

Contents at a Glance

Introduction	1
Book 1: Setting Up Your Accounting System	5
CHAPTER 1: Grasping Bookkeeping and Accounting Basics	7
CHAPTER 2: Outlining Your Financial Road Map with a Chart of Accounts	17
CHAPTER 3: Using Journal Entries and Ledgers	27
CHAPTER 4: Choosing an Accounting Method	43
Book 2: Recording Accounting Transactions	55
CHAPTER 1: Keeping the Books	57
CHAPTER 2: Tracking Purchases	69
CHAPTER 3: Counting Your Sales	81
CHAPTER 4: Processing Employee Payroll and Benefits	93
CHAPTER 5: Computing and Reporting Payroll Taxes	113
Book 3: Adjusting and Closing Entries	125
CHAPTER 1: Depreciating Your Assets	127
CHAPTER 2: Paying and Collecting Interest	139
CHAPTER 3: Proving Out the Cash	149
CHAPTER 4: Reconciling Accounts and Closing Journal Entries	159
CHAPTER 5: Checking Your Accuracy	175
CHAPTER 6: Adjusting the Books	185
Book 4: Preparing Income Statements and Balance Sheets	197
CHAPTER 1: Brushing Up on Accounting Standards	199
CHAPTER 2: Preparing an Income Statement and Considering Profit	209
CHAPTER 3: Assessing the Balance Sheet's Asset Section	227
CHAPTER 4: Digging for Debt in the Balance Sheet's Liabilities Section	243
CHAPTER 5: Explaining Ownership in the Equity Section of the Balance Sheet ..	257
CHAPTER 6: Coupling the Income Statement and Balance Sheet	269
Book 5: Reporting on Your Financial Statements	283
CHAPTER 1: Presenting Financial Condition and Business Valuation	285
CHAPTER 2: Laying Out Cash Flows and Changes in Equity	295
CHAPTER 3: Analyzing Financial Statements	311
CHAPTER 4: Reading Explanatory Notes and Disclosures	327
CHAPTER 5: Studying the Report to the Shareholders	341

Book 6: Planning and Budgeting for Your Business	353
CHAPTER 1: Incorporating Your Business	355
CHAPTER 2: Choosing a Legal Structure for a Business	367
CHAPTER 3: Drawing Up a Business Plan to Secure Cash	379
CHAPTER 4: Budgeting for a Better Bottom Line	393
CHAPTER 5: Mastering and Flexing Your Budgeting	405
CHAPTER 6: Planning for Long-Term Obligations	417
Book 7: Making Savvy Business Decisions	429
CHAPTER 1: Estimating Costs with Job Costing	431
CHAPTER 2: Performing Activity-Based Costing	447
CHAPTER 3: Examining Contribution Margin	463
CHAPTER 4: Accounting for Change with Variance Analysis	479
CHAPTER 5: Making Smart Pricing Decisions	495
CHAPTER 6: Using Financial Formulas	505
Book 8: Handling Cash and Making Purchase Decisions	515
CHAPTER 1: Identifying Costs and Matching Costs with Revenue	517
CHAPTER 2: Exploring Inventory Cost Flow Assumptions	525
CHAPTER 3: Answering the Question: Should I Buy That?	537
CHAPTER 4: Knowing When to Use Debt to Finance Your Business	551
CHAPTER 5: Interpreting Your Financial Results as a Manager	565
CHAPTER 6: Handling the Financial End of a Business Sale	573
Book 9: Auditing and Detecting Financial Fraud	591
CHAPTER 1: Mulling Over Sarbanes-Oxley Regulation	593
CHAPTER 2: Preventing Cash Losses from Embezzlement and Fraud	607
CHAPTER 3: Assessing Audit Risk	621
CHAPTER 4: Collecting and Documenting Audit Evidence	645
CHAPTER 5: Auditing a Client's Internal Controls	663
CHAPTER 6: Getting to Know the Most Common Fraud Schemes	685
CHAPTER 7: Cooked Books: Finding Financial Statement Fraud	693
Index	703

