

# Learning Outcome Statements



**Financial & Managerial  
Accounting Associate**

Effective: March 1, 2024

# **Financial and Managerial Accounting Associate (FMAA) Exam**

## **Learning Outcome Statements**

### **A. General Accounting and Financial Management (25% - Levels A and B)**

#### **1. Accounting terminology and definitions**

The candidate should be able to:

- a. explain the role of accounting in business
- b. define management accounting and distinguish it from financial accounting
- c. identify and explain the different types of business enterprises, including corporation, sole proprietorship, private company, public company, partnership, joint venture, and nonprofit
- d. demonstrate an understanding of the accounting equation (assets = liabilities + equity)
- e. define the following terms: business transaction, recordkeeping, debits, credits, journal, accounts, ledger, financial statements, accounting period, cash flow, and profit/loss
- f. demonstrate an understanding of the following accounting principles: cash accounting vs. accrual accounting, conservatism, consistency, matching revenue and expense, accruals/deferrals, and depreciation/amortization

#### **2. Recording business transactions**

The candidate should be able to:

- a. describe double-entry bookkeeping
- b. analyze a business transaction into its debit and credit components and record in a journal
- c. define the accounting cycle and demonstrate an understanding of the eight steps of the accounting cycle
- d. define a general ledger and explain its purpose
- e. define a trial balance and explain its purpose

#### **3. Types and elements of financial statements**

The candidate should be able to:

- a. define asset, liability, revenue, expense, and equity
- b. identify the users of financial statements and their needs
- c. demonstrate an understanding of the purposes and uses of the balance sheet, income statement, statement of changes in equity, and statement of cash flows
- d. identify the major components and classifications of each financial statement
- e. identify the limitations of each financial statement
- f. demonstrate an understanding of the relationship among the financial statements

#### 4. Internal controls

The candidate should be able to:

- a. demonstrate an understanding of internal control risk
- b. demonstrate knowledge of the fact that an organization's structure and management philosophy impact the effectiveness of internal controls
- c. demonstrate knowledge of the fact that internal controls are designed to provide reasonable assurance of the (i) effectiveness and efficiency of operations, (ii) reliability of financial reporting, and (iii) compliance with applicable laws and regulations
- d. define segregation of duties
- e. demonstrate an understanding of why the following four types of responsibilities should be performed by different individuals: (i) authority to execute transactions, (ii) recording transactions, (iii) custody of assets involved in the transactions, and (iv) periodic reconciliations of the existing assets to recorded amounts
- f. explain the importance of independent checks and verification
- g. identify examples of how companies safeguard assets, including physical controls (e.g., locked doors) and software controls (e.g., passwords)

#### 5. Managing a company's daily finances

The candidate should be able to:

##### Working capital

- a. define working capital and identify its components
- b. calculate net working capital
- c. explain the benefit of short-term financial forecasts in the management of working capital

##### Cash management

- d. identify and describe factors influencing the levels of cash
- e. identify and explain the three motives for holding cash (transaction motive, precautionary motive, and speculative motive)
- f. prepare forecasts of future cash flows

##### Accounts receivable management

- g. identify the factors influencing the level of receivables
- h. demonstrate an understanding of the impact of changes in credit terms or collection policies on accounts receivable, working capital, and sales volume
- i. define default risk
- j. demonstrate an understanding of factoring accounts receivable

##### Inventory management

- k. define lead time and safety stock, and identify reasons for carrying inventory and the factors influencing its level
- l. identify and calculate the costs related to inventory, including carrying costs, ordering costs, and shortage (stockout) costs
- m. explain how a just-in-time (JIT) inventory management system helps manage inventory
- n. define materials requirements planning (MRP)

### Accounts payable management

- o. demonstrate an understanding of the full cycle of the accounts payable process, including issuing purchase orders, receiving vendor invoices, validating goods received, and approving final payments.
- p. identify the benefits of effective accounts payable management, including taking trade credit, avoiding overdue charges, easier tracking of invoices, elimination of fraud, and smoother cash flow management.

