Full Set of Financial Statements
1) Statement of Financial Position (Balance Sheet)
2) Statement of Earnings (Income Statement)
3) Statement of Comprehensive Income
4)Statement of Cash Flows
5)Statement of Owner's Equity

Individual Foreign Transactions	
Direct Method: domestic price of another currency $/€	
Indirect Method: foreign price of domestic currency €/$	
Assets Denominated in Foreign Currency	
Foreign Currency ↑, Asset ↑	Gain
Foreign Currency ↓, Asset ↓	Loss
Liabilities Denominated in Foreign Currency	
Foreign Currency ↑, Liabilities ↑	Loss
Foreign Currency ↓, Liabilities ↓	Gain

Form 10-K Filing Deadlines	
60 days for **large accelerated filers**	$700M Market Value
75 days for **accelerated filers**	$75-$700 MV
	+$100M Revenue
90 days for **all others**	Less than 100M Rev
Form 10-Q Filing Deadlines	
40 days for **large accelerated filers and accelerated filers**	
45 days for **all others**	

Stock Issuance	
Stock Issued Above Par	
DR: Cash	Shares * Purchase Price
CR: Common Stock	Shares*Par Value
CR: APIC - C/S	Plug
Stock Issued At Par	
DR: Cash	Shares*Par Value
CR: Common Stock	Shares*Par Value
Stock Issued Below Par	
DR: Cash	Shares * Purchase Price
DR: APIC	Plug
CR: Common Stock	Shares*Par Value

Stock Subscriptions	
Record Subscriptions Receivable	
DR: Subscription Receivable	Shares * Purchase Price
CR: Common Stock Subscribed	Shares*Par Value
CR: APIC - C/S	Plug
Collection of Subscriptions | All payments are included	
DR: Cash	
CR: Subscription Receivable	
Issuance of Subscriptions | Only includes fully paid	
DR: Common Stock Subscribed	At Par
CR: Common Stock Issued	At Par

Dividend Terms
Date of Declaration - BOD formally approves a dividend
DR: Retained Earnings
CR: Dividend Payable
Date of Record - specifies the time names are determined
Date of Payment - when it is dispersed by the corp

Liquidity and Solvency	
Liquidity =	Current Assets / Current Liabilities
Solvency =	Debt / Equity

Items in Comprehensive Income
P - Pension Adjustment
U - Unrealized G/Ls on AFS
F - Foreign Currency Items
I - Instrument Specific Credit Risk
Net Income
+ Other Comprehensive Income
Comprehensive Income

Items in Comprehensive Income
Authorized - amt that may be issued
Issued - stock that's been issued
Outstanding = Issued - Treasury

Book Value Per Common Share
Common Shareholders Equity / Common Shares Outstanding
Common Shareholder Equity
Assets - Liabilities - Pref Equity - Dividends in arrears
Common Shares Outstanding
Shares issued - Shares Repurchased

Retained Earnings
Net Income/Loss
(Dividends Declared)
± Prior Period Adjustments
± Accounting Changes Retrospective
Retained Earnings

Stock Subscription Default
1) issue stock in proportion to amt paid
2) refund the partial payment
3) retain the partial payments with APIC

Retirement of Treasury Stock	
Retirement of Treasury (Cost Method)	
DR: Common Stock	Shares * Par
DR: APIC - C/S	OG Price - Per*Share
DR: Retained Earning	Plug
CR: Treasury Stock	Repurchase P* Shares
Retirement of Treasury (Par Method)	
DR: Common Stock	
CR: Treasury Stock	Shares * Par Value

Use **Fair Market Value** on all Property (In Kind Dividends)

Scrip Dividends are used when there's a cash shortage, Used Notes Payable

Stock Dividends
Small Stock Dividends (<20-25%)
Retained Earnings ↓ by FMV
Large Stock Dividends (>20-25%)
Retained Earnings ↓ by Par Value

Basic Earnings Per Share (EPS)		
Basic EPS =	Income Available to Common Shareholders / Weighted Average Number of Common Shares Outstanding	
Income Available to Common Shareholders = Net Income - Preferred Dividends		
Preferred Dividends:	Cumulative	# of Pref Shares * Par Value * Rate
	Noncumulative	Declared
Stock dividends and Splits are Retroactively Adjusted		
Shares sold/reacquired are based on a time-weighted basis		

Diluted Earnings Per Share (EPS)	
Diluted EPS = Income Available + Interest on Dilutive Securities / WAOCS (with all securities converted to common stock)	
Treasury Stock Method - for Options and Warrants	Average Price > Strike Price
Additional Shares = # of Shares - # of Shares * Exercise Price / Average Market Price	
If Converted Method - for Convertible Bonds	**Sequence from:**
1) add interest expense (net of tax) to the numerator	Most Dilutive
2) add # of common stock associated to the denominator	↓
3) if issued, assume stock is issued for WACSO	Least Dilutive
If Converted Method - for Convertible Preferred Stock	Options and Warrants are first
1) adjust numerator; add back pref dividend	
2) add # of common stock associated to the denominator	

Preferred Stock - Equity with Options	
Cumulative	pref dividends not paid **accumulates (as dividends in Arrears)**
Non Cumulative	Dividends not paid **do not accumulate**
Participating	share with common shareholders in excess of a specific amount
Fully Particpating	participates in excess dividends without limit
Partially Particpating	participates in excess dividends to a percentage limit
Non-Participating	Pref Shareholders are limited to. dividend provided by preference
Preference Upon Liquidation must be disclosed if larger than par	
Convertible	May be exchanged **by stockholders** at a specified amount
Callable/Redeemable	May be called (repurchased) at a price **by the issuing corporation**

Treasury Stock - Cost Method (used 95% of the time)

Treasury shares are recorded and carried at their **reacquisition cost**

Gains/Loss is determined when it is reissued/retired | **G/L = Reissue Price - Repurchase Cost**

