



Dear CMA Part 2 Candidate,

Studying for and passing the CMA Exams is a mission that requires dedication and hard work. From our experience at HOCK with thousands of candidates, we know that planning makes this process much easier. Because the exam is available throughout the year and there is no date by which you need to be prepared, studying can seem endless without a proper plan. We know it is easy to "put things off until tomorrow." However, you cannot afford to do that. Under the guidelines for the exams introduced in 2010, if you do not register for an exam within 12 months of entering the program, you will be required to pay the entrance fee again. And you will be required to complete the program within three years from entry into the program.

We believe that you will find studying easier and less time consuming if you have a solid plan that targets passing the Part 2 Exam within three to four months after you begin studying. Set out below is a 15-week plan, studying 8 to 10 hours per week. This is simply a guide based on the expected amount of study time for a person with some financial background who is familiar with the basic exam concepts.

As you go through your schedule, you may find yourself getting ahead or somewhat behind due to changes in your work or personal commitments. This does not matter. Each person should study at his or her own pace and feel comfortable with the study process and time required to prepare for the exams.

While studying, there are sure to be topics that are not clear to you and perhaps some that you find incredibly difficult. When encountering these topics, you can always contact HOCK and we will help you as much as possible. Also, keep in mind that you do not need to have 100% knowledge of 100% of the exam content in order to pass. At certain points you will need to decide whether the extra time spent learning something is worth the extra knowledge gained. When in doubt about what to do, contact us and we will guide you.

I wish you great success in your studies and look forward to helping you pass the exams.

Sincerely,

A handwritten signature in black ink that reads "Brian J. Hock". The signature is written in a cursive, slightly slanted style.

Brian Hock, CMA, CIA

President and CEO

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**How to Use the HOCK Study Materials**

These study materials have been developed for use as an integrated program. That means they should be used together as a system. The components are:

- 1) Textbook,
- 2) Flash cards,
- 3) ExamSuccess study software with multiple-choice questions and answer explanations,
- 4) Essay questions,
- 5) A mock exam, and
- 6) Optional audio Class Recordings of live classes.

Class Recordings are not included with the Study Materials; the Recordings are an optional, separate purchase. If you have the Class Recordings, you will find assignments for those following the reading assignments. They should be listened to after doing the reading for each topic and before answering the ExamSuccess questions on that topic.

This study plan will guide you by giving you assignments as follows as you progress through the program:

- 1) Reading assignments in your textbook, which include answering the questions in the book,
- 2) Listening assignments for the optional Class Recordings,
- 3) Assignments for multiple-choice questions to be answered in your ExamSuccess software after each reading assignment, and
- 4) Assignments for essay problems to be answered after you have completed each major section.

If you use the study materials together as they were intended, you will significantly increase your chances of passing the exam.

**Textbook**

Your textbook contains explanations of concepts, examples, and multiple-choice questions within the reading to be answered as you are going through the book. The correct answers to the questions appear at the end of the book, and are also available to download as a separate file for easier reference.

**Flash Cards**

The flash cards contain abbreviated information from the textbook. How you choose to use them is entirely up to you. They are not included in the assignments. Because they are abbreviated, they cannot replace your textbook, but they are something you might use, for example, to drill on formulas you need to memorize or to carry with you to review quickly.

**ExamSuccess**

After completing the reading and the questions in the book for each topic, open your ExamSuccess study software. Create and complete a Study Session in ExamSuccess consisting of **all** of the questions in that topic in ExamSuccess.

Note: The menus under each heading in the ExamSuccess menu expand to reveal the subtopics under them when you click on the "plus sign" in the box (in Windows) or the "triangle" (on a Mac) next to each heading name.

**Note that the default number of questions is ½ of the total number of questions. We recommend when you set up a study session that you change the default number to the maximum number of the questions that are available.** You do not have to complete all of the questions in a study session at one sitting. You can close out a session without grading it, and then you can re-open it again and work on it more later by simply clicking on "Resume/Manage Sessions" on the first screen that comes up when you open the program.

When you have completed the Study Session and graded it, re-study all questions missed by looking up in the book the topics missed and creating a new Study Session from all incorrectly answered questions. Keep doing that until you are scoring in at least the high 80s.

It is very important to use your ExamSuccess software **as you are progressing** through the book. Do not let it go until you have read the whole book. ExamSuccess gives you an opportunity to put into practice the concepts you have been reading about. Practice is very important for learning.

As you work through the book, periodically stop and create a Study Session of 50 questions drawn from **all** the topics you have studied to date. This will keep you fresh on the topics you studied earlier so you do not forget the material.

**Practice Essay Questions and Supplemental Essay Problems**

Practice Essay Questions and Supplemental Essay Problems are provided to help you become comfortable with the format of essay questions and with answering them onscreen. The problems are not in ExamSuccess. They are posted on your My Studies download page, separate from the textbook.

