

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Abandonment	Voluntary surrender of property.
Abnormal spoilage	Unacceptable units that are not expected to occur under an efficient production process.
Absorbed Overhead	That portion of factory indirect cost that has been allocated to a specific product, or saleable service. (Also called Applied Overhead.)
Absorption Costing	A costing system that assigns to inventory all types of manufacturing costs, including direct, indirect, fixed and variable. (Also called Full Absorption Costing.)
Accelerated Depreciation	A pattern of depreciation in which the amount of depreciation computed in the early years is greater than the amounts computed in the later years.
Accounting	The process of identifying, classifying, measuring, recording and communicating in monetary terms transactions and events of an economic entity that are of a financial character.
Accounting Profit	Revenue less all expenses included in the entity's income statement.
Accounting Standards	Principles and procedures to be followed by accountants as formulated by an authoritative body. (Also called Accounting Principals.)
Accounting System	Methods, procedures, and standards followed in accumulating, classifying, recording and reporting business events and transactions.
Accounts Receivable	Monies due to an entity from customers who have bought merchandise or received services on account.
Accounts Receivable Turnover	A financial ratio used to measure asset utilization and a company's ability to collect cash from credit sales to its customers.
Accrual Accounting	The method of recognizing and recording (a) revenues when earned, and (b) expenses when incurred, both irrespective of the time when cash is received or paid.
Accrued	The accumulation of income that is due or a cost that is incurred by an entity during the accounting period that has not been received or paid.
Accumulated Depreciation	The amount of depreciation expense related to a fixed asset that has been recognized as an expense from the date of acquisition of that asset.

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Acid-Test Ratio	A ratio that measures an entity's ability to pay off short-term obligations using the most liquid current assets (excluding inventory). (Also called Quick Ratio.)
Acquisition Cost	The value of cash or other resources given up in exchange for goods or services. It includes all costs necessary to get the asset ready for its intended use. (Also called Historical Cost or Original Cost.)
Activity Driver (Cost Driver)	A factor used to assign cost from an activity to a cost object. A measure of the frequency and intensity of use of an activity by a cost object.
Activity-Based Budgeting	An approach to budgeting that involves quantifying activities and processes and forecasting their costs in order to achieve strategic goals and improve performance.
Activity-Based Costing	A costing system that (a) identifies the relationship between the incurrence of cost and activities, (b) determines the underlying "driver" of the activities, (c) establishes cost pools related to individual "drivers," (d) develops costing rates, and (e) applies cost to product on the basis of resources consumed (drivers).
Activity-Based Management	Management and decision making method using activity based costing information in an effort to improve customer satisfaction and profits by enhancing activities that add value and reducing activities that do not add value to the customer.
Actual Cost	Acquisition cost, historical cost, or original cost.
Additional Paid-in Capital	The amount received by a company from its shareholders for purchase of shares of stock above the par or stated value of the stock.
Administrative Expense	Costs incurred for the general operation of an enterprise as a whole, as contrasted with costs related to a more specific function such as manufacturing or selling. (Also called General and Administrative Expense.)
Agency Theory	The analysis of principal-agent relationships, wherein one person, an agent, acts on behalf of another person, a principal. In a corporate setting, it often refers to conflicts of interest among stockholders, bondholders, and managers.
Aggregate Demand	A macroeconomic value equal to the sum of all personal, business, and government expenditures in a particular time period; the total quantity of goods and services demanded (purchased) by all sectors of the economy, at different price levels.

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Aggregate Supply	A macroeconomic value equal to the sum of all goods and services produced in a particular time period.
Allocation Base	The basis used to assign indirect costs to cost objects, such as labor or machine hours.
Allowance for Uncollectible Accounts	A contra account to Accounts Receivable established to record the estimated percentage of Accounts Receivable that will not be collected.
American Depository Receipt (ADR)	A receipt issued by American banks representing ownership in a foreign company's common stock. The bank collects and distributes the dividends to the shareholders. ADRs are tradable securities.
Amortization	The accounting process of allocating costs to the time periods during which such costs are consumed.
Annual Report	A report prepared by entities after the close of each reporting year that includes financial statements and disclosure, an audit report, information from management, and other pertinent information concerning the entity's financial condition and operating performance.
Annuity	A series of payments of an equal amount at fixed intervals for a specified number of periods.
Antidumping	A policy enacted by a nation designed to discourage the importation and sale of foreign goods at prices well below domestic prices.
Antitrust	US legislation to prevent monopolies and restraint of trade.
Application Controls	Controls, such as input controls, adopted to safeguard specific data processing activity, such as payroll. Their purpose is to provide reasonable assurance that data is properly processed, recorded, and reported.
Appraisal costs	Costs incurred to determine whether products and services are conforming to customer and/or manufacturing requirements. Examples include inspection and testing costs.
Appreciation	The situation where there is an increase in economic worth caused by rising market prices.
Arbitrage Pricing Theory (APT)	A framework for analyzing the relationship between risks and rates of return on securities, especially common stocks. It asserts that the risk elements that influence returns on securities include (1) inflation, (2) industrial production, (3) risk premiums, and (4) the slope of the term structure of interest rates.
Artificial Intelligence	Computer software that attempts to mimic the way human beings think.

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Asset	<p>1. Probable future economic benefits obtained by an entity as a result of past transactions.</p> <p>2. Any owned physical object or right having economic value to its owners, expressed for accounting purposes in terms of its cost or other value (such as current replacement cost).</p>
Asset Coverage	A measure of the extent to which a company is able to cover its debt obligations after all liabilities have been satisfied.
Asset Turnover	A financial ratio that assesses how efficiently an entity is utilizing its assets; it relates sales to assets.
Asset-Based Loans	A form of lending in which the borrower pledges assets as collateral (security) for a loan.
Audit	The systematic examination by analyses, confirmation, and tests of accounting records to confirm with reasonable assurance that the records adequately reflect economic status and operations.
Audit Committee	Members of the board of directors (in the case of corporations), trustees, legislative bodies, or similar governance boards, with responsibilities for oversight and direction of the internal auditing function.
Audit Report	A written document that presents the scope and results of the audit.
Authoritative (top-down) Budgeting	A budgeting process where all budgets for the organization are prepared by top management, including budgets for lower-level operations.
Authority	The formal and legitimate right of a manager to make decisions, issue orders, and allocate resources to achieve organizationally desired outcomes.
Average Collection Period	A measure of the average number of days it takes to collect receivables (credit sales).
Average Fixed Cost	Total fixed costs divided by the number of units produced. (Fixed cost per unit)
Average Inventory Cost Method	An inventory costing method that uses the weighted average unit cost to allocate the cost of goods available for sale to ending inventory and cost of goods sold.
Average Product	Total output divided by the number of units of variable input required to produce that output.
Average Total Cost	Total manufacturing costs divided by the number of units produced. Sometimes called per unit cost.
Average Variable Cost	Total variable cost divided by the number of units produced.

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Backflush Costing	A product costing approach used in a Just-in-Time operating environment in which some or all of the costing is delayed until the goods are finished. Standard costs are then pulled backward through the system to assign costs to products.
Backup Controls	Controls, such as file duplicating, in an Information Technology (IT) environment to insure that data is not lost.
Bad Debts	Accounts or notes receivable that management determines to be uncollectible after reasonable efforts to collect them have not been successful.
Balance of Payments	A summary of all economic transactions between a country and all other countries for a specified period.
Balanced Scorecard	An approach using multiple measures to evaluate performance, including financial measures, and the non-financial measures of customers, internal business processes, and learning and growth.
Banker's Acceptances	Financial instrument of an entity stating that payment is guaranteed by a bank, commonly used in foreign trade.
Bankruptcy	A condition in which a court has granted a company legal protection from creditors because it cannot meet its obligations as they come due.
Batch Costing	The costs of activities related to a group of units of products or services rather than to each individual unit of product or service.
Batch Processing	A non-interactive information system processing mode in which transaction records are accumulated and processed sequentially and in a predetermined order.
Benchmarking	A process of measuring an entity's performance, products, and services against standards based on best levels of performance achievable or achieved by other entities.
Best Practice	A technique, method, process, or activity that is more effective at delivering a particular outcome than any other technique, method, process, or activity.
Beta	A measurement of the movement of the price of a particular stock compared with the movement of the market as a whole during the same period. If a stock has a beta value less than 1, it is regarded as less risky than the overall market. If a stock has a beta value greater than 1, it is regarded as more risky than the market.
Binomial Option-valuation Models	Option pricing models in which the underlying asset can take on only two possible, discrete values in the next time period for each value that it can take on in the preceding time period.

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Black-Scholes Option-valuation Model	A model for pricing options in which the value of an option depends on (1) the value of the underlying asset, (2) the time to expiration of the option, (3) the exercise price, (4) the volatility of the underlying asset, and (5) the risk-free rate or time value of money.
Board of Directors	A group of individuals elected by a corporation's shareholders to oversee the management of the corporation. The members of a Board of Directors meet periodically and assume legal responsibility for corporate activities.
Board of Governors	The governing body of the U.S. Federal Reserve System, which is responsible for U.S. monetary policy.
Bond	A debt instrument signifying the promise of the issuer to pay the face amount at the maturity date. Periodic interest payments are often required.
Bonds Payable	A long-term liability account used to record the amount of bonds that are outstanding.
Book Value	The amount at which an asset or a liability is carried on the books of account, net of any contra account. (Also called Net Book Value.)
Bottleneck	Operational constraints or inefficient usage of available resources creating work-in-process inventory buildup and/or idle time.
Boycott	A boycott is a measure taken to abstain from using, buying, or dealing with someone or some organization as an expression of protest or as a means of coercion.
Breakeven Analysis	An analysis of the relationship of cost and revenue. It determines the volume at which there is neither profit nor loss for a product or group of products. (Also called Cost/Volume/Profit Analysis.)
Breakeven Point	The volume of sales at which total revenues and total costs are equal.
Browser	A software application that allows a user to access information quickly and easily from web pages at websites all over the world. (Also called web browser.)
Budget	A statement of planned or expected revenues, expenses, assets, and liabilities. A budget provides guidelines for future operations and appraisal of performance. (Also called Profit Plan.)
Budget Process	The process used by an organization to prepare a plan for a future period, allocate resources, determine revenues and expenditures, and compile reports pertaining to that plan.
Budgetary Slack	Intentional underestimation of revenues and/or overestimation of expenses.

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Budgeting	The process of planning flows of financial resources into, within, and from an entity during a specified future period or for a specified project.
Built-in Stabilizers	Government tax and spending policies that cushion income changes in the private sector. Examples include unemployment insurance and progressive income taxes.
Bureaucracy	An administrative policy-making group characterized by specialization of functions, adherence to fixed rules, and a hierarchy of authority.
Business	A commercial or industrial enterprise.
Business cycle	Recurring increases and decreases in the general level of economic activity, over a specific period, consisting of troughs, recovery, peak and recession phases.
Business Plan	A document prepared by a company's management, detailing the past, present, and future of the company. It forms the basis for preparing budgets for the individual company units.
Business Portfolio	A collection of products, projects, services, or brands that are offered for sale by an entity.
Business Process	A sequence of logically related and time based work activities to provide a specific output for a customer.
Business Unit	Any segment of an organization, or an entire business entity that is not divided into segments. Sometimes treated as a Profit Center.
Business-To-Business (B2B) Commerce	Transactions that occur between a company and another company, as opposed to a transaction involving an individual consumer.
Buyback	<ol style="list-style-type: none"> 1. The repurchase by a company of its outstanding stock. 2. An agreement between two entities where one agrees to sell a product to the other and then buy it back at some point in the future.
Buyback Agreement	An inventory financing method (also known as Product Financing) in which the entity selling the inventory agrees to repurchase the inventory at specified prices over specified periods.
By-product	An item resulting from a production process that has relatively little value compared to the company's main product.
Call Option	A contract that gives the buyer the right to buy an asset (for example a share of stock) at a specified price within a specified period of time.