Losses: Paid-in Capital Treasury Stock ↓; Excess Retained Earning↓

Gains: Paid-in Capital Treasury Stock ↑

Original Issue		Buy back Above Issue Price	
DR: Cash	Shares * Purchase Price	DR: Treasury Stock	Shares *Repurchase Price
CR: Common Stock	Shares*Par Value	CR: Cash	
CR: APIC - C/S	Plug	Reissuing Below Cost	
Reissuing Above Cost		DR: Cash	Shares * Purchase Price
DR: Cash	Shares * Resale Price	DR: APIC - T/S	Shares*Par Value
CR: Treasury Stock	Total Repurchase Price	DR: Retained Earnings	Plug
CR: APIC - T/S	Plug	CR: Treasury Stock	Plug

Treasury Stock - Par/Stated Value Method (used 5% of the time)

Calculate Gains and Losses immediately upon repurchase

1) Calculate Gains/Loss = Original Selling Price - Repurchase Price

2) Reverse Original entry for Shares Repurchased; Debit Treasury Stock at Par

3) Credit Cash Paid

Original Issue		Buy back Above Issue Price LOSS	
DR: Cash	Shares * Purchase Price	DR: Treasury Stock	Shares * Par Value
CR: Common Stock	Shares*Par Value	DR: APIC - C/S	Plug
CR: APIC - C/S	Plug	DR: Retained Earnings	OG Selling P - Repurch
Buy back Below Issue Price GAIN		CR: Cash	Repurchase
DR: Treasury Stock	Shares * Par Value	Reissue Shares	
DR: APIC - C/S	Plug	DR: Cash	Resale Price * Shares
CR: APIC - T/S	OG Selling P - Repurch	CR: Treasury Stock	Shares * Par Value
CR: Cash	Repurchase	CR: APIC - C/S	Plug

Five Step Approach for Revenue Recognition (I am a STAR)

1) Identify the contract with the customer
2) Separate Performance Obligations
3) Transaction Price Determination
4) Allocate the Transaction Price to each PO
5) Recognize Revenue

Recognizing Revenue Timing

Satisfied Over Time if any of the following is met:

1) creates or enhances an asset that the customer controls
2) customer simultaneously receives and consumes the benefit
3) Does not create an asset with alternative use

Output Method - based on the value to customers

Input Method - based on the entity's efforts to the satisfaction of PO

Satisfied at a Point in Time: recognize when customer obtains control

a) customer has accepted the asset
b) entity has right to payment and customer has obligation to pay
c) transferred physical possession of the asset
d) customer has legal title to the asset
e) customer has significant rewards and risks

Fair Value

Fair Value -the price that would be received to sell an asset or transfer a liab

market based approach — Does not Include transaction price

Non Financial Assets are measured using the **Highest and Best Use**

Principal Market - market with the greatest volume or activity level

• price in that market is the FV measurement, even if there's MVP

Most Advantageous Market -

• best price for the asset/liab after considering transaction costs

• transaction costs are ignored in FV after the market is determined

Liquidity Ratios

ability to meet short term obligations	**Current Ratio**	Current Assets / Current Liabilities
	Quick Ratio	Cash + ST MS + AR (Net) / Current Liabilities
success of collecting outstanding A/Rs	**A/R Turnover**	Sales (net) / Average A/R (net)
average # of days to collect A/R	**Days Sales in A/R**	Ending A/R / Sales (net) / 365
How quickly inventory is sold. HIgher is better	**Inventory Turnover**	COGS / Average Inventory
average # of days to sell inventory	**Days in Inventory**	Ending Inventory / COGS / 365
# of times trade payable turnover during a period	**A/P Turnover**	COGS / Average A/P
average # of days to collect A/R	**Days in Payable Outstandings**	Ending A/R / Sales (net) / 365
Cash Conversion Cycle		Days Sales in A/R+ Days in Inventory - Days in Payable Outstandings

Summary of Significant Accounting Policies

- description of all significant policies included in F/S

First Footnote: general description

Second Footnote: significant accounting policies

Disclosure includes

a) measurment based used in prepping the F/S

b) specific accounting prinicpals and methods

Disclosure of Rights and Uncertainty

- requires the disclosure of risk/uncertainty that can be relevant

footnote describes

a) *risk and uncertainties* around major operations

b) *relative importance* of each busniess

c) *use of accounting estimates* in prep the F/S

concentration should be disclosed if all

a) consentration exists at F/S date

b) consentration makes entity vulenerable to near term impact

c) at least reasonably possible that the event will happen

Cash to Accrual Detailed View

Revenue	*Purchases to COGS*	*Operating Expenses*
Cash Basis Revenue	Cash paid for purchase	Cash paid for OpEx
+ Ending A/R	+ Ending A/P	+ Ending accrued liab
- Beginning A/R	- Beginning A/P	- Begin accrued liab
- Ending unearned rev	- Ending Inventory	- Ending prepaid exp
+ Begin unearned rev	+ Begin Inventory	+ Begin prepaid exp
Accrual Basis Revenue	COGS	Accrual OpEx

Criteria for Identifying Contracts

• all parties approved the contact
• rights of each party are identified
• payment terms are identified
• contract has commercial substance
• probable collection of consideration

Criteria isn't met but consideration is paid:

Recognize Rev if the consideration is nonrefundable and no more POs

Contract Modification is a new contract IF:

a) The **Scope** Increase

b) the **Price** increases

Distict POs must be:

1. are *separately identifiable*
2. customer can benefit *independently*

A transfer is separately identifiable if:

a) does not integrate with others
b) does not customize or modify
c) does not depend on or relate to others

Not Separately Identifiable POs

•are highly interrelated or interdependent

• provides a sig service of integrating

FV Valuation Techniques MIC

Market Approach- use price from market transaction involving comparable

Income Approach- Discounted Cash Flow Model

Cost Approach- Current Replace Cost

Hierarchy of Fair Value Inputs

Level 1 - Observable, Active, and Identical

Level 2 - Observable, Quoted

Level 3 - Unobservable and assumption based

Solvency Ratio

Debt-to-Equity =	Total Liabilities / Total Equity
Total Debt Ratio =	Total Liabilities / Total Assets
Equity Multiplier =	Total Assets / Total Equity
Times Interest Earned =	EBIT / Interest Expense

