Chapter 1

1. BI + Purchases = COGAS - EI = COGS (Purchases could be COGM in this formula)
    a. If it gives us sales and historical gross margin of 20%, then simply multiply the sales by 80% (don't divide by 1.2) to find COGS

Single-step vs. multi-step income statements

Single-step	Multi-step
Revenues	Net sales revenues
− Expenses	− Cost of goods sold
Income from continuing operations	Gross profit
± Income from discontinued operations (net of tax)	− Selling expenses
Net income	− General and administrative expenses
	− Depreciation expense
	Operating income
	± Non-operating items
	Income before tax
	− Provision for income tax
	Income from continuing operations
	± Income from discontinued operations (net of tax)
	Net income

2.
    a. Gains are generally included as part of total revs on a single-step IS, but discontinued operations (net of tax) are still reported separately
3. Foreign currency **translation** gains are on OCI, while **transaction** gain are on IS
4. For foreign currency forward contracts, use changing forward rates (not spot rates) to determine fair value gains/losses on contract before it is settled
5. UNDER INDIRECT METHOD (FOR SCF) NI IS RECONCILED TO NET CASH FLOW BY ADJUSTING FOR CHANGES IN CERTAIN OPERATING ACCOUNTS AND NONCASH ITEMS ON THE BALANCE SHEET.
    a. Under indirect method, to find net cash provided by operating activities, do NI minus Increases in CA (or plus Decreases in CA), plus increases in CL (or minus decreases in CL) → Essentially, these "increases/decreases of CA/CL" are in fact sources of cash, and to calculate the answer it is the inverse of what you would expect to add/subtract
    b. IF NET INCOME IS GIVEN, YOU MUST BE TALKING ABOUT THE INDIRECT METHOD
    c. To avoid counting the amount twice, a gain on disposal of long-term assets is not reported under investing. It is deducted under operating activities

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6. Consolidated COGS = Big COGS + Small COGS - IC Sales + any profit in Small's EI
7. Under Equity Method, the Ending Carrying Value of Investment in Sub = Beginning carry val. (cost) + **Equity Earnings** (% NI - % Excess Dep. - % Divs)
8. Under cost, DON'T adjust for Equity Earnings, but instead just recognize share of divs as "dividend income (Dr Divs rcvbl / Cash, Cr Div Income)
9. Journal entries to consolidate BS: EAGL-IN (Debit EAG, Credit LIN) → PLUS eliminate IC txns (review and come up with easy, quick thing to jot down)
10. If any IC txns:
    a. Dr AP, Cr AR, Dr Sales, Cr COGS, Cr inv. (last one to adjust for IC profit)
        i. If only consol. BS, and not given rev./COGS, Dr RE and Cr Inv for IC profit
11. Upon consol, we eliminate big's % of divs from small, and the rest of divs to NCI is still NOT included in consol divs (since sub's divs don't represent divs of consol entity)

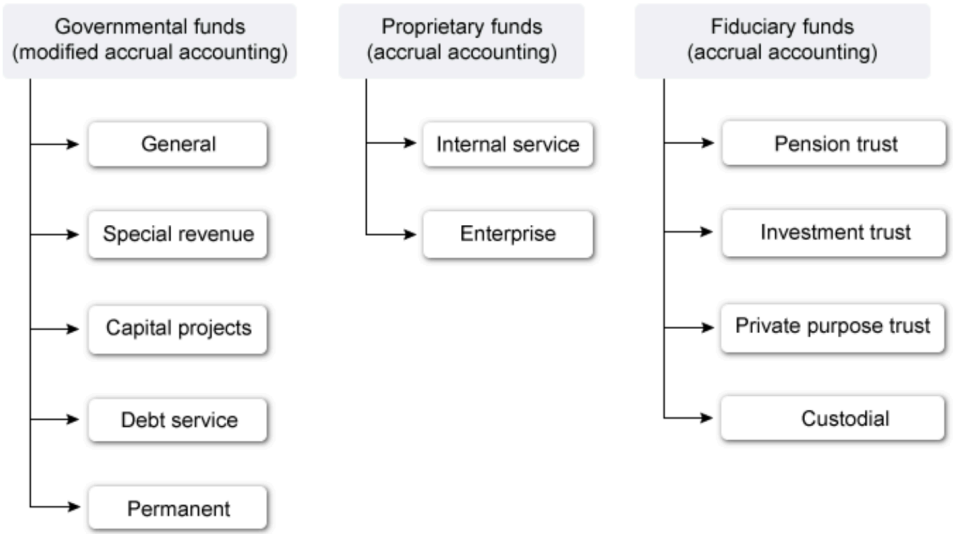
Chapter 2

12. (MNE) 3 statements of NPOs: "FAC!" Financial Position, Activities, and Cash Flows (also Statement of Functional Expenses)

Chapter 3 (the only thing the test asks about is which funds use Accrual vs Modified Accrual, and which use Current vs Economic Resources Focus)

13. **Mnemonic for funds (write first 3 phrases going left to right): GPF, MAAA, CEE, Police Department Consents to Smoking Grass, I Evidently PIPe Constantly.**
    a. **Stands for:**
        i. **Government, Proprietary, Fiduciary**
        ii. **Modified Accrual, Accrual, Accrual**
        iii. **Current resources, Economic resources, Economic resources**
        iv. **Permanent, Debt service, Capital, Special rev, General, Internal service, Enterprise, Pension, Investment, Private purpose, Custodial**

Government entities: funds and basis of accounting



14.

Chapter 4

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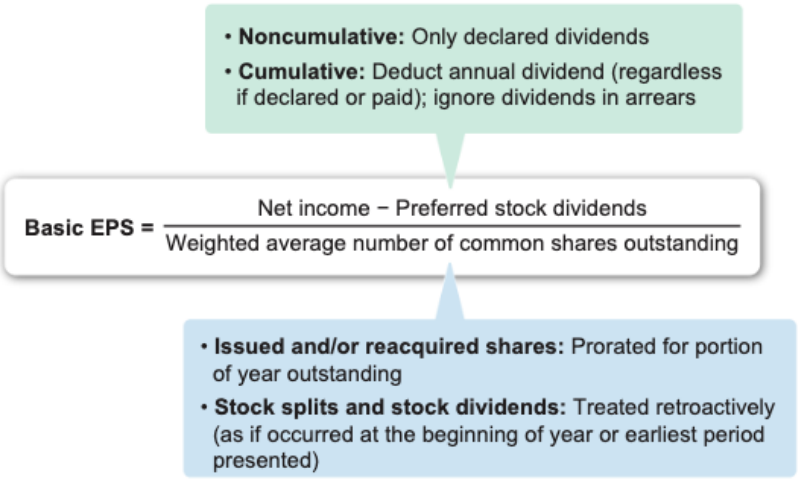
15. **SEC reporting requirements**

Filer	Market value of securities	Form 10-K deadline	Form 10-Q deadline
Large accelerated	> $700 million	60 days	40 days
Accelerated	$75 million – $700 million	75 days	40 days
Non-accelerated	< $75 million	90 days	45 days

16. 4 common SEC reports: S-1 (issue before IPO), 10-Q (issued quarterly, reviewed), 10-K (issued annually, audited), and 8-K (reports major event/txn)

17. 

    a. For denominator, if there is dividend or split, act as if it was declared at beginning of year, and if there is an issuance/repurchase, prorate for months outstanding
    b. For numerator, ignore any dividends in arrears (if they paid more than the annual preferred dividend, still only deduct the annual preferred dividend).