Table of Contents

INTRODUCTION	1
About This Book	1
Foolish Assumptions	2
Icons Used in This Book	2
Beyond the Book	3
Where to Go from Here	4
BOOK 1: SETTING UP YOUR ACCOUNTING SYSTEM	5
CHAPTER 1: Grasping Bookkeeping and Accounting Basics	7
Knowing What Bookkeeping and Accounting Are All About	8
Distinguishing between bookkeeping and accounting	8
Taking a panoramic view of bookkeeping and accounting	9
Wrapping Your Brain around the Accounting Cycle	10
Working the Fundamental Accounting Equation	14
CHAPTER 2: Outlining Your Financial Road Map with a Chart of Accounts	17
Getting to Know the Chart of Accounts	18
Connecting the chart of accounts to financial statements	18
Organizing the accounts	18
Balancing transactions	19
Setting Up Your Chart of Accounts	20
Mulling Over Debits versus Credits	21
Understanding Double-Entry Accounting	22
Revisiting the balance sheet equation	23
Recording journal entries	23
Figuring out a complex journal entry	25
CHAPTER 3: Using Journal Entries and Ledgers	27
Keeping a Journal	28
Using journals to record cash transactions	28
Recording accrual transactions	32
Exploring other journals	33
Checking out examples of common journal entries	36
Bringing It All Together in the Ledger	37
Realizing what a ledger is	38
Posting to the ledgers	38
Viewing an example of a general ledger	39
Recognizing the purpose of the trial balance	40
Putting Accounting Software to Work for You	41

CHAPTER 4: Choosing an Accounting Method	43
Distinguishing between Cash and Accrual Basis	44
The cash basis	44
The accrual basis	45
Sorting through Standards for Other Types of Accounting	46
Managerial accounting	47
Not-for-profit accounting	47
Governmental accounting	48
International accounting	49
Considering the Conceptual Framework of Financial Accounting . . .	50
The objective of financial reporting	50
Characteristics of accounting information	51
Elements of the financial statements	52
Financial statement measurements	53
 BOOK 2: RECORDING ACCOUNTING TRANSACTIONS	 55
CHAPTER 1: Keeping the Books	57
Analyzing the Effect of Business Transactions	57
Revisiting the fundamental accounting equation	58
Getting familiar with accounts	58
Defining debits and credits	59
Knowing more about the transaction methodology	59
Managing Your Bookkeeping and Accounting System	60
Categorizing your financial information: The chart of accounts	60
Standardizing source document forms and processing procedures	62
Hiring competent personnel	62
Enforcing strong internal controls	64
Wrapping Up with End-of-Period Procedures	65
Tidying up the books	65
Leaving good audit trails	66
Staying alert for unusual events and developments	67
Designing truly useful reports for managers	67
 CHAPTER 2: Tracking Purchases	 69
Keeping Track of Inventory	70
Entering initial cost	71
Managing inventory and its value	73
Buying and Monitoring Supplies	78
Staying on Top of Your Bills	78
Segregating duties to prevent theft	79
Taking advantage of discounts	80

CHAPTER 3:	Counting Your Sales	81
	Collecting on Cash Sales	81
	Discovering the value of sales receipts	82
	Recording cash transactions in the books	84
	Selling on Credit	84
	Deciding whether to offer store credit	85
	Recording store credit transactions in the books	85
	Proving Out the Cash Register	87
	Tracking Sales Discounts	88
	Recording Sales Returns and Allowances	89
	Monitoring Accounts Receivable	91
	Accepting Your Losses	92
CHAPTER 4:	Processing Employee Payroll and Benefits	93
	Staffing Your Business	93
	Completing government forms	94
	Picking pay periods	98
	Determining wage and salary types	99
	Collecting Employee Taxes	100
	Sorting out Social Security tax	100
	Making sense of Medicare tax	100
	Figuring out federal withholding tax	101
	Settling up state and local withholding taxes	102
	Determining Net Pay	102
	Surveying Your Benefits Options	103
	Tax-exempt benefits	103
	Taxable benefits	104
	Dealing with cafeteria plans	104
	Preparing Payroll and Posting It in the Books	105
	Calculating payroll for hourly employees	105
	Doling out funds to salaried employees	106
	Totaling up for commission checks	106
	Putting it together to prepare payroll	108
	Depositing Employee Taxes	110
CHAPTER 5:	Computing and Reporting Payroll Taxes	113
	Paying Employer Taxes on Social Security and Medicare	113
	Filing Form 941	114
	Knowing how often to file	115
	Completing Unemployment Reports and Paying Unemployment Taxes	115
	How states calculate the FUTA tax rate	116
	Calculating FUTA tax	116
	Filing and paying unemployment taxes to state governments	120
	Carrying Workers' Compensation Insurance	120
	Maintaining Employee Records	122