Average ______	Beginning + End / 2

Remaining Notes to the F/S

- contains all other info relevant

Examples of Notes

- material info regarding assets/liab
- nature of change in SE
- require marketable securities
- FV estimates
- contingency G/L
- Pension Plan Description
- segment disclosure
- change in accounting principals

OCBOA Guidelines

Other Comprehensive Basis of Accounting

1) different titles for F/S
2) required equivalent of B/S and I/S
3) F/S should explain changes in equity
4) statement of CFs is not required
5) disclosures should be similar to GAAP

Cash to Accrual Basis

1) Add increases in current assets
2) Subtract decreases in current assets
3) Add decreases in current liabilities
4) Subtract increases in current liabilities

Change in Accounting Estimates (prospective)

1) It is not an error	Prospective Approach
2) do not Restate prior Years	• use new information in current/future years
3) Follow **Prospective Approach**	• no effect on prior Retained Earnings

Includes To LIFO and Depreciation Method

Change in Accounting Principle (retrospective)

Change in Accounting Principle - change from one acceptable accounting method to another one

Rule of Preferability - cannot change principles without justification

Retrospective Approach - adjust beginning retained earnings, net of tax

Noncomparative F/S	**Comparative F/S**
1) use new method in year presented	1) Use new method in all years
2) find earnings if method was always used	2) calculate the cumulative effect
3) adjust beginning R/Es net of tax	3) present effect net of tax to beginning R/Es

General Rule — Exemptions: Changes to LIFO | Change to Depreciation Method

• adjust retained earnings for the cumulative effect net of tax at the beginning or earliest period

• use the new accounting principle for all periods presented

Change in Accounting Entity (retrospective)

Restate all previous F/Ss presented in comparative F/S along with the current year to reflect the information for the new reporting entity — **Full Disclosure to be made with changes in income**

Error Correction (Prior Period Adjustment)

• Corrections of errors in recognition, measurement, presentation or disclosure resulting from mathematical mistakes, misapplication of US GAAP, or oversight of facts

• Changes from a non-GAAP to GAAP method of accounting

Comparative Financial Statements Presented:

financial statements for the year with the error are presented

correct the error in those prior financial statements

financial statements for the year with the error are NOT presented

adjust (net of tax) the opening retaining earnings of the earliest period presented

No Comparative Financial Statements Presented

reported as an adjustment to the opening balance of retained earnings (net of tax)

Profitability Ratios

Gross Profit Margin	Sales (Net) - COGS / Sales (Net)	**Profit Margin**	Net Income / Sales (Net)
Return On Sales	Net Income / Average Total Assets	**Return On Equity**	Net Income / Average Total Equity
Dupont Return on Asset	Net income / Sales (net) x Sales (net) / Average total assets		Profit Margin x Asset Turnover
Operating Cash Flow Ratio	CFs from Operations / Current Liabilities		

Performance Metrics

Top Down EBITDA	Sales - COGS - Operating Expense	**Bottom Up EBITDA**	Net Income + Income Tax/ Interest Expense +D/A Expenses
Price to Earnings Ratio	Price Per Share / Basic EPS	**Dividend Payout**	Cash Dividends / Net Income
Asset Turnover	Sales (net) / Average Total Assets		

Cash Basis of Accounting

Revenue = When Cash is received — Expense = when cash is paid

Cash Basis Financial Statements

1) Statement of Cash and Equity

- cash is only asset; cash = equity
- no liabilities are recorded

2) Statement of Cash Receipts + Disbursements

Receipts (rev received)	*Disbursements (expense paid)*
+ Debt Proceeds	-debt/dividend repayment
+ Asset Sale proceeds	- asset purchase payment

Modified Cash Basis of Accounting

Common Modifications

- capitalizing and depreciating fixed assets
- accural of income taxes
- recording liabs and related interest
- capitalizing invetory
- reporting investments at FV

Financial Statements for Modified Cash

- Statement of Assets and Liab (Modified Cash Basis)
- Statement of A&L arising from cash transactions
- Statement of revs, exps, & R/E (Modified Cash Basis)
- Statement of revs collected and expenses paid

Income Tax Basis - prepared using method/principles used to prepare tax returns

Financial Statements for Modified Cash

- Statement of Assets, Liabs, + Equity (Income Tax Basis)
- Balance Sheet (Income Tax Basis)
- Statement of revs, exps, & R/E (Income Tax Basis)
- Statement of income (income tax basis)

Subsequent Event - event that happens after B/S date but before available for issued

Type 1 (recognized): provides additional information about condition that existed at B/S date

Type 2 (not recognized): conditions that did not exist at balance sheet date

Public Firms → evaluate events until F/S are issued (when widely distributed to users)

Private Firms → evaluate events until F/S are available (after prepared and finalized)

Simple Bank Reconciliation

DO Bank Reconciliation
+ Deposit In Transit - funds sent to the bank and not recorded
- Outstanding Checks - checks written that have not been presented

Book Reconciliation in BINS
+ Bank Collection - collection without the knowledge of depositors
+ Interest Expense - already added by the bank
- Non-Sufficient Funds - charge for dishonored checks
- Service Charges - deducted by the bank already

Accounts Receivable T-Account

Beginning Balance	- Cash Collected
+ Credit Sales	- Write Offs
	- Conversion to a Note
Ending Balance	

Sales Discount

2/10	Pay 98% in 10 days
n/30	Pay 100% in 30 days

Gross Method - ignore upfront discount on the sale
Net Method - assume upfront discount is offered on the sale

The journal entries at the date of sale:

		Gross		Net	
DR	Accounts receivable	$100,000		$98,000	
CR	Sales		$100,000		$98,000

The journal entries if payment is received within the discount period:

		Gross		Net	
DR	Cash	$98,000		$98,000	
DR	Sales discounts taken	2,000			
CR	Accounts receivable		$100,000		$98,000

The journal entries if payment is not received within the discount period.

