

**THE CPA LICENSURE EXAMINATION SYLLABUS**  
**MANAGEMENT SERVICES**  
(Effective October 2006 Examination)

This subject tests the candidates' knowledge of, and proficiency in the concepts, standards, techniques, and methodology applicable to management services / consultancy practice by CPAs; management accounting; financial management-related services; capital budgeting concepts and techniques; and project feasibility studies.

Each examination will contain a minimum of 50 and a maximum of 70 multiple choice questions, allocated to the different subject areas, as indicated below.

1.0 Management Accounting-Related Services

1.1 Role, historical perspective, and direction of management accounting

- a. Objectives, scope, relationship with financial accounting and cost accounting; role and activities of management accountant; controller as top management accountant; organization structure and management accountant; the changing role and expanding role of management accountant.
- b. Management Accounting Information System  
Management functions and accounting; information needs of managers and other users for planning and control (value chain and enhancing the value of management accounting system); international aspects of management accounting
- c. Management Accounting and Ethical Conduct  
Ethical behavior and code of conduct of management accountants; Code of conduct on the international level
- d. Current focus of Management Accounting  
Impact on organization structure; focus on the customer; cross-functional teams; computer integrated manufacturing; product life cycles and diversity; time-based competition; global competition; information and communication technology management; just-in-time inventory; total quality management; continuous improvement and benchmarking; cost management system; computer-aided design and manufacturing automation; e-commerce.
- e. Certification available to Management Accounting  
The Institute of Management Accountants and CMA Certification

1.2 Foundations of management accounting

- a. Understanding and analysis and interpretation of financial statements
  1. Objectives, general approach, limitations and steps in financial statements analysis
  2. Identification of matters for further interpretation of information produced; assessment of the impact of price level changes in financial analyses
  3. Analysis of business performance and financial position such as comparative financial statements, trend percentages, common-size financial statements, financial ratios; cash flow analysis and gross profit variation analysis
- b. Cost terms and concepts / cost behavior / design of cost and management accounting systems
  1. Nature and classification of costs
  2. Basics of cost behavior; cost classification on financial statements; flow of costs in manufacturing, commercial, trading or service companies
  3. Splitting mixed costs - high-low method, least-squares regression, scatter graph
  4. System design: Job order costing and process costing
  5. System design: Activity-based costing and management; rationale, advantages, limitations and design of an ABC system.
- c. Variable costing and absorption costing
  1. Underlying concepts, advantages and disadvantages of variable costing
  2. Comparison between variable costing and absorption costing
  3. Preparation of financial statements under variable and absorption costing including reconciliation of net income

- d. Business planning
  - 1. Objectives and uses of a business plan
  - 2. Distinction between a business plan and strategic plan
  - 3. Setting short term objectives consistent with long term strategies
  - 4. Development of business plans to meet agreed objectives; basic segments and contents of a business plan
  - 5. Strategic planning
- 1.3 Management accounting concepts and techniques for planning and control
  - a. Cost-volume-profit relationships
    - 1. Basic concepts, significance, uses, assumptions and limitations of CVP analysis
    - 2. CVP analysis with changes in cost structure; CVP analysis for a multi-product firm
    - 3. Concept of margin of safety, operating leverage and profit planning
  - b. Responsibility accounting, transfer pricing, performance evaluation, and balanced scorecard
    - 1. Goal congruence and motivation
    - 2. Types of responsibility centers (revenue, cost, profit and investment); transfer pricing - rationale and need; alternative transfer pricing schemes and multinational transfer pricing
    - 3. Advanced analysis and appraisal of performance: financial and non-financial performance measures
    - 4. Performance measurement in multinational companies; distinguishing performance of managers from performance of organization units; executive performance measures and compensation; environmental and ethical responsibilities
    - 5. Nature of the balanced scorecard; perspectives of the balanced scorecard; aligning the balanced scorecard to strategy; features of a good balanced scorecard; pitfalls when implementing a balanced scorecard
    - 6. Evaluation of the success of strategy; strategic analysis of operating income
  - c. Functional and activity-based budgeting
    - 1. Definition of budget
    - 2. Difference between planning and control
    - 3. Functions of budgeting
    - 4. The purposes of the budget
    - 5. Advantages and limitations of budgets
    - 6. Types of budgets
    - 7. Budgeting terminologies defined
    - 8. The management process of preparing the master budget
    - 9. The budget period
    - 10. Budget cycle of a manufacturing firm
    - 11. Steps in developing a master budget
    - 12. Comprehensive budget illustrated
    - 13. Flexible budgeting
    - 14. Fixed and flexible budget variance compared
  - d. Standard costing and variance analysis
    - 1. Rationale, users, benefits, limitations of standard costs; international uses of standard cost; how standards are set; performance measurement using variances; operating performance evaluation
    - 2. Analysis of variances
      - (a) Direct material variances (price, quantity, mix and yield variances)
      - (b) Direct labor variances (rate, efficiency, mix and yield variances)