Treasury Stock Method

18. **Diluted earnings per share (EPS) with stock options**

$$\text{Diluted EPS} = \frac{\text{Net income} - \text{Preferred stock dividends}^*}{\text{Weighted-average number of shares} + \text{Incremental shares}}$$

$$\text{Options} - \left(\frac{\text{Options} \times \text{Exercise price}}{\text{Market price}} \right)$$

**Includes current-year cumulative perferred stock dividends (whether or not declared) and declared noncumulative dividends*

    a. For options: assume all options are exercised, that the company purchased treasury shares with proceeds from exercise, add incremental shares to denominator

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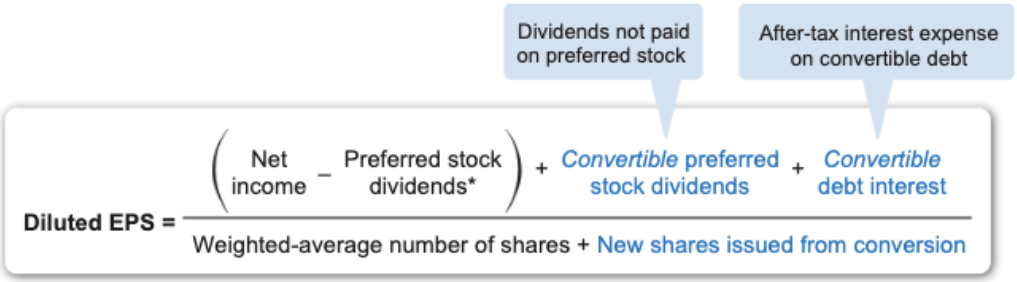
If-Converted Method

Diluted earnings per share (EPS) with convertible securities



*Includes current-year cumulative preferred stock dividends (whether declared or not) and declared noncumulative dividends

19.
   a. For convertible securities: Assume all convertible securities are converted.
   b. If **convertible preferred shares** are exchanged for common, the company won't have to pay the pref stock divs, so add amount back to numerator.
   c. If **convertible bonds** are exchanged for common, the company will not have to pay the annual interest expense on the bond, so add amount (net of tax, via x 1 - tax rate) back to numerator.
   d. For anything converted during year, we assume they were converted at the beginning of the year; we add the raw amount of shares added to our denominator (not prorated, unless they were actually issued during the year), and we add back the interest not paid (which would be net of the interest paid if we actually converted them in the middle of the year)
   e. For diluted EPS, preferred stock isn't dilutive if not convertible, and options aren't dilutive if not expected to exercise (ex. exercise price > mkt price), and if everything is antidilutive, then our diluted EPS is just our EPS

Chapter 5

20. Formula to adjust service revenue from cash to accrual:
   a. Accrual basis service rev = cash fees collected + end AR - beg AR + beg unearned fees - end unearned fees

Chapter 6

21. "Return on" = Net Income over x
22. Asset / AR TO = net sales over avg x; Inv / AP TO = COGS over avg x
23. Operating Cycle = DSR + DSI
   a. "Days in x" = 365 / x turnover

Chapter 7

24. (Cash)

Bank reconciliation

Book	Bank
Cash balance per books	Bank statement balance
+ Interest paid by bank	+ Deposits in transit
+ Deposits not yet recorded in books	− Checks outstanding
− Bank charges	± Bank errors
− Returned checks (eg, for insufficient funds)	
− Withdrawals not yet recorded in books	
± Recording errors	
Net cash balance ⟷	**Net cash balance**

   a. (for questions, look to see where you're starting from, then adjust accordingly, potentially from both sides' items)
   b. If two accounts at one bank, then net, if different banks where one is positive balance and one is negative balance, then cash balance is the positive one.
   c. "Insufficient funds check" is a minus from books above "returned checks"
   d. Cash equivalent = maturing within 3 months

Chapter 8

25. For receivable not incurred in ordinary course of business:
   a. If at fair (not lower than typical) interest rate, record at PV
   b. If not at fair rate, AND receivable is collectible within 1 year AND the rate is customary for those txns, then ignore interest component and record at face value on FS
   c. If not at fair rate, and either receivable is collectible after over 1 year OR the trade terms aren't customary, then record at PV using the fair rate.
26. Translations =
   a. Pledging/Assigning - "Secured borrowing," using receivables as loan collateral
   b. Factoring - Selling receivables (with recourse means seller still bears the risk of uncollectible; without means that the buyer takes on that risk for a higher fee)
27. Total interest over life of note = future value - present value (PS: You can find interest by taking future value minus face - discount)
28.

Face value of N/R		$100,000
− Principal payment		(50,000)
Outstanding balance		$50,000
+ Interest at maturity	($50,000 × 10% × 12/12)	5,000
MV		$55,000
− Bank's discount	($55,000 × 12% × 6/12)	(3,300)
Net cash proceeds		**$51,700**

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a. How to find proceeds from a 10% note discounted to a bank (this question says we received one payment of 50K plus interest at EOY1, then we discounted the note to a bank at 7/1/Y2 at 12%) → **take current face val of note and add remaining interest to be paid on it to get market value, then subtract bank's discount by multiplying the market value by their new % (and time remaining when purchased)**

29.

Transactions affecting accounts receivable

Accounts receivable	
Beginning balance	Collections
Credit sales	Write-offs
Reinstatement of accounts written-off	Recoveries
Ending balance	

a. For questions of AR and Allowance, perhaps using T charts would be the best way to go

30.