		Gross		Net	
DR	Cash	$100,000		$100,000	
CR	Accounts receivable		$100,000		$98,000
CR	Sales discounts not taken				2,000

Factoring - Sale of A/R

Without Recourse - True sale, all risk is on the collector
DR: Cash → What they pay now
DR: Due from Factor → What they pay later
DR: Loss on sale of A/R → Loss incurred
CR: A/R → Write off orginal A/R

With Recourse: factor has option to resell A/R back to seller
To be considered for a sale, must meet the following:
1) obligation can be reasonably estimated
2) transferor surrenders control of A/R to buyer
3) transferor cannot be required to repurchase the A/R

Discounting - Sale of Notes Receivable

-writing is called promissory note and measured @ fair value
Present Value = Face Value - Unearned Interest

With Recourse: holder remains contingently liable for the ultimate payout
Without Recourse - True sale, all risk is on the buyer of the note
Steps to Discounting:
1) Maturity Value of the Note = Interest + Face Amount of Note
2) Bank Discount at Maturity = Discount * Maturity Value
3) Amount paid by the Bank = Maturity Value - Bank Discount
4) Interest Income (Expense) = Amount paid - Face Value

Writing off Uncollectible A/R

Allowance Method - estimates % of A/R that are expected to be uncollect
DR: Bad Debt Expense
CR: Allowance for Doubtful Accounts

Subsequent Collection of Uncollectible AR

1) Restore Account Written Off	2) Record Collections on Account
DR: A/R	DR: Cash
CR: ADA	CR: A/R

Composite Depreciation - averaging of economic lives

Step 1: Find *Individual Depreciable Base* = Cost - A/D
Step 2: Find *Annual Depreciation* = Depreciable Base / Useful Life
Step 3: *Avg composite life* = Total Depreciable Base / Total Annual Depre

Sale of Assets → no gain or loss

DR: Cash Received	Cash Received
DR: Accumulated Depreciation	Plug
CR: Cost of Machine X	Book value of asset

Accumulated Depreciation T-Account

- Disposals	*Beginning Balance*
- Write offs	+ Current year depreciation expense
	Ending Balance

Start-up costs are expensed as incurred

Cash Equivalents

- short-term, highly liquid investments
1) readily convertible to cash
2) original maturity of less than 90 days

Inventory Basics

Inventory has legal title or physical possession normal
FOB Destination - title passes when received by buyer
FOB Shipping Point - when given to common carrier
Consigned Goods - remains in sellers inventory til sale
Non-Conforming Goods - reverts to seller
Sales with Buyback - reverts to seller
Installment Sales
if debts cannot be estimated → include in sellers
if debts cat be estimated → include in buyers

Inventory Valuation Method Basics

Specific Identification - unique goods
FIFO - sell old, ending inventory is new
Weighted Average - periodic system
Moving Average - perpetual system
LIFO - sell new, ending inventory is old
Dollar Value LIFO - need a price index

Specific Identification Method

-cost of each item is unique to each item
-used for large or high value items

FIFO (First in First Out)

ending inventory and COGS are the same

Weighted Average Method (Periodic)

-used for homogeneous products

Weighted Average Cost per Unit = Total Inventory Costs Ava / Total # of units available

Moving Average Method (Perpetual)

-computes weighted average after each purchase

Moving Average Cost per Unit = Total Inventory Costs / Total # of units

LIFO (Last in First out)

ending inventory and COGS are different

In Rising Prices with LIFO → lowest ending inventory
→ highest COGS
→ lowest net income

Capitalizing Interest

Rule 1: Only capitalize interest on money actually spent, NOT on total amount borrowed

Rule 2: amount of capitalized interest is lower of:
a) actual interest cost incurred
b) computed capitalized interest

Required Conditions for cap of interest
a) expenditures for the asset have been made
b) activities need to get asset ready are IP
c) interest cost is incurred

Ordinary Delay - will not impact cap period
Intentional Delay - will cause period to stop

Disposal of Assets

Sale of an Asset for a Gain
DR: Cash received from sale
DR: A/D
CR: Gain on Sale
CR: Asset @ cost

Sale of an Asset for a Loss
DR: Cash received from sale
DR: A/D
DR: Loss on Sale
CR: Asset @ cost

Intangible Assets

patents are amortized over shorter:
a) estimated useful life
b) remaining legal life

Cloud Computing Arrangements

Phase 1: Preliminary Project - determining system requirements for software expensed when incurred

Phase 2: Application Development - work performed to customize or change configurations
Capitalize → implementation costs
Expense → training, maintenance, support

Phase 3: Post Implementation - once software is placed in service expensed when incurred

Franchisee Accounting

initial costs → capitalize and amortize over life
ongoing costs → expensed as incurred

Valuation of Inventory

Lower of Cost and Net Realizable Value	**Lower of Cost and Market**
Used for FIFO or Weighted Average	Used for LIFO or retail inventory method
1) Calculate the NRV = Selling Price - Cost to Sell	*Find Market Middle Value*
2) Cost of Inventory = Lower of Cost or NRV	1) Market Ceiling = NRV
Substantial and unusual losses from subsequent measurement of inventory should be **disclosed** in the F/S	2) Market Floor = NRV - Normal Profit
	3) Replacement Cost = Cost to purchase the item
	4) Lower of Cost or Middle Market Value

Periodic Inventory System - Physical count of ending inventory is required

-debit purchases NOT inventory		Beginning Inventory	*If Ending Inv is Overstated*
-quantity of inventory is determined by a count		+ Purchases	-COGS is understated
Selling Inventory	Buying Inventory	= COG Available for Sale	-Profits are overstated
DR: Cash or A/R	DR: Purchases	- Ending Inventory	-R/E are overstated
CR: Sales	CR: Cash or A/P	= COGS	-Equity is overstated

Perpetual Inventory System - Record for each item is updated after the sale occurs

Buying Inventory	Selling Inventory		
DR: Inventory	DR: Cash or A/R	DR: Cost of Goods Sold	Modified Perpetual System keeps an updated count of the cost only
CR: Cash or A/P	CR: Sales	CR: Inventory	

PP&E Cost

Land includes all cost incurred up until excavation	**Plant Cost include**
- Purchase Price	- Purchase Price
- Broker's Commissions	- Deferred Maintenance
- Title, Recording, and Legal Fees	- Architects Fees
- Draining of swamps and clearing trees	- Digging a hole for foundation
- Site Development	- construction period interest
- Existing obligations (Mortgage/back taxes)	**Equipment costs include all expenditures related to acquisitions or construction**
- Cost of removing buildings	
(Subtract) proceeds from existing resources	