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Capacity Constraints	Resources that limit the maximum performance possible considering the conditions of the existing physical plant, labor force, method of production, or supply of material.
Capacity Management	Management of an entity's costs of unused (excess) capacity such as production facilities, distribution channels, etc.
Capital	<ol style="list-style-type: none"> 1. The equity invested in an entity by its owners. Total assets less liabilities. 2. Long-term assets (e.g., equipment)
Capital Account	In economics, an account that tracks the movement of funds for investments and loans into and out of a country. The capital account makes up part of the balance of payments.
Capital Asset Pricing Model (CAPM)	A general framework for analyzing the relationship between risks and rates of return on securities, especially common stocks.
Capital Budget	A plan of proposed outlays for acquiring long term assets and the means of financing the acquisition.
Capital Gain or Loss	The extent by which the net realized value from sales of a capital asset exceeds (or in the case of a capital loss is less than) the cost of acquisition plus additional improvements, less depreciation and/or depletion charges.
Capital Investment	Any expenditure which increases the capacity, efficiency, life span, or economy of the operation of an existing fixed asset. Outlay of money from which future cash inflows are expected for more than a year. Also referred to as Capital Expenditure.
Capital Lease	A lease that transfers substantially all the benefits and risks inherent in the ownership of the property to the lessee, who accounts for the lease as an acquisition of an asset and the incurrence of a liability.
Capital Rationing	A situation that exists when a constraint is placed on the total amount of the entity's capital investment funds. The limited investment funds available must be allocated to the highest priority projects.
Capital Stock	Ownership shares in a corporation issued to shareholders. May consist of Common Stock and Preferred Stock.
Capital Structure	The relative proportions of short-term debt, long-term debt, and owners' equity in the company.
Capitalize	To record expenditure that is expected to benefit a future period as an asset rather than treating the expenditure as an expense of the period in which it occurs.

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Carrying Cost	Costs of storing and holding inventory, including the cost of capital from the time of acquisition or manufacture until the time of sale or use.
Cartel	An organization of sellers coordinating supply decisions to maximize joint profits. A cartel seeks to create a monopoly in the market.
Cash	Refers to money in the form of liquid currency that a bank will accept for immediate deposit, such as coins, checks, and money orders.
Cash Budget	An estimate of the amount and timing of cash receipts and disbursements at various points over a future period, and cash on hand at the end.
Cash Conversion Cycle	The period of time during which cash is converted into inventories, and inventories are converted back into cash through the sale of goods or collection of accounts receivable. (Also called Cash Cycle or Earnings Cycle.)
Cash Discount	A reduction in the basic price, commonly used to encourage prompt payment or promote sales.
Cash Equivalents	Short-term financial instruments of high liquidity and safety which can be converted to cash on short notice
Cash Flow	The stream of cash inflows and outflows of an entity or segment of an entity.
Cash Management	The processes an entity uses to collect, disburse, and invest its cash.
Cause-and-Effect Diagram	A diagram identifying potential causes of failures or defects. (Also called Fishbone Diagram)
Centralization	An organizational structure in which senior management maintains significant direction and authority over all operations and policies.
Certainty Equivalent	The amount a recipient would require with certainty to be indifferent between this certain amount and a particular uncertain risky amount.
Change in Demand	A change in the quantity buyers want to purchase at different price levels caused by a change in a variable other than price. Often referred to as a shift of the demand curve.
Change in Supply	A change in the quantity sellers are willing to supply at different price levels caused by a change in a variable other than price. Often referred to as a shift of the supply curve.
Change in the Quantity Demanded	A change in the quantity that buyers are willing to purchase at different price levels due only to a change in price. Often referred to as a movement along the demand curve.

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Change in the Quantity Supplied	A change in the quantity sellers are willing to supply due only to a change in price. Often referred to as a movement along the supply curve.
Chart of Accounts	A systematically arranged list of accounts applicable to a specific entity, giving account names and numbers (if any).
Clayton Act	Act passed by the U.S. Congress in 1914 to define and prohibit certain business practices which substantially lessen competition and tend to create a monopoly.
Client/Server Systems	An information-transfer process that works as follows: A client computer program sends a request to a computer server. The server takes the request, processes it, and transfers the information to the client.
Coefficient of Variation	A statistical measure of relative dispersion or relative risk. It is computed by dividing the standard deviation by the expected value.
Coercive Power	Power that stems from the authority to punish or recommend punishment.
Collateral	An asset pledged as a guarantee to a lender until a loan is repaid. If the borrower defaults, the lender has a right to sell the collateral asset.
Commercial Bank	An institution that accepts deposits, offers checking accounts, makes loans, and offers a variety of other related services.
Commercial Paper	A short-term unsecured loan of a corporation having maturity up to 270 days. It is typically issued on a discount (from face value) basis.
Commitment Fee	A fee paid to a financial institution by an entity to secure a line of credit and maintain the unused portion thereof.
Common Market	An agreement between two or more countries that permits the free movement of capital and labor as well as goods and services between countries.
Common Stock	An ownership share in a company, having voting and dividend rights.
Common-Size Statements	Financial statements used for comparison between firms. A common size Income Statement shows all amounts as a percent of revenue. A common size Balance Sheet shows all values as a percent of total assets.
Communication Network	The mechanisms within an organization used to transmit communications.

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Comparability	The quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.
Comparative Advantage	The ability of a country to produce a good or service at a lower opportunity cost than another country.
Compensating Balance	An amount required to be kept on deposit at a bank.
Compensation	Employee or management wages and other financial benefits earned from labor.
Competition-Based Pricing	A pricing strategy wherein the price of a product is determined primarily by the price being charged by one or more competitors.
Complementary Products	Products that are interrelated in that if the demand for one increases (decreases) the demand for the other will also increase (decrease).
Completed-Contract Method	An accounting method that defers recognition of revenues until the completion of a contract, but recognizes anticipated losses immediately.
Composite Method	A convention used to compute depreciation where various assets are grouped together to determine depreciation expense.
Compound Interest	Interest resulting from the periodic addition of simple interest to principal, establishing the new base as the principal for computation of interest for the next period.
Comprehensive Income	All changes in equity during a period except those resulting from investments by owners and distributions to owners.
Concentration Banking	A procedure utilized to manage cash wherein an entity utilizes a large bank (the Concentration Bank) to gather all the cash from smaller local (depository) banks where customers make payments.
Conservatism	<ol style="list-style-type: none"> 1. An accounting concept that states that revenues are recognized only when they are reasonably certain, but expenses are recognized when they are probable. 2. A prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered.
Consignment	An arrangement under which items are delivered by a consignor (seller) to a consignee (agent or buyer) and paid for by the consignee upon reselling.
Consistency	Conformity from period to period with unchanging policies and procedures.
Consolidated Financial Statements	Financial Statements showing financial condition or operating results of two or more associated enterprises as they would appear if they were one entity.

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Consolidated Method	An accounting method utilized to account for investments in entities over which it exercises control (more than 50% ownership)
Constraint	An activity, resource, or policy that limits or bounds the attainment of an objective.
Consumer Price Index (CPI)	Issued monthly by the Bureau of Labor Statistics of the U.S. Department of Labor, the index measures the general purchasing power of the dollar.
Consumption	Household spending on consumer goods and services.
Contingency Planning	Planning for the response to situations that may occur such as emergencies or setbacks
Continuous Budget	A moving projection of financial operations for a series of weeks, months, or quarters immediately ahead. At the end of each period, the portion of the projection then lapsed is removed and a new projection for a period of similar length is added to the series. (Also called Rolling Budget.)
Continuous Improvement	A management approach to productivity improvement, where planned improvements occur in small incremental amounts by refinement of all components of a process. (Also called Kaizen.)
Contribution Margin	The excess of sales revenues over variable costs. (Also called Marginal Contribution or Marginal Income.)
Contribution Pricing	A method of establishing the price of the product based on variable costs and usually, a profit margin.
Control Charts	Statistical tool to help management distinguish between random variations in quality from variations that should be investigated.
Control Risk	A measure of the auditor's assessment of the likelihood that misstatements exceeding a tolerable level will not be prevented or detected by the client's internal control system.
Controllable Cost	A cost that can be influenced by the actions of the responsible manager.
Controller	The individual within an entity who is responsible for the accounting function. (Also called Comptroller.)
Controls	Measures put in place to monitor activities and ensure they are functioning as designed.
Conversion Cost	The sum of all manufacturing costs except direct material.
Convertible	Securities (bonds or preferred stock) issued by companies which can be converted into common shares at a given price at a future date.

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Copyright	The exclusive legal right to reproduce, publish, sell, or distribute something (as a literary, musical, or artistic work).
Correlation	The extent or degree of statistical association among two or more variables.
Cost (noun)	<ol style="list-style-type: none"> 1. In management accounting, a measurement in monetary terms, of the amount of resources used for some purpose. 2. In financial accounting, the sacrifice measured by the price paid or required to be paid, to acquire goods or services.
Cost (verb)	To ascertain the cost of something.
Cost Behavior	The change or lack of change in the amount of a cost item associated with changes in the level of activity.
Cost Benefit Analysis	A tool for planning and reporting that involves the identification and measurement of all costs and benefits attributed to an activity.
Cost Center	A grouping of operating costs having some common characteristics for measuring performance and assigning responsibility. A Responsibility Center where the manager is responsible for costs only.
Cost Driver	A variable causally affecting costs over a time period.
Cost Management	Actions undertaken by managers to satisfy customers while continuously controlling and reducing costs.
Cost Objects	A function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.
Cost of Capital	A measure of the cost of using capital. A weighted average of the interest cost of debt capital and the implicit cost of equity capital. It is the minimum rate of return that must be earned on new investments that will not dilute the interests of the shareholders.
Cost of Quality	Costs incurred to detect, prevent, or rectify poor quality production.
Cost of Sales	The cost of products or services whose sales are reported as revenue. (Also called Cost of Goods Sold.)
Cost Pools	The collection of cost elements that have a common cause and that can be assigned to other cost objects according to a common basis of allocation.
Cost System	The system an entity utilizes to collect and assign costs to intermediate and final cost objects.

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Cost/Volume/Profit Analysis	An analysis of the relationship of cost and revenue emphasizing both the volume at which there is zero profit and the influence of fixed and variable factors on the profit expectations at various levels of operation.
Cost-Based Pricing	The practice of establishing the selling price of a good or service based primarily on the cost to produce it.
Costing	The accumulation and assignment of costs to cost objects.
Cost-Plus Pricing	A pricing practice in which the selling price is determined by adding a percentage or monetary amount to the cost of a product.
Cost-Push Inflation	Persistent increases in input prices affecting a large proportion of the country's producers causing a general price level increase.
Countertrade	The trading of goods for other goods. (Also called Barter.)
Coupon	The annual rate of interest stated on a debt instrument.
Creation of money	The phenomenon in the fractional reserve banking system wherein an increase in bank deposits leads to a much larger increase in the supply of loanable funds.
Critical Success Factors	The important things an entity must do to be successful.
Cross Elasticity of Demand	A measure of the responsiveness of demand for good A to a given change in the price of good B.
Crowding-Out Effect	High interest rates caused by an increase in governmental borrowing that reduces planned private investments.
Cultural Diversity	Refers to the variety of human societies or cultures in a specific corporation, region, or in the world as a whole.
Cumulative Average-Time Learning Model	A learning curve model in which the cumulative average time per unit declines by a constant percentage each time the cumulative quantity of units produced is doubled.
Current Account	In economics, the record of all transactions of goods and services a country has with foreign nations.
Current Assets	Cash and other assets that are expected to be sold, consumed or converted into cash during the normal operating cycle of a business.
Current Cost	The amount of cash needed if the same asset, an identical asset, or an asset with equivalent productive capacity were acquired currently.
Current Liability	A liability required or expected to be discharged (fulfilled) by using current assets within one year or the operating cycle, whichever is longer.

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Current Ratio	A financial ratio used to measure short-term solvency. (Also called Liquidity Ratio.)
Customer Satisfaction	A measure of the extent to which customers are satisfied with the products and related services they received from a supplier.
Cycle Time	The total elapsed time to move a unit of work from the beginning to the end of a physical process, as defined by the producer and the customer.
Cyclical Unemployment	Unemployment due to recessionary business conditions and inadequate aggregate demand for labor.
Data Base	1. A set of data that is sufficient for a given purpose or for a given data processing system. 2. A collection of data fundamental to a system or to an enterprise.
Data Communications	Transfer of data among functional units through data transmission protocols.
Data Encryption	In computer security, the process of transforming data into an unintelligible form in such a way that the original data either cannot be obtained or can be obtained only by using a decryption process.
Data Mart	A subset of a data warehouse that contains data that is tailored and optimized for the specific reporting needs of a department or team.
Data Mining	The process of collecting critical business information from a data warehouse, correlating the information and uncovering associations, patterns, and trends.
Data Warehouse	A central repository for all or significant parts of the data that an organization's business systems collect.
Database Management	The management of an organization's data.
Days Purchases in Accounts Payable	A financial ratio measuring the portion of accounts payable that is current.
Days Sales in Inventory	A measure of the age or adequacy of inventory.
Days Sales Outstanding	A measure of the average number of days a credit sale is outstanding.
Debt Ratio	A financial ratio used to measure the extent to which an entity utilizes debt.
Debt Security	A promise in writing to repay a debt. For example a bond, bill or note.
Decentralization	An organizational structure in which senior management maintains minimal control over individual operations and policies.