These problems are not intended to be used to learn the exam concepts for the essay portion of the exam, although they may point out weak areas where you need further review. The essay questions you will receive on your exam will be different questions from these and probably will cover completely different topics. Use of your textbook and your ExamSuccess software is the best way to learn the concepts. These essay questions will help you learn how to use the concepts to construct a written response answer.

On your My Studies download page, you will see a heading "Practice Essay Questions – Formatted for Screen" in pdf format. The questions are formatted so that you can position the question window on the left half of your computer screen and position a text editor on the right half of your screen and answer the questions onscreen. The question file contains instructions for how to do this. . If a spreadsheet is more appropriate, position the question on the top half of the screen and the spreadsheet on the bottom half. The file contains a group of numbered essay questions, and the appropriate questions to answer will be assigned by number as you complete each section. The answers are in a separate downloadable document.

You will also find a link on your My Studies Download page to a group of Supplemental Problems, organized according to section. The Supplemental Essay Problems have not been formatted for reading onscreen as the Practice Essay Questions have. However, you can print out the problems and then compose your answers onscreen in either a word processor or a text document.

The ICMA has announced that a spreadsheet program is available for the essay portion of the exams on certain questions, beginning in the May/June 2011 testing window. To develop your familiarity with the spreadsheet and the way to use it, we recommend that you answer all practice essay and supplemental essay problems that require a spreadsheet using the Prometric spreadsheet demo at <http://www.prometric.com/ICMA/Demo.htm>

**Mock Exam**

The mock exam contains new questions not used elsewhere in the study materials. It provides a measure for your exam readiness and is a solid last review before taking the real exam.

The mock exam is a pencil and paper exam, and it contains 100 multiple-choice questions and two essay questions, just as the real exam does. You should set aside four hours to take it. Answer explanations are provided in a separate document. The mock exam is not downloaded. To receive it, send an email to [cma@hockinternational.com](mailto:cma@hockinternational.com), and the exam and the answers will be sent to you as attachments to an email.

**Section A Overview**

Section A, *Financial Statement Analysis*, is 25% of the exam. It contains three major topics:

- 1) Basic Financial Statement Analysis,
- 2) Ratios, and
- 3) Analytical Issues in Financial Accounting.

Several of the topics in Section A will require you to have a good understanding of financial accounting and external financial reporting. If you need to review this, refer to Volume 2 of the *HOCK Assumed Knowledge e-book* or to accounting textbooks. If you use textbooks, you will probably need both an intermediate and an advanced accounting textbook.

The *HOCK Assumed Knowledge e-book* is free with the purchase of study materials for both CMA exam parts, or it is available for separate purchase by those who do not purchase both study materials parts.

**Basic Financial Statement Analysis**

**Basic Financial Statement Analysis** covers the Statement of Financial Position (Balance Sheet), the Statement of Earnings (Income Statement), Statement of Cash Flows, and the Statement of Changes in Shareholders' Equity. The purposes and uses of each financial statement, the components of each statement, and the limitations of each are covered.

For the Statement of Cash Flows, make sure you understand the difference between the direct and the indirect method. For the Balance Sheet and Income Statement, you need to know how to prepare and analyze common-size financial statements and common base year financial statements.

- Textbook:** Read from the beginning of the book through the end of the subtopic, *Comparative Financial Statement Analysis* and answer the questions in the book (answer explanations are at the end of the volume).
- Class Recordings:** The Class Recording files *01 – Introduction to Part 2* through *05 – Comparative Financial Statements* from the Section A Class Recordings should be listened to after reading the *Introduction to Part 2* through *Comparative Financial Statements* in the book.
- ExamSuccess:** After reading this part of the textbook and, if applicable, listening to the recordings, create and complete a Study Session consisting of **all** of the questions in ExamSuccess for *Section A, Financial Statement Analysis – Basic Financial Statement Analysis*.

**Ratios**

This topic covers analyzing a company's financial statements to draw some conclusions about how well the company is doing. Your study of ratios and other calculations used in financial statement analysis will require you to memorize all of the different ratios, the way they are calculated and what they are used for and measure. But that is not all. **It is important to understand not only how to calculate the ratios, but also how to interpret them.**

We have divided the subtopics in the topic of Ratios into two broad groups:

- 1) Liquidity Ratios, Leverage Ratios, Coverage Ratios and Activity Ratios; and
- 2) Profitability Ratios, Market Ratios and Profitability Analysis.

**Liquidity Ratios, Leverage Ratios, Coverage Ratios and Activity Ratios**

- Textbook:** Read *Financial Performance Metrics – Financial Ratios* through *Fixed Asset Turnover Ratio* and answer the questions in the book.
- Class Recordings:** If you have the Class Recordings, listen to *06 – Ratios Introduction* through *09 – Activity Ratios* from the Section A Class Recordings as you complete the reading of each topic.
- ExamSuccess:** After reading each topic and (if applicable) listening to the Class Recordings, complete the ExamSuccess questions on *Section A, Financial Statement Analysis – Ratios: Liquidity, Leverage, Coverage and Activity*.