- (c) Factory overhead variances - Two-way method (budget variance and volume variance); Three-way method (spending variance, variable efficiency variance and volume variance); Four-way method (variable spending variance, fixed spending variance, variable efficiency variance and volume variance)

1.4 Management accounting concepts and techniques for decision making

- a. Quantitative techniques
  - 1. Rationale in using quantitative techniques
  - 2. Decision theory
  - 3. Decision making under certainty / under uncertainty; assigning probabilities; expected value of perfect information; pay-off
  - 4. Gantt chart: preparation, illustration, advantages
  - 5. Decision tree: underlying concepts, advantages and limitations, steps in making a decision tree, illustrative problem: preparation of a decision tree
  - 6. Linear programming: nature and application, steps in formulation of a linear program, computational methods of linear programming (graphic and simplex); Shadow prices
  - 7. Sensitivity analysis
  - 8. Queuing theory
  - 9. Program evaluation and review techniques (PERT): basic underlying concepts, expected activity time, concept of critical path, cost estimating, crashing the network, PERT - cost network, variation in activity time, variation along a path, accountant's role in PERT, benefits and limitations of PERT
  - 10. Learning curve
- b. Using accounting information in decision making, relevant costs and benefits
  - 1. Decision making process
  - 2. Identifying relevant costs
  - 3. Approaches in analyzing alternatives in non-routine decisions
  - 4. Types of decisions  
Make or buy decisions, adding or dropping product segments, sell now or process further, special sales pricing, utilization of scarce resources, shutdown or continue operations, pricing products and services, and other business decisions requiring quantitative analysis
- c. Capital budgeting decisions
  - 1. Definition, characteristics, categories, and elements of capital budgeting decisions
  - 2. Net investment, net cash returns, cost of capital, screening capital budgeting projects
  - 3. Non-discounted cash flow methods - payback, payback reciprocal, bailout, accounting and average rate of return
  - 4. Discounted cash flow methods - net present value, profitability index, discounted payback and internal rate of return; equalized annual return (ear)
  - 5. Screening decisions – independent projects; preferences decisions – mutually exclusive projects, ranking investment projects; capital rationing, sensitivity analysis; NPV point of indifference (fisher rate)
- d. Decentralized operations and segment reporting
  - 1. Decentralized operations
    - (a) Nature of decentralized operation
    - (b) Advantages of decentralization
    - (c) Limitations of decentralization
  - 2. Segment reporting
    - (a) Levels of segmented statement
      - (1) Segmented income statement in the contribution format
      - (2) Sales and contribution margin

- (3) Traceable and common fixed costs
    - (4) Problems related to proper cost assignment
      - (i) Omission of costs
      - (ii) Inappropriate methods for allocating costs among segments
      - (iii) Arbitrarily dividing common costs among segments
- 1.5 Advanced management control and strategic performance measurement
  - a. Advanced analysis and appraisal of performance: financial and non-financial
    - 1. Financial and nonfinancial performance measures
    - 2. Steps in designing accounting-based performance measures
    - 3. Performance measurement in multinational companies
    - 4. Computation of foreign division's ROI
    - 5. Distinguishing performance of managers from performance of organization units
    - 6. Financial and nonfinancial incentives
  - b. Managing productivity and marketing effectiveness
    - 1. Managing productivity
    - 2. Measuring productivity
      - (a) Partial productivity
        - (1) Partial operational productivity
        - (2) Partial financial productivity
        - (3) Advantages / limitations of partial productivity measures
      - (b) Total productivity
        - (1) Benefits and limitations of total productivity measures
    - 3. Managing marketing effectiveness
    - 4. Summary of variance analysis to assess marketing effectiveness
  - c. Executive performance measures
    - 1. Objectives of management compensation
    - 2. Executive performance measures and compensation
    - 3. Cash compensation
    - 4. Noncash compensation
    - 5. Bonus plans
      - (a) Bases for bonus compensation
      - (b) Bonus compensation pools
      - (c) Bonus payment options
    - 6. Performance measures at the individual activity level
    - 7. Performing tasks
    - 8. Team-based compensation arrangements
    - 9. Environmental and ethical responsibilities
- 2.0 Management Consultancy Practice by CPAs
  - 2.1 An overview
    - a. Evolution of MAS, developing trends, future prospects
    - b. Nature of MAS by independent accounting firms, rationale of using management consultants, independent accounting firm's role in MAS and CPA's objective engaging in MAS
    - c. Areas of Management Advisory Services  
Areas of MAS practice: traditional and emerging; Determining scope of service; Types of client served
    - d. Professional attributes of management consultants (technical, interpersonal and consulting process skills)