## **B. Financial Statement Preparation and Analysis (25% - Levels A and B)**

### 1. Recognition and valuation in financial statements

The candidate should be able to demonstrate an understanding of how a balance sheet, an income statement, a statement of changes in equity, and a statement of cash flows (indirect method) are prepared. Specifically, the candidate should be able to:

#### Asset valuation

- a. determine the amount of accounts receivable to be recognized, including timing of recognition and estimation of the allowance for credit losses
- b. determine the amount of inventory to be recognized
- c. demonstrate an understanding of the first-in-first-out (FIFO) and last-in-first-out (LIFO) cost flow assumptions and calculate inventory balances using these assumptions
- d. demonstrate an understanding of FOB shipping point and FOB destination
- e. demonstrate an understanding of straight-line, double-declining balance, and sum-of-the-years' digits methods of depreciation and calculate depreciation using these methods
- f. demonstrate an understanding of amortization of intangible assets over the asset's useful life

#### Valuation of liabilities

- g. identify transactions that affect liabilities such as credit purchases, year-end accruals, and debt issuance

#### Revenue recognition

- h. apply revenue recognition principles to various types of transactions
- i. demonstrate an understanding of the matching principle with respect to revenues and expenses

#### Equity transactions

- j. identify transactions that affect paid-in capital and those that affect retained earnings such as stock issuance, cash and stock dividends, and income recognition

#### Income measurement

- k. define gains and losses
- l. demonstrate an understanding of the treatment of gain or loss on the disposal of fixed assets
- m. demonstrate an understanding of expense recognition practices
- n. define and demonstrate an understanding of comprehensive income
- o. identify the correct treatment for discontinued operations

## 2. Basic financial statement analysis

The candidate should be able to demonstrate capabilities to analyze a set of financial statements. Specifically, the candidate should be able to:

- a. for the balance sheet and income statement, prepare and analyze common-size financial statements (vertical analysis)
- b. for the balance sheet and income statement, prepare and analyze common base year statements (horizontal analysis)
- c. calculate the growth rate of individual line items on the balance sheet and income statement

## 3. Financial statement ratio analysis

The candidate should be able to:

### Liquidity

- a. calculate and interpret the current ratio, the quick (acid-test) ratio, the cash ratio, the cash flow ratio, and the net working capital ratio

### Leverage

- b. define solvency
- c. define operating leverage and financial leverage
- d. calculate the following ratios: debt-to-equity, long-term debt-to-equity, debt-to-total assets, and times interest earned

### Activity

- e. calculate accounts receivable turnover, inventory turnover, and accounts payable turnover
- f. calculate days sales outstanding in receivables, days sales in inventory, and days purchases in accounts payable
- g. calculate total assets turnover and fixed asset turnover

### Profitability

- h. calculate gross profit margin percentage, operating profit margin percentage, and net profit margin percentage
- i. calculate return on assets (ROA) and return on equity (ROE)

For all financial ratios noted above, the candidate should be able to demonstrate an understanding of how changes in one of the elements of the ratio would impact the calculated value of the ratio. In addition, the candidate should be able to explain the significance of a relatively higher or lower ratio value.

## **C. Planning and Budgeting (20% - Levels A and B)**

### 1. Budgeting concepts

The candidate should be able to:

- a. describe the role that budgeting plays in overall planning

- b. identify the role that budgeting plays in formulating short-term objectives and in planning and controlling operations to meet those objectives
- c. demonstrate an understanding of the role that budgets play in measuring performance against established goals
- d. explain the role of budgets in monitoring and controlling expenses
- e. identify the characteristics of successful budgeting processes
- f. explain how the budgeting process facilitates communication among organizational units and enhances coordination of organizational activities
- g. identify who should participate in the budgeting process for optimum success
- h. describe the role of top management in successful budgeting
- i. identify the appropriate time frame for various types of budgets
- j. describe the concept of a controllable cost
- k. demonstrate an understanding of the use of cost standards in budgeting
- l. differentiate between authoritative standards and participative standards
- m. define budgetary slack and discuss its impact on goal congruence

## 2. Budgeting methodologies

For each of the budget systems identified (annual/master budgets, project budgeting, zero-based budgeting, continuous (rolling) budgets, and flexible budgeting), the candidate should be able to:

- a. define its purpose, appropriate use, and time frame
- b. identify the budget components and explain the interrelationships among the components
- c. demonstrate an understanding of how the budget is developed
- d. compare the benefits and limitations of the budgeting system
- e. prepare budgets on the basis of information presented
- f. calculate the impact of incremental changes to budgets

## 3. Annual operating plan and supporting schedules

Specifically, the candidate should be able to:

- a. explain the role of the sales budget in the development of an annual operating plan
- b. identify the factors that should be considered when preparing a sales forecast
- c. identify the components of a sales budget and prepare a sales budget
- d. explain the relationship between the sales budget and the production budget
- e. identify the role that inventory levels play in the preparation of a production budget
- f. prepare a production budget
- g. explain how inventory levels and procurement policies affect the direct materials budget
- h. prepare direct materials and direct labor budgets based on relevant information
- i. separate costs into their fixed and variable components
- j. prepare an overhead budget
- k. identify the components of the cost of goods sold budget and prepare a cost of goods sold budget
- l. identify the components of the selling and administrative expense budget
- m. prepare an operational (operating) budget

- n. prepare a capital expenditure budget
- o. demonstrate an understanding of the relationship between the capital expenditure budget and the cash budget
- p. define the purposes of the cash budget and describe the relationship between the cash budget and all other budgets
- q. demonstrate an understanding of the relationship between credit policies and purchasing (payables) policies and the cash budget
- r. prepare a cash budget

## **D. Cost Management and Performance Metrics (20% - Levels A and B)**

### 1. Cost measurement concepts

The candidate should be able to:

- a. calculate fixed, variable, and mixed costs and demonstrate an understanding of the behavior of each in the long and short term
- b. identify and define cost measurement techniques such as actual costing, normal costing, and standard costing
- c. identify the differences between variable (direct) costing and absorption (full) costing
- d. define job order costing
- e. define activity-based costing
- f. define process costing

### 2. Variable and fixed overhead expenses

- a. identify the components of variable overhead expense
- b. identify the components of fixed overhead expense
- c. demonstrate an understanding of the differences between corporate-wide overhead expenses and departmental overhead expenses
- d. calculate corporate-wide overhead expenses and departmental overhead expenses using proper overhead rate
- e. calculate overhead costs allocated to products by spreading the overhead costs based on specific measures

### 3. Cost and variance measures

The candidate should be able to:

- a. calculate favorable and unfavorable variances from a budget and provide explanations for variances
- b. calculate the flexible-budget variance by comparing actual results to the flexible budget
- c. define a standard costing system and identify the reasons for adopting a standard costing system
- d. demonstrate an understanding of price (rate) variances and calculate the price variances related to direct material and direct labor inputs
- e. demonstrate an understanding of efficiency (usage) variances and calculate the efficiency variances related to direct material and direct labor inputs

- f. demonstrate an understanding of fixed overhead variances

#### 4. Performance measurement

The candidate should be able to:

- a. calculate product-line profitability, business unit profitability, and customer profitability
- b. define and calculate return on investment (ROI)
- c. analyze and interpret ROI calculations
- d. define residual income (RI)

#### 5. Cost information for decision making

The candidate should be able to:

- a. demonstrate an understanding of cost/volume/profit (CVP) analysis (breakeven analysis), and calculate breakeven volume
- b. identify and define relevant costs (incremental, marginal, or differential costs), sunk costs, avoidable costs, and explicit and implicit costs
- c. explain why sunk costs are not relevant in the decision-making process
- d. demonstrate an understanding of and calculate opportunity costs
- e. calculate relevant costs given a numerical scenario
- f. define and calculate marginal cost and marginal revenue

### **E. Professional Ethics (10% - Levels A and B)**

#### 1. Business ethics

The candidate should be able to:

- a. define business ethics
- b. define the concepts of fairness, integrity, due diligence, and fiduciary responsibility, and how they impact ethical decision making
- c. identify and explain the different types of business fraud, such as asset misappropriation, manipulation of financial statements, cash and inventory theft, payroll fraud, vendor fraud, and accounts receivable fraud

#### 2. Ethical considerations for accountants in business

Using the standards outlined in the IMA Statement of Ethical Professional Practice, the candidate should be able to:

- a. identify and describe the four overarching ethical principles and the four standards
- b. evaluate a given business situation for its ethical implications
- c. identify and describe relevant standards that may have been violated in a given business situation and explain why the specific standards are applicable
- d. recommend a course of action for management accounting and financial management professionals to take when confronted with an ethical dilemma in the business environment



- e. evaluate and propose resolutions for ethical issues such as fraudulent reporting or improper manipulation of forecasts, analyses, results, and budgets

Using the fraud triangle model, the candidate should be able to:

- f. identify the three components of the triangle
- g. use the model to explain how a management accounting and financial management professional can identify and manage the risk of fraud