**Profitability Ratios, Market Ratios, and Profitability Analysis**

- Textbook:** Read *Profitability Ratios* through *Limitations of Ratio Analysis* and answer the questions in the book.
- Class Recordings:** If you have the Class Recordings, listen to *10 – Profitability and Market Ratios* through *14 – Ratio Summary* from the Section A Class Recordings as you complete the reading of each topic.
- ExamSuccess:** Complete the ExamSuccess questions on *Section A, Financial Statement Analysis – Ratios: Profitability, Market and Profitability Analysis*.

**Analytical Issues in Financial Accounting**

This topic focuses on the impact that variables such as foreign exchange rates, inflation, changes in accounting treatments, and U.S. GAAP versus IFRS, to name a few, have on financial statements and financial statement analysis.

The Statement of Cash Flows is so important in this exam that you will see it again in this topic. Here, you need to know how to prepare a Statement of Cash Flows using the indirect method. Additional topics cover the impact on financial ratios of various events, transactions, management decisions and financial reporting choices.

**Textbook:** Read *Statement of Cash Flows* through the end of Section A and answer the questions in the book.

**Class Recordings:** If you have the Class Recordings, listen to *15 – Statement of Cash Flows Part 1* through *29 – US GAAP-IFRS Other Topics* from the Section A Class Recordings as you complete reading the various subtopics in this portion of the book.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section A, Financial Statement Analysis – Analytical Issues in Financial Accounting*.

**Practice Essay Questions and Supplemental Essay Problems**

On your My Studies download page, you will see a heading “Practice Essay Questions – Formatted for Screen.” However, do not download it right now. There are no practice questions in this file to be answered following your study of Section A. The questions on financial statement analysis require some information that you won’t study until you get to Section B, so those questions will be assigned after your study of Section B is completed.

You should, however, do some of the Supplemental Essay Problems now. You will see a link on your My Studies download page to a group of Supplemental Problems, organized according to section. The Section A problems are relevant to this section, and you should answer a few of those. Each problem, followed by the answer, is in a separate document file in pdf format. The Supplemental Essay Problems have not been formatted to make them easy to read onscreen, as the Practice Essay Questions have. We recommend that you print out each problem as you are ready to work on it and then compose your answers to it onscreen in either a word processor or a text document.

**Review of Section A**

If you have had particular difficulty with a topic or more than one topic in this section, review that topic by creating a Study Session in ExamSuccess consisting of questions from just that topic or those topics.

In addition to doing that, you should review specifically all the topics in Section A by creating at least one Study Session consisting of 50 questions from the entire group of *Section A, Financial Statement Analysis* questions.

**Administrative Task:** If this is your first exam, be sure to become a member of the IMA and pay your certification entrance fee. You need to be a member of the IMA and pay the certification entrance fee before you will be able to register for any specific exam. The processing of your membership application will take some time, so you should do that right away. The certification fee must be paid before you register for your first exam. The certification fee is valid for three years. If you have not passed both exams within three years of paying the fee, you will have to pay the fee again. Furthermore, if you do not register for an exam within 12 months of paying your certification fee, you will need to pay the fee again.

Before you will be able to schedule your exam appointment, you will need to register with the ICMA for the exam and wait to receive your authorization number. You should keep the necessary lead-time in mind when you register for the exam. The ICMA states that they process exam registrations within 3 to 4 business days and then send the authorization number out by the U.S. Postal Service. Therefore, it could take 1-2 weeks for persons in the U.S. to receive their authorization number after registering and much longer for persons outside the U.S. After you have registered, you can also send an email to the IMA at [ima@imanet.org](mailto:ima@imanet.org) and ask them to send your authorization number to you by email so that you can get it sooner.

Your exam registration will authorize you to take the exam **any time within the two-month testing window that you select when you register**. The testing windows are January-February, May-June, and September-October.

The ICMA recommends that you schedule your exam appointment at least 6 weeks before your desired date to insure your first choice of date, time, and location. You will need 1-2 weeks for your registration to be processed and then 6 weeks to schedule your exam appointment, so you should register about 2 months before you plan to take the exam. However, do not register too soon, or you may find yourself appearing for the exam before you are prepared for it.

**Section B Overview**

Section B, *Corporate Finance*, constitutes 25% of the exam. It has four groupings of topics, each of which should consume about ¼ of your study time in this unit. The four groupings are:

- 1) Risk and Return,
- 2) Financial Instruments and Derivatives,
- 3) Cost of Capital, Managing Current Assets and Raising Capital, and
- 4) Corporate Restructuring, Bankruptcy and International Finance.

**Risk and Return**

**Risk and Return** focuses on risk and return in investing, though business risk and financial risk to a business are also covered.

This grouping of topics contains four subtopics:

- 1) Risk and Return,
- 2) Measurement of Risk in Investments,
- 3) Business and Financial Risk, and
- 4) Portfolio Risk and Return.