Contra-Asset account

Allowance for credit losses

		180,000	Beg. bal.
Write-offs	25,000		
		35,000	Recoveries
		190,000	Bal.
Adj. for credit losses →	?		
		135,000 ($4,500,000 × 3%)	

Journal entry to record credit losses

Allowance for credit losses	55,000	
Reversal of credit loss expense		55,000

a. T chart for Allowance account

31. About cash received in AR questions: "Cash Collected" = Credit Sales - Writeoffs - Increase in AR

Chapter 9

32. If inv doesn't use LIFO/retail inv method, then use LCNRV. BUT, if inventory uses LIFO/retail inv method, then use LCM → "Market" value (for inventory) = Replacement cost, subject to ceiling and floor limitation

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   a. Ceiling = NRV (=Sales price – (Costs to complete + Disposal costs)
   b. Floor = NRV - Profit Margin (Profit margin takes 15% x selling costs, not NRV)
   c. **FIND THE REPLACEMENT COST, CEILING, AND FLOOR. THE MIDDLE FIGURE IS YOUR MARKET COST**
      i. **PS: if it says "cost is 16K, but pay 8K more to sell it for 28K," then NRV = 28K minus 8K = 20K**
   d. Shorthand to write down on test → LIFO = LCM (M is middle of: replace, NRV [sale cost - dispose cost], and NRV - PM of sale) → BUT other methods = LCNRV

33. Average Cost (for Inventory) →
   a. If question is for periodic inventory, then do not calculate a new average cost after each purchase. Rather, take all the purchases combined with beginning inventory to find an average unit cost, AND THEN use THIS figure to account for your cost of goods sold and ending inventory
   b. If the question is for perpetual inventory, then you must calculate a new average cost after each purchase.

34.

Impact of inventory costing methods in a period of rising prices

	COGS Valuation	Impact on COGS	Impact on net income
FIFO	Older, lower costs	Lower ↓	Higher ↑
LIFO Dollar-value LIFO	Recent, higher costs	Higher ↑	Lower ↓
Weighted average	Average cost of all units at end of period	Average cost	Between LIFO and FIFO
Moving average	Average cost of units at time of each sale	Average cost	Between LIFO and FIFO

   a. Impact of inventory costing methods in a period of rising prices

35. COGS will ALWAYS be same amount under FIFO-periodic/perpetual

Dollar-value LIFO (DVL)

Assume current year ending inventory of $66,000 and prior year inventory in base year dollars is $50,000. The current price index is 1.1.

Step 1: Convert (deflate) current ending inventory to base year dollars	$\frac{\text{Current year ending inventory}}{\text{Current price index*}}$	$\frac{\$66{,}000}{1.1} = \$60{,}000$
Step 2: Determine new LIFO layer	Step 1 − Prior year inventory in base year dollars	$60,000 − $50,000 = $10,000
Step 3: Restate (inflate) new layer from base year dollars to current year dollars	Step 2 × Current price index	$10,000 × 1.1 = $11,000
Step 4: Determine new DVL ending inventory	Prior DVL layers + Step 3	$50,000 $11,000 $61,000

*If index not given, it can be calculated as: $\frac{\text{Current ending inventory}}{\text{Current ending inventory in base year dollars}} = \frac{\$66{,}000}{\$60{,}000} = 1.1$

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36.

37. If we send goods to a consignee, then any shipping paid for delivery to consignee OR in-transit insurance on that delivery are ADDED to the total cost of the inventory. Any advertising or commission remain selling costs.

Chapter 10

38. WAAE = Total expenditures (starting with 100% of Beg CIP), weighted for months out of 12 after they were spent
39. "Avoidable interest" (capitalized part of int on loan during ur company's construction)
    a. = LOWER of: WAAE x int rate OR actual interest paid
40. If buying Land with a Building on it, allocate weighted price to both; If destroying building, then: Land costs = purchase price + removal of building (net of scrap) + attorney fees + **"grading"**; Building costs = Construction costs + architects + building permits
    a. **PS: A fine for your demolition is simply expensed**
41. If receiving a note for an asset: If it has a stated rate, gain/loss and depreciation are done using note's face val; if no stated rate, gain/loss and dep uses fair value of asset
42. **Units of production depreciation**

$$\text{Depreciation expense per unit} = \frac{\text{Cost} - \text{Salvage value}}{\text{Total units in asset's life}}$$

$$\text{Depreciation expense for year} = \text{Depreciation expense per unit} \times \text{Units produced during year}$$

43. "Depletion expense" = the depletion per x of what was sold (the rest of x that was unsold is simply reported as inventory on BS)

Chapter 11

44. REGARDING IMPAIRMENT:

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a. AN ASSET IS IMPAIRED IF ITS SUM OF THE UNDISCOUNTED CASH FLOWS EXPECTED TO RESULT FROM THE USE AND DISPOSITION OF THE ASSET IS LESS THAN ITS CARRYING VALUE
b. HOWEVER, THE ACTUAL IMPAIRMENT LOSS IS SIMPLY THE CARRYING VALUE MINUS THE FAIR VALUE

45.

Marketable debt securities

Security	Classification	Balance sheet measurement	Holding gains and losses
Trading	Investor buys and sells within a short period of time to earn a profit	Fair value	Reported in net income
Available-for-sale	All other securities not classified as trading or held-to-maturity	Fair value	Reported in other comprehensive income
Held-to-maturity	Investor has intent and ability to hold until the due date for repayment	Amortized cost	N/A

Marketable debt securities: regular treatment vs. fair value option		
Security	**Regular treatment (no election)**	**Fair value option elected**
Trading	• Reported at fair value • Unrealized holding gains (losses) reported in current earnings	• No change • No change
Available-for-sale	• Reported at fair value • Credit-related losses reported in current earnings • Unrealized holding gains (losses) reported in other comprehensive income	• No change • No change • Unrealized holding gains (losses) reported in *current earnings*
Held-to-maturity	• Reported at amortized cost • Interest income recognized under the effective interest method • No unrealized gains or losses	• Reported on balance sheet at fair value • No change • Unrealized holding gains (losses) reported in *current earnings*

46. So, basically, when AFS is impaired:
    a. If he plans to sell before cost is recovered: immediately write down to fair value, remove valuation accounts, and report in current earnings (IS) → The total loss for current year = current year loss and past losses that were previously on OCI
    b. If he doesn't:
        i. Determine the portion of temporary loss due to credit risk; this credit loss is also reported in current earnings (IS)
        ii. The remaining temporary loss is due to market risk; this unrealized holding loss is reported in OCI (net of change in Allowance for Credit Losses) → (IF FAIR VALUE OPTION IS ELECTED, THEN UNREALIZED HOLDING GAINS/LOSSES DUE TO MARKET RISK ARE ALSO REPORTED IN NET INCOME [IS]).
        iii. For our purposes, our "AFS unrealized losses" account is a valuation allowance contra account. So if the AFS lost 5K this year, that is the account which you put it in.
    c. Remember, any AFS securities actually sold would put G/L on net income (IS)

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Reclassifications (transfers) of debt securities

Type of transfer	Revalued at	Treatment of unrealized holding gains or losses
To trading	Fair value	Recognized in earnings
From trading		N/A (already been recognized and is not reversed)
From AFS to HTM		Recognized in OCI Transferred to AOCI and amortized over remaining life
From HTM to AFS		Recognized in OCI

47.