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Decision Support System	A system of applications that helps users make decisions by analyzing business data that is presented in meaningful ways
Decision Tree	A diagram of possible alternatives and their expected consequences used to formulate possible courses of actions in order to make decisions.
Declining Industries	Industries that have reached the stage in their maturity where demand for the product is stagnant or decreasing.
Declining-Balance Method	An accelerated depreciation method in which an asset's net book value is multiplied by a constant depreciation rate resulting in higher depreciation charges in the early years of an asset's life.
Decoding	To convert data back into a usable form by reversing a prior encoding.
Default Risk	The risk that a debtor may not be able to meet the terms of a loan.
Deferred	When an asset or liability is not realized as an expense or income until a future date.
Deferred Expenses	Expenditures not recognized in the period in which they were made. They are carried forward as assets that will become expenses in future periods. (Also called Deferred Charges.)
Deferred Revenue	Generally, revenues received or recorded but not yet earned. (Also called Deferred Credit.)
Deferred Income Taxes	In general, the difference between the income tax expense recorded for financial accounting purposes and the amount of income tax paid.
Delegation of Authority	The assignment of authority and responsibility to another person to carry out specific activities.
Demand	The quantity of a commodity or service wanted at a specified price and time.
Demand-Pull Inflation	Price increases that result from an excess of demand over supply
Demand-Side Policies	Economic policies implemented by a government to stimulate the demand for goods and services in an economy.
Departmental Overhead	The total overhead costs incurred by a department.
Departmentalization	The process of grouping activities into relevant departments (e.g., Functional, Product, Customer, Geographic and Process Departmentalization.)
Depletion	The process of allocating the cost of wasting assets (natural resources) to expense over the periods benefiting from the cost.

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Deposit Method	A revenue recognition method utilized when there is uncertainty over the collectibility of the sales price in a transaction (often involving real estate). No revenue is recognized until the sale is complete.
Depreciation	The process of allocating the cost of tangible assets to operations over periods benefited (generally the expected life of the asset).
Derivatives	A collective term for financial instruments whose prices are based on the price of another (underlying) investment (e.g., futures, options, warrants, and convertible Securities).
Detection Risk	The risk that errors not detected or prevented by the control structure will also not be detected by the auditor.
Diluted Earnings per Share	Earnings (net income) per share where "share" includes common stock, preferred stock, unexercised stock options, unexercised warrants, and some convertible debt.
Direct Cost	A cost that is specifically identified with a single cost object.
Direct Foreign Investment	Overseas investment by multinational enterprises.
Direct Marketing	A form of marketing that involves direct contact between the selling enterprise and the ultimate customer.
Direct method	The practice of directly charging off an asset to an expense account.
Disaster Recovery	A procedure for storing an installation's essential data in a secure location, and for recovering that data in the event of a catastrophic problem.
Disbursement	The payment of cash.
Disbursement Float	The value of checks that an entity wrote that have not yet cleared the banking system and not yet deducted from the entity's bank account
Disclosure	An explanation or exhibit attached to a financial statement, or report.
Discount	<ol style="list-style-type: none"> 1. In the case of debt securities, the difference between the price paid by an investor and the face value. 2. In the case of products for sale, the difference between the price paid by a customer and the full price of the item.
Discount Factor	The present value of one unit of currency that is expected to be received in future years.
Discount Rate	The interest rate used to convert future cash flows to their present value.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Discounted Cash Flow	A method of evaluating future net cash flows by discounting them to their present value. The two methods most commonly used are Internal Rate of Return (IRR) and Net Present Value (NPV) methods.
Discounted Payback	The amount of time expected to elapse before the discounted present value of cash inflows equals the discounted present value of the cash outflows.
Discretionary Cost	A cost whose amount within a time period is governed by a management decision to incur the cost. (Also called Managed Cost or Programmed Cost.)
Diseconomies of Scale	Increases in average total costs occurring from an increase in the scale of production in the long run.
Disposable Income (DI)	The income available to individuals after personal taxes.
Distribution	The mechanism by which products or services are delivered to the customer.
Distribution channels	A chain of intermediaries, each passing the product down the chain to the next organization, until it finally reaches the consumer or end-user (e.g., retailer, wholesaler, agent).
Diversification	A technique used by an investor to reduce risk by distributing investment funds among a variety of asset classes.
Diversity	The presence of employees of diverse races and cultures in an organization.
Dividend	The distribution of part of a company's earnings to shareholders.
Dividend Discount Model	A method used to place a value on a share of stock based on the net present value of the dividends that are expected to be received in the future. Expressed as $D / (k - g)$, where D = the expected dividend per share, k = the expected rate of return, and g is the expected growth rate. (Also called Constant Growth Model.)
Dividend Payout	The amount of the dividend paid on a share of stock in a year.
Dividend Payout Ratio	The annual dividend per share of stock as a proportion of Earnings per Share.
Dividend Yield	The annual dividend income per share received from a company as a proportion of the current market price per share.
Division of Labor	A method that breaks down the production of a commodity into a series of specific tasks, each performed by a different worker.
Downstream Costs	Costs incurred after a product is manufactured, including marketing, distribution, and customer service.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Draft	An instrument signed by a one person to another person requesting payment at a future time to a third party.
Drum-Buffer-Rope System	The Theory of Constraints production application, where drum refers to the constraint, buffer refers to the material release duration, and rope refers to the release timing. The aim is to protect the constraint in the system against process dependency and variation, maximizing the systems' overall effectiveness.
DuPont Model	A method used to analyze the components of Return on Equity (ROE), where ROE is expressed as the product of Profit Margin, Asset Turnover and the Equity Multiplier (Financial Leverage Ratio).
Duration	A measure of the volatility of fixed income securities or of a portfolio of fixed income securities to changes in interest rates (e.g., the weighted average number of years until cash flows are received).
Earning Power	Ability to generate earnings that are expected to persist into the foreseeable future.
Earnings	The excess of revenue over expenses for an accounting period. Sometimes used synonymously with net earnings, net income, and income.
Earnings Coverage	The availability of a company's cash flows to service its debt.
Earnings Per Share (EPS)	Net income available to common shareholders on a per share basis.
Earnings Persistence	The components of earnings that can be expected to persist in future years. It excludes nonrecurring items of revenue and expense.
Earnings Quality	The extent that net income is a realistic portrayal of operating performance (i.e., that reported results have not been intentionally overstated or understated by management).
Earnings Yield	Earnings per share for the most recent 12 months as a proportion of the current price per share.
Earnings-Based Valuation	Techniques used to value a share of stock or entity based on earnings expected to be generated by the item or entity. Generally involves present value models.
Economic Order Quantity	The optimal amount of an item to order when inventory is reduced to the reorder point. (Also called Optimal Lot Size.)
Economic Profit	A return to investors that exceeds the opportunity cost of financial capital.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Economic Resources	Physical and human resources from which goods and services are produced
Economic Union	An agreement between two or more countries that allows the free movement of capital, labor, and goods and services.
Economic Value Added (EVA [®])	The amount of earnings generated above the cost of funds invested to generate those earnings.
Economies of Scale	Reductions in an entity's per unit costs associated with production processes that produce large volumes of output.
Effective Interest Rate	The internal rate of return or yield to maturity of a bond at the time of issue.
Efficiency (Usage) Variances	The difference between the actual quantity of input used and the budgeted quantity of input, multiplied by the budgeted price.
Efficient Market Hypothesis	The hypothesis that security prices always fully reflect all publicly available information concerning traded securities.
Elasticity	A measure of the degree to which a price change for an item results in a unit change in supply or a unit change in demand.
Elasticity of Demand	A measure of consumer response to a change in the price of a product or service. Calculated as the percent change in quantity demanded divided by a percent change in price.
Elasticity of Supply	A measure of producer response to a change in the price of a product or service. Calculated as the percent change in quantity supplied divided by a percent change in price.
Electronic Commerce (e-commerce)	Subset of e-business (the transaction of business over an electronic medium such as the Internet) that involves the exchange of money for goods or services purchased over an electronic medium such as the Internet.
Electronic Data Interchange	The exchange of information electronically, directly from one firm's computer to another firm's computer, in a structured format.
Electronic Funds Transfer	Any transfer of funds initiated by electronic means, such as an electronic terminal, telephone, computer, ATM or magnetic tape.
Employee-Centered Leader	A leader that gives a significant amount of freedom to subordinates to make decisions affecting their tasks.
Empowerment	The granting of official authority or legal power to make decisions and take action.
Encoding	The conversion of data by the use of a code in such a manner that it is possible to reconvert the data to the original form.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Enterprise Resource Planning (ERP)	ERP systems integrate (or attempt to integrate) the data and processes of an organization into a single unified system.
Enterprise-Wide	Used to describe systems and processes in use throughout an organization.
Entity	A person, partnership, corporation, or other separate identifiable unit.
Equilibrium	In economics the state of a market for a product or service where there is a balance of supply and demand
Equity	The residual amount after deducting an entity's liabilities from its assets. The amount that shareholders own in a corporation.
Equity Method	A method of accounting for an investment in the stock of another company, when the investor owns sufficient shares of stock of an unconsolidated company and can exercise significant influence over the operating and financial policies of that company.
Equity Theory	A motivational theory that focuses on individuals' perceptions of how fairly they are treated relative to others
Equity Multiplier	Total assets as a proportion of common equity. (Also called Financial Leverage Ratio.)
Equivalent Units	A measure of the physical quantities of inputs necessary to produce output of one fully complete unit.
Eurodollars	Deposits denominated in U.S. Dollars at financial institutions outside the United States.
European Union (EU)	The EU is a group of 25 member states who have lifted all restrictions on the movement of goods, persons, services and capital throughout the EU to create a single market. 12 of the existing member states share a common currency, the Euro.
Exception Reporting	Reporting that alerts management by focusing on significant deviations from planned performance.
Excess Reserves	Actual reserves held by a financial institution in excess of the legally required minimum level set by the central banking authority.
Exchange Rate	The price of one country's currency in terms of another country's currency.
Exchange Rate Risk	The risk that the value of a cash flow will decline due to a change in exchange rates.
Existence-Relatedness-Growth Theory	A theory that states that humans have three basic needs: Existence, Relatedness, and Growth.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Expectancy Theory	A theory proposing that the motivation to engage in certain behaviors is determined by a person's beliefs or expectancies about the outcomes likely to result from that behavior, and its ability to satisfy the person's needs.
Expected Value	The weighted average of the outcomes of an action, in which the values of the possible outcomes are weighted by their probabilities.
Expenditure	Payment for goods or services received that may be made at either the time the goods or services are received or a later time.
Expense	Cost of goods and services used in the current accounting period.
Expense Recognition	The recording in the accounting system of a cost.
Expert Power	Power that stems from special knowledge, expertise, or skills in the tasks performed by subordinates.
Expert System	A computer program that contains some of the subject-specific knowledge of one or more human experts and that can recommend a course of action. Also known as a knowledge based system.
Exponential Smoothing	A methodology used to produce a smoothed time series which assigns exponentially decreasing weights as the observation get older.
Export-Import Bank	The U.S. federal government agency that extends trade credits to U.S. companies to facilitate the financing of U.S. exports.
External Factors	Factors beyond the control of an entity that influence overall economic conditions or the market for its product.
External Failure Costs	Costs that an entity incurs when it detects nonconforming products or services after delivering them to customers (e.g., warranty repairs and product liability).
External Financial Reporting	The reporting of financial information focused on an external audience (lenders, investors, and the general public).
Externality	The negative or positive effect of production or consumption for which no payment is made (e.g., pollution). (Also called spillover effect.)
Factory overhead	All manufacturing costs except direct materials and direct labor.
Factoring	The sale by an entity of its accounts receivable to a lender. The lender then collects the accounts from the customer.
Fair Market Value	The exchange price that would prevail for a good or service traded in an active market consisting of a large number of well-informed buyers and sellers dealing at arm's length.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Fair Value Method	A method used to value an entity's investments in marketable securities. If the carrying value of marketable securities falls below the Fair Market Value, then the value of the security should be reduced to the Fair Market Value.
Favorable Budget Variance	A variance arising when actual or current performance exceeds expected performance.
Federal Open Market Committee	A 12-member committee which sets credit and interest rate policies for the U.S. Federal Reserve System.
Federal Reserve Board	In the U.S. a board, comprised of seven member banks, that directs the federal banking system, formulating and executing monetary policy, overseeing the Federal Reserve Banks, and regulating member banks.
Federal Reserve Bank	The central bank of the United States, carrying out monetary policy for the country and establishing and monitoring banking regulatory policies.
Feedback	The process of informing users of information about how actual performance compares with the expected or desired level of performance.
Fiedler's Contingency (or LPC) Theory of Leadership	A leadership theory that states leaders generally fall into two categories—relationship-oriented and task-oriented—and that a leader of one type could not easily function as a leader of the other type.
Financial Accounting	The accounting for assets, equities, revenues and expenses of an entity; primarily concerned with the historical reporting to external users of the financial position and operations of the entity on a regular periodic basis.
Financial Accounting Standards Board (FASB)	An independent board consisting of seven members responsible for establishing generally accepted accounting principles for the U.S.
Financial Budget	The part of the Master Budget that includes the Capital Budget, Cash Budget, Budgeted Balance Sheet, and Budgeted Statement of Cash Flows.
Financial Instrument	An instrument having monetary value (e.g., bond).
Financial Leverage	The extent to which the assets of an entity are financed with debt.
Financial Leverage Index	Measures how well a company is using its debt, comparing the return on common equity to the return on assets.
Financial Leverage Ratio	Total assets as a proportion of total common equity, which measures the extent of financial leverage.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Financial Reporting	Presentation of financial information indicating an entity's financial position, operating performance, and funds flow for an accounting period.
Financial Statement	A report containing financial information about an organization, including the Balance Sheet (or Statement of Financial Position), Income Statement, and Cash Flow Statement.
Financing Expenses	Expenses incurred by an entity in order to issue debt or equity securities.
Finished Goods Inventories	The part of inventory that accounts for the completed product, ready for sale or other disposition.
Firewall	A network configuration (usually both computer hardware and software) that prevents unauthorized traffic into and out of a secure network.
Firm	A business entity, such as a corporation
First-In-First-Out (FIFO)	A method of inventory valuation and cost flow assumption, where the ending inventory cost is computed from the most recent purchases and the cost of goods sold is computed from the oldest purchases, including beginning inventory.
Fiscal Policy	The use of government taxation and expenditure policies for the purpose of achieving macroeconomic goals.
Fiscal Year	Any accounting period of 12 successive calendar months (or 52 weeks, or 365 days), used by an entity for financial reporting.
Fixed Asset	A noncurrent, nonmonetary, tangible asset used in the normal operations of a business.
Fixed Budget	A budget with fixed and unchangeable amounts of revenues and expenses. (Also called a static budget.)
Fixed Charges	Fixed financial costs such as interest payments and lease (rent) payments.
Fixed Cost	A cost that does not vary with the volume of activity in the short term. (Also called Nonvariable Cost or Constant Cost.)
Fixed Exchange Rate	A monetary system in which a country's currency is set at a fixed rate relative to other currencies.
Fixed Overhead	Overhead Costs that do not vary with the level of output
Flat Database	A relatively simple database system in which each database is contained in a single table.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Flexible Budget	A budget in which the budgeted amounts may be adjusted to any activity level.
Flexible Exchange Rate	An exchange rate for a country's currency that is determined by the market forces of supply and demand. (Also called Floating Exchange Rate.)
Flexible Manufacturing	A form of flexible automation in which several machine tools are linked together by a material-handling system and all aspects of the system are controlled by a central computer.
Floating Exchange Rate	An exchange rate for a country's currency that is determined by the market forces of supply and demand. Also referred to as a Flexible Exchange Rate.
Flowchart	A graphical representation of the flow of information in which symbols are used to represent operations, data, reports generated, equipment, etc.
Foreign Corrupt Practices Act	A U.S. federal law requiring any company having publicly-traded stock to maintain records that accurately and fairly represent the company's transactions, and have an adequate system of internal accounting controls. Enacted with the intent to bring an end to bribery of foreign officials.
Foreign Exchange	Financial instruments, such as paper currency, notes, and checks, used to make payments between countries.
Forfaiting	A form of finance where a third party purchases trade receivables from an exporter at a discount, and then collects from the importer the payment using the shipped goods as collateral.
Form 10-K	The Annual Report required to be filed by public companies with the U.S. Securities and Exchange Commission.
Form 10-Q	The Quarterly Report required to be filed by public companies with the U.S. Securities and Exchange Commission.
Form 8-K	A document required by the U.S. Securities and Exchange Commission to announce certain significant changes in a public company.
Formal Channel of Communication	A communication channel that flows within the chain of command or task responsibility defined by the organization.
Formal Team	A team serving as part of the formal organization structure.
Forward Contract	A non standardized cash market transaction in which the delivery of the commodity is deferred until after the contract has been made.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Forward Delivery	A transaction in which the settlement will occur on a specified date in the future at a price agreed upon on the trade date. (Also called Forward Trade.)
Forward Market	A market in which participants agree to trade some commodity, security, or foreign exchange at a fixed price for future delivery.
Franchise	A license granted by one entity (franchisor) to another entity (franchisee), entitling the franchisee to produce or market a product or service in a specific area, for a specific time.
Fraudulent	Intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right.
Frederick Taylor's Scientific Management	A theory of management based on five principles: 1. develop the one best way of performing a task by scientifically studying it; 2. select the best person to do the job; 3. train, teach and develop the worker; 4. provide financial incentives for following the methods; 5. divide work and responsibility so that managers are responsible for planning and workers are responsible for executing.
Free on Board (F.O.B.)	A term indicating that the invoiced cost to a purchaser includes the cost of delivery, at seller's risk, to an agreed point, beyond which all transportation and delivery costs and risks must be borne by the purchaser.
Free Trade	International trade free from any government interference or impediments such as duties.
Frictional Unemployment	Unemployment due to constant changes in the economy that prevent qualified workers from being immediately matched up with existing jobs.
Fringe Benefit	Non-wage forms of compensation, including pensions and health insurance, provided to an employee in addition to monetary compensation.
Full Employment	The level of employment that results from the efficient use of the labor force after allowance is made for a normal (natural) rate of unemployment due to dynamic and structural conditions of the economy.
Function	The general end or purpose to be accomplished by an organizational unit, such as administration, selling, or research. It can also be a group of related activities serving a common end.
Functional Currency	The currency of the primary economic environment in which the entity operates.
Future	A legal agreement to make or take delivery of a specified instrument at a fixed future date at a price determined at the time of dealing.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Fuzzy Logic	Logic based on approximate rather than precise reasoning, used in some computer applications.
Gap Analyses	In quality management, a quantifiable analysis of the gap between expected levels of quality and actual results.
General Agreement on Tariffs and Trade (GATT)	An organization composed of countries designed to set the rules for the conduct of international trade and to reduce barriers to trade among nations.
Generally Accepted Accounting Principles (GAAP)	The body of accounting rules, methods, and procedures endorsed by the accounting profession, either by convention or by authoritative literature, as a guide to the preparation of financial statements.
Geographical Pricing	Product and service pricing based on the marketplace in which it is provided.
Global Business	The conduct of business on a worldwide basis
Global Trade	The exchange of goods and services between countries
Goal Congruence	A characteristic of a management control system that is structured so that the goals of individuals are consistent with the goals of the organization.
Goal-Setting Theory	A motivational theory based on establishing goals and meeting those goals.
Going Concern	The assumption that, in the absence of evidence to the contrary, a firm will continue to exist indefinitely.
Gold Standard	A monetary system that backs its currency with a reserve of gold, and allows currency holders to convert their currency into gold.
Goodwill	The excess of the fair market value an entity above its identifiable net assets.
Grapevine	An informal person-to-person communication network of employees.
Gross Domestic Product (GDP)	The value of all goods and services created within an economy.
Gross Profit Margin	Net sales less cost of sales. (Also called Gross Profit.)
Gross Profit Method	A method of estimating ending inventory amounts by measuring Cost of Goods Sold as a percent of sales and subtracting this from beginning inventory plus purchases.
Gross Revenue	Total unadjusted revenue. (Also called Gross Sales.)