BOOK 3: ADJUSTING AND CLOSING ENTRIES	125
CHAPTER 1: Depreciating Your Assets	127
Defining Depreciation	127
Knowing what you can and can't depreciate	128
Figuring out the useful life of a fixed asset	129
Delving into cost basis	129
Evaluating Your Depreciation Options	130
Walking through the straight-line method	132
Accelerating by using declining balance	132
Calculating sum-of-the-years'-digits	133
Using the units-of-production method	134
Seeing how the methods compare	135
Figuring partial year depreciation	135
Tackling Taxes and Depreciation	137
Section 179	137
MACRS	138
CHAPTER 2: Paying and Collecting Interest	139
Deciphering Types of Interest	139
Simple interest	140
Compound interest	140
Handling Interest Income	142
Delving into Loans and Interest Expenses	143
Short-term debt	143
Long-term debt	145
CHAPTER 3: Proving Out the Cash	149
Why Prove Out the Cash?	149
Making Sure Ending Cash Is Right	150
Closing the Cash Journals	152
Finalizing cash receipts	152
Finalizing cash outlays	156
Using a Temporary Posting Journal	157
CHAPTER 4: Reconciling Accounts and Closing Journal Entries	159
Reconciling Bank Accounts	160
Tracking down reconciling items	161
Using a computerized system	162
Posting Adjustments and Corrections	163
Prepping to Close: Checking for Accuracy and Tallying Things Up	164
Paying attention to initial transaction details	164
Summarizing journal entries	165

	Analyzing summary results	169
	Planning for cash flow.	170
	Posting to the General Ledger.	170
	Checking Out Computerized Journal Records.	171
CHAPTER 5:	Checking Your Accuracy	175
	Working with a Trial Balance	175
	Conducting your trial balance	176
	Dealing with trial balance errors.	178
	Testing Your Balance by Using Computerized Accounting Systems	179
	Developing a Financial Statement Worksheet	181
	Replacing Worksheets with Computerized Reports.	183
CHAPTER 6:	Adjusting the Books	185
	Adjusting All the Right Areas	186
	Depreciating assets	187
	Allocating prepaid expenses	189
	Counting inventory	189
	Allowing for bad debts	191
	Recognizing unpaid salaries and wages.	193
	Testing an Adjusted Trial Balance.	194
BOOK 4: PREPARING INCOME STATEMENTS AND BALANCE SHEETS		197
CHAPTER 1:	Brushing Up on Accounting Standards	199
	Exploring the Origins of Accounting Standards	200
	Recognizing the Role of the American Institute of Certified Public Accountants (AICPA)	201
	Tying together regulators for audits of publicly traded companies	201
	ASB audit and attestation standards	202
	AICPA Code of Professional Conduct	203
	Checking Out the U.S. Securities and Exchange Commission (SEC)	204
	Getting to Know the Financial Accounting Standards Board (FASB).	205
	Understanding generally accepted accounting principles (GAAP).	206
	Looking online for FASB standards.	207
	Pick a standard: Domestic or international	207

CHAPTER 2:	Preparing an Income Statement and Considering Profit	209
	Understanding the Nature of Profit	210
	Choosing the Income Statement Format.	211
	Deciding What to Disclose in the Income Statement.	212
	Considering expense disclosure	212
	Presenting the right amount of expense information.	213
	Examining How Sales and Expenses Change Assets and Liabilities	213
	Sizing up a business's financial condition	214
	Noting how accounting transactions affect the income statement and balance sheet	214
	Considering the Diverse Financial Effects of Making a Profit	217
	Introducing T-accounts.	217
	Combining activity into one journal entry	218
	Explaining additional transactions related to profit.	219
	Reporting Extraordinary Gains and Losses	220
	Segregating the income statement.	220
	Considering business disruptions.	220
	Questioning whether activity is truly unusual.	222
	Correcting Common Misconceptions about Profit.	223
	Clearing up profit misconceptions	223
	Comparing to industry standards.	224
	Waving the red flag when you see revenue and credit sales increase.	225
CHAPTER 3:	Assessing the Balance Sheet's Asset Section	227
	Homing in on Historic Cost	228
	Discovering What Makes an Asset Current	228
	Cash.	229
	Short-term investments	230
	Accounts receivable	231
	Notes receivable	234
	Inventory.	234
	Prepaid expenses	236
	Keeping Track of Noncurrent (Long-Term) Assets	236
	Meeting the tangibles: Property, plant, and equipment (PP&E).	237
	Investigating intangible assets.	239
	Exploring the Asset Section of the Balance Sheet	241
CHAPTER 4:	Digging for Debt in the Balance Sheet's Liabilities Section	243
	Seeing How Businesses Account for Liabilities.	244
	Keeping Current Liabilities under Control	245
	Accounts payable.	246
	Payroll and taxes.	247

