

Continuing Education Center (CEC) at AZM University

# CMA

Certified Management Accountant

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Part 2

Financial Decision Making



AZM UNIVERSITY  
جامعة الأزم

# Fundamentals & Preparatory CMA Courses

## CMA Part 2

The CMA Part 2 exam has six main sections. The six sections and their approximate weights on the exam are:



The CMA exams focus on understanding, in-depth thinking on business strategy, and problem-solving ability, not just number crunching. In order to be successful, candidates need to understand the concepts and be able to apply them to newly evolving situations. The Continuing Education Center (CEC) at AZM University can provide the tools for understanding in these study materials but cannot teach in-depth thinking and problem solving. A candidate's ability to put this information into practice to pass this exam will depend on the effort put into preparing for the exam.

**Section A**, Financial Statement Analysis, represents 25% of the exam. It includes ratios, interpretation of ratios, and other financial statement analysis topics.

**Section B**, Corporate Finance, constitutes 20% of the exam. It includes several topics including risk and return, long-term financial management, raising capital, working capital management, corporate restructuring, and international finance.

**Section C**, Decision Analysis, is 20% of the exam. Topics covered in this section include cost-volume-profit analysis (or breakeven analysis), marginal analysis, and pricing.

**Section D**, Risk Management, is 10% of the exam. It covers enterprise risk, risk assessment, and managing risk.

**Section E**, Investment Decisions, comprises 15% of the exam. Investment Decisions is concerned with capital budgeting.

**Section F**, Professional Ethics, represents 10% of the exam. Ethics is tested in two contexts: ethical considerations for professionals and ethical considerations for the organization.

The exam will consist of 100 multiple-choice questions and 2 essay scenarios, each with several questions.

The multiple-choice questions will not be presented in order according to sections. Thus an exam might begin with a capital budgeting question, then follow that with a financial statement analysis question, and so forth. Only candidates who score a minimum of 50 correct on the multiple-choice portion of the exam will be eligible to take the essay section of the exam.



Note

The CMA exams assume that candidates have a prerequisite knowledge of economics, statistics, and financial accounting.

# CMA Part 2 Financial Decision Making - Table of Content

Volume 1: Section A & B February 23 to April 13, 201X

Every Friday from 3:30 to 7:30 p.m.

## Section A – Financial Statement Analysis

Introduction to the Financial Statement Analysis

### Basic Financial Statement Analysis

Earnings Before Interest and Taxes and Earnings Before Taxes

Comparative Financial Statement Analysis

Vertical Common-Size Financial Statements

Horizontal Index-Number Trend Series Analysis

### Financial Ratio Analysis

#### Liquidity Ratios

Net Working Capital

Liquidity Ratios

#### Leverage, Capital Structure, Solvency, and Earnings

Coverage Ratios

Financial Leverage

Operating Leverage

Capital Structure and Solvency Ratios

Earnings Coverage Ratios

#### Activity Ratios

Accounts Receivable Activity Ratios

Inventory Activity Ratios

Accounts Payable Activity Ratios

The Operating Cycle and the Cash Cycle

Total Asset Turnover Ratio

Fixed Asset Turnover Ratio

#### Market Ratios

Book Value Per Share

Market-to-Book Ratio

Earnings Per Share (EPS)

EPS Disclosure Requirements

Price/Earnings (P/E) Ratio

Price/EBITDA Ratio

Earnings Yield

Dividend Yield

Dividend Payout Ratio

Shareholder Return

#### Profitability Ratios

Gross Profit Margin Percentage

Operating Profit Margin Percentage

Net Profit Margin Percentage

EBITDA Margin Percentage

Return on Invested Capital

#### Profitability Analysis

Factors That Contribute to Inconsistent Definitions in ROA and ROE

Factors to be Considered in Measuring Income Sustainable Growth Rate

#### Ratios Summary and Example

Example Financial Statements

Ratios

Interpretation of Ratios in the Example

#### Benefits and Limitations of Ratio Analysis

#### Special Issues

The Impact of Foreign Exchange Fluctuations

The Impact of Inflation on Financial Statements and Financial Ratios

Off-Balance Sheet Financing

Adjusting Financial Statements for Accounting Changes and Corrections

The Difference Between Book Value and Market Value

Economic and Accounting Profit

Earnings Quality

## **Section B – Corporate Finance**

### Introduction to the Corporate Finance Section

#### **Risk and Return**

Return

Risk

Types of Risk

The Relationship Between Risk and Return

Capital Asset Pricing Model (CAPM)

Portfolio Risk and Return

#### **Long-Term Financial Management**

Capital Structure

Bonds (Debt Securities)

The Term Structure of Interest Rates and the Yield Curve

The Bond Instrument

Stock (Equity Securities)