48. For a bond purchase which includes accrued interest, the “cost” = the amount paid that does NOT include accrued interest (if sold, calculate gain/loss from THAT cost): If one purchased a $500K face value, 5% bond for $516,250, including accrued interest for 3 months, intending to sell it quickly; and then at year end, its fair value was 512K:
    a. That means that the accrued interest receivable of $6,250 ($500,000 × 5% × 3/12) is recorded SEPARATELY from the bond.
    b. Therefore, the bond's cost is $510,000 ($516,250 − $6,250), which includes an unamortized premium of $10,000 ($510,000 − $500,000 face value).
    c. And therefore, when purchased, we journalize by: Dr Trading Securities 510K, Dr Int Rcvble 6250, and Dr cash 516,250
    d. At year end, the bond is adjusted to the current market value of $512,000. Alpha reports a $2,000 ($512,000 − $510,000 cost) unrealized holding gain in net income.
49. INITIALLY CREDIT UNAMORTIZED DISCOUNT & DEBIT UNAMORTIZED PREMIUM
50. Under Equity Method (sig inf):
    a. div income is not recorded as income - instead, it reduces the investment on BS (of course take into account % of ownership).
    b. ALSO, we record goodwill above our ownership % of net assets
    c. ALSO, equity in earnings = income available to stockholders (NI - cum. pref divs) multiplied by percentage of ownership (ignored preferred stock ownership)
    d. ALSO, if we buy shares at x price and it goes up by EOY, we don’t increase investment account
    e. ALSO, our income from investment gets decreased by our yearly share of excess dep (the excess Asset’s amount over carry val, multiplied by our % ownership, divided by its useful life, which we amortize straight line until the end of its useful life).
    f. ALSO, if the question is about buying enough to use equity method, and gives a firm number for the value of stockholder’s equity but not for net assets, then I think you should use the stockholder’s equity to determine if you got a good deal or not. If you overpaid compared to the % shares of total common stock, then you would first attribute the excess to any assets with greater fair value than book value, and after this attribute any extra to goodwill.

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g. ALSO, WE DON'T AMORTIZE ANY PORTION ATTRIBUTED TO LAND OR GOODWILL (USUALLY JUST AMORTIZE EXCESS DEP IF WE HAVE).
h. When you RECEIVE a stock dividend, you make no journal entry & there is no change in total carrying value, BUT your per-share carrying value decreases.

Chapter 12

51. Intangibles:
    a. Capitalize successful legal fees and filing fees, expense unsuccessful legal fees and R&D only if developed internally.
    b. If you can extend rights forever, then don't amortize it

Chapter 13

52. Requirements to accrue liability for compensated future absences/vacation pay:
    Employee: worked, benefits vest, compensation is probable AND estimable
    a. PS: Vest means employee's get paid out for those absences even if they quit, accumulate means they wouldn't get paid out for those days.
    b. PSS: For a severance benefit, accrue liability when termination is probable and reasonably estimable
    c. PSSS: For one time termination benefits, accrue liability when mgmt commits to plan and notifies employees; if employee must work until terminated, then recognize fair value ratably over time period; if they can choose to leave before, recognize all the liability on date of notification.
53. Do NOT accrue a liability for any dividends unless declared (even for divs in arrears)!
54. For businesses when they pay employees:
    a. Net wages payable = gross wages - fed. withholding - employee FICA (% is multiplied by gross wages)
    b. Then, total payroll liabilities = gross wages + employer's taxes payable (employer FICA + FUTA, % is multiplied by gross wages)
        i. Total tax liabilities = everything after gross wages
        ii. Payroll tax expense = employer's share of payroll taxes (note that federal withholding is part of the employee's share)
    c. PS: "paid gross wages of $15,000, from which federal income taxes of $1,500 were withheld" = means 13,500 is net wages payable
55. Effective rate (rate borrower incurs) = discount / cash received
56. BASICALLY, THE RULES FOR PREFERRED SHAREHOLDERS ARE:
    a. "Dividends in arrears" = Must pay this before current year div if cumulative
    b. "Cumulative" = If there are unpaid div from past years, this means they must be paid before common shareholders
        i. Payment = # of PS x par value x % presented
    c. "Participating" = Once common shareholders are paid an equivalent % of par val div (after paying any dividends in arrears AND current year preferred divs), any excess div declared is allocated between CS and PS, based on relative par value.
        i. **Equivalent % of par val div** = # of CS x par value x % paid to preferred
        ii. Take total value of CS and PS (which is # of shares x par value). Then:
            1. Take # of CS x par, and divide by total value;

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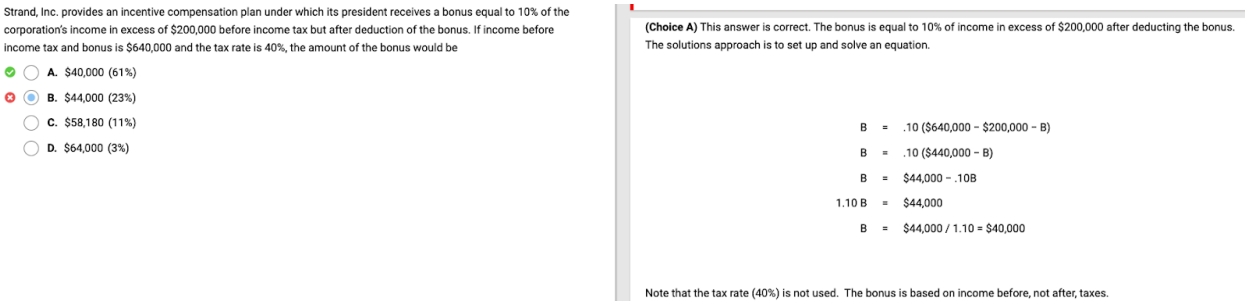
2. Take # of PS x par, and divide by total value

iii. Do these to find %'s of total value for both common and preferred (total should equal 100%), and allocate the rest of the dividend like so.

