity period when issued.</p> <p>Money market accounts in banks and money market mutual funds are included in the definition of cash equivalents because they are immediately accessible.</p>
108.	What are convertible preferred shares ?	These shares may be converted into common shares at the option of the shareholder. If they are converted, the newly issued common shares are recorded at the book value of the preferred shares that were converted. There is no gain or loss recorded on this transaction, as the newly issued common shares replace the preferred shares on the books.
109.	What are discontinued operations ?	A discontinued operation is defined as a disposal of a component or group of components that is either disposed of or held for sale and represents a strategic shift that has or will have a major effect on the entity's operations and financial results. A strategic shift that has or will have a major effect on operations and financial results could include disposing of operations in a major geographical area or disposing of a major line of business, a major equity investment, or other major parts of the entity.
110.	What are dividends ?	Dividends are the distribution of current profits and/or the retained earnings of the company to its owners. The declaration of cash or property dividends reduces total stockholders' equity as a result of either the distribution of an asset (cash or other property) or the incurrence of a liability (dividends payable if the dividend is not immediately distributed).
111.	What are equity securities ?	Equity securities are accounted for using the fair value method when the investor owns less than 20 percent of the investee company's outstanding common stock and has little or no influence over the investee. Equity securities under the fair value method are classified as either trading securities or available-for-sale securities . Equity securities cannot be classified as held-to-maturity since equity has not maturity date.

112.	What are examples of noncash investing and financing transactions ?	<ul style="list-style-type: none"> • Debt converted to equity. • Borrowing money to purchase a fixed asset when the lender pays the loan proceeds directly to the seller of the asset to make sure the loan proceeds are used as intended. • Buying or selling fixed assets for something other than cash (for example, stock). • Obtaining a building or other item by gift. • Exchanging noncash assets or liabilities for other noncash assets or liabilities.
113.	What are fixed assets (property, plant, and equipment) ?	Property, plant, and equipment (PP&E) are tangible assets used in operations and which will continue to be used beyond the end of the current period. When the fixed assets are purchased, they are recorded at their cost, including installation costs needed to bring the asset to usable condition. The cost is then expensed over the life of the asset through depreciation, amortization, or depletion (except for land, which is not depreciated).
114.	What are four potential events that will cause a difference between book and taxable income ?	<ol style="list-style-type: none"> 1. A revenue item is recognized as taxable income before it is recognized in the accounting records as revenue. 2. An expense item is deductible from taxable income before it is deducted in the accounting records as an expense. 3. A revenue item is recognized in the accounting records as a revenue before it is recognized as taxable income on the tax return. 4. An expense item is deducted in book income as an expense before it is deductible in taxable income.
115.	What are intangible assets ?	Intangible assets do not have physical substance but they provide benefit to the firm over a period of time. Intangible assets may be either purchased or developed internally. However, because an asset that is recorded on the balance sheet comes about only as a result of a prior transaction, internally-generated intangible assets are generally not recorded on the balance sheet.
116.	What are leasehold improvements and how are they accounted for?	Leasehold Improvements are additions a lessee makes to a building or property that the lessee cannot remove when the lease period is over. For example, if a lessee purchases an air conditioning system for a leased building, it is considered a "leasehold improvement" and cannot be uninstalled and taken away once the lease expires. The cost of leasehold improvements should be amortized over the shorter of the following: the remaining lease term or the useful life of the improvements .
117.	What are liquidating dividends?	Liquidating dividends are those dividends that are a return of capital rather than a return on capital. These occur when the dividend distributed is greater than the amount in retained earnings. Any dividend paid in excess of the balance in retained earnings will be classified as a liquidating dividend because there are no profits to distribute.

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