The subtopic **Risk and Return** covers the general concepts of risk and return. The calculation of the rate of return on a security is important to understand. The definition of risk, types of risk and the relationship between risk and return are also covered.

- Textbook:** Read from the beginning of Section B through and including the topic *The Relationship Between Risk and Return*.
- Class Recordings:** The Class Recording files *01 – Section B Introduction* and *02 – Risk and Return Part 1* from the Section B Class Recordings should be listened to after reading this topic in the book.
- ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Risk and Return*.

**Measurement of Risk in Investments** involves statistics, but the concepts you need to know are presented in the text. An understanding of basic mathematical formulas is assumed. You will need to understand the concepts of expected value, variance and standard deviation. Another important topic is the Capital Asset Pricing Model (CAPM), used to determine the investors' required rate of return. This is a model you will need to be very familiar with and comfortable in using.

**Textbook:** Read *Measurement of Risk in Investments* through *Fama-French Three-Factor Model* and answer the question in the book.

**Class Recordings:** The Class Recording files *03 – Risk and Return Part 2* and *04 – CAPM* from the Section B Class Recordings should be listened to after reading this topic in the book.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Measurement of Risk in Investments*.

**Business and Financial Risk** covers operating leverage, the use of the coefficient of variation to measure relative business risk, financial leverage, and the measurement of financial risk.

**Textbook:** Read *Measuring and Managing Business and Financial Risk* including all of the subtopics under that topic through the subtopic *Measuring Financial Risk*.

**Class Recordings:** The Class Recording file *05 – Business and Financial Risk* from the Section B Class Recordings should be listened to after reading this topic in the book.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Business and Financial Risk*.

**Portfolio Risk and Return** covers *portfolio theory*. Portfolio theory, or *modern portfolio theory*, is an investment philosophy that seeks to construct an optimal portfolio according to risk and return. According to portfolio theory, a particular security should not be evaluated as a standalone investment but rather each individual security should be evaluated according to how its price varies in relation to prices of other securities in the portfolio. Given an investor's preferred level of risk, a portfolio can be constructed that maximizes expected return for that level of risk. Or, given an investor's preferred level of expected return, a portfolio can be constructed that minimizes risk for that level of expected return. The key to this in portfolio theory is *diversification*. Diversification is the selection of investments that collectively have a lower risk than any individual asset in the portfolio would have if held alone. This is possible because different types of investments often change in market value in opposite directions, so when one asset's market price decreases, another asset's market price increases.

Portfolio theory and the calculation of the expected return and the standard deviation of a two-security portfolio are important to understand. Measuring portfolio risk through the use of the portfolio's expected return, variance and standard deviation is one of the more challenging topics in this section. Other important topics to understand are the concept of diversifying risk and the difference between systematic risk, which is undiversifiable risk, and unsystematic risk, which is diversifiable risk. Portfolio risk and return as it pertains to businesses and their capital investments and hedging as a means of managing that risk are also part of this topic.

**Textbook:** Read *Portfolio Risk and Return* through the subtopic *Currency Market Hedges*.

**Class Recordings:** There are no Class Recording files for the topic of *Portfolio Risk and Return*.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Portfolio Risk and Return*.

## **Financial Instruments and Derivatives**

There are two subtopics under this topic:

- 1) Financial Instruments and
- 2) Derivatives.

### **Financial Instruments**

**Financial Instruments** covers capital structure, debt financing and equity financing. You must be certain that you understand the advantages and disadvantages of using debt and equity as well as the different types of debt (various characteristics of bonds) and equity (common and preferred shares).

**Textbook:** Read *Financial Instruments* through the subtopic *Employee Stock Options and Warrants* (in the topic *Additional Equity Related Sources of Financing*) and answer the questions in the book.

**Class Recordings:** The Class Recording files *06 – Intro to Debt* through *09 – Cost of Financing* from the Section B Class Recordings should be listened to after reading the Financial Instruments portion of the textbook.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Financial Instruments*.

**Derivatives**

**Derivatives** covers the use of derivatives to hedge risk. Forward and futures contracts, swaps, options, and some of the hedging strategies that can be used are also discussed.

**Textbook:** Read *Derivatives – Hedging Risk* through *Foreign Currency Derivatives* and answer the questions in the book.

**Class Recordings:** The Class Recording files *10 – Hedging Risk* through *12 – Options* from the Section B Class Recordings should be listened to after reading the Derivatives portion of the textbook.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance – Derivatives*.

**Cost of Capital**

**Cost of Capital** covers calculation of the cost of capital, expressed as a percentage rate of the market value of the capital. “Capital” as used in this context refers to equity and long-term debt. This topic focuses on the cost of a particular bond or share issuance (as a percentage of the relevant outstanding capital) as well as the total weighted average cost of capital (WACC) for the company. If you know the formulas for these different calculations, the questions will be much easier. The WACC calculation can be rather complicated when there are three or four sources of capital, but you need to remember that it starts with the calculation of each item individually. If you are able to do this, you can probably make a good guess at the correct answer without doing the final WACC calculation. You need to make a special effort to understand the difference between the weighted **average** cost of capital and the weighted **marginal** cost of capital.