57. BASICALLY, IF A QUESTION HAS PREFERRED AND COMMON STOCK, AND THE PREFERRED STOCK HAS DIVIDENDS IN ARREARS AND IS CUMULATIVE, THEN YOU:
    a. MUST PAY THE DIVIDENDS IN ARREARS OWED FIRST.
    b. THEN, PAY THE PREFERRED DIVIDENDS FROM THIS YEAR.
    c. THEN, PAY COMMON DIVIDENDS BY USING THE SAME % YOU USED TO CALCULATE THE PREFERRED DIVIDENDS
    d. FINALLY, IF THERE ARE ANY $ FOR DIVIDENDS REMAINING, ALLOCATE THIS BETWEEN THE PREFERRED AND COMMON SHAREHOLDERS (USING FORMULA ABOVE)

58.



    a. ^^ bonus equal to 10% of income in excess of $200,000 before deducting income tax but after deducting the bonus. If income before income tax and the bonus is $640,000, the amount of the bonus should be → **Bonus = 10% (640K - 200K - Bonus)**
    b. **This is the "bonus" question that would be helpful to memorize before test (NOTE THAT THE TAX RATE IS NOT USED, SINCE IT SAID BONUS IS BASED ON INCOME BEFORE TAXES)**
    c. **Bonus = % of income x ("income before tax and bonus" - "income in excess of" - Bonus)**

Chapter 14

59. Types of bonds (NOTE: some can be multiple of these descriptions):
    a. Term: bonds with a single maturity date at the end of the bond term
    b. Serial: bonds with multiple maturity dates at regular intervals throughout their lives
    c. Debenture: bonds unsecured by collateral and backed by the issuer's general credit
    d. Collateralized: bonds secured by specific assets (eg, commodity-backed bonds)
60. Regarding how bond premiums/discounts work and how to calculate the carry val → If rate changes when it's issued (via **effective interest method**):

Discount amortization

Face value	–	Discount	Carrying value	×	Effective interest rate	=	Interest expense	–	Interest payment*	=	Amortization discount
$1,000,000		$61,000	$939,000		10%		$93,900		$90,000		$3,900

*Interest payment = $1,000,000 × 9%

a. Interest expense = Carry val of loan (face minus discount) x "effective" (**current**) interest rate
b. Amortization of discount in current year = Interest payment (original % x original face) - interest expense
c. Unamortized discount = total discount - amortized discount
d. Do a similar thing if dealing with a premium instead.
e. Your bonds updated "carry val" will be the selling price of the bond minus the amortized premium, or the selling price of the bond plus the amortized discount

61. PS: Initially, credit premiums and debit discounts, reverse amortizes
62. When detachable warrants are issued with a bond: the sales proceeds are allocated between the warrants and the bond, based on the relative fair values on the issue date if given (this is the actual **separate** "fair value after issuance" that would be given in the question. You MUST start allocation with warrants, unless you only know the bond's fair value, which is NOT the proceeds received but the actual separate fair value right after issuance given in the question).
    a. The portion of the proceeds assigned to the warrants is recorded as APIC (ie, equity), and the proceeds assigned to is recorded as bonds payable (ie, liability). **The difference between the proceeds assigned to the bonds and the face value of the bonds is your discount/premium**
    b. PS: If it says the bonds & warrants have "x" fair values immediately AFTER issuance, these are the figures you want to calculate the % to allocate to each
63. Carry val of bonds at issuance includes cash paid, discount costs, and **bond issue costs** (ex. legal/accounting, promotion, underwriting commissions, but NOT advertising, which is expensed as incurred) → **BIC** r amortized (MONTHLY) along with the discount.
64. REMEMBER, FOR BONDS, THE INTEREST EXPENSE DOES NOT HAVE TO EQUAL THE INTEREST CASH PAYMENT.
    a. THE YEARLY CASH PAYMENT REMAINS THE ORIGINAL ISSUE % X FACE VAL,
    b. WHILE THE INTEREST EXPENSE REPRESENTS THE NEW % X THE CURRENT CARRY VAL, WHICH IS UPDATED EACH PAY PERIOD FOR ANY DISCOUNT AMORTS (ADDED TO CARRY VAL) OR ANY PREMIUM AMORTS (SUBTRACTED FROM CARRY VAL)
65. If we issue a bond at a discount, then retire it and issue a bond at fair value, the net effect is a loss on income from continu. Ops, but an increase on the carry val of our LTL
66. How to write out your formula for bonds (write these across, not down, and input all numbers per each pmt date):
    a. Beginning CV (Face net of discount/premium)
    b. Effective rate x months (if it says "it yields 5%," then use 5%)

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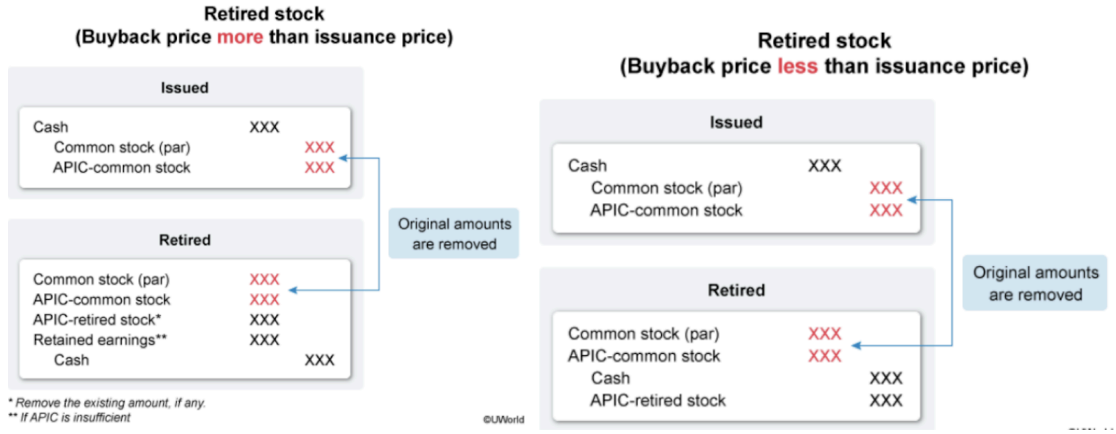
c. Int exp (a. x b.)
d. Annual (or however long) int pmt (based on original rate x face)
e. Discount amort (c. - d.) OR Premium amort (
f. Ending CV (a. + e.)
    i. PS: When amortizing the discount/premium via straight line, you can just put a. Beg. CV, b. Interest payment, c. discount amort, d. Int exp (b+c), and ending CV (a+c)

67. Interest expense → For early periods, SL > Effective; for later periods, SL > Effective
68. Discount amort → For early periods, SL > Effective; for later periods, SL > Effective
69. Carry val → SL = Effective (at maturity)

Chapter 15

70. Liquidating divs = divs greater than RE, reduce RE to zero and excess reduces APIC
71. Property divs (**below a) and b) are separate journal entries to net)**:
    a. When dividend is <u>announced</u>, record gain/loss on the fair value of the div as compared to the price of what you bought (this is a +/- from RE) → Dr Asset, Cr Gain (to bring it to FV), and Dr RE, Cr Divs Payable
        i. So, if question mentions the value of them immediately after distribution, this means absolutely nothing to you
    b. When dividends paid (of their value when declared), this is a separate reduction from RE (Dr Divs Payable, Cr Asset)
72. Cost Method vs Par Value Method (for accounting for treasury stock):
    a. Cost - T/S is recorded at reacquisition cost (if bought back for less than <u>issuance cost</u>, then credit APIC T/S; BUT, if loss, debit APIC T/S until zero, then debit RE)



    b. Par Value - T/S is recorded at par value (sounds pretty similar for the rest)