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Group Method (Depreciation)	A method of depreciation in which assets with similar characteristics are grouped and a single depreciation expense amount is calculated.
Growth	Economic expansion measured by an indicator such as Gross Domestic Product (GDP).
Hedging	A method of reducing exposures to fluctuations in prices, exchange rates, or interest rates.
Herzberg's Two-Factor Theory	A motivational theory stating that people are influenced by Hygiene factors (e.g., pay) and Motivation factors (e.g., challenge). Only the motivation factors have a lasting motivational influence.
High-low method	Method of estimating cost behavior by using only the highest and lowest values of the cost driver within the relevant range.
Historical Cost	The amount originally paid for an asset, unadjusted for subsequent changes in value. (Also called Acquisition Cost or Original Cost.)
Holding Gain or Loss	Unrealized gains or losses from holding assets or liabilities during a period of changing prices.
Horizontal Analysis	Compares each amount on a financial statement with a base amount for a selected base year.
Hurdle Rate	The minimum acceptable rate of return that companies will consider from a prospective project or investment. (Also called Required Rate of Return.)
Hybrid Cost System	A cost system having characteristics of both Job Costing and Process Costing systems.
Impaired Security	A financial security that has experienced a permanent decline in value due to the financial distress of the issuer or economic conditions.
Impairment	A permanent decline in the value of an asset.
Implicit Costs	Costs recognized in particular situations that are not regularly recognized in the accounting records of an entity. (Also called Imputed Costs.)
Implicit Interest Rate	Rate that would have resulted from two independent parties negotiating an interest rate. (Also called Imputed Interest Rate.)
Imposed Budget	A budget that is decided by higher level management without the participation of the manager of the unit to whom that budget relates. (Also called Top-Down Budget.)