**Textbook:** Read *Cost of Capital* through *Weighted Average Cost of Capital Vs. Weighted Marginal Cost of Capital* and answer the questions in the book.

**Class Recordings:** The Class Recording file *13 – Cost of Capital* from the Section B Class Recordings should be listened to after reading the Cost of Capital portion of the textbook.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance – Cost of Capital*.

**Managing Current Assets**

**Managing Current Assets** covers working capital management, which encompasses not only current asset management but also current liability management. There are two different ways that you need to understand working capital: 1) on a definitional and conceptual level, and 2) in a practical, numerical way. You need to know what working capital is and what it is made up of, as well as the reasons a company needs it and how much a company may need in different situations. You must also be able to determine how much a transaction affects working capital and what types of transactions will have the desired effect on working capital.

In addition to general working capital knowledge, you will also want to be familiar with the issues related to the individual current assets that make up working capital. You will need to understand the different ways of managing cash disbursements and cash collections, the issues related to inventory management, cash discounts for receivables collection and the balance between cash and marketable securities. All of these topics are covered in the materials, and you want to be certain that you are comfortable with them.

After covering current assets, we will also look at short-term financing, or current liabilities. This includes trade credit and the cost of not taking a discount if one is offered for quick payment, bank loans, and the factoring of receivables. You must be able to calculate the effective interest rate for trade credit and for the different types of loans and the amount of cash received from the sale (factoring) of receivables.

**Textbook:** Read *Managing Current Assets* through *Maturity Matching Approach to Working Capital Management* and answer the questions in the book.

**Class Recordings:** The Class Recording files *14 – Working Capital Management* through *20 – Short-Term Financing* from the Section B Class Recordings should be listened to after reading the Working Capital Management portion of the textbook.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Current Assets*.

## Raising Capital

**Raising Capital** covers capital markets, both primary and secondary; ratings agencies, and cash and stock dividends. Lease versus purchase analysis is also discussed.

**Textbook:** Read *Raising Capital* and through *Lease Versus Purchase Analysis* and answer the questions in the book.

**Class Recordings:** The Class Recording file *21 – Raising Capital* from the Section B Class Recordings should be listened to after reading the Raising Capital Management portion of the textbook.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Raising Capital*.

**Corporate Restructuring and Bankruptcy**

**Corporate Restructuring** includes business combinations, divestitures, and ownership restructuring. **Bankruptcy** covers voluntary liquidation of a company as well as both reorganization and liquidation under supervision of the bankruptcy court.

**Textbook:** Read *Corporate Restructuring* through *Chapter 11 – Reorganization* and answer the questions in the book.

**Class Recordings:** There are no Class Recordings for the topics of *Corporate Restructuring and Bankruptcy*.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section B, Corporate Finance - Corporate Restructuring and Bankruptcy*.

**International Finance**

In **International Finance**, we discuss direct foreign investment, benefits of international diversification, international trade and exchange rates, managing exchange rate risk through the use of natural hedges and foreign currency derivatives, the use of foreign financing, and financing of international trade. Transfer pricing by multinational corporations is covered, as well.

**Textbook:** Read *International Finance* through *Limitations on Transfer Pricing* and answer the questions in the book.

**Class Recordings:** There are no Class Recordings for the topic of *International Finance*.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *B, Corporate Finance - International Finance*.

**Practice Essay Questions and Supplemental Essay Problems**

On your My Studies download page, you will see a heading “Practice Essay Questions – Formatted for Screen.” Download the pdf file containing the questions and follow the instructions for use on the first page. The answers are in a separate pdf file for you to download and check your answers after you have answered the questions. Answer the following practice essay questions:

- 1) *Practice Question #1, Giga Industries, Financial Statement Analysis*
- 2) *Practice Question #2, Sentech Scientific, Financial Statement Analysis*
- 3) *Practice Question #3, Chargrille Inc., Foreign Operations*
- 4) *Practice Question #4, Langley Industries, Cost of Capital*
- 5) *Practice Question #5, Henderson Inc., Raising Capital*
- 6) *Practice Question #6, Crenshaw Manufacturing, Lease vs. Purchase*

You will also see a link on your My Studies Download page to a group of Supplemental Problems, organized according to section. The Section B problems are relevant to this section, and you should answer a few of those. Each problem, followed by the answer, is in a separate document file in pdf format. The Supplemental Essay Problems have not been formatted to make them easy to read onscreen, as the Practice Essay Questions have. We recommend that you print out each problem as you are ready to work on it and then compose your answers to it onscreen in either a word processor or a text document.