Treasury stock: par value method

Repurchase price > par value and original APIC-C/S		
Treasury stock (par value)	XXX	
APIC-C/S (original amt.)	XXX	
APIC-T/S*	XXX	
Retained earnings**	XXX	
Cash		XXX

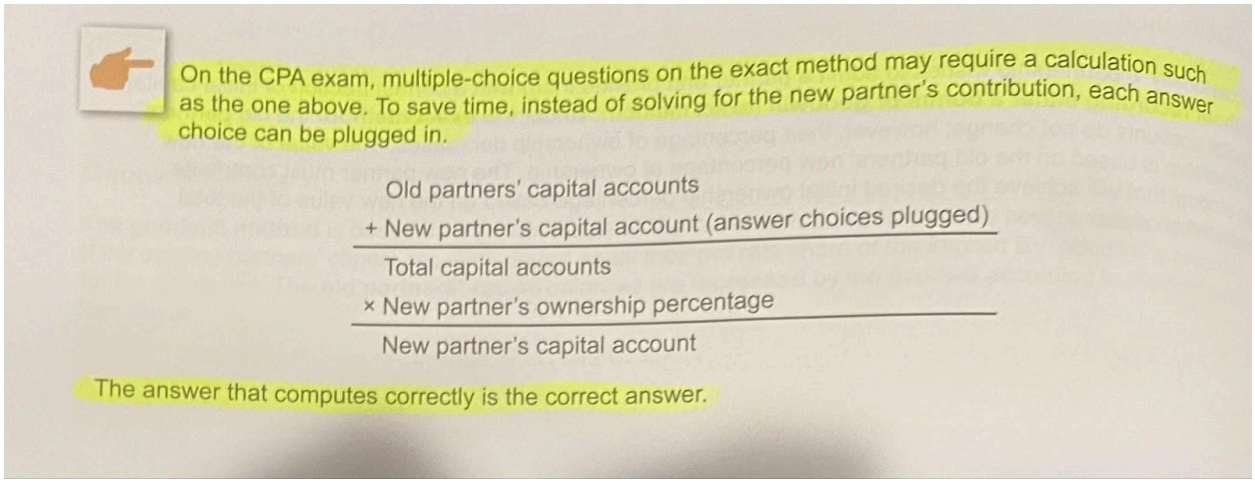
Reissued price > par value		
Cash	XXX	
Treasury stock (par value)		XXX
APIC-C/S		XXX

C/S = common stock; T/S = treasury stock
**If exists from previous T/S transactions*
***If insufficient APIC-T/S*

73.

Treatment of partner contributions to a partnership		
Item contributed	**Valuation**	**Treatment**
Assets (eg, cash, building, equipment)	Fair value	Increases partner's capital
Noncash asset subject to a liability (eg, mortgage)	Asset's fair value *less* present value of liability	Increases partner's capital
Liabilities assumed by partnership	Present value	Increases partnership liabilities

74. We must record goodwill to old partners if new partner doesn't pay exactly what it was worth

75. 

76. On issuing common stock and preferred stock in exchange for an asset:
    a. Use total fair value of all the stock to get a % for each, apply each % to the asset's fair value to get it in dollar terms. Finally, subtract the total value of each shares' par value from each class to get the APIC assigned to each
77. Small vs. Large stock div:

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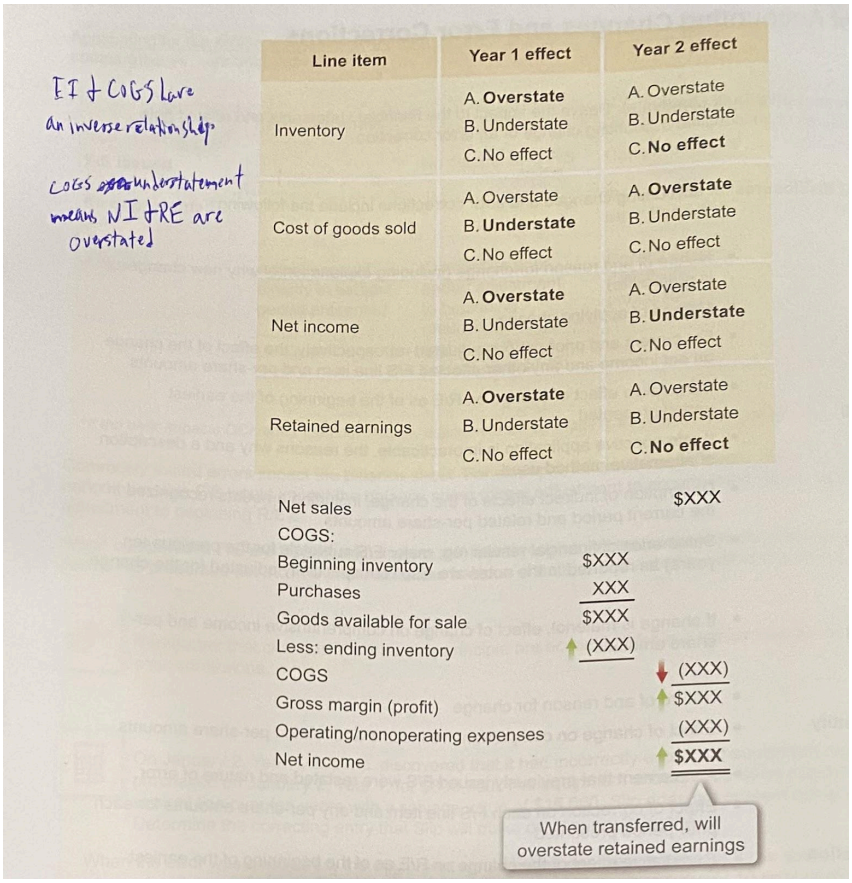
a. Small - Record at fair val at declaration date (Dr RE at FV, Cr C/S at par, Cr APIC at FV - par)
b. Large - Record at par (Simply Dr RE for par, Cr C/S for par)

Chapter 16

78. Change in principle → do retrospectively and restate prior year FS; Change in estimate → do prospectively and don't restate prior year FS; error → fix it for all years
    a. Changes where you can't pick one or the other (such as dep methods) → Account for prospectively
    b. For dep, if useful life changes, use the remaining years in denominator; if salvage value changes, FORGET about the old salvage value, and simply subtract the new salvage value from the current carrying value in your numerator.
79. If error affects NI, adjust opening RE to fix; If error affects OCI, adjust opening AOCI
80. Simple way to memorize:
    a. If EI (U) → then COGS (O), NI (U), and RE (U)
    b. If EI (O) → then COGS (U), NI (O), and RE (O)
    c. BI errors have a direct effect on COGS, while EI errors have an inverse effect on COGS; Inv and RE errors fix themselves in Year 2
    d.