Unearned revenue	248
Other short-term liabilities.	248
Planning for Long-Term Obligations.	250
Financing asset purchases with debt versus equity.	250
Managing long-term debt.	251
Anticipating contingent liabilities	252
Accounting for Bond Issuances.	253
Mulling over bond basics	253
Examining sample bond transactions	254
Journaling bond transactions.	255
CHAPTER 5: Explaining Ownership in the Equity	
Section of the Balance Sheet	257
Understanding How Owner Equity Varies among	
Business Entities	257
Sole proprietorship	258
Partnership.	258
Corporation	259
Distinguishing between Two Types of Capital Stock	259
Preferred stock	260
Common stock.	260
Recording stock transactions on the balance sheet.	260
Defining Paid-In Capital	261
Recording Retained Earnings.	262
Spotting Reductions to Stockholders' Equity.	262
Paying dividends	263
Buying back shares: Treasury stock	265
Exploring Stock Splits	265
Computing Earnings per Share	266
Simple capital structure	266
Complex capital structure	267
CHAPTER 6: Coupling the Income Statement and	
Balance Sheet	269
Rejoining the Income Statement and Balance Sheet.	270
Seeing connections between accounts	270
Using transactions to explain the connections.	272
Introducing Operating Ratios	274
Comparing expected with actual operating ratios	274
Generating balance sheet amounts by using ratios.	274
Adding Fixed Assets, Depreciation, and Owners' Equity	277
Dealing with fixed assets and depreciation.	277
Tacking on owners' equity	279
Completing the Balance Sheet with Debt	280
Going over the debt section of the balance sheet	280
Tying in the new equity section.	281

BOOK 5: REPORTING ON YOUR FINANCIAL STATEMENTS	283
CHAPTER 1: Presenting Financial Condition and Business Valuation	285
Clarifying the Values of Assets in Balance Sheets.	286
Considering options for balance sheet valuation.	286
Comparing two balance sheet valuations	288
Introducing Business Valuation.	289
Grasping the practical applications of business valuations ...	289
Considering a CVA designation	290
Comparing Business Valuation Methods.	291
Replacing assets: Replacement value.	292
Using future earnings and cash flow	293
CHAPTER 2: Laying Out Cash Flows and Changes in Equity	295
Understanding the Difference between Cash and Profit	296
Seeing how noncash transactions affect profit.	296
Distinguishing costs from expenses.	297
Realizing the Purpose of the Statement of Cash Flows	297
Walking through the Cash Flow Sections.	299
Figuring cash operating results.	299
Showing cash investing transactions	302
Accounting for financing activities	303
Recognizing Methods for Preparing the Statement of Cash Flows	304
Using the direct method.	306
Starting indirectly with net income.	307
Interpreting the Statement of Cash Flows.	308
Looking Quickly at the Statement of Changes in Stockholders Equity	309
CHAPTER 3: Analyzing Financial Statements	311
Judging Solvency and Liquidity	311
Understanding the risks of late payments.	312
Recognizing current assets and liabilities	312
Brushing up on current and quick ratios	314
Understanding That Transactions Drive the Balance Sheet	316
Analyzing three types of balance sheet transactions.	316
Reviewing changes in balance sheet accounts	317
Measuring Profitability	319
Understanding trend analysis	319
Focusing on return on investment	320
Homing in on return on equity	321