The Practice Question and many of the Supplemental Problems for Section B have at least some portions that can be done more easily with a spreadsheet. We recommend that you answer all Practice Essay and Supplemental Problems that require a spreadsheet using the Prometric spreadsheet demo. The demo is available at:

<http://www.prometric.com/ICMA/Demo.htm>

**Review of Section B**

If you have had particular difficulty with a topic or more than one topic in this section, review that topic by creating a Study Session in ExamSuccess consisting of questions from just that topic or those topics. In addition to doing that, you should review specifically all the topics in Section B by creating at least one Study Session consisting of 50 questions from the entire group of *Section B, Corporate Finance*.

In addition to doing that, we recommend that you periodically review all of the topics you have studied to date by creating a Study Session in ExamSuccess consisting of some questions from all of the topics you have studied.

**Section C Overview**

Section C, *Decision Analysis and Risk Management*, is 25% of the exam. It has four main parts:

- 1) Marginal Analysis,
- 2) Pricing,
- 3) Cost-Volume-Profit Analysis/Breakeven Analysis, and
- 4) Risk Management.

**Marginal Analysis**

**Marginal analysis** involves decisions such as make-or-buy decisions, whether or not to accept a special order, sell or process further decisions and disinvestment decisions. An important concept in this regard is the difference between relevant and irrelevant revenues and costs. Make sure you understand this.

**Textbook:** Read from the beginning of Section C through the topic *Disinvestment Decisions* and answer the questions in the book.

**Class Recordings:** The Class Recording files *01 – Decision Analysis* through *05 – Disinvestment Decisions* from the Section C Class Recordings should be listened to after reading this topic in the book.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section C, Decision Analysis & Risk Management - Marginal Analysis*.

**Pricing**

In **pricing**, you need to be familiar with the economic factors that affect pricing such as market structure and supply and demand; internal and external factors that affect pricing decisions; and different methods and ways of determining the price of a product or service.

**Textbook:** Read from *Pricing* through the sub-topics *Illegal Pricing, The Impact of Cartels on Pricing and Other Collusive Activity* and answer the questions in the book.

**Class Recordings:** The Class Recording files *06 – Pricing Part 1* through *09 – Pricing Strategies Part 2* from the Section C Class Recordings should be listened to after reading this topic in the book.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section C, Decision Analysis & Risk Management - Pricing and Pricing Strategy*.

**Cost-Volume-Profit (CVP) Analysis and Breakeven Analysis**

**Cost-Volume-Profit (CVP) Analysis** and **Breakeven Analysis** involve determining the breakeven volume and breakeven level of revenue, given certain parameters. There could be a single product, or there could be multiple products. Breakeven analysis also includes calculation of the volume necessary to achieve a given amount of profit. The High-Low Points method of separating fixed from variable expenses is also explained.

**Textbook:** Read from *Cost-Volume-Profit (CVP) Analysis* through the topic *High-Low Points Method* and answer the questions in the book.

**Class Recordings:** The Class Recording files *10 – Breakeven Point* through *14 – BEP Multiple Products* from the Section C Class Recordings should be listened to after reading this topic in the book.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section C, Decision Analysis & Risk Management - Cost-Volume-Profit (CVP) Analysis and High-Low Points Method*.

**Risk Assessment**

**Risk Management** involves assessing risk and the potential losses associated with it and doing something to mitigate, or reduce, it. This topic discusses ways of accomplishing that.

**Textbook:** Read from *Risk Assessment* through the sub-topic *Risk Measurement in Banks* at the end of Section C, and answer the questions in the book.

**Class Recordings:** The Class Recording file *15 – Risk Assessment* from the Section C Class Recordings should be listened to after reading this topic in the book.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section C, Decision Analysis & Risk Management - Risk Assessment*.

**Practice Essay Questions and Supplemental Essay Problems**

In the Practice Essay Questions, you have five questions to answer:

- 1) *Practice Question #7, Kolobok Inc., Pricing*
- 2) *Practice Question #8, Madison Inc., Decision Analysis*
- 3) *Practice Question #9, Grubstake Mining, Future Value & Risk Management.* Before answering Question #9, review Appendix A, *Time Value of Money*, at the end of the Vol. 2 book. Future value is covered there, and you will need an understanding of the topic to answer this question.
- 4) *Practice Question #10, City of Blakston, Cost-Volume-Profit Analysis*
- 5) *Practice Question #11, Pearson Foods, Risk Assessment.*

You will also see a link on your My Studies Download page to a group of Supplemental Problems, organized according to section. The Section C problems are relevant to this section, and you should answer a few of those.

We recommend that you answer all Practice Essay and Supplemental Problems that require a spreadsheet using the Prometric spreadsheet demo. The demo is available at:

<http://www.prometric.com/ICMA/Demo.htm>

**Review of Section C**

If you have had particular difficulty with a topic or more than one topic in this section, review that topic by creating a Study Session in ExamSuccess consisting of questions from just that topic or those topics.

We recommend that you periodically review all of the topics you have studied to date by creating a Study Session in ExamSuccess consisting of some questions from all of the topics you have studied.

In addition to doing that, you should review specifically the topics in Section C by creating at least one Study Session consisting of 50 questions from the entire group of *Section C, Decision Analysis and Risk Management* questions.