Chapter 17

81. We accrue losses that are probable (so not for a random fire, even if we would have a deductible on the insurance) for the amount reasonably estimable (if we know a range of values and all are equally possible, then use lowest)

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a. Disclose gains (even a range, potentially), never accrue

Chapter 18

82. Debits to CIP capitalize construction costs, then credits to billings (its contra acct) is journalized along with a debit to construct. receivable, and CIP/billings are reversed at end of contract
83. Profit on a long-term project = essentially, find how much profit will ever be recognized, and recognize the % of it based on our work complete (ignore billings for this)
84. Revenue is recognized at a point in time if you send all goods/services at a point in time, and recognition over a period of time is not required when the customer has direct use of the Perf Oblig.
85. When pmt for contract 1 relies on fulfillment of contract 2, debit "contract asset" as the obligation is slowly satisfied, then eliminate and put receivable when satisfied
86. Advice: If you see an extremely complex "bundle" question (multiple bundles to account for) on the exam, just guess on it. Not only will it take you 10 minutes to figure out, you still don't know how to do it (or skip and come back).
87. Basically, whenever we're trying to see when to recognize revenue on a construction contract, anything with the word "billings" in it is NOT the answer.

Chapter 19

88. DTL/DTAs are always noncurrent; DTLs: ex. long term bonds (net of premium/discount)

89.

Calculation of taxable income and current tax expense

- Municipal interest
- Fines, penalties
- Life insurance proceeds and policy premiums (if beneficiary)

- Warranty expense
- Credit loss expense
- Rent received in advance
- Installment sales
- Depreciation expense

Pretax income per financial reporting	$XXX
± Permanent differences	XXX
± Temporary differences*	XXX
Taxable income	**$XXX**
× Current enacted tax rate	XX%
Current tax expense/liability	$XXX
− Tax prepayments	XXX
Net income tax payable	$XXX

*Taxed at future enacted tax rate

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a. Calculation of taxable income and current tax expense with regards to deferred tax liabilities/assets (temporary differences)
b. We total all our temp differences to come up with a single DTL/DTA net of future tax rate (although we initially leave temp differences as is, not using future tax rate – AFTER figuring out the overall tax burden, THEN you can take the amount of temp differences, net of future tax rate, to find the DTA/DTL to journalize).
c. **The point is: we need to take our pretax income and adjust it to get taxable income. So if we only adjusted for rent received in advance, which we would not have recognized in income until it was earned (but must recognize when received for tax purposes), then we would have to add that back net of future tax rate (increasing CY taxable income) and it would be deferred on the books as a DTA; if we only had deducted 1K dep for financial purposes and 4K dep for tax purposes, then it is saying we would deduct the 3K excess of tax dep over book dep net of future tax rate**

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(decreasing CY taxable income), and it would be deferred on books as a DTL; If we only recorded goodwill, then we would deduct the amortization of 1/15 of it from pretax income each year (decreasing taxable income this year, DTL)

d. If our net DTL was 5K at EOY1 and 4K at EOY2; Then in Y2, we had a deferred income tax benefit for 1K that offset some of our DTL

90. LET'S MAKE IT EVEN MORE SIMPLE. IF YOUR PRETAX INCOME IS GREATER THAN YOUR TAXABLE INCOME (DUE TO 100% TEMPORARY DIFFERENCES, OF COURSE, SINCE YOU'D HAVE TO REMOVE ANY PERMANENT DIFFERENCES TO FIND ANY DTAS/DTLS) THEN A LIABILITY HAS MADE IT SO! AND IF YOUR TAXABLE INCOME IS GREATER THAN YOUR PRETAX INCOME THEN AN EXTRA ASSET HAS MADE IT SO! (kill me)
91. For uncertain tax positions, take the largest possible outcome that has an estimated **cumulative** probability of occurring that is over over 50%.
92. "We don't need to disclose on FS the type and amount of existing perm differences."
93. When DTA/DTL is realized, allowance stays the same. When we know that a lesser amount of the DTA/L will be realized, we adjust our **allowance** to equal the DTA amount minus the DTA amount that will be realized
94. Effective Tax Rate (ETR) = Total income tax expense / pretax book income

Chapter 20

95. Principal market = most activity on, advantageous market = max price received for
96. When there is no principal market, how do you find Fair Value?
    a. Look at all quoted prices for markets.
    b. Find most advantageous market by subtracting any txn/transport costs from quoted prices in all markets; highest figure (of "net proceeds") is most advantageous
    c. Take the original quoted price from most advantageous market and ONLY subtract transport costs (since the buyer will pay the txn costs)
    d. This is your fair value
97. Level 1 = observable inputs (such as prime rate and default on loan rate); Level 2 = observable inputs for similar items; Lvl 3 = unobservable inputs (like financial forecasts)
    a. Three techniques (MNE): "MIC" → Market, Income, Cost
    b. We disclose stuff in our notes about fair val measurements, but we don't need to disclose anything about transferring our measurements between levels 1-3

Chapter 21

98. Colton Inc. enters into a 20-year lease on an office building. The building is estimated to have a 30-year economic useful life. Title of the building does not transfer at the end of the lease, and Colton is not offered a purchase option. The PV of the lease payments is $450,000, and the fair value of the building is estimated to be $600,000.

    Determine if Colton should classify the lease as operating or finance.

    Colton will use the "**S**pecial-**PO**-**T**-**75**-**90**" criteria to determine how to classify the lease:
    - The building is not a specialized property.
    - There is no purchase option.
    - There is no title transfer.
    - The lease term constitutes less than 75% of the building's economic useful life (20-year lease / 30-year useful life = 67%).
    - The PV of the lease payments constitutes less than 90% of the building's fair value ($450,000 / 600,000 = 75%).

    Because the lease does not meet any of the "Special-PO-T-75-90" criteria, Colton should classify it as an **operating lease**.

    a. How to determine whether a lease is operating or finance (MNE: "NOT SPOT 75-90, U-P Operating")
        i. **Important thing to know: If ANY of these things are met, then it is a finance lease. Leases are therefore likely to be of the finance variety.**

99. The difference between operating and finance leases:

    a.