PP&E Equipment Capitalization (AIR must be capitalized)

Addition - increases the quantity of fixed assets
Improvement - improve the quality of fixed assets
Replacement - subs of new, similar asset for an old one
if old asset's CV is know → write off old asset and record new asset
if old asset's CV is NOT know → debit A/D for the cost of the new asset and credit cash

Basic Depreciation Methods

Straight-Line Depreciation
- an equivalent amount of depreciation expense is recorded each period

Depreciation Expense = Cost - Salvage Value / Estimated Useful Life - service potential declines over time

Sum-of-the-Years' Digits Depreciation
- provides higher expenses in early years and lower expenses in later years

Depreciation Expense = (Cost - Salvage Value) x Remaining Life / Sum of the years digit

Sum of the years Digits = Useful Life x (Useful Life + 1) / 2

Units-of-Production Depreciation
- service production declines with use

Depreciation Expense = # of units produced x Cost - Salvage Value / Estimated Total Units

Double Declining Depreciation
- used when asset has rapid obsolescence

Max A/D = Cost - Salvage Value

Depreciation Expense = (Cost - A/D) x 2 / Useful Life

Depletion

Cost Depletion → allowed by GAAP
Percentage Depletion → NOT allowed by GAAP
1) *Depletion Base* = Total Cost (Cost of Land + Development Costs + Restoration) - Redisual Value
2) *Unit Depletion Rate* = Depletion Base / Estimated Recoverable Units
3) *Yearly Depletion* = Unit Depletion x units extracted
4) *Yearly Depletion in COGS* = Unit Depletion x units sold

Impairment

Step 1: Test for Recoverability = Undiscounted Future Net Cash Flows - Net Carrying Value
if positive → No Impairment Loss
if negative → Impairment Loss and Step 2

Step 2: Calculation of Impairment = Discounted Future Net Cash Flows - Net Carrying Value

Assets held for Use	Assets held for Disposal include cost of disposal
1) write asset down	1) write asset down
2) Depreciate new cost	2) No depreciation taken
3) Restoration is not premitted	3) Restoration is premitted

Employee Related Liabilities

Payroll Taxes → Expense for Employer

Payroll Deductions → Not an expense for Employer

Accrued Vacation are recorded in the year earned if meets all of:

- S - **Services** have already been rendered by employees
- O - **Obligation** related to rights that accumulate
- C - Payment of **Compensation** is probable
- R - The amount can be **reasonably**

If only the first 3, disclose in the notes

Exit or Disposal Activities

a liability must be recognized for costs associated with an exit

Costs associated with exit/disposal activities include

- Involuntary employee termination benefits (severance)
- Breach of Contracts
- consolidating facilities
- relocating employees
- moving PPE

Criteria for Liability Recognition (All Must)

a) obligating event has occured

b) event result in present obligation to transfer assets in the future

c) obligating event has occured

Exit Disclosures should be *made during*

a) the period the exit was initaited

b) all subsequent periods until activity is complete

Include in the Disclosure:

1) description of exit/disposal activity

2) each major cost both the amount and reconcile liability balances

Bonds Issued Between Interest Dates

- regardless of period, issuer pays a 6 month payment on date

accrued interest = Coupon x (months since payment/6)

accrued interest is added to the price of the bond

Troubled Debt Restructuring

Transfer of Assets - have FV of assets less than CV of liabilities

DR: Accounts Payable → book value

DR: A/D

CR: PPE → Book Value

CR: Gain on PPE → FV of Assets - BV of Assets

CR: Gain on extinguishment of debt → CV of A/P - FV of Assets

Transfer of Equity Interest - FMV of stock is less than CV of liabilities

-difference between A/P and FMV of equity is a *gain*

Both Transfer of Assets and Equity Interest extinguish debt

Modification of Terms: restrictions in rate/time; does not exist debt

Loan Impairment

Loan is impaired if it's probable that creditors will be unable to collect

Lease Criteria

1) contract must depend on an identifiable asset in which the lessor does not have a *substantive substitution right*

2) contract must convey the right to control the use of the asset of the lease term

Finance Lease Criteria

- O - **Ownership** of asset transfers to lessee by end of term
- W - Lessee has **written option** to buy asset with reasonably certain
- N - **NPV** of all lease payments + residual value exceeds 90% of FV
- E - term of lease represents 75% of the **economic life** remaining
- S - asset is **specialized** so there is not expected alternative use

Lease Payment includes:

- R - **Required** contractual fixed payments
- E - **Exercise** option is reasonably assured
- P - **Purchase price** at end of lease
- O - **Only** indexed or rate variable payments
- R - **Residual** guarantees likely to be owned
- T - **Termination** penalties reasonably assured

Lease Payments may or may not include

- N - **Non**-lease components

Lease Payments may not include

- G - **guarantees** of lessor debt by lessee
- O - **Other** variable lease payments

Trade Accounts Payable

- used for inventory or raw materials

Gross Method - wait to record discount until it's actually taken

Net Method Method - record net of discount

Trade Notes Payable

- Notes, debts, bonds, and debentures

-ALL interest bearing with written promises

Sales Taxes Payable

- company will have a payable and no expense

Gain Contingencies

Record no journal entries for GC until certain

If Remote → Do not disclose in the notes

If Not Remote → **Only** Disclose in the notes

Loss Contingencies

Probable → Accrue and record JEs

Range is the highest prob of occurring

If all the same, use lowest

Reasonably Possible → Only Disclose

Remote → DO NOT Disclose or Accrue

Disclosures for DOG guaranteed remote:

D : Debt of Others Guaranteed

O: Obligations of commercial banks

G : Guarantees of repurchase A/R sold

Annuity

Annuity Due → Beginning of each period

Ordinary Annuity → End of each period

Troubled Debt Restructuring Basics

-Creditor allows concessions to improve likelihood of collection with goal of max recovery of assets

