Achievable

CMA PART 1 DUMP SHEET

Financial statements and assets

Financial statements

- **Balance sheet:** $\text{Assets} = \text{Liabilities} + \text{Equity}$
  A snapshot at a date. Current = realized or settled within 1 year or the operating cycle, whichever is longer; otherwise non-current
- **Income statement:** revenues, expenses, gains, losses → net income
  Discontinued operations (planned disposal of a major component = a strategic shift): shown separately, net of tax; prior periods restated
- **Comprehensive income** $= \text{NI} + \text{OCI}$ (non-owner changes)
  - OCI items: FX translation, pension adjustments, unrealized gains/losses on AFS debt, cash-flow hedges
  - NI closes to retained earnings; OCI closes to AOCI (equity)
- **Cash flows:**
  $\text{operating} + \text{investing} + \text{financing} = \text{net change in cash}$
- **Indirect method (CMA focus):** start with NI
  - Add back non-cash items; reverse investing and financing gains/losses
  - Working capital: subtract increases in current assets, add increases in current liabilities (the reverse for decreases)
  - Investing and financing shown gross

Receivables

- **Net realizable value** $= \text{A/R} - \text{allowance for credit losses}$
- **Bad debt expense** (allowance method):
  - $\text{ending allowance} + \text{write-offs} - \text{beginning allowance} - \text{recoveries}$
  - Write-offs don't hit expense

Revenue recognition (ASC 606)

- **5 steps:** (1) identify the contract, (2) identify performance obligations (POs), (3) determine the transaction price, (4) allocate the price to POs by relative standalone selling price, (5) recognize revenue as POs are satisfied
- **Contract asset** = conditional right to payment; **contract liability** = unearned revenue
- **Right of return:** not a separate PO; recognize revenue net of expected returns, and book a refund liability + refund asset

Inventory

- **Cost flows:** specific ID, FIFO, LIFO (banned under IFRS), weighted/moving average
- **Rising prices:** FIFO → higher ending inventory, lower COGS, higher NI; LIFO → the opposite
- **COGS:**
  - $\text{beginning inventory} + \text{purchases} - \text{ending inventory}$
  - Ending-inventory errors self-correct over two periods
- **Valuation:**
  - **LCNRV** (FIFO, average, specific ID): NRV = selling price − costs to complete and sell
  - **LCM** (LIFO, retail): market = median of NRV, replacement cost, and NRV − normal profit margin
- **Systems:** perpetual (real-time) vs periodic (period-end)

Long-lived & intangible assets

- **PPE:** capitalize at cost + the costs to bring the asset to its intended location and condition
- **Depreciation:**
  - Straight-line: $\dfrac{\text{cost} - \text{salvage}}{\text{useful life}}$
  - Double-declining rate: $2 \times \dfrac{1}{\text{life}}$, applied to beginning NBV; ignore salvage until the final year
  - Sum-of-the-years'-digits: $\text{depreciable cost} \times \dfrac{\text{remaining life}}{n(n+1)/2}$
  - Units of production: $\dfrac{\text{cost} - \text{salvage}}{\text{total units}} \times \text{units produced}$
- **Intangibles:** definite-life amortized; indefinite-life not amortized (tested annually)
- **Impairment (PPE and finite-life intangibles):** step 1, compare carrying value with undiscounted cash flows; step 2, write down to fair value: $\text{loss} = \text{CV} - \text{FV}$. Reversals prohibited under US GAAP
- **Goodwill:** not amortized; annual impairment test at the reporting-unit level, with an optional qualitative "more likely than not" (> 50%) test
  - $\text{Goodwill} = \text{consideration transferred} + \text{FV of NCI} + \text{FV of previously held interest} - \text{FV of identifiable net assets acquired}$
  - Bargain purchase (price < FV) → gain