- e. Code of ethics for professional accountants in the Philippines applicable to non-assurance services
- f. Organization and management of the MAS practice
- 2.2 Stages of management consulting engagement
- 2.3 Project management and control
- 2.4 Presentation of engagement reports
- 2.5 Management of the client relationship
- 2.6 Management of people relationships
- 2.7 Managing the quality of consulting engagements
- 3.0 Financial Management-Related Consultancy Services
  - 3.1 Financial forecasting
    - a. Role of financial management
    - b. Objectives of the firm
    - c. Nature of financial forecasting
    - d. Steps in financial forecasting
    - e. Projected financial statement method
  - 3.2 Working capital management and financing decision
    - a. Basic concepts and significance of working capital management
    - b. Working capital policy, advantages of adequate working capital, disadvantages of inadequate or excessive working capital, alternative current asset investment and financing policies, risk- return trade off, external financing needed (EFN)
  - 3.3 Management of current assets
    - a. Objectives of current assets management; cash conversion cycle
    - b. Cash and marketable securities management
      - 1. Objectives, reasons for holding cash, cash management techniques
      - 2. Reasons for holding marketable securities, factors influencing the choice of marketable securities
    - c. Receivables management
      - 1. Objectives, factors in determining accounts receivable policy, costs associated with accounts receivable, summary of trade-offs in credit and collection policies
      - 2. Marginal or incremental analysis of credit policies
    - d. Inventory management
      - 1. Objectives, reasons for carrying inventories
      - 2. Inventory management techniques
      - 3. Inventory control systems
  - 3.4 Short-term credit for financing current assets
    - a. Factors in selecting source of short- term funds
    - b. Estimating costs of short term funds
    - c. Sources of short-term funds
    - d. Secured short-term financing - pledging of accounts receivable, factoring accounts receivable; inventory financing
  - 3.5 Long-term financing decisions
    - a. Basic concepts, basic tools of capital structure management
    - b. Factors influencing capital structure decisions
    - c. Incorporating capital structure into capital budgeting; weighted average cost of capital (WACC)
    - d. Effects of operating leverage and financial leverage on capital structure; optimal capital structure

- 3.6 Sources of financing
    - a. Intermediate and long-term financing
      - 1. Principal sources of funds
      - 2. Debt financing
        - (a) Benefits and drawbacks of debt
        - (b) Term loans
        - (c) Bonds or long-term debt
          - (1) Retirement of bonds
      - 3. Equity financing
        - (a) Ordinary shares
        - (b) Retained earnings
    - b. Hybrid financing: Preference shares, leasing, options, warrants, and convertibles
      - 1. Preference share
        - (a) Advantages and disadvantages of issuing preference share
      - 2. Leasing
        - (a) Potential benefits from leasing
        - (b) Capital or finance lease
        - (c) Operating lease
      - 3. Convertibles
      - 4. Option
      - 5. Warrants
- 4.0 Preparation of Project Feasibility Studies Engagements
  - 4.1 Nature, purpose and component, development and analysis of project revenue costs under specific assumptions
  - 4.2 Procedures in the preparation of projected financial statements
  - 4.3 Analysis of financial projections
- 5.0 Information Systems Engagements
  - 5.1 Management Information Systems Engagement
    - a. Fundamentals of computer-based processing  
Data processing defined; data and information distinguished; basic elements of data processing system and operation; methods of data processing; overview of computer-based data processing; components of the computer system; flowcharts; hierarchy of computer processes; modes of computer operations; telecommunications.
    - b. Accounting information system engagement  
Basic concepts; objective of an accounting information system, its essential elements and characteristics; basic components of a manual accounting system; overview of a computerized accounting information system; difference between manual and computerized processing system common business applications of computers
    - c. Information systems audit
- 6.0 Other Consultancy Services
  - 6.1 Operational auditing
    - a. Nature
    - b. Effectiveness versus efficiency; economy
    - c. Objectives of operational audits
    - d. Scope of operational audit
    - e. Distinction between operational auditing and financial auditing
    - f. Types of operational audits
    - g. Who performs operational audit?

- h. General approach to operational audit
    - 1. Planning phase
    - 2. Evidence accumulation and evaluation
    - 3. Reporting and follow-up
  - i. Illustrative reports
  - j. Examples of operational audit findings
- 6.2 Business process improvement / Re-engineering consultancy services
- a. Nature and objectives
  - b. Approach
- 7.0 Business Environment and Concepts\*
- 7.1 Business structure
- a. Advantages, implications and constraints of legal structure for business
    - 1. Sole proprietorship and general and limited partnership, corporation
    - 2. Limited liability companies (LLC), limited liability partnership (LLP) and joint ventures
  - b. Formation, operation, and termination of business
  - c. Financial structure, capitalization, profit and loss allocation and distribution
  - d. Rights, duties, legal obligations and authority of owners and management (directors, officers, stockholders, partners and other owners)
- 7.2 Economic concepts essential to obtaining an understanding of the entity's business and industry
- a. Business cycles and reasons for business fluctuations
  - b. Economic measures and reasons for changes in the economy, such as inflation, deflation and interest rate changes
  - c. Market influences on business strategies, including selling, supply chain and customer management strategies
  - d. Implication to business of dealings in foreign currencies, hedging and exchange rate fluctuations

\* To be effective in the October 2007 Examination