The Fair Value or Intrinsic Value (Appropriate Price) of a Share of Stock

Derivatives

#### **Cost of Capital**

Overall Cost of Capital and the Weighted Average Cost of Capital

Capital Structure Decisions

Inflation, Interest Rates, and Prices of Financial Instruments

Raising Capital

Commercial Bank or Finance Company Loans

Venture Capitalists

Initial Public Offering (IPO)

Primary, Subsequent, and Secondary Offerings

Investment Banks

Private Placements

Crowdfunding Under the Jumpstart Our Business

Startups (JOBS) Act

Bonds

International Bonds

Bonds and Rating Agencies

Benefits and Limitations of the Various Financing Sources

Financial Markets

Market Efficiency and the Efficient Market Hypothesis

Insider Trading

Dividends, Dividend Policy, and Stock Splits

Treasury Stock

Working Capital Management

Working Capital Finance

The Operating Cycle

Cash Flow Management

Marketable Securities Management

Accounts Receivable Management

Inventory Management

Short-Term Financing

Maturity Matching Approach to Working Capital Management

Corporate Restructuring

Business Combinations

Takeover Strategies and Defenses

Divestitures

Bankruptcy

The Discounted Cash Flow Approach to Valuing a Business

International Finance

Multinational Corporations (MNCs)

Foreign Direct Investment

International Buying and Selling

Foreign Currency Cross Rates

Managing Exchange Rate Risk

Use of Foreign Financing to Reduce Costs

International Payments

Financing International Trade Transactions

Transfer Pricing and Taxes

## Volume 2: Sections C, D, E & F

April 20 to June 8, 201X – Every Friday from 3:30 to 7:30 p.m.

### Section C – Decision Analysis

Introduction to Decision Analysis

#### The Decision-Making Process

#### Cost-Volume-Profit (CVP) Analysis

Contribution Margin Income Statement

Breakeven Analysis

Profit Requirement

Using Breakeven Analysis in Decision-Making

Breakeven Analysis When More than One Product Is Sold

CVP and Conditions of Risk and Uncertainty

#### Other Decisions

- 1) Choosing Between Two Cost Options
- 2) Choosing Between Two Production Options
- 3) Using Fixed Versus Variable Inputs
- 4) Product-Mix Decisions Under Constraints

#### Marginal Analysis

The Importance of Marginal Analysis  
Marginal Revenue and Marginal Cost  
Relevant Information

Decision-Making About Production

Using Economics Concepts

Costs and Cost Objects

Income Tax Effects in Decision Making

Marginal Analysis Applications

### Pricing

Impact of Supply and Demand on Pricing  
Demand

Impact of Market Structure on Pricing  
Short-Run Equilibrium Pricing

#### Pricing Strategy

Factors Affecting Pricing Decisions

General Pricing Approaches

Short-Run and Long-Run Pricing Decisions

Product Life-Cycle (PLC) Pricing and Costing

Other Considerations in Price Setting

### Section D – Risk Management

Introduction to Risk Management

Benefits of Risk Management

Types of Risk

Internal and External Risk

The Risk Management Process

Risk Appetite and Risk Tolerance

Managing Operations Risk

Managing Finance Risk

Enterprise Risk Management (ERM)

Cost-Benefit Analysis in Risk

Assessment and Decision Making

Risk Measurement in Banks

### Section E – Investment Decisions

Introduction to Investment Decisions

Capital Budgeting Process Overview

The Stages in Capital Budgeting

Terms Used in Capital Budgeting

Identifying and Calculating the

Relevant Cash Flows

Depreciation for Tax Income Purposes

Other Tax Considerations

Irrelevant Cash Flows

Example of Calculation of After-Tax Relevant Cash Flows

Capital Budgeting Methods

Payback Period or Payback Method

Discounted Cash Flow Methods of Capital Budgeting

Discounted Payback Period or Method (Breakeven Time)

Net Present Value (NPV) Method

Internal Rate of Return (IRR)

The Accounting (or Average) Rate of Return

Advanced Capital Budgeting Topics  
Summary and Review of Relevant Cash Flows

Risk in Capital Budgeting

Real Options in Capital Budgeting

The Qualitative Factor in Capital Budgeting Decisions

### Section F – Professional Ethics

Ethical Considerations for Professionals

IMA's Statement of Ethical Professional Practice

IMA Statement of Ethical Professional Practice

Ethical Considerations for the Organization

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A Financial Calculator is required;  
we recommend "Texas Instruments BA II Plus, Financial Calculator"

### Fees/Volume

The intake fees for each volume of CMA Part 2 is \$199 including lecture notes.

### Registration

Application forms are available at the office of the director of CEC, Dr. Randa Sharafeddine.

Payment is made at the accounting office of the AZM Educational Center, Mrs. Darine Annous.



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