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Income Elasticity of Demand	The percent change in the quantity of a product demanded divided by the percent change in consumer income. It measures the responsiveness of the demand for a good to a change in income.
Income Tax	An annual tax levied by a government on the financial income of an entity.
Incorporated (Inc.)	A company formed into a legal corporation.
Incremental	The difference in cash flow, both as to amount and as to timing, between two alternative courses of action.
Incremental Analysis	A method of analyzing managerial decisions that emphasizes incremental rather than the total costs and benefits associated with an action (or set of alternative actions). (Also called Marginal Analysis or Differential Analysis.)
Incremental Unit-Time Learning Model	A learning curve model in which the incremental unit time (the time needed to produce the last unit) declines by a constant percentage each time the cumulative quantity of units produced is doubled.
Indenture	A written agreement (also called a deed of trust) between a debt issuer and a purchaser, stating the maturity date, interest rate and other terms.
Independent Auditor	An external auditor who has no financial or other interest in the client whose financial statements are being examined.
Index of Leading Economic Indicators	An index of economic variables that historically has tended to turn down prior to the beginning of a recession and turn up prior to the beginning of an economic expansion.
Indifference Curve	A graph showing combination of goods for which a consumer is indifferent, that is, has no preference for one combination or another.
Indirect Cost	Any cost not directly identified with a single final cost object, but identified with two or more final cost objects or with at least one intermediate cost object. All costs other than direct materials and direct labor. (Also called Overhead Cost or Burden.)
Inflation	A rise in the general level of prices of goods and services.
Informal Channel of Communication	A communication channel that exists outside formally authorized channels without regard for the organization's hierarchy of authority.
Informal Power	Power that does not come from a person's position in the organization.
Informal Team	A team created outside the formal organization structure.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Information System	A system consisting of people, computers, voice and data communications, and methods organized to accomplish data and information operations. Information systems support the running of the enterprise's business.
Information Technology (IT)	IT deals with the use of electronic hardware and software to convert, store, protect, process, transmit, and retrieve information.
Inherent Risk	The auditor's assessment of the likelihood that there are material misstatements in the financial statements before considering the effectiveness of internal controls.
Input Controls	Controls that ensure the complete and accurate recording of authorized transactions by authorized users and identify rejected and duplicate items.
Installment Sale	An arrangement where the buyer takes possession of the property immediately but does not receive the deed and title until a series of payments have been made.
Intangible	A type of non-current asset that has no physical substance and whose value comes from rights or advantages conferred upon the owner. Examples are patents, copyrights, trademarks, brand names, licenses, and goodwill.
Interest	The cost incurred or amount earned for the use of borrowed capital.
Interest-Bearing	A debt instrument that includes a provision that interest be paid.
Interim Financial Reports	Financial statements prepared for periods shorter than one year, such as monthly or quarterly.
Internal Auditing	An appraisal activity within an entity that measures and reports on the extent to which various organizational policies are followed and goals are met.
Internal Control	Controls established by management to ensure adherence to management policies, safeguarding of assets, and completeness and accuracy of records.
Internal Factors	In strategic planning, an analysis of the internal strengths and weaknesses of an entity.
Internal Failure Costs	Costs incurred when an entity detects nonconforming products or services before delivering them to customers. Examples include scrap, rework and retesting.
Internal Rate of Return (IRR)	The discount rate that equates the net present value of a stream of cash outflows and inflows to zero.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
International Accounting Standards Board (IASB)	An independent, privately-funded accounting standard-setter based in London, UK, with board members from nine countries, committed to developing a single set of high-quality, understandable and enforceable global financial accounting standards
International Monetary Fund	An international banking organization that oversees the operation of the international monetary system.
Internet	The worldwide collection of interconnected networks that use the Internet suite of protocols and permit public access.
Intranet	A private network that integrates Internet standards and applications within an organization's existing computer networking infrastructure.
Intrinsic Motivation	When people engage in an activity for its own sake, without some obvious external incentive present.
Inventory	The actual raw materials, supplies, goods on hand, goods in process of manufacture, and goods in transit, in storage, or consigned to others, or the act of accounting for, listing and pricing inventory.
Inventory Turnover	A ratio that measures the number of times a firm's average inventory is sold during a year.
Inventory Valuation	The measurement of the cost assigned to items in inventory.
Invested Capital	The amount of capital contributed to a business by equity investors, either directly or through the retention of earnings.
Investment	Expenditure to acquire property or other assets in order to produce income; also, the asset so acquired.
Investment Center	A responsibility center whose performance is measured in the amount of income it earns relative to the investment in its assets.
Job Design	The specification of the contents, methods, and relationship of jobs to satisfy technological and organizational requirements.
Job Enlargement	Increasing the scope of a job through extending the range of its duties.
Job Enrichment	The practice of improving work processes and environments so they are more satisfying for employees.
Job Order Costing	A method of cost accounting that accumulates costs for individual jobs or lots.
Job Rotation	An approach to management development where an individual is moved through a schedule of assignments designed to give him or her breadth of exposure to the entire operation.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Job Specialization	The separation of organizational activities into distinct tasks and the assignment of specialists to each task.
Joint Product Costing	A method of cost accounting used when simultaneously producing or otherwise acquiring two or more products (joint products) that must, by the nature of the process, be produced or acquired together. (Also called Common Cost.)
Journal	A record of original entry that records transactions in chronological sequence.
Just-In-Time Manufacturing	A manufacturing process where products are produced or procured as they are needed rather than when they can be made
Kaizen	A management concept that seeks continuous improvements, likely occurring in incremental amounts, by refining all components of a process. (Also called Continuous Improvement.)
Kaizen Budgeting	An approach to budgeting that explicitly incorporates specific improvement during the budget period into the resulting budget numbers.
Kanban	A manufacturing strategy wherein parts are produced or delivered only as needed.
Kinked Demand Curve	A demand curve that is highly elastic for a price increase but inelastic for a price decrease, based on the assumption that rival firms will match a price reduction but not a price increase.
Labor Market	Markets that function through the interaction of workers and employers, constituting the suppliers of labor services (workers), the demanders of labor services (employers), and the resulting pattern of wages, employment, and income.
Last-In-First-Out (LIFO)	A method of inventory valuation and cost flow assumption, where ending inventory is measured by assigning the most recent costs incurred to costs of goods sold, and the earliest costs to ending inventory.
Law of Diminishing Marginal Utility	A basic economic principle that states that, as the consumption of a commodity increases, the marginal utility derived from consuming more of the commodity will eventually decline.
Law of Diminishing Returns	The principle that states that as increasingly more units of a variable resource are combined with a fixed amount of other resources, use of additional units of the variable resource will eventually increase output at a decreasing rate.
Lead Time	The time expected to elapse between the date an order is placed and the date the goods or services are received.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Lean Thinking	The continual effort to increase productivity and eliminate waste.
Learning Curve	A mathematical expression of the phenomenon that incremental unit costs to produce decrease as managers and labor gain experience from practice and as better methods are developed.
Lease	A contract between the owner of property (Lessor) and the user (Lessee) concerning the financial and operating arrangements for the property.
Leasehold	An asset representing the right of a Lessee (User) to use property.
Least-Squares Method	A statistical method for defining a line that best fits the data points and reflects the relationship between variables. (Also called Linear Regression.)
Ledger	A book of accounts; any book of final entry.
Legitimate Power	Power that stems from a formal management position in an organization.
Letter of Credit	A binding document from a bank guaranteeing that a buyer's payment will be received on time and for the correct amount. Often used in international trade to eliminate perceived risks.
Liability	Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
Life-Cycle Costing	The accumulation of costs for activities that occur over the entire life cycle of a product, including design and development, acquisition, operation, maintenance, and service.
LIFO Liquidation	When a company using the LIFO method of inventory costing liquidates their older LIFO inventory; occurs when current sales are higher than current purchases, and as a result, any inventory not sold in previous periods must be liquidated.
LIFO Reserve	The difference between the LIFO value and FIFO value of inventory.
Line Authority	A form of authority in which individuals in management positions have the formal power to direct and control immediate subordinates.
Line Item Budget	A budget that classifies items of expense by the nature of the expense, such as salaries, fringe benefits, travel, etc.
Line of Business	A set of operations directed to the production and sale of a distinctive type of goods or services to customers
Line of Credit	An agreement usually by a bank to make loans, not to exceed a specified total amount, when needed by a customer

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Linear Programming	A mathematical tool used to optimize a function (the objective function) subject to various constraints, all of which are linear. Often used to find the combination of products that will maximize profits or minimize costs
Liquidity	Ability to convert an asset into cash quickly.
Liquidity Index	A measure of the time needed to convert current assets to cash.
Loan Covenants	Clauses in a loan agreement that require one party to do, or refrain from doing, certain things. Often referred to as restrictive covenants.
Local Area Network	A network that connects several devices within a limited area (such as a single building or campus) and that can be connected to a larger network.
Lockbox System	A system where a financial entity collects and deposits payments on behalf of an entity thereby reducing the mail and processing float.
Long Run	A time period of sufficient length to enable decision makers to adjust fully to a market change; the period of time in which all costs are variable.
Long-Term Liabilities	Debts due for repayment more than one year in the future or beyond the normal operating cycle.
Lower of Cost or Market Rule	A method of valuation that results in an asset being valued at either acquisition cost or market value, whichever is lower.
M1	The sum of all currency in circulation, demand deposits and checking accounts of depository institutions, and traveler's checks.
M2	M1 plus savings and time deposits (less than \$100,000), money market mutual fund shares, money market deposit accounts, overnight loans from customers to commercial banks, and overnight Eurodollar deposits held by U.S. residents.
M3	M2 plus time deposits greater than \$100,000 and longer term loans of customers to commercial banks and savings and loan associations.
Macroeconomics	The branch of economics that focuses on how human behavior affects outcomes in highly aggregated markets and the economy as a whole.
Mainframe Systems	Systems that reside on a large-scale computer (typically with a separate central processing unit), with extensive capabilities and resources to which other computers may be connected so that they can share facilities.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Maintenance	Expenditures necessary to achieve the originally anticipated useful life of a fixed asset.
Make Versus Buy	The decision either to produce a good or service with an entity's own resources or to buy it from an outside supplier.
Managed Floating Exchange Rates	An exchange rate that is mostly allowed to change (float) as demand in currency supply and demand changes but is often altered (managed) by governments through their buying and selling of certain currencies.
Management	The process of leading and directing all or part of an organization, often a business, through the deployment and organization of resources.
Management Accounting	The process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by internal decision makers in order to plan, evaluate, and control an entity and to assure appropriate use of and accountability for its resources. (Also called Managerial Accounting.)
Management Control	An organized, integrated process and structure through which management attempts to achieve enterprise goals effectively and efficiently.
Management Discussion and Analysis	A discussion of Management's views of an entity's performance, required by the US Securities and Exchange Commission to be included in the Annual Report on Form 10-K.
Management Information System	A system that provides past, present, and prospective information about internal operations and external intelligence.
Management-By-Objectives (MBO)	The joint formulation by a manager and his or her superior of goals and plans for achieving the overall objective of the unit for a forthcoming period.
Manufacturing	The transformation of raw materials into finished goods.
Marginal cost	Cost resulting from the production of one additional unit.
Marginal Product	The increase in the total product resulting from a unit increase in the use of a variable input.
Marginal Rate of Substitution	The change in the consumption level of one good that is just sufficient to offset a unit change of the consumption of another good without causing a shift to another indifference curve.
Marginal Utility	The additional utility received by a person from the consumption of an additional unit of a good within a given time period.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Market Equilibrium Price	The price of a good or service that will balance the supply and demand.
Market Penetration	A measure of an entity's sales of a given product or service compared to the total sales of all suppliers in the market. (Also called Market Share.)
Market Segmentation	A process where the market is grouped into smaller subgroups.
Market Skimming Pricing	Charging a relatively high price for a short time when a new, innovative, or much-improved product is launched onto a market.
Market Structure	The organizational and other characteristics of a market, in particular those that affect the nature of competition and pricing.
Market Targeting	The practice of selecting a group of customers based on demographic or other characteristics, and targeting promotional activities to sell specifically to them.
Market Value	The value of a good, a service, or a security as determined by buyers and sellers in an open market.
Market Value Added	The difference between the market value of a company and the capital contributed by investors.
Marketability	A characteristic of a security that allows it to be sold at a reasonable price in a short period of time.
Marketable Securities	<ol style="list-style-type: none"> 1. Liquid securities that can be converted into cash quickly. 2. A balance sheet classification for negotiable financial instruments.
Market-Based Transfer Price	When the price for goods or services charged by one division of a company to another is based on the market price.
Marketing	<ol style="list-style-type: none"> 1. The ongoing process of moving people closer to making a decision to purchase someone else's products or services. 2. An organizational function for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization.
Marketing Communication Mix	The variety of methods an entity uses to communicate with its customers, including direct selling, mass advertising, targeted advertising, etc.
Marketing Mix	The variety of tactics an entity uses to market its product or service. Often referred to as the 4 Ps (Product, Price, Promotion, and Place).
Markov Process	A technique used in decision-making where discrete time stochastic (random) control processes are characterized by a set of states. The process or system can move from one state to the other based on fixed probabilities.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Maslow's Hierarchy	A theory stating that as humans meet basic needs, they seek to satisfy successively higher needs according to the following hierarchy: 5. Actualization (highest level) 4. Status/esteem 3. Love/belonging 2. Safety 1. Physiological (lowest level)
Master Budget	A budget that consolidates all budgets into an overall plan and control document, for a budgeted period. (Also called a Comprehensive Budget.)
Matching	The process of recognizing expenses in the same accounting period as that in which the related revenues are recognized.
Material Requirements Planning (MRP)	A system that translates a production schedule into requirements for each component needed to meet that schedule.
Materiality	The concept that accounting should separately recognize only those events that are relatively important for understanding an entity's statements.
Matrix Organization	An organization structure that utilizes functional and divisional chains of command simultaneously in the same part of the organization.
Mature Industry	An industry that has passed both the emerging and the growth phases of industry growth, when earnings and sales growth is slow.
Maturity Date	The date on which a debt becomes due for payment.
Maturity Matching	The matching of asset and liability maturities; i.e., financing long-term assets with long-term sources and short-term needs with short-term sources.
McClelland's Acquired Needs Theory	A motivational theory that states an individual's specific needs are acquired over time and are shaped by one's life experiences. The needs are classified as achievement, affiliation, or power needs. (Also called Three-Need Theory.)
McGregor's Theory X and Theory Y	Theories of human motivation that have been used in human resource management, organizational behavior, and organizational development. Theory X assumes that employees are inherently lazy and will avoid work if they can; and therefore need to be closely supervised. Theory Y assumes employees are ambitious, self-motivated, willing to accept greater responsibility, and exercise self-control and self-direction.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Microeconomics	The branch of economics that focuses on how human behavior affects the conduct of affairs within narrowly defined units, such as individual households or business firms.
Minimum Wage	The lowest wage legally permitted.
Mission	The purpose for an organization's existence.
Mix Variance	A variance that results when actual proportions of the components of revenues or costs are different from the proportions used in arriving at the budgeted or planned revenue or cost, or the standard cost.
Mixed Cost	A cost composed of fixed and variable elements.
Modified Perpetual Inventory	An inventory system where the cost of purchases are recorded directly in the inventory account. The cost of sales is not recorded at the time of sale, but a record is kept of the number of units sold.
Monetary Items	Money or a claim (an obligation) to receive (or pay) a sum of money, the amount of which is fixed or determinable without reference to future prices of specific goods and services.
Monetary Multiplier	The multiple by which an increase in bank required reserves will increase the money supply.
Monetary Policy	Government control of the money supply to achieve macroeconomic goals.
Money Supply	The supply of currency, checking account funds, traveler's checks, and other monetary instruments. (See M1, M2, and M3).
Monopolistic Competition	A situation where there are a large number of independent sellers, each producing a differentiated product in a market with low barriers to entry.
Monopoly	A market structure characterized by a single seller of a well defined product for which there are no good substitutes and by high barriers to the entry of any other firms into the market for that product.
Monte Carlo Technique	An analytical technique in which a large number of simulations are run to infer the most likely result, using random quantities for uncertain variables.
Mortgage	A claim given by the borrower to the lender against the borrower's property.
Mutually Exclusive Project	Competing investment projects in which accepting one project eliminates the possibility of undertaking the remaining projects.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
North American Free Trade Agreement (NAFTA)	The 1994 agreement between the U.S., Canada, and Mexico instituting a schedule for phasing out tariffs and eliminating a variety of fees to encourage free trade between the three North American countries.
National Income	The total income to owners of human (labor) and physical capital during a period. It equals Net National Product minus indirect business taxes.
Natural Monopolies	Market situations in which the average costs of production continually decline with increased output, resulting in a single entity being the lowest cost producer of the output demanded
Negotiable CD	A Certificate of Deposit with a very large denomination, usually \$1 million or more. They are usually in bearer form, considered low risk and highly liquid. (Also called Jumbo CD.)
Net Domestic Product (NDP)	Gross Domestic Product less depreciation on a country's capital goods. It measures how much a country has to spend to maintain its current GDP.
Net Income	Income for a period after subtracting expenses from all sources for that period. (Also called Net Earnings.)
Net Present Value (NPV)	The difference between the present value of all cash inflows from a project or investment and the present value of all cash outflows required to obtain the investment, or to undertake the project at a given discount rate.
Net Realizable Value	<ol style="list-style-type: none"> 1. The estimated selling price in the ordinary course of business less the reasonably predictable cost of completion and disposal. 2. Accounts receivable less allowance for bad debts.
Network	In data communications, a configuration in which two or more locations are physically connected for the purpose of exchanging data.
Network Analysis	Identification of the individual tasks to complete a project or activity and determining the relationships between the tasks.
Network Controls	Internal controls to insure accurate and secure flows of data in computer and communication systems.
Neural Networks	Computer based systems of hardware and software that mimic the human brain's ability to recognize patterns or predict outcomes using less than perfect information.
Niche Marketing	The process of finding and serving small but potentially profitable market segments and designing custom-made products or services for them.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Noise	Any factor in the communication process that interferes with exchanging messages and achieving common meaning.
Nominal	A term signifying that a value has not been adjusted for inflation.
Nominal GDP	Gross Domestic Product expressed at current prices.
Non-manufacturing Sector	The business sector that does not manufacture goods. (Also called Service Sector.)
Non-monetary Exchange	The exchange of goods or services between entities for which no monetary instruments are involved. (Also called Barter.)
Non-price Competition	Methods firms use to attract customers other than price reductions, including advertising, free gifts, special packaging, etc.
Nonrecurring Items	One-time occurrences for an entity involving unusual income or expense.
Non-Tariff Trade Barriers	Measures other than tariffs that impede international trade and restrict the import and export of goods, such as customs delays and boycotts.
Non-Value-Added	An activity that increases a good's costs without increasing its value to the consumer.
No-par Stock	The shares of a company that carry no nominal or par value.
Normal Cost	A costing system whereby cost objects are assigned the sum of direct materials and labor resources consumed plus an allocation of overhead based on normal capacity.
Normal Profit	The net earnings for an enterprise that recognizes that a reasonable return on capital (both debt and equity) is one of the costs of the enterprise.
Normal spoilage	Inherent product deterioration that is expected even under the best operating conditions. It is unavoidable in the short run.
Notes Payable	A short-term debt instrument whereby the issuer promises repayment on or before a specified date.
Objective Function	In Linear Programming, the variable to be maximized (profit) or minimized (cost).
Objectivity	A trait of financial reporting that emphasizes the verifiable, factual nature of events or transactions and minimizes personal judgment in the measurement process.
Obsolescence	The loss in usefulness of an asset caused by technological or market changes.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Off-Balance Sheet Financing	Financing from sources other than debt and equity offerings that are not reflected on an entity's balance sheet, such as joint ventures, partnerships, and operating leases.
Official Reserves Account	Holdings of gold and foreign currencies by a nation's official monetary institutions.
Oligopoly	A market situation in which a small number of sellers comprise the entire industry.
Online Transaction Processing	A type of interactive application in which requests submitted by users are processed as soon as they are received.
Open Account	A procedure in export trading where an overseas buyer is instructed to make payment to the exporter's bank, thereby providing the exporter immediate cash and reducing risk.
Open-Market Operations	The buying and selling of U.S. government securities (national debt) by the Federal Reserve.
Operating Cycle	The average time between the acquisition of materials or services and the final cash realization from the sale of products.
Operating Expenses	Expenses incurred in the course of ordinary activities of an entity.
Operating Income	Earnings before Interest and Taxes.
Operating Lease	A lease that does not meet the criteria for capitalized a lease; accounted for as rental payments.
Operating Leverage	The percent of fixed costs in a company's cost structure.
Operational Audit	A process of obtaining and evaluating evidence about operating procedures and events as compared with established criteria of good performance.
Operational Budget	A plan for the revenues and expenses associated with operating activities of a given period. (Also called Current Budget.)
Operations	Activities of an entity that deal with producing, delivering and selling goods or services.
Opportunity Costs	The value of the forgone alternatives.
Option	A legal right to buy or sell something at a specific price within in a specified time.
Ordering Cost	The cost of preparing a purchase order, and the special processing and receiving costs related to the number of orders processed.
Organization Structure	The arrangement of responsibilities within an entity.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Organizational Culture	The set of key values, beliefs, understanding and norms of an organization.
Organizational Goals	A desired future state that the organization attempts to attain.
Ouchi's Theory Z	Theory Z focuses on increasing employee loyalty to the company by providing a job for life with a strong focus on the well-being of the employee, both on and off the job
Output Controls	Output controls ensure that a complete and accurate audit trail of the results of processing is reported to appropriate individuals for review.
Outsourcing	The process of purchasing goods and services from outside vendors rather than producing the same goods or providing the same services within the company.
Overdraft	A facility (usually at a bank or other financial institution) enabling an account holder to borrow up to an agreed amount, often for an agreed time.
Overhead Allocations	Methods used to assign overhead costs to products, activities, or processes
Overhead Budget	The estimated or planned expenditures of an entity for overhead costs (costs other than those directly related to products or services).
Overhead	Indirect costs.
Overhead Rate	The ratio of overhead costs for a specific period related to the amount of some measurable causal factor during the same period. (Also called Burden Rate.)
Paid-In Capital	The amount paid by investors in exchange for stock. (Also called Contributed Capital.)
Par Value	1. The dollar amount printed on the face of some stock certificates. 2. The face value of a bond.
Paradigm	A set of assumptions, concepts, values, and practices that constitutes a way of viewing reality.
Pareto Diagram	A diagram that indicates how frequently each type of failure or defect occurs.
Pareto Principle	The Pareto principle states that for many phenomena, 80% of the consequences stem from 20% of the causes. (Also called the 80-20 rule.)
Participative	A type of budgeting that allows managers to participate in the preparation of budgets. (Also called Bottom-Up.)