Exploring Activity Measures	322
Accounts receivable turnover	322
Inventory turnover	323
Comparing Horizontal and Vertical Analysis	324
Using horizontal analysis	324
Implementing vertical analysis	325
Using Common Size Financial Statements.	326
CHAPTER 4: Reading Explanatory Notes and Disclosures	327
Realizing How Corporations Should Govern Themselves	328
Identifying Corporate Characteristics.	328
Reviewing Common Explanatory Notes.	330
Leveling the playing field among financial statements	330
Explaining significant accounting policies	331
Looking for important event disclosures.	335
Putting the Onus on the Preparer.	339
CHAPTER 5: Studying the Report to the Shareholders	341
Why Private and Public Companies Treat Annual Reports Differently.	342
Fulfilling Three Purposes	343
Serving a marketing and PR function	343
Stating financial performance and goals	343
Meeting regulatory requirements.	344
Reading the Annual Report to Shareholders.	344
Meeting the chair of the board of directors	345
Highlighting key financial data.	345
Touting company achievements	347
Looking into the future.	347
Getting to know key management and board members	348
Walking through Form 10-K.	348
Facing page: Identifying the affected company	349
Part I: Finding out more about the registrant.	349
Part II: Revealing the company's financial performance	349
Part III: Identifying management and corporate governance.	351
Part IV: Exhibits, financial statement schedules, and signature.	352
BOOK 6: PLANNING AND BUDGETING FOR YOUR BUSINESS	353
CHAPTER 1: Incorporating Your Business	355
Securing Capital: Starting with Owners	356
Contrasting two sources of equity	356
Leveraging equity capital with debt	358

Recognizing the Legal Roots of Business Entities	359
Incorporating a Business	360
Issuing stock shares	361
Offering different classes of stock shares	361
Determining market value of stock shares	363
Keeping alert for dilution of share value	365
Recognizing conflicts between stockholders and managers	366
CHAPTER 2: Choosing a Legal Structure for a Business	367
Differentiating between Partnerships and Limited Liability Companies	368
Partnerships	368
Limited liability company (LLC)	369
Limiting liability: Professional corporations and LLPs	370
Understanding how partnerships and LLCs distribute profits	370
Going It Alone: Sole Proprietorships	371
Describing a sole proprietorship	371
Understanding liability and financial reporting	372
Choosing the Right Legal Structure for Income Tax	372
C corporations	373
S corporations	374
Partnerships and LLCs	375
Summing up the legal structure issue	376
CHAPTER 3: Drawing Up a Business Plan to Secure Cash	379
Outlining the Basic Business Plan	380
The executive summary	380
The market assessment	381
The operational overview	382
The financial summary: Performance and required capital	383
Developing a Business Plan	383
Recognizing the evolution of business plans: BOTE, WAG, and SWAG	384
Taking a problem-solving approach	385
Getting the process going	386
Analyzing and streamlining information with SWOT and KISS	388
Incorporating Third-Party Information into Your Plan	390
Gathering the info	390
Riding the CART concept: Complete, accurate, reliable, and timely	391

CHAPTER 4:	Budgeting for a Better Bottom Line	393
	Brushing Up on Budgeting Basics	393
	Meeting the master budget	394
	Understanding key budgeting concepts	394
	Planning strategically	395
	Recognizing Factors That Impact Your Budgeting Process	395
	Experience counts	396
	Timing is everything	396
	People get you headed in the right direction	397
	Sales projections pay off	397
	The Nuts and Bolts of Budgeting	398
	Understanding the budgeting financials	399
	Reviewing revenue and production budgets	402
CHAPTER 5:	Mastering and Flexing Your Budgeting	405
	Budgeting with Cash or Accrual Accounting	405
	Cash basis accounting: Using your checkbook to budget	406
	I accrue, you accrue, we all accrue with accrual accounting	408
	Budgeting to Produce the Income Statement and Balance Sheet	409
	The well-balanced balance sheet	409
	The incredible income statement	410
	Flexing Your Budget: When Plans Change	410
	Controlling your business	411
	Dealing with budget variances	411
	Implementing a flexible budget	412
CHAPTER 6:	Planning for Long-Term Obligations	417
	Managing Long-Term Debt	418
	The many faces of notes payable	418
	Treasury bonds defined	424
	The dark side of debt-free	424
	Accounting for Bonds	425
	Valuing bonds payable	426
	Figuring out the present value of a bond	427
	Issuing at face value	428
	BOOK 7: MAKING SAVVY BUSINESS DECISIONS	429
CHAPTER 1:	Estimating Costs with Job Costing	431
	Understanding How Job Costing Works	431
	Cost objects: The sponges that absorb money	432
	Charging customers for direct and indirect costs	433
	Implementing job costing in manufacturing: An example	435