**Section D Overview**

Section D, *Investment Decisions*, is 20% of the exam and has two main parts:

- 1) Capital Budgeting, and
- 2) Valuation.

**Capital Budgeting**

**Capital budgeting** refers to a group of methods used by companies to analyze possible projects to invest in.

The topic of capital budgeting is divided into several subtopics:

- 1) The Capital Budgeting Process,
- 2) Capital Budgeting Methods,
- 3) Risk in Capital Budgeting, and
- 4) Real Options.

**The Capital Budgeting Process**

In capital budgeting, it is absolutely critical that you know how to calculate the cash flows in each of the different stages of a project. This includes the initial investment (which may also include working capital and the sale of the old equipment), the ongoing annual cash flows during the life of the project and the cash flows when the project is completed and the equipment sold (this stage may also include the release of working capital). The main annual cash flow that you will need to spend time on is the depreciation tax shield. Despite the fact that depreciation itself is not a cash flow, it does have an effect on cash flow because it is a tax-deductible expense that reduces taxable income and thus reduces taxes. This reduction of taxes creates in essence a cash inflow through the reduced taxes paid.

The topic of relevant cash flows, covered in the previous section on Decision Analysis, is important in this section, too. You will need to be able to recognize what cash flows are relevant to a particular capital budgeting analysis and what cash flows are not relevant.

- Textbook:** Read from the beginning of Section D through the sub-topic *Example of Calculation of After-Tax Relevant Cash Flows* including the example and answer the questions in the book.
- Class Recordings:** The Class Recording files *01 – Capital Budgeting* through *03 – Cash Flows Questions* from the Section D Class Recordings should be listened to after reading these topics in the book.
- ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section D, Investment Decisions - Capital Budgeting Process*.

**Capital Budgeting Methods**

Discounted cash flow methods, including Net Present Value (NPV), Internal Rate of Return (IRR), and Profitability Index (PI) are important and you need to be comfortable with calculating them and using them to make decisions about which project(s) to invest in. Other methods such as the Payback Method and its variations and the Accounting Rate of Return may be tested, as well.

- Textbook:** Read from *Capital Budgeting Methods* through the sub-topic *Summary and Review of Relevant Cash Flows* and answer the questions in the book.
- Class Recordings:** The Class Recording files *04 – Payback Method* through *10 – Profitability Index* from the Section D Class Recordings should be listened to after reading these topics in the book.
- ExamSuccess:** In ExamSuccess, the questions that cover *Capital Budgeting Methods* are combined with those covering the topic that follows, *Risk in Capital Budgeting*, into one subsection called *Capital Budgeting Methods*. Therefore, we recommend that you wait until you have studied *Risk in Capital Budgeting* before you create a study session in ExamSuccess.

**Risk in Capital Budgeting**

Capital budgeting involves risk, because the actual cash flow realized from a project will probably be different from the expected cash flows used in the capital budgeting analysis. This topic covers methods for factoring risk into the capital budgeting analysis.

- Textbook:** Read from *Risk in Capital Budgeting* through the sub-topics *Certainty Equivalent NPV* and *Inflation* and answer the questions in the book.
- Class Recordings:** The Class Recording files *11 – Risk in Capital Budgeting* and *12 – Cash Flow Expected Value* from the Section D Class Recordings should be listened to after reading these topics in the book.
- ExamSuccess:** In ExamSuccess, the questions that cover *Risk in Capital Budgeting* are combined with those covering the preceding topic, *Capital Budgeting Methods*, into one subsection called *Capital Budgeting Methods*. After you have studied both topics in the book, create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section D, Investment Decisions - Capital Budgeting Methods*.

**Real Options**

A real option is the right but not the obligation to acquire the gross present value of future expected cash flows by making an investment on or before the date the opportunity expires. It can also be the right but not the obligation to abandon a project or to make an additional investment in it before the expiration date of the opportunity. This subtopic discusses what a real option is, how it can add value to a project, and how the value of a real option can be determined.

**Textbook:** Read from *Real Options in Capital Budgeting* through the sub-topic *The Qualitative Factor in Capital Budgeting Decisions* and answer the questions in the book.

**Class Recordings:** The Class Recording files *13 – Real Options in Capital Budgeting* and *14 – Valuing Real Options in Capital Budgeting* from the Section D Class Recordings should be listened to after reading these topics in the book.

**ExamSuccess:** There are no ExamSuccess questions on *Real Options*.

**Valuation**

The second major topic in this section is valuation. Valuation is covered both in the context of valuing a stock and in the context of valuing a business as a potential acquisition.

**Textbook:** Read from the beginning of the topic *Valuation* and the subtopic *Valuation of Stock* through the topic *Summary of the Discounted Cash Flow Approach to Business Valuation*.