1) Transfer of Assets

2) Transfer of Equity Interest

3) Modification of Terms

4) Combination of the three

Carrying Value of Debt

Face Value of Debt

+ unamortized premium

- unamortized discount

- issue costs

Carrying Value of Debt

Lease Commencement Date

Date at which the underlying asset is ready for use

Lease Options

to extend → only if reasonably certain

to terminate → only if reasonably certain

if control of lessor → up to the lessor

Asset Retirement Obligations (AROs) - used in cases with known closure costs or removal costs

Initial Measurement is Recorded @ Fair Value of Amount paid in the future

DR: Asset Retirement Cost (Asset) → Amt capitalized that increases the carrying amount of the asset

CR: Asset Retirement Obligation (Liabilitiy) → associated with retirement of long-lived asset

Subsequent Measurement Undiscounted Future Payments = both total expenses

Depreciation Expense - decreases the ARC asset reported on the B/S; should be zero at end of accretion

DR: Depreciation Expense

CR: Accumulated Depreciation

Annual Depreciation Expense = Asset Retirement Cost / Useful Life of Asset

Accretion Expense - increases the ARO liability due to the passage of time using the appropriate rate

DR: Accretion Expense → beginning value of ARO * Discount Rate

CR: Asset Retirement Obligation (Liabilitiy)

Premiums - offers to customers for the purpose of stimulating sales

Step 1) **Total Estimated Coupon Redemption** = Coupons x Redemption Rate

Step 2) **Coupons to be Redeemed** = Total Coupon Redemptions - Coupons redeemed

Step 3) **Outstanding Premium Claims** = Coupons to be redeemed / amount per premium

Step 4) **Estimated Liability for Premium Claims** = Outstanding Premium Claims x Pre-premium cost

DR: Premium Expense

CR: Premium Liability

Notes Payable - contractual rights to pay money at a fixed rate

Gross Notes Payable =	Payment x number of payments
PV of Notes	Step 1: Interest Expense = Beginning Carrying Value x effective market rate
Discount	Step 2: Principle Reduction of Note = Periodic Payment - Interest Expense

Bonds

Bond Indenture: document describing bonds

Discounts → Losses	**Premiums** → Gains
Sells lower than face value	Sells more than face value
Market Rate > Coupon Rate	Market Rate < Coupon Rate
Interest Expense > Coupon Paid	Interest Expense < Coupon Paid
Coupon Payment = Face Value x Coupon Rate	Interest Expense = Begin CV x Market Rate

Bond Issuance

Issued @ Par Selling Price = Face Value || Coupon Rate = Market Rate

Price = PV of future principal payment + PV of future periodic interest payments use Market Rate for PV

Issued @ Par for Borrower	Issued @ Par for Investor
DR: Cash Risk Raises, D/E	DR: Investments in Bonds
CR: Bonds Payable	CR: Cash No Change in total assets

Issued @ Discount Selling Price < Face Value || Coupon Rate < Market Rate

Issued @ Discount for Borrower	treated as a **LOSS**
DR: Cash → @ PV of Principal with market rate	Issued @ Discount for Investor
DR: Discount on B/P → @ discount	DR: Investment in Bonds → @ PV with market rate
CR: Bond Payable → @ Face Value	CR: Cash

Issued @ Premium Selling Price > Face Value || Coupon Rate > Market Rate

Issued @ Premium for Borrower	treated as a **GAIN**
DR: Cash → @ Selling Price with Market Rate	Issued @ Premium for Investor
CR: Premium on B/P → @ Premium as gain	DR: Investment in Bonds → @ PV with market rate
CR: Bond Payable → @ Face Value	CR: Cash

Bond Amortization

Income Statement → Net Carrying Value x Effective Interest Rate = Interest Expense

Balance Sheet → Bond Face x Coupon Rate = Interest Payment

Premium: Interest Expense < Coupon Paid ||| *Discount:* Interest Expense > Coupon Paid

Operating Leases → No OWNES

-results in a ROU asset and lease liability

Initial Entry in Leases	Subsequent Entries
DR: ROU Asset	DR: Lease Expense → one expense on the I/S, same each period
CR: Lease liability	CR: Cash/Lease Liability
	DR: Lease Liability → reducing liability by effective interest rate
	CR: Accumulated amortization - ROU Asset

Finance Leases → OWNES

-liability will equal PV of lease payments including commision, legal, consulting

Initial Entry in Leases	Subsequent Entries
DR: ROU Asset	DR: Interest Expense
CR: Lease liability	CR: Lease Liability
	CR: Cash/Lease Payable
	DR: Amortization Expense
	CR: Accumulated amortization - ROU Asset

Reclassification of Debt Categories

From	**To**	**Unrealized Holding Gain/Loss**
Trading	Any Other	no adjustment needed
Any Other	Trading	recognized in current earnings
HTM	AFS	record in OCI
AFS	HTS	amortize g/l from OCI with dis/prem

Impairment of Debt Categories

Expected Credit Loss = PV of Future CFs - Amortized Cost

- unrealized g/l use a valuation account
- expected credit loss use allowance for credit losses

Trading Security → not applicable
Available-for-Sale → ECL recgonized on I/S, excess loss to OCI
Held-to-Maturity → ECL recognized on I/S, write down asset

Unrealized Gains
DR: Valuation Account (FV adjustment)
CR: Unrealized gain on secuity

Expected Credit Loss
DR: Credit Loss
CR: Allowance for credit losses

Consolidation → owns 50% or has control

Key 1) 100% of net assets are recorded @ fair value
Key 2) subs entire equity is eliminated
Key 3) parent's basis is the acquisition price
fair value = acquisition price = investment in subsidary

Consolidation Adjustments

C - **Common** Stock are eliminated
A - **APIC** are eliminated
R - **Retained** Earnings are eliminated
I - **Investment** in sub is eliminated
N - **Non Controlling** Interest is created
B - **Balance Sheet** of sub is adjusted to FV
I - **Identifiable Intangibles** are recorded at FV
G - **Goodwill** is required as a plug/ Gain if not there

Statement of Cash Flows

Operating CFs - from current assets and non interest bearing obligations
Investing CFs - CFs non-current assets
Financing CFs - CFs from debt and equity