	Taking a Closer Look at Indirect Costs by Using Normal Costing . . .	438
	Budgeting for indirect costs	439
	Following a normal job costing system	440
	Following the Flow of Costs through a Manufacturing System	441
	Control starts with control accounts	442
	Walking through a manufacturing cost example	443
	Applying the methodology to other control accounts	445
CHAPTER 2:	Performing Activity-Based Costing	447
	Avoiding the Slippery Slope of Peanut Butter Costing	447
	Recognizing a single indirect cost allocation	448
	A fly in the peanut butter: Dealing with different levels of client activity	449
	Undercosting and overcosting	450
	Designing an Activity-Based Costing System	452
	Refining your approach	452
	Grouping costs by using a cost hierarchy	453
	Testing your ABC design	454
	Using Activity-Based Costing to Compute Total Cost, Profit, and Sale Price	457
	Allocating indirect costs evenly by product	458
	Analyzing and reallocating cost activities	459
	Changing allocations to cost pools	460
	Changing prices after ABC	461
CHAPTER 3:	Examining Contribution Margin	463
	Computing Contribution Margin	464
	Figuring total contribution margin	464
	Calculating contribution margin per unit	466
	Working out contribution margin ratio	466
	Preparing a Cost-Volume-Profit Analysis	467
	Drafting a cost-volume-profit graph	467
	Trying out the total contribution margin formula	468
	Practicing the contribution margin per unit formula	470
	Eyeing the contribution margin ratio formula	470
	Generating a Break-Even Analysis	471
	Plotting the break-even point	471
	Using the formula approach	472
	Shooting for Target Profit	473
	Observing Margin of Safety	474
	Using a graph to depict margin of safety	474
	Calculating the margin of safety	475
	Taking Advantage of Operating Leverage	475
	Graphing operating leverage	476
	Looking at the operating leverage formula	476

CHAPTER 4:	Accounting for Change with Variance Analysis	479
	Setting Up Standard Costs	480
	Establishing direct materials standards	481
	Determining direct labor standards	482
	Calculating the overhead rate	482
	Adding up standard cost per unit	483
	Understanding Variances	484
	Computing direct materials variances	485
	Calculating direct labor variances	488
	Computing overhead variances	491
	Looking past the favorable/unfavorable label	492
	Teasing Out Variances	492
	Interpreting variances in action	492
	Focusing on the big numbers	493
	Tracing little numbers back to big problems	494
CHAPTER 5:	Making Smart Pricing Decisions	495
	Differentiating Products	496
	Taking All Costs into Account with Absorption Costing	496
	Pricing at Cost-Plus	497
	Computing fixed markups	498
	Setting a cost-plus percentage	498
	Considering problems with cost-plus pricing	498
	Extreme Accounting: Trying Variable-Cost Pricing	499
	Working out variable-cost pricing	500
	Spotting the hazards of variable-cost pricing	501
	Bull's-Eye: Hitting Your Target Cost	501
	Calculating your target cost	502
	Knowing when to use target costing	503
CHAPTER 6:	Using Financial Formulas	505
	Analyzing Profitability	505
	Starting with profit margin	506
	Increasing your rate of return	506
	Thinking about leverage	507
	Using Assets Effectively	508
	Connecting assets with revenue	508
	Mulling over turnover ratios	509
	Evaluating Firm Liquidity	510
	Monitoring your checkbook	511
	Liquidating assets to collect cash	511
	Checking on Company Solvency	512
	Calculating the debt-to-equity ratio	512
	Managing debt	513

BOOK 8: HANDLING CASH AND MAKING PURCHASE DECISIONS..... 515

CHAPTER 1: Identifying Costs and Matching Costs with Revenue..... 517

Defining Costs and Expenses in the Business World 518
 Satisfying the Matching Principle 519
 Identifying Product and Period Costs..... 519
 Discovering Which Costs Are Depreciated..... 520
 Handling real property depreciation 520
 Allocating costs between land and buildings 521
 Expensing repairs and maintenance 521
 Preparing a Depreciation Schedule 522
 Deciding When to Recognize Revenue..... 523
 Going over the revenue recognition principle..... 523
 Recognizing revenue and cash flow 524