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Patent	A right granted by a government to exclude those other than the owner of the right (patent) from manufacturing, using, or selling a design, product, process, or method.
Payback	The period of time necessary to recover the cash cost of an investment from the cash inflows attributable to the investment.
Payroll Cost	<ol style="list-style-type: none"> 1. Payments to employees for labor services. 2. Taxes and tax-like payments an employer incurs as a legal condition of employment such as unemployment insurance paid to state and federal governments.
Peak-Load Pricing	The practice of charging a higher price for the same product or service when demand approaches physical capacity limits
Pension	An amount given to a person usually after retirement.
Percentage-of-Completion Method	A method of accounting for long-term construction contracts where revenue and gross profit are recognized each period based upon the progress of the construction.
Performance	A general term applied to part or all of the conduct or activities of an entity over a period of time, often with reference to some standard.
Performance Evaluation	A management process of reviewing an employee's performance over a period of time, comparing that performance to expectations or standards, and communicating the results to the employee.
Performance Measurement	A quantification of the effectiveness and efficiency with which the objectives of a responsibility center have been accomplished.
Period Cost	An expenditure or loss that is charged to the current period rather than as a cost of the products produced in that period.
Periodic Inventory	A method for determining inventory values dependent upon a physical inventory taken at the end of each period, with the resulting inventory value entered on the books of account; additions to inventory during the period are charged to a purchases account and not to inventory, as in a perpetual inventory system.
Perpetual Inventory	A record where the inventory levels are continuously updated for additions and subtractions.
Personal Income	The total income received by individuals that is available for consumption, saving, and payment of personal taxes.
Physical Inventory	A physical count of all inventories on hand.
Plant	Land, buildings, machinery, equipment, furniture and other fixed assets used to produce products.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Plant-Wide Overhead	A single overhead rate for an entire plant used to allocate overhead costs to products produced in the plant.
Porter's Three Generic Strategies	A categorization of three general types of strategies that are commonly used by businesses: Cost Leadership, Differentiation, and Market Segmentation (or focus).
Portfolio	A group of investments held by an institution or individual.
Positioning	The technique by which marketers try to create an image or identity in the minds of their target market for the product, brand, or organization.
Positioning Strategy	Marketing strategies used to position a product or service in a market.
Post-Retirement Benefits	Payments to which former employees may be entitled once they are no longer employed, including pension benefits, death benefits, health benefits, and life insurance.
Practical capacity	Measure of capacity that is the maximum level at which the plant or department can operate efficiently.
Preferred Stock	Capital stock that provides a fixed dividend paid before any dividends are paid to common shareholders. It takes precedence over common stock in the event of liquidation.
Premium	The extra amount paid for a security over and above its intrinsic or par value.
Prepaid Expenses	Payments made for services to be received after the date of payment.
Present Value	The value today (or at some specific date) of an amount or amounts to be paid or received later (or at other, different dates), discounted at some discount rate.
Prevention Costs	Costs incurred by an entity to prevent defects in the products or services it produces. Examples include inspection, design, and quality training.
Price Elasticity of Demand	The percentage change in the quantity of a product demanded divided by the percent change in its price. It indicates the degree of consumer response to a variation in price.
Price Elasticity of Supply	The percentage change in the quantity of a product supplied divided by the percent change in its price. It indicates the degree of producer response to a variation in price.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Price Supports	Minimum prices established by government for products (generally agricultural products). The government pledges to purchase any surplus of the product that cannot be sold to consumers at the support price.
Price Variance	The difference between actual price and budgeted price multiplied by the actual quantity of input.
Price/Book Ratio	Current Market Price per share divided by Net Book Value per share.
Price/Earnings (P/E) Ratio	Current Market Price per share divided by Earnings per share.
Pricing	The process of determining the amount to charge customers for products or services.
Prime Cost	The cost of direct materials and direct labor.
Pro Forma Statements	<ol style="list-style-type: none"> 1. Financial statements that have one or more assumptions or hypothetical situations built into the data. 2. Budgeted balance sheets and income statements are sometimes referred to as pro forma statements.
Probability	The likelihood or chance of occurrence of an event.
Probability Distribution	A collection of data that shows all the values that the random variable can take and the likelihood that each will occur.
Process Analysis	The review of business processes including definition, monitoring, measurement, and reporting with the goal of improving processes to meet customer requirements profitably.
Process Costing	A method of allocating manufacturing cost to mass-produced identical or similar products to determine an average cost per unit. Each unit receives the same manufacturing input as every other unit. Refineries, paper mills, and food processing companies are examples that use process costing.
Processing Controls	Controls on the processing stage of an information system, including Run-to-Run controls, Operator Intervention controls, and Audit Trail controls.
Product Cost	The direct material, direct labor, and production overhead cost of a product.
Product Life-Cycle	The time span between the initial concept of a product or service and the time when the entity no longer produces the product.
Product Line	A grouping of similar products.
Product Mix	The array of products offered for sale by a company.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Production Budget	The planned cost of producing goods during a given period.
Production Costs	The material, labor, and overhead cost of producing products and services. Excludes distribution and selling costs. (Also called Manufacturing Cost.)
Production Possibilities Curve	A curve that outlines all possible combinations of total output that could be produced assuming (a) the utilization of a fixed amount of productive resources, (b) full and efficient use of those resources, and (c) a specific state of technical knowledge.
Productivity	The relationship between output and inputs; i.e., the effectiveness of using particular inputs (e.g., labor) to produce an output.
Profit Center	A responsibility center whose financial performance is measured by the difference between its revenue and its expenses or cost.
Profit Margin	The profit margin on sales; net income as a percent of sales revenue.
Profitability Analysis	An analysis performed to determine whether a specific product, group of products, or an entire entity is making a profit.
Profitability Index	A measure used in capital budgeting to rank projects, calculated as the present value of the future cash flows from an investment divided by the initial investment. (Also called the benefit-cost ratio.)
Program Budget	A budget that is structured to show the expenses (and often revenues) of the principal programs that the entity will undertake.
Program Evaluation Review Technique (PERT)	A technique for planning and controlling the work on a project. It breaks the project down into work activities, shows the estimated time required to complete each activity, and sets priorities.
Progress Payment	A payment of an interim billing based upon partial completion of a contract.
Project Budget	A budget of costs classified by resources and function for a specific project over the project's life, which may span several operating budget time periods.
Promissory Note	A signed statement promising to pay to a specified person or the bearer a particular sum of money on a fixed date or on demand.
Promotion	Marketing methods used to bring a product to public attention including advertising, personal selling, sales promotion, and publicity.
Promotional Pricing	A marketing technique where pricing is the major element of the overall marketing strategy. It is commonly used to generate high sales volume for a product within a limited time period.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Pronouncement	An authoritative statement.
Property, Plant, and Equipment (PP&E)	A balance sheet classification for fixed assets used in business operations. Property, plant, and equipment items are normally grouped and reported at acquisition cost using separate disclosure of accumulated depreciation or depletion. (Also called Plant Assets, Operational Assets, or Fixed Assets.)
Prorate	To allocate; to charge an indirect cost to the several cost objects that are assumed to have caused this cost.
Protectionism	Steps taken by countries to protect their domestic industries from foreign competition.
Provision	Estimated liability or expense when the exact amount is not known.
Proxy	Authorization given by one person to another so the second person can act for the first. Often used by shareholders to authorize management to vote shares of stock.
Public Company	A company that has issued securities through an offering, and which are now traded on the open market. (Also called publicly-held or publicly-traded company.)
Public Company Accounting Oversight Board (PCAOB)	A board established by the U.S. Sarbanes-Oxley Act of 2002 which regulates the auditing profession and sets standards for audits of public companies.
Public Relations	Efforts to establish and maintain a company's image with the public.
Pure Competition	A model of industrial structure characterized by a large number of small firms producing a homogeneous product in an industry (market) that permits complete freedom of entry and exit.
Put Option	An option to sell a particular asset within a specified period of time for a specified price.
Qualitative Factors	Factors that are relevant to a decision but which cannot be expressed numerically.
Quality	The extent to which a product or service conforms to specifications or provides customers the characteristics that were promised.
Quality Assurance	The function responsible for providing assurance that products or services are consistently maintained at a high level of quality.
Quality Control	A process, such as statistical sampling, that monitors the quality of operations.
Quantity Discount	An allowance given by a seller to a buyer because of the size of an individual purchase transaction or the total size during a specified period.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Queuing Theory	The analysis and management of waiting lines (or queues).
Quotas	Limits on the amount of a good produced, imported into the country, exported, or offered for sale.
Random Variable	A mathematical function that maps outcomes of random experiments to numbers.
Rate of Return	A measure of the cash flows from an investment compared to the amount of the investment.
Ratio Analysis	The calculation of significant financial and other ratios and the comparison of these ratios with those of prior years, industry averages, or standards.
Real GDP	Gross Domestic Product in current dollars, adjusted for the changes in the prices of the items included in GDP.
Real Income	The income of an individual, organization, or country, after taking into consideration the effects of inflation on purchasing power.
Real Option	An alternative or choice that becomes available with a business investment opportunity. This is an actual option (in the sense of "choice") that a business may gain by undertaking certain endeavors. For example, by investing in a particular project, a company may have the real option of expanding, downsizing, or abandoning other projects in the future.
Realize	Converting non-cash resources and rights into money, used in accounting and financial reporting to refer to sales of assets for cash or claims to cash.
Real-Time Processing	The processing of information that returns a result so rapidly that the interaction appears to be instantaneous.
Receivable	An amount owed to an entity, whether or not it is currently due.
Recession	A downturn in economic activity characterized by declining Real GDP and rising unemployment.
Reciprocal Allocation Method	A method for allocating service department costs by including the mutual services rendered among all departments.
Reclassification Adjustments	Correcting entries to adjust for errors in the classification of costs.
Recognition	The process of formally recording an item in an entity's financial statements.
Reconciliation	A schedule or calculation showing how one amount is derived from another amount.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Recourse	The rights of a lender if a borrower does not repay as promised.
Reengineering	A technique used to make improvements within an organization, focusing on identifying and abandoning outdated rules and fundamental assumptions. The end result is a new work method to achieve organizational goals within production, support, or decision-making processes.
Referent Power	Individual power based on a high level of identification with, admiration of, or respect for the person having the power. (Also called Charismatic Power.)
Regression Analysis	A statistical analysis tool that quantifies the relationship between a dependent variable and one or more independent variables.
Regression Equation	A statistical technique used to explain or predict the behavior of a dependent variable, taking the form of $Y = a + bx + c$, where Y is the dependent variable that the equation tries to predict, x is the independent variable that is being used to predict Y, a is the Y-intercept of the line, and c is a value called the regression residual.
Reinforcement Theory	A motivational theory that focuses on the environment and its consequences and considers the use of positive and negative reinforcers to motivate.
Reinvestment Rate	The rate of return at which cash flows from an investment are expected to be reinvested.
Relational Database	A database in which all data elements are viewed as being stored in the form of tables.
Relationship Marketing	A form of marketing that involves understanding the customers' needs as they go through their life cycles. It emphasizes providing a range of products or services to existing customers as they need them.
Relative Sales Value Method	A method used to allocate joint costs in proportion to the sales value of joint products produced.
Relevance	The capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations.
Relevant Cost	A cost that should be considered in choosing among alternatives. Only those costs yet to be incurred (future costs) that differ among the alternatives (differential costs) are relevant in decision making.
Relevant Range	The range of economic activity within which estimates and predictions are valid.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Reliability	The quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent.
Reorder Point	The quantity level of an inventory item that triggers an order to replenish the item.
Repair	The activity of putting assets back into normal or expected operating condition without an increase in the asset's previously estimated service life.
Reporting Currency	The currency in which an entity prepares its financial statements.
Repurchase Agreement	A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. (Also called Repo or Buyback.)
Required Rate of Return	The minimum acceptable rate of return on an investment. (Also called Hurdle Rate.)
Required Reserves	The minimum amount of funds that a bank is required by law to keep on hand in order to back-up its deposits.
Research and Development Cost	Outlays made in an attempt to discover new knowledge (research) or to use the results of research to develop new or improved products or processes (development).
Reserve	A term used primarily to segregate part of retained earnings, such as for a reserve for contingencies.
Residual Income	A means of measuring performance of an investment center that stresses profit responsibility and the financial management efficiency of the investment center manager. Residual income is typically calculated as the difference between investment center profits and a charge for capital resources committed to the unit.
Resource Allocation	A plan for using available resources, for example human resources, especially in the near term, to achieve goals for the future; the allocation of resources among the various projects or business units.
Resource Driver	A measure of the quantity of resources consumed by an activity (e.g., floor space occupied by the activity).
Responsibility	A system of accounting that assigns revenues, costs, and/or capital to units of an enterprise (responsibility centers).
Responsibility Budget	A budget that sets forth approved plans structured in terms of the units responsible for carrying them out. It is a control device in that it is a statement of performance expected of each responsibility center manager against which actual performance can be compared.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Responsibility Center	An organizational unit headed by a manager who is responsible for its activities.
Retail Inventory Method	An accounting method for inventory used by retail enterprises where inventory is based on the relationship of the cost of the merchandise for sale to the retail price of the same merchandise.
Retained Earnings	Net income over the life of a corporation less dividends.
Return	The change in the value of an investment over an evaluation period, including any cash flows received pertaining to the investment during that period.
Return on Assets	A measure of how effective an entity is at earning a return on the assets employed in its business.
Return on Common Equity	A measure that indicates the rate of return on the shareholders' investment. (Also called return on owners' equity.)
Return on Invested Capital	A measure of how effectively a company uses the money (debt or equity) invested in its operations.
Return on Investment	The ratio of income earned on the investment to the investment made to earn that income.
Returns to Scale	The reduction in cost per unit resulting from increased production, realized through operational efficiencies. (Also called Economies of Scale.)
Revenue	Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
Revenue Center	A responsibility center in which management control is focused on the revenue that the center earns.
Revenue Recognition	An accounting principle under generally accepted accounting principles (GAAP) that determines the specific conditions under which revenue is recorded in the financial statements.
Reward Power	Power that results from the authority to reward others
Rights	An offer made by a company to its shareholders to enable them to buy new shares in the company at a discount from the market price.
Risk	A measure of the variability of the return on investment