Indirect Method

Net Income
\+ Noncash Expenses/Losses → depreciation, bad debt, discount amort
-Noncash Income/Gain
Add: increase in liabs ||| decrease in assets
Subtract: increase in Assets ||| decrease in liabs

Permanent Tax Differences - do not reverse, for current year, no DTL/DTA

Examples are a) nontaxable b) nondeductible c) special tax allowances

- tax exempt interest income (municipal/state)
- life insurance proceeds on officers key man policy
- life insurance premiums when corp is beneficiary
- certain penalties, fines, bribes, and kickbacks
- nondeductible portion of meal/entertainment expense
- dividends-received deduction for corporation
- excess percentage depletion over cost depletion

Uncertain Tax Position

Step 1: Recognition of Tax Benefit
- must have a more than 50% chance of expected outcome of found issue

if it fails the 50% test → DR: Tax Expense
CR: Other Liabilities

Step 2: Measurement of tax benefit
- recognize the largest amount of benefit that is greater than 50%

Investment Basics

Debt
Trading Security → FV through income statement
Available-for-Sale → FV through OCI
Held-to-Maturity → amortize costs

Common Equity
Owns <20% → acts as trading security
Owns 20%-50% → equity method
Owns 50%+ → consolidation

Partnership Admission

Exact Method → Purchase price = book value
Bonus Method → Purchase price < book value
Goodwill Method → Purchase price > book value

Exact Method → Purchase price = book value

- there is no goodwill/bonus
- old capital account dollars stay the same

Bonus Method → Purchase price < book value

1) determine total capital + interest to new partner
2) if interest < contribute → *bonus to old*
DR: Cash
CR: Old Partner Cap 1
CR: Old Partner Cap 2
CR: New Partner Cap
3) if interest > contribute → *bonus to new*
DR: Cash
DR: Old Partner Cap 1
DR: Old Partner Cap 2
CR: New Partner Cap

Goodwill Method → Purchase price > book value

- compute new "new assets before GW"
Goodwill = implied valuation - BV of cap accounts
- GW is allocated on old capital structures

Partnership Profit and Loss are split based on agreement split. Split evenly if there is no agreement

Withdrawal of a Partner

Bonus - bonus is allocated among remaining capital accounts based on P/L ratios

Goodwill - goodwill is allocated to each capital account, then the capital accounts are sold

Liquidation of a Partnership

1) disposal all assets and collect all cash
2) pay off all liabilities to creditors
3) distribute the remainder based on P/L

PPE T-Chart (used for cash flows)

Beginning Balance	Depreciation Expense
Acquisitions	PPE Sold
Ending Balance	

Intraperiod Tax Allocation

Include in tax allocation:
I - **Income** from continuing operations
D - **Discontinued operations**
A - **Accounting** principle change (retrospective)

Changes in Tax Status

Non-Tax to Taxable: recognize any DTs from temps
Taxable to non-tax: write off any DTAs and DTLs

Investee's Undistributed Earnings (permanent)

Owns 0-19% → 50% exclusion
Owns 20-80% → 65% exclusion
Owns +80% → 100% exclusion

Valuation of Debt Securities

Classification	**Reported At**	**Unrealized G/L**	**Cash Flows**
Trading	Fair Value	Net Income	Operating/Investing
AFS	Fair Value	OCI	Investing
HTM	Amortized Cost	None	Investing

Purchase/Sale of Current Assets → operating cash flows
Purchase/Sale of Non-Current Assets → Investing cash flows

Sale of Debt Securities

Trading Security → realized G/L is difference between Selling Price and Carrying Value at sale

DR: Cash → @ Selling Price	DR: Cash → @ Selling Price
CR: Trading Security → @ carrying value	DR: Realized Loss on trading security
CR: Realized Gain on trading security	CR: Trading Security → @ carrying value

AFS → unrealized G/L is difference between Selling Price and original cost of the security
- must reverse any unrealized G/Ls

Equity Method → with significant influence (20-50%)

1) dividends on common stock are NOT Income 2) Do no Mark to Market

Investment are originally recorded @price paid to acquire
DR: Investment in X
CR: Cash

Investment are adjusted for share of Net Income
DR: Investment in X
CR: Investee Income

Distribution of Dividends reduce investment account
DR: Cash
CR: Investment in X

Eliminating Intercompany Transactions → when consolidating 100% of intercompany; eliminate these

Sales/COGS (Intercompany Inventory) - total amount of COGS/Sales should be eliminated
DR: Intercompany Sales
DR: Retained Earnings → take the profit out of R/E
CR: Intercompany COGS
CR: COGS → when the inventories are sold to outsiders
CR: Ending Invetory → when invtory is still on hand

Interest (Bonds) - debt is considered retired; eliminate amortization and interest
- gain/loss is difference between price to reacquire debt and book value of debt
DR: Bond Payable
DR: Premium
CR: Investment in Bonds
CR: Gain on extingishment of bonds

Intercompany Sale of Land - gain/loss needs to be undone done every year after but with R/E
DR: Intercompany Gain on Sale of Land
CR: Land

Intercompany Fixed Assets - must eliminate G/L + establish old A/D

Temporary Tax Differences → will reverse with deferred tax differences

1) Book Income First, Tax Income Later → DTL (tax income later)
- installment sales, contractors accounting, equity method

2) Tax Income First, Book Income Later → DTA (tax income first)
- prepaids rent, interest, and royalties

3) Book Expense First, Tax Expense Later → DTA (tax deduction later)
- bad debt, liability/warranty expense, FIFO(tax)/LIFO(book) in falling pricing

4) Tax Expense First, Book Expense Later → DTL (tax deduction first)
- depreciation, prepaid expenses, FIFO(tax)/LIFO(book) in rising pricing

Deferred Tax Items are always reported as <u>non-current</u>

Objectives of Gov Accounting

- designed to demonstrate the ***accountability*** of each organization
- used to demonstrate fiscal accountability in their external reporting

any organization with funding or organized with the gov uses it

GASB Concepetual Framework

- outlined in GASB Concept statements 1-6
-establishes objectives of public accountability