CHAPTER 2: Exploring Inventory Cost Flow Assumptions 525

Discovering How Inventory Valuation Affects the Financial Statements..... 526
 Comparing merchandising and manufacturing companies 526
 Connecting inventory to revenue 526
 Logging Inventory for Service Companies..... 527
 Classifying Inventory Types 527
 Accounting for merchandising company inventory..... 528
 Accounting for manufacturing company inventory..... 530
 Getting to Know Inventory Valuation Methods..... 531
 Understanding guidelines used for all methods..... 532
 Specific identification 532
 Weighted average 533
 First-in, first-out (FIFO) 533
 Last-in, first-out (LIFO)..... 533
 Comparing inventory cost-flow assumptions..... 534
 Preparing an Inventory Worksheet..... 536

CHAPTER 3: Answering the Question: Should I Buy That? 537

Identifying Incremental and Opportunity Costs..... 538
 Keeping It Simple: The Cash Payback Method 539
 Using the cash payback method with equal annual net cash flows 539
 Applying the cash payback method when annual net cash flows change each year..... 540

	It's All in the Timing: The Net Present Value (NPV) Method	541
	Calculating time value of money with one payment for one year	542
	Finding time value of money with one payment held for two periods or more	543
	Calculating NPV with a series of future cash flows	544
	Measuring Internal Rate of Return (IRR)	547
	Considering Qualitative Factors	548
CHAPTER 4:	Knowing When to Use Debt to Finance Your Business	551
	Understanding the Basics of Debt Capital	552
	Debt maturity	552
	Debt security	553
	Other debt attributes	554
	Determining When Debt Is Most Appropriate	555
	When you can offer security or collateral	555
	When business is stable	556
	When you have financial strength	556
	Using Loans, Leases, and Other Sources of Debt	556
	Borrowing from banks	557
	Making friends with asset-based lenders	559
	Leasing as a source of capital	559
	Tapping government programs and the SBA	561
	Using other sources of debt-based capital	562
	Getting Creative with Capital	562
	Generating internal cash flow	563
	Leveraging unsecured creditors	563
	Going after government aid, gifts, and grants	564
	Partnering up	564
CHAPTER 5:	Interpreting Your Financial Results as a Manager	565
	Gauging the Relative Importance of Information	566
	Reviewing Profit and Earnings	566
	Judging profit performance	567
	Testing earnings per share (EPS) against change in bottom line	567
	Judging the Company's Cash Position	569
	Tackling Extraordinary Gains and Losses	570
	Recognizing the Risks of Restatement	571
	Remembering the Limits of Financial Reports	572

CHAPTER 6:	Handling the Financial End of a Business Sale	573
	Maximizing Business Value	574
	Attending to financial and nonfinancial factors that determine value.	574
	Evaluating business operations.	578
	Reviewing products, services, and training	579
	Attending to issues that can sink the sale	580
	Becoming a Team Player	582
	Funding a Business Purchase	583
	Working through Due Diligence	584
	Mulling over your accounting system.	585
	Having your accounting system audited	585
	Having an attorney review contracts and other agreements	587
	Coming to Terms with a Sale Price	587
	Comparing an asset purchase to an equity purchase	587
	Normalizing the financial statements.	588
	Factoring in industry and economic conditions	590
	Securing a win-win sale price.	590

BOOK 9: AUDITING AND DETECTING FINANCIAL FRAUD 591

CHAPTER 1:	Mulling Over Sarbanes-Oxley Regulation	593
	Pre-SOX Securities Laws	594
	The Securities Act of 1933: Arming investors with information	594
	The Securities Exchange Act of 1934: Establishing the SEC.	595
	Other securities laws.	599
	The Scope of SOX: Securities and Issuers	599
	Determining what a security is	600
	Defining an issuer	601
	Figuring out how stock exchanges work	602
	Unveiling the SOX surprise.	603
	The Post-SOX Paper Trail	605
	Form 10-K	605
	Form 10-Q.	606
	Form 8-K	606
CHAPTER 2:	Preventing Cash Losses from Embezzlement and Fraud	607
	Setting the Stage for Protection	608
	Preventing loss with internal controls	608
	Recognizing the dual purpose of internal accounting controls.	609
	Struggling with fraud committed by the business	610