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Risk Assessment	<p>1. In capital budgeting, methods used to identify, and quantify the relative risk of a project.</p> <p>2. In auditing, a systematic process for exercising and integrating professional judgments about potential adverse conditions and events.</p>
Risk-Adjusted Return	In capital budgeting, a rate of return that is adjusted for the expected risk of the proposed project. The net present value of a project whose risk is expected to be greater than average is found by using a higher than average discount rate. (Also called Risk-Adjusted Discount Rate.)
Robinson-Patman Act	Antitrust legislation passed in 1936 in the U.S. prohibiting selling at unreasonably low prices when such practice reduces competition.
Safety Stock	A quantity of inventory held to meet unanticipated demand during the time between placement of an order and its receipt into inventory, or unanticipated delays in receiving the replenishment.
Sales on Installment	Arrangements in which the buyer takes possession of the property immediately but does not receive the deed and title until a series of payments (installments) have been made.
Sales-Mix Variance	The difference between budgeted and actual sales caused by a difference between the budgeted and actual proportions of products with different profit margins.
Salvage Value	The expected value of an asset at the end of its useful life.
Sarbanes-Oxley	A U.S. law enacted in 2002 to specify the requirements of corporate governance, including accounting issues. It addresses the regulation of the accounting profession, the standards for audit committees of public companies, the certifications management must make, and standards of internal control that companies must meet.
Screening Bias	An impediment to effective communication when the receiver of the message does not properly comprehend it due to a preconceived judgment or opinion.
Securities Act of 1933	A U.S. law regulating the securities industry that requires investors receive financial and other significant information concerning securities being offered for public sale; and it prohibits deceit, misrepresentations, and other fraud in the sale of securities.
Securities and Exchange Commission (SEC)	The U.S. federal agency empowered to regulate U.S. financial markets in order to protect investors. All publicly-traded companies have to comply with SEC rules and regulations, including the filing of annual, quarterly, and other disclosure reports.