Accountability - provide financial info to citizen to justify raising resources

Interperiod Equity - keep burden on current tax payers

Fund Accounting Basics

	measurement focus	accounting basis
Governmental	current financial resources	Modified Accrual
Proprietary	economic resources	Full Accrual
Fiduciary	economic resources	Full Accrual

Needs of NFP Users

1) amount and nature of an organization assets, liabs, and net assets
2) effects of events that change the amount/nature of net assets
3) amount/kinds of inflows/outflows of economic resources
4) relationship between the inflows and outflows
5) how an organization obtains and spends cash
6) the service efforts of an organization

Statement of Cash Flows (NFP)

Operating Activities

- receipts/payments for settlements of lawsuits
- proceeds from insurance settlements
- refunds from suppliers or to customers
- charitable contributions and disbursements
- reported activity by major class of gross receipts
- receipts of unrestricted resources designated
- proceeds from sale of financial assets (not for long term purposes)
- cash payments for suppliers, employees, interest or agency

Investing Activities

- Investments in PPE
- Proceeds from sale of works of art
-proceeds from sale of assets that were received restricted to new PPE

Financing Activities

- proceeds from borrowing and repayment of it
- receipts from contributions restricted for PPE
- contributions restricted for growing endowment fund

Recipient Accounting

Not Financial Interrelate/Without Variance Power

DR: Asset at FV
  CR: Refundable Advance Liability

Not Financial Interrelate/With Variance Power

DR: Asset at FV
  CR: Contribution Revenue

Financial Interrelated

DR: Asset at FV
  CR: Contribution Revenue

Beneficiary Accounting

Not Financial Interrelate/Without Variance Power

DR: Receivable
  CR: Contribution Revenue

Not Financial Interrelate/Beneficial Relationship

DR: Beneficial Interest
  CR: Contribution Revenue

Financial Interrelated

DR: Interest in recipient net assets
  CR: Change ininterest in reciepents net assets

Governmental Accounting Standards Board (GASB)

- establishes accounting/reporting standards for govs

GASB 76 GAAP Hierarchy

1) GASB Accounting Standards Board Statements
2) GASB Bulletins, guides, and AICPA cleared info

Modified Accrual

Revenue is recognized when available (collectible in period or in 60 days

expenditures are recorded when liability is incurred

no long term assets/loans

Characteristics of NFPs

- revenues come from contributions
- operating purposes does not include profit
- ownership interest are unlike business enterprises

NFP Basics

Basis of Accounting: Full Accrual

Standards set by: FASB

NFP's F/S

1) Statement of Financial Position
2) Statement of Activities
3) Statement of CFs

Statement of Financial Position (NFP)

1) Assets
2) Liabilities
3) Net Assets (Equity)
   a) Net Assets with Donor Restrictions
   b) Net Assets without Donor Restrictions

Statement of Activities (NFP)

1) Change in total net assets
2) Change in net assets with donor restrictions
3) Change in net assets without donor restrictions

Contributions Basics

- unconditional
- must be a transfer of asset
- title must pass
- must be voluntary
- must be nonreciprocal

Conditional Contributions

- are not recognized until realized and has
  a) barriers
  b) right of return

Specific barriers

1) specified levels of service
2) specific outcomes or outputs are required
3) matchings provisions are attached to the gift
4) outside events must occur or be resolved

Characteristics of Info in Gov F/S

Understandability → could be understood by individuals without a knowledge of accounting principles

Reliability → verifiable, free from bias, represent subject matter

Relevance → reported info will make a difference

Timeliness → Must be issued in time to have effect on decisions

Consistency → accounting principals should not change year over year

Entity-to-Entity Comps → reports should be comparable

Governmental Funds - current financial resources & Modified Accrual

General Fund - account for ordinary operations of a gov unit financed by taxes and other general resources

Special Revenue Fund - revenues from specific taxes or earmarks; are restricted or committed

Debt Service Funds - account for. accumulation of resources; are restricted, committed, or assigned

Capital Project Fund - used for construction of major capital assets; are restricted, committed, or assigned

Permanent Fund - resources that are legally restricted to extent that income and not principal is used

Gov Fund F/S

1) Balance Sheet
2) Statement of Revenues, Expenditures, and changes in fund balances

Proprietary Funds - economic resources & Full Accrual

Internal Service Funds - business accounting with customer who are internal (cost-reimbursement basis)

Enterprise Funds - customers are external; at least 50% are self supported

Enterprise Funds are required if any are met:

1) debt servaced by pledge of fee revenue
2) law requires fees adequate to recover costs
3) pricing policies are estiablished to produce fees to recover them

Proprietary Fund F/S

1) Statement of Net Position
2) Statement of Revenues, Expenses, and changes in net position

Fiduciary Funds - economic resources & Full Accrual

Custodial Funds - *temporary custody* and is catch all for most fiduciary funds

Investment Trust Funds - account for external investment pools

Private Purpose Trust Funds - assets are legally protected that are not investments or pensions

Pension (+Other Employee Benefit) Funds - resources of employee benefit plan'

Fiduciary Fund F/S

1) Statement of Fiduciary Net Position
2) Statement ofChanges in Fiduciary Net Position

NFP Revenue Recognition

Cash Contributions

- recognized as revenues/gains in period received
- measured at FV at date of gift

Unconditional Promises (Pledges)

pledge receivable and contribution are recorded at FV when received

Multi-Year Pledge

pledge receivable and contribution are recorded at net present value when received

Conditional Promises (Pledges)

no recognition of pledge receivable or contribution until condition is met in the future

Donated Services

- generally not recorded unless: (creates an asset)

S - Specialized skills are required

O - otherwise needed by the organization

M - measurable

E - easily at Fair Value

Record Conditional Promises Advance

DR: Cash
  CR: Refundable Advance

Donated Materials *only if significant

DR: Asset/Expense
  CR: Contribution Revenue

Donated Collected Items (must do it for all or none)

Don't Have to record if all:

a) part of collection in:
   public viewing, exhibition, education or research
b) collection is cared for, perserved, protected by org
c) policy requires proceeds to re-invest or help