Putting Internal Controls to Work	611
Going down the internal controls checklist	612
Considering some important details of internal control	617
Recognizing Limitations of Internal Controls	619
Keeping internal controls under control	619
Finding fraud that slips through the net	619
CHAPTER 3: Assessing Audit Risk	621
Using the Audit Risk Model	622
Listing the financial statements	622
Introducing audit risk	622
Inherent risk: Recognizing the nature of a client's business	623
Control risk: Assessing a client's ability to detect and correct problems	625
Detection risk: Figuring out your chances of overlooking inaccuracies	626
Following Risk Assessment Procedures	628
Recognizing the nature of the company	629
Examining the quality of company management	630
Asking employees for information	631
Analyzing processes and paperwork	632
Observing the client at work	633
Figuring Out What's Material and What Isn't	634
Distinguishing errors from fraud	635
Explaining the triangle of fraud	636
Evaluating Your Audit Risk Results	640
Tailoring the audit to a low-risk situation	640
Responding to a high-risk assessment	641
Documenting audit risk results	643
CHAPTER 4: Collecting and Documenting Audit Evidence	645
Management Assertions: Assessing the Information a Client Gives You	646
Defining financial statement presentation and disclosure	646
Monitoring classes of transactions	648
Analyzing account balances	649
Eyeing the Four Concepts of Audit Evidence	650
The nature of the audit evidence	650
The competence of the audit evidence	651
The sufficiency of the audit evidence	653
The evaluation of the audit evidence	653
Applying Professional Judgment	655
Exercising skepticism	655
Brainstorming with audit team members	656

	Using Your Audit Program to Request the Right Evidence . . . . .	.658
	Documenting the Audit Evidence . . . . .	.659
	Types of documentation. . . . .	.659
	Ownership and retention of the audit documentation . . . . .	.662
CHAPTER 5:	Auditing a Client's Internal Controls	663
	Defining Internal Controls . . . . .	.664
	Identifying the Five Components of Internal Controls. . . . .	.665
	Determining When You Need to Audit Internal Controls . . . . .	.667
	Defining substantive strategy and control testing strategy . . . . .	.667
	Figuring out which strategy is best . . . . .	.668
	Testing a Client's Reliability: Assessing Internal Control Procedures . . . . .	.669
	Considering external factors . . . . .	.669
	Evaluating how management assesses its controls. . . . .	.670
	Using questionnaires to evaluate internal controls . . . . .	.672
	Designing your tests of controls . . . . .	.673
	Using sampling to test internal controls . . . . .	.674
	Knowing when internal controls are sound or flawed. . . . .	.677
	Documenting your conclusion. . . . .	.679
	Limiting Audit Procedures When Controls Are Strong. . . . .	.679
	Tailoring Tests to Internal Control Weaknesses . . . . .	.680
	Timing a Client's Control Procedures . . . . .	.681
	Setting a timeline for the client . . . . .	.682
	Conducting interim versus year-end audits . . . . .	.682
CHAPTER 6:	Getting to Know the Most Common Fraud Schemes	685
	Frauds Committed by Businesses. . . . .	.686
	Preying on vulnerable populations. . . . .	.686
	Picking investors' pockets. . . . .	.687
	Doing business with bribes . . . . .	.687
	Laundering money . . . . .	.687
	Perpetrating construction fraud . . . . .	.688
	Dealing in subprime and predatory lending . . . . .	.689
	Taking advantage of employees . . . . .	.689
	Frauds Committed against Businesses . . . . .	.690
	Employee theft. . . . .	.691
	Vendor and customer fraud. . . . .	.691
	Insurance fraud . . . . .	.691
	Real estate and mortgage fraud . . . . .	.692

CHAPTER 7: Cooked Books: Finding Financial Statement Fraud	693
Exploring the Financial Statement Fraud Triangle	694
Understanding the incentive behind financial statement fraud.....	695
Seeing the fraud opportunity	695
Coming up with a rationalization for the fraud.....	696
Spotting the Common Methods of Fraud	696
Hidden liabilities	697
Cookie jar reserves	697
Off-balance sheet transactions.....	697
Notes no one can comprehend.....	698
Uncovering Financial Statement Fraud	699
Comparative techniques	699
Ratio analysis	700
Beneish model.....	701
Data mining	702
INDEX	703