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TERM	DEFINITION
Securities Exchange Act of 1934	The U.S. laws which created the Securities and Exchange Commission, outlawed manipulative and abusive practices in the issuance of securities, required registration of stock exchanges, brokers, dealers, and listed securities, and required disclosure of certain financial information and insider trading.
Segment	One of two or more divisions, product departments, plants, or other subdivisions of an entity reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service.
Segregation of Duties	A basic key internal control used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. It requires that no single individual should have control over two or more phases of a transaction or operation.
Selling and Administrative Budget	A budget for costs related to selling or marketing (e.g., sales representatives' salaries, commissions, traveling expense, and advertising) and for the general administration of the corporation (e.g., salaries of top officers, rent, and other general office expense).
Selling Costs	Any expense or class of expense incurred in selling or marketing.
Semantics	The meaning and choice of words.
Sensitivity Analysis	A technique that identifies and analyzes alternative outcomes of an investment resulting from the alteration of one or more of the variables in the analysis (Also known as What-if analysis).
Separable Costs	For products produced in a joint process, the costs incurred beyond the split-off point that are assignable to one or more individual products.
Service Department	A unit (department) within an entity that provides services to other departments of the entity.
Shareholder	The owner of shares in a company.
Shareholders' Equity	The owner's equity in a corporation. (Also called Stockholders' Equity.)
Sherman Antitrust Act	An act passed in the U.S. in 1890 that declared combinations in the form of trusts and conspiracies in restraint of trade illegal.
Short Run	A time period of insufficient length to allow decision makers to adjust fully to a change in market conditions. In the short run, producers may be able to increase output by using more labor or raw materials, but they will not have time to expand the size of their plants.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Short-Term Credit	Credit extended to an entity by a financial institution (Bank Loan), investors (Commercial Paper) or suppliers (Trade Credit).
Shrinkage	The loss of raw materials, work-in-process, or finished goods in terms of weight or volume due to the nature of the product or the methods employed for production, transportation, and storage.
Sight Draft	A draft which is payable on demand.
Simple Regression	A regression model that uses only one independent variable to estimate the dependent variable.
Simulation	A method of studying an operational problem, whereby a model of the system or process is subjected to a series of recalculations of possible outcomes to reflect varying assumptions.
Slack	In budgeting, the difference between the costs or expenses actually required in the operation of a responsibility center and the costs or expenses that have been proposed or approved in the budget.
Social Security	The comprehensive U.S. federal program of benefits providing workers and their dependents with retirement income, disability income, and other payments.
Solvency	The ability to pay all debt obligations as they become due.
Span of Control	The extent of a supervisor's jurisdiction, often represented in entity charts by subordinate lines of authority extending to activities or subunits.
Specific Identification	A method for valuing ending inventory and cost of goods sold that identifies actual units sold and then sums the actual costs of those individual units. It is usually used for items with large unit values, such as precious jewelry, automobiles, and fur coats.
Spending Variance	Actual amount of overhead incurred less the expected amount based on the flexible budget for actual inputs.
Split-Off Point	The point of production beyond which the cost of separate products can be measured. Up to this point, the products were either joint products or byproducts.
Spot Rate	The exchange rate for immediate delivery of currencies exchanged; the rate of interest or price being charged currently.
Spreadsheet	A work sheet organized in the form of a matrix with rows and columns
Staff Authority	A form of authority granted to staff specialists in their area of expertise.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Standard Cost	The anticipated cost of producing a unit of output; a predetermined cost to be assigned to products produced. Standard cost implies a norm, or what costs should be.
Standard Deviation	A statistical measure of the spread or dispersion of a set of data, calculated as: the square root of the arithmetic mean of the squares of the deviation of each of the class frequencies from the arithmetic mean of the frequency distribution.
Start-Up Costs	The costs of preparing to operate facilities which can include costs of designing, tooling, recruiting, and training the labor force before production starts; moving; preparation of facilities; and related general and administrative costs.
Statement of Ethical Professional Practice	A commitment to ethical professional practice made by members of the Institute of Management Accountants (IMA) that includes standards that guide the conduct of members including competence, confidentiality, integrity, and credibility. The statement also includes guidelines for the resolution of ethical conflict.
Statement of Cash Flow	A statement that classifies cash receipts and payments according to whether they are the result of operating, investing, or financing activities.
Statement of Changes in Shareholders' Equity	An accounting statement presenting the individual components of Shareholders' Equity at various points in time and the changes that occurred within the individual components.
Statement of Earnings (Income Statement)	A financial statement that reports revenues, expenses, gains, and losses for an accounting period, usually compared with amounts in one or more earlier periods. (Also called Earnings Statement.)
Statement of Financial Position (Balance Sheet)	The statement of financial position that discloses the assets, liabilities, and equity accounts of an entity at a particular date. Comparable information from one or more prior periods may be included.
Step-Down Method	The method of allocating service department costs that begins by allocating one service department's costs to production departments and to all other service departments. A second service department's costs, including costs allocated from the first, are then allocated to production departments and to all other service departments except the first one, etc. The costs of all service departments are ultimately allocated to production departments.
Stereotyping	Stereotypes are views held by one social group about another. They are often used in a negative or prejudicial sense and are frequently used to justify certain discriminatory behaviors.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Stock Dividends	The payment of a dividend to shareholders in the form of stock instead of cash.
Stock Option	The right to purchase or sell a specified number of shares of stock in a company for a specified price at a specified time.
Stock Split	An increase in the number of common shares outstanding resulting from the issuance of additional shares to existing shareholders without requiring payment from the shareholders.
Stock-Out Costs	The contribution margin or other measure of profits not earned because a seller has run out of inventory and is unable to fill a customer's order.
Straight-Line Method	A method of depreciating assets in which an equal amount of depreciation is taken each year over the estimated economic life of the asset.
Strategic Business Unit (SBU)	A business unit within the overall corporate entity which is distinguishable from other business units because it serves a defined external market where management can conduct strategic planning in relation to products and markets.
Strategic Planning	A process used to make decisions about the long-term goals and strategies of an organization.
Structural Unemployment	Unemployment due to structural changes in the economy that eliminate some jobs while creating job openings for which the unemployed workers are not well qualified.
Subsidiary	A corporation that is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of a majority of the outstanding voting stock.
Subsidiary Ledger	A supporting ledger consisting of a group of accounts, the total of which equals the control account.
Subsidies	Financial aid given by the government to individuals or entities.
Sum-of-the-Years'-Digits Method	An accelerated depreciation method that determines depreciation rates by summing the digits (1,2,3... n) of the years of an asset's depreciable life, and calculating the fraction of that year's digit, in reverse order, to the total sum. For example, for an asset with a life of four years, the sum of 1, 2, 3, and 4 = 10. The depreciation rate in year 1 is $4/10 = 40\%$.
Sunk Costs	A past cost which cannot now be changed and therefore should not enter into current decisions for increasing or decreasing present profit levels.

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TERM	DEFINITION
Supply	The total amount of a good or service available for purchase. One of the two key determinants of price along with demand.
Supply-Side Fiscal Policy	Government policies that create incentives for individuals and firms to increase their productivity. In this way they improve the capacity of the economy to produce and so shift the aggregate supply curve to the right.
Sustainable Equity Growth	The maximum growth rate that a firm can sustain without having to increase financial leverage.
SWOT Analysis	An analysis technique utilized in the strategic planning process to assess the internal and external situations facing an entity. It focuses on Strengths (S), Weaknesses (W) Opportunities (O) and Threats (T).
System	In data processing, a collection of people, machines, and methods organized to accomplish a set of specific functions.
System Development Life Cycle	A software development process used to develop an information system, which consists of several phases: identifying the need, analyzing the requirements, designing the system, coding and debugging, and system testing.
Systematic Risk	The portion of stock price (or portfolio) movement that is attributable to the movement of the market as a whole.
Systems Development	A process used to determine the needs of an information system and then designing and implementing the system to meet those needs
Tactical Planning	A plan for achieving the entity's objectives covering a relatively short time period, usually one year.
Target Costing	A cost management tool used to reduce the overall cost of a product over its entire life cycle. The target is a predetermined cost that should result in an acceptable price to customers as well as an acceptable return to the organization.
Target Pricing	Setting a selling price for a product or service based on the value of the product or service to the customer, constrained by competitor's prices of similar items.
Targeting	Targeting is the practice of selecting a group of customers based on demographic or other characteristics and focusing promotional activities in order to sell a product or service to them.
Tariffs	Taxes levied on goods imported into a country.
Task Centered Leader	A leadership style placing primary emphasis on completing a task or performing a job.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Taxation	The act of a government imposing a levy on individuals or corporations.
Terms of Trade	The weighted average of a nation's export prices relative to its import prices. (Also called Exchange Ratio.)
Theory of Constraints	A method of optimizing a process when faced with limiting factors and bottlenecks.
Throughput Costing	An inventory costing method that treats all costs except those related to variable direct materials as costs of the accounting period in which they are incurred. The variable direct material costs are the only ones included in inventory values.
Time Drafts	A financial instrument that is payable at a specified point in the future.
Time Series	A sequence of observations that are ordered in time.
Time Value of Money	The concept that money now is worth more than in the future, even after adjusting for inflation, because the money now can earn interest until the time the money in the future would be received.
Times Interest Earned	The ratio of earnings before interest, income taxes, and extraordinary items (EBIT) to annual interest expense. A measure of the entity's ability to make interest payments when they are due; i.e., the number of times interest is covered by earnings.
Total Quality Management (TQM)	The concept of organizing an entity to excel in all its activities in order to increase the quality of products and services, with an emphasis on continuous improvement.
Trade Deficit	When a country's imports exceed its exports.
Trade Discount	A reduction in the stated selling price based on quantities ordered or purchased.
Trade Surplus	When a country's exports exceed its imports.
Trademark	A distinctive word or symbol that is affixed to a product or package that uniquely identifies the firm's products or services.
Transaction Controls	Internal controls within information systems to review individual transactions for accuracy, completeness, and validity.
Transaction Gains or Losses	Gains or losses that result from a change in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Transaction Processing	The component of an information system that converts economic events into financial transactions, records financial transactions in the accounting records, and distributes financial information to operating personnel.
Transfer Pricing	Price at which goods and services are transferred from one profit center to another.
Transformational Leadership	A leadership style where a passionate leader transforms an organization by inspiring people with a vision that instills enthusiasm in the followers.
Translation Adjustments	Adjustments that result when an entity's financial statements are translated from the entity's functional currency into the reporting currency.
Transmission	In communications, the mechanism by which the message is transferred from the sender to the intended recipients.
Treasury Bills (T-bills)	Short term securities issued by the U.S. Treasury with minimum denominations of \$10,000 and maturities of three months, six months and one year. They are issued at a discount to face value.
Treasury Bonds	Long term securities issued by the U.S. Treasury with minimum denominations of \$1,000 and maturities of ten years or more.
Treasury Notes	Medium term securities issued by the U.S. Treasury with minimum denominations from \$1,000 and maturities of two to ten years.
Treasury Stock	Fully-paid capital stock reacquired by the issuing company through gift, purchase, or otherwise, and available for resale or cancellation.
Trial Balance	A listing of all account balances in a general ledger. All accounts with debit balances are totaled separately from accounts with credit balances; the two totals should be equal.
Trigger Price	The price of a country's imports below which neither tariffs nor quotas will be imposed.
Trojan Horse	A computer program that appears to perform a useful and innocent function, however, it is actually a malicious program that is harmful when executed.
Trough	The contraction or recessionary phase of a business cycle. The low point between business peaks.
Uncollectible	An Account Receivable that has been reviewed and a determination made that the amount due will not be collected.
Unemployment	A measure of the number of people not currently employed but who are either actively seeking employment or waiting to begin or return to a job.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Unfavorable Variance	The amount by which actual cost exceeds standard or budgeted cost, or the amount by which actual revenue is less than standard or budgeted revenue.
Unit Contribution	The difference between the selling price and the variable cost of one unit of a product.
Unit Cost	The cost of one unit of a product or of one unit of a cost element of a product. It is usually obtained by dividing a total cost by the total number of units.
Unsystematic Risk	The risk of price change due to the unique circumstances of a specific security or enterprise, as opposed to the overall market. This risk can be virtually eliminated from a portfolio through diversification
Upstream Costs	Costs incurred prior to the time a product is manufactured, including research and development and design.
User	Any person, organization, process, device, program, protocol, or system that uses the services of a computing system.
Utility	The relative satisfaction or need gratification derived from a good or service.
Valuation	The process of determining the value of an asset, a security, or an entire entity.
Value	Attributed worth, expressed in money and applied to a particular asset, to services rendered, to a group of assets, or to an entire business unit, such as the value of a plant or business enterprise.
Value at Risk (VAR)	The worst loss that might be expected from holding a security or portfolio over a given period of time, given a specified level of probability.
Value Chain	The basic business functions that increase the usefulness to the customer of a product or service. For a manufacturing entity, the functions typically include Research and Development, Design, Production, Marketing, Distribution, and Customer Service.
Value Engineering	An evaluation of the activities in the Value Chain to reduce costs without sacrificing customer satisfaction.
Value-Added	Activities and processes that add value or usefulness to consumers of a product or service.
Value-Based Pricing	A pricing strategy where the selling price of a good or service is based primarily on the customer's perceived value of the good or service.

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Variable Costing	Method in which the cost assigned to a product includes only the cost of inputs that vary directly with the number of units produced and that are used in the production of the unit. (Also called Direct Costing.)
Variable Cost	An operating expense that varies directly, and proportionately, with sales or production volume, facility utilization, or some other measure of activity.
Variable Overhead Expenses	The portion of overhead costs that increase (decrease) as the number of units produced increase (decrease).
Variance	The difference between actual results and standard budgeted results.
Velocity of Money	The average number of times a unit of currency is used to purchase final goods and services during a year. It equals Nominal GDP divided by the money supply.
Verifiability	The ability, through agreement among measures, to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.
Vertical analysis	Compares each amount on a financial statement with a base amount selected from the same year; e.g., advertising as a percent of sales.
Virtual Private Network (VPN)	A secure network that connects a company's intranets and extranet links.
Virus	A self-replicating computer program that infects the host computer by spreading copies of itself into other executable programs.
Vroom-Yetton-Jago Model of Leadership	A model used to help managers decide how much subordinates should participate in decision making.
Warrant	A certificate entitling the holder to buy a specified number of shares for a specified time for a specified price.
Warranty	A promise by a seller to correct, for a stated period of time, deficiencies in products sold.
Weighted Average Cost of Capital (WACC)	An average representing the required return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debt, is weighted in the calculation according to its percentage of the company's capital structure.
Wide Area Network	A network that provides communication services between devices in a geographic area larger than that served by a local area network (LAN).

Glossary of Terms Used in the CMA Examination

TERM	DEFINITION
Workforce Diversity	Refers to policies and practices that seek to include people within a workforce who are considered to be, in some way, different from those in the majority.
Working Capital	Current Assets less Current Liabilities. (Also called Net Working Capital.)
Work-in-Process Inventory	The costs incurred to date on products for which production has begun but has not been completed.
World Bank	A source of financial and technical assistance to developing countries around the world with 184 member countries. The organization provides low-interest loans, interest-free credit and grants to developing countries for education, health, infrastructure, communications and many other purposes.
World Trade Organization (WTO)	An international agency that encourages trade between member nations, administers global trade agreements, and resolves disputes when they arise.
Write-Off	Charging the cost of an asset to expense or to a loss account.
Yield	Income as a percentage of price.
Yield Variance	The difference between the actual quantity of material used for a given amount of product and the standard quantity of the material required for that amount of product, priced at the standard cost per unit of material.
Zero Balance Account	A disbursement (checking) account that has a zero balance. As checks are submitted for payment, funds are transferred from another account to exactly cover the amount of the checks, generally on a daily basis.
Zero-Based Budgeting	Preparing a budget from the ground up, as though the budget were being prepared for the first time. Alternative means of conducting activities and alternative budget amounts are evaluated.