**Class Recordings:** There are no Class Recordings for the topic of *Valuation*.

**ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section D, Investment Decisions - Valuation*.

**Practice Essay Questions and Supplemental Essay Problems**

After you have completed Section D, open the Practice Essay Questions posted in My Studies on the HOCK website. Answer the following practice essay questions:

- 1) *Practice Question #12, Cambridge Automotive Products, Capital*
- 2) *Practice Question #13, Ultra Comp, Capital Budgeting*
- 3) *Practice Question #14, Dominion Industries, Capital Budgeting*
- 4) *Practice Question #15, Right-Way Stores, Capital Budgeting*

You will also see a link on your My Studies Download page to a group of Supplemental Problems, organized according to section. The Section D problems are relevant to this section, and you should answer a few of those.

We recommend that you answer all Practice Essay and Supplemental Problems that require a spreadsheet using the Prometric spreadsheet demo. The demo is available at:

<http://www.prometric.com/ICMA/Demo.htm>

**Review of Section D**

If you have had particular difficulty with a topic or more than one topic in this section, review that topic by creating a Study Session in ExamSuccess consisting of questions from just that topic or those topics.

We recommend that you periodically review all of the topics you have studied to date by creating a Study Session in ExamSuccess consisting of some questions from all of the topics you have studied.

In addition to doing that, you should review specifically the topics in Section D by creating at least one Study Session consisting of 50 questions from the entire group of *Section D – Investment Decisions* questions.

**Section E Overview**

*Professional Ethics* in the CMA Part 2 exam is 5% of the exam. It focuses on ethical considerations for the organization as a whole. Ethical considerations could also be integrated with any question on any topic.

- Textbook:** Read all of Section E, from *Ethical Considerations for the Organization* through the topic *How can management accountants help to implement an ethics-based environment in the organizations where they are employed?*
- Class Recordings:** The Class Recording file *01 – Professional Ethics* from the Section E Class Recordings should be listened to after reading these topics in the book.
- ExamSuccess:** Create and complete a Study Session in ExamSuccess consisting of all the questions available for *Section E, Professional Ethics - Ethical Considerations for the Organization*.

**Practice Essay Questions**

After you have completed Section E, open the Practice Essay Questions posted in My Studies on the HOCK website. Answer *Practice Question #16, Honest Corporation, Ethics*.

There are no Supplemental Essay Problems for Section E.

**Review**

Prior to your exam and after you have completed studying, you will want to at least skim through the entire material one more time. While doing this, you won't want to focus on any individual idea or topic or try to memorize the formulas. Simply make certain that you are familiar with all of the topics, both large and small, and refresh your memory as to the key terms and ideas.

After you skim through the materials, you will want to focus on the main topics, which are identified in the Section Overviews.

If you have not been using the flash cards up to this point, now is a good time to use them. The flash cards do not cover every little detail in the materials, but they do address the main topics, definitions and formulas that are most likely to be tested. Get out the flash cards whenever you can, even if it is only for a few minutes. Use them to drill on any formulas you need to memorize.

After you have completed your review, you will be prepared to take the Part 2 Mock Exam. Please send an email to **cma@hockinternational.com** requesting the mock exam, as well as which exam part you would like to receive. The exam will be sent to you by e-mail along with a separate document containing the answers. Set aside 4 hours to complete the exam without interruption. You need to become accustomed to sitting for 4 hours in one place. When you have completed the Mock Exam and graded it, use it as a study tool. Look up in your book the topics on which you missed questions, then try answering those questions again.

During the final week or two before your exam, create several Exam Simulations in Exam-Success, too. Each of these Exam Simulations will contain 100 multiple choice questions selected randomly from the entire question base in approximately the same distribution as the questions will be on the multiple choice portion of the real exam. For example, if a particular major section will account for 25% of the questions on the real exam, 25% of the questions on the simulation exam will also come from that section. The simulation exams will be timed for 3 hours (since this is only the multiple-choice questions), so set aside a three-hour period when you will not be interrupted for taking each test. This will help you get accustomed to answering questions on the computer under pressure of time. The actual exam will be a four-hour exam and will consist of 100 multiple choice questions and two essay questions.

Note that the multiple choice questions on the real exam will **not** be organized according to section. The questions will be asked on all the topics randomly.

Also, use this as an opportunity to practice your time management skills. The exam simulation works the same way as the Prometric exam will work. You can use the keyboard instead of the mouse to select your answer and move to the next question by hitting the key for the letter that corresponds to your answer choice and then hitting Alt-N to move to the next question. This may save you a few seconds on each question.

On your study materials page in My Studies on the HOCK website, you will find three additional documents that will be helpful to you in your final preparations. They are:

- **Sample Grading**, an example of how one of the Practice Essay Questions, a former exam question, was graded by the ICMA. This was supplied by the ICMA and will help you to understand what will be expected.
- **Test-Taking Strategies** prepared by the ICMA.
- **Exam Tips** prepared by HOCK.

We recommend you download these and review them now, if you have not already done so.

And as always, if you have any questions at all, contact the HOCK team and we will be happy to help you.