Lessee accounting for leases			
		Operating lease	Finance lease
Lease inception	ROU asset	PV of payments + Initial direct costs + Prepaid lease payments – Lease incentives received	Same
	Lease liability	PV of payments	Same
Income statement expense each period		One straight-line lease expense (total lease payments / lease term)	Two expenses: • Amortization expense (straight-line) • Interest expense (lease liability × interest rate)
Reduction of ROU asset each period		Accreted interest (lease liability × interest rate) – Lease expense	Straight-line (ROU asset / Useful life or lease term)
Reduction of lease liability each period		Accreted interest – Lease payment	Interest expense – Lease payment

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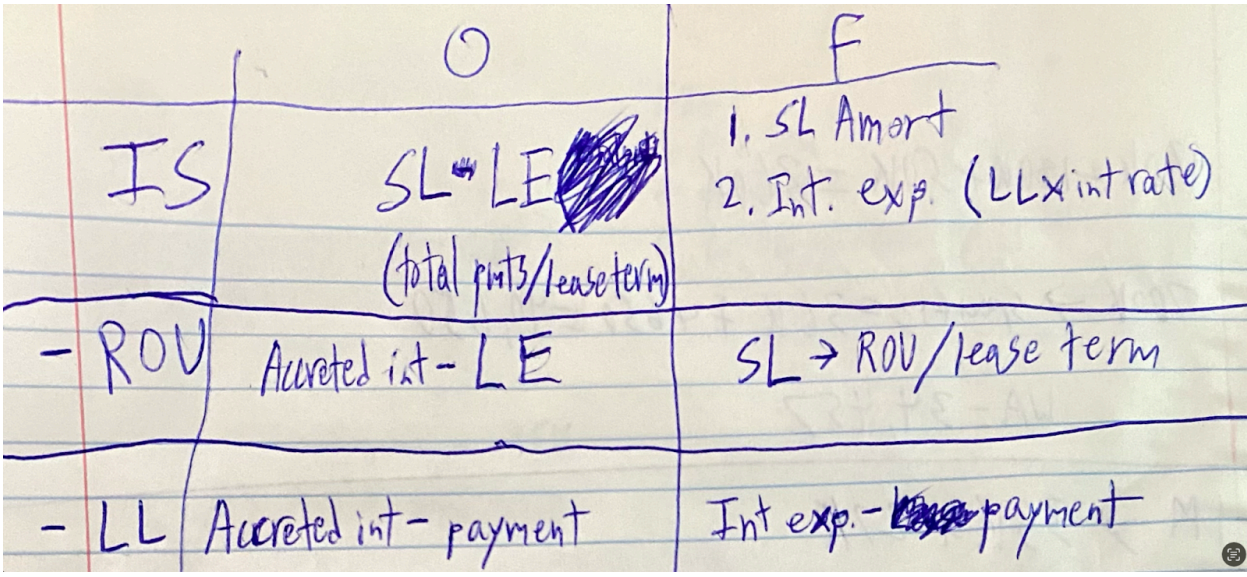
b. 

c. Though both start off the same way (Dr ROU Asset and Cr Lease Liability), when we make yearly adjustments, Operating Leases have 4 entries (Dr Lease Exp [straight line] and Lease Liability, and Cr Cash and ROU Asset), while Finance Leases have 5 entries (Dr ROU Amort expense [straight line] and Interest Expense [in place of Lease Expense], and Dr Lease Liability; Cr cash paid and ROU Asset [which is reduced on a straight line basis])
d. Yearly, both decreases to the Lease Liability come from the difference between the (accreted) interest expense and the payment. HOWEVER, under Operating Leases, the ROU Asset is decreased by the difference between the (accreted) interest expense and the straight line lease expense (which doesn't exist in Finance Lease); AND for Finance Leases, the ROU Asset is simply decreased by the straight-line ROU amort expense, which we now have a debit for.
e. PS: If for a finance lease, we are making journal entries at EOY but not paying until 1/1 of the next year: ON 12/31, we would debit interest expense accrued and interest payable; ON 1/1, when we paid, we would Credit cash paid, debit the interest payable to cancel it out, and debit the difference to lease liability.
f. PSS: For questions that require you to calculate the lease liability or something in 3 years down the road, it could take you 5 minutes. So, perhaps it would be fastest to use Excel for that.

100. Various lease facts that are important to remember:

a. Any lease under 12 months (and not gonna be purchased) is short-term, and you should just treat it like a normal expense (although you may technically choose to treat it like an operating lease, but why would you?)
b. If the lease is 5 years but useful life is 6 years: IF you're gonna buy it out, then just use the 6 years, and include the purchase option in your cost.
c. If we guaranteed the thing we leased would be worth 2K, and the expected amount it will be worth is 1K, then we need to add the difference to our lease pmts. BUT, if its expected worth is greater than what we guaranteed it would be worth, then just ignore it.

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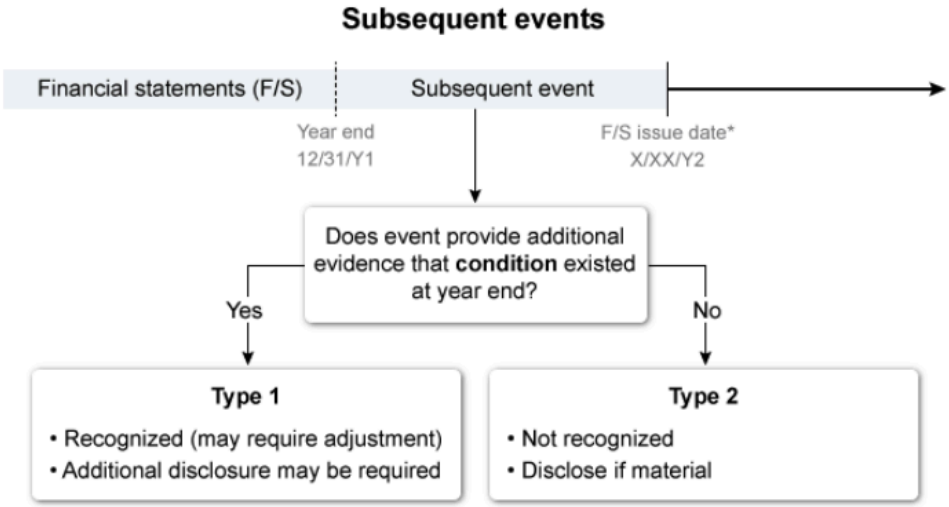
d. Nonrefundable lease fees must be expensed over the entirety of the lease. So our rent expense each month would equal that month's rent expensed, plus the month's portion of that nonrefundable fee

e. Initial direct costs (legal fees) related to the lease are added to the ROU asset, but NOT added to the Lease Liability. The difference is credited to accrued expenses.

f. If the question gives you an operating lease, and then asks you what amount of lease expense is attributable to the interest component, IT IS NOT ZERO! Apparently, even for an operating lease, for which you don't journalize any interest expense, there is still an inherent interest expense component within the lease expense. You would find this by simply multiplying the interest rate by the lease liability figure.

g. AND: If the question says we sign the lease and make the first payment at 1/1 and in beginnings of years, AND it asks us to find our interest component at the END of Year 1, you must remove that first payment in full from lease liability, and then multiply the interest rate by the updated lease liability figure (from which you only subtracted that first 1/1 payment, and not the 2/1 payment) to find it.

Chapter 20



101.