

Index

A

- AARP, 686
 - absorption costing, 496–497
 - account reconciliation
 - about, 161–162
 - computerized journal records, 173–176
 - computerized system for, 164–165
 - finding reconciling items, 163–164
 - posting adjustments and corrections, 165–166
 - posting to general ledger, 172–173
 - accountants, in acquisitions, 583
 - accounting
 - about, 7–8
 - changes in, 329–330
 - compared with bookkeeping, 8–10
 - cycle of, 10–14
 - double-entry, 22–26
 - estimates for, 329
 - fundamental accounting equation, 14–15
 - for manufacturing company inventory, 530–531
 - for merchandise (retail) inventory, 527–530
 - accounting documents, as audit evidence, 650–651
 - accounting equation. *See* fundamental accounting equation
 - accounting methods
 - about, 45–46, 48–49
 - accrual-basis, 47–48
 - cash-basis, 46–47
 - changing, as a business disruption, 215
 - disclosure for, 586
 - financial, 49–50
 - forensic, 52
 - governmental, 52
 - hybrid, 48
 - managerial and cost, 50–51
 - not-for-profit, 51–52
 - public, 52
 - switching, 47
 - accounting policies, on Form 10-K, 344–345
 - accounting principles, 329, 642
 - accounting procedures manual, in audit file, 660
 - accounting records, limiting access to, 614
 - accounting software, 42–43
 - Accounting Standards Codification (ASC), 61
 - accounting standards disclosure, 586
 - accounting systems
 - due diligence and, 585
 - managing, 68–73
 - accounts
 - analyzing balances, 649
 - in purchases journal, 34
 - reconciling (*See* account reconciliation)
 - accounts payable (A/P)
 - about, 66–67, 238
 - as an operating cash outflow, 294–295
 - asset liquidation and, 511
 - as a current liability, 240–241
 - estimating year-end balance for, 267
 - in purchases journal, 33
 - accounts payable journal, 170–171
 - accounts receivable (A/R)
 - asset liquidation and, 511
 - in cash receipts journal, 158
 - as a current asset, 225–227
 - defined, 48, 508
 - estimating year-end balance for, 266
 - monitoring, 97–98
 - as source of debt-based capital, 561
 - accounts receivable journal, 168–170
 - accounts receivable subsidiary ledger, 39, 641
 - accounts receivable turnover ratio, 316–317, 508
 - accrual transactions, recording, 32–34
 - accrual-basis accounting
 - about, 47–48
 - budgeting and, 404, 406
 - accrued, defined, 159
 - accrued income tax payable, on balance sheet, 271
 - accrued interest payable, on balance sheet, 270
 - accrued payroll, 198
 - accuracy, checking
 - about, 166–172, 177
 - developing financial statement worksheets, 183–185
 - replacing worksheets with computerized reports, 185–187
 - trial balance, 177–181
 - using computerized accounting systems, 182–183
- acid test ratio, 510
 - acquisitions
 - about, 330, 573
 - becoming a team player, 582–583
 - due diligence, 584–587
 - funding, 583–584
 - maximizing business value, 574–582
 - sale price, 587–590
 - activities
 - about, 315–316
 - accounts receivable turnover, 316–317
 - inventory turnover, 317
 - activity-based costing (ABC)
 - about, 445
 - allocating indirect costs, 456–457
 - analyzing and reallocating cost activities, 457–458
 - changing allocations to cost goods, 458

- activity-based costing (*continued*)
 - changing prices after, 459
 - client activity levels, 447–448
 - cost hierarchy groups, 451–452
 - cost smoothing, 445–450
 - designing a system for, 450–455
 - overcosting, 448–450
 - as a refined costing system, 450–451
 - single indirect cost allocation, 446–447
 - testing design of, 452–455
 - undercosting, 448–450
 - using to compute total cost, profit, and sale price, 455–459
- additional paid-in capital, 255
- address verification service (AVS) fee, for credit cards, 156
- Adelphia, 701
- adjusted trial balance, 13, 198–199
- adjusting entries
 - about, 35, 74, 189, 661
 - allocating prepaid expenses, 193
 - allowing for bad debts, 195–197
 - counting inventory, 193–195
 - depreciating assets, 191–192
 - posting, 165–166
 - recognizing unpaid salaries and wages, 197–198
 - to reflect normal balance, 180
 - testing adjusted trial balances, 198–199
- adoption assistance, as an employee benefit, 109
- adverse opinion, 345
- aging report, 169–170, 195
- allowance method, for bad-debt expenses, 226–227
- allowances, recording, 95–97
- American Institute of Certified Public Accountants (AICPA)
 - about, 53, 333, 612, 701
 - ASB audit and attestation standards, 56–57
 - Code of Professional Conduct, 57–58
 - regulators for audits of publicly traded companies, 55–56
 - role of, 55–58
- American Institute of Professional Bookkeepers, 71
- amortization
 - charts for, 152
 - writing off intangibles using, 233–234
- analytical procedures
 - in audit file, 661
 - internal controls and, 680
- annual report to shareholders
 - about, 336
 - reading, 338–341
- Apple, 575
- appraisals, 520–521, 615
- appraisers, in acquisitions, 583
- around the world in 80 days scam, 688
- articles of incorporation, 322
- aspirational standards, 478
- asset purchase, 587–588
- Asset quality index, 704
- Asset section, in balance sheet, 234–235
- asset turnover analysis, 316
- asset turnover ratio, 703
- asset-based lenders (ABLs), 558–559
- asset-based lending, 558–559
- assets. *See also* current assets
 - about, 14
 - analyzing account balances, 649
 - appraisal of key, 615
 - converting into expenses, 190
 - current, 147
 - defined, 507
 - effect of sales and expenses on, 207–210
 - financing purchase of, 244–245
 - formulas for, 507–509
 - intangible, 232–234
 - liquidating, 511
 - long-term compared with current, 18
 - noncurrent (long-term), 230
 - recording sales of, 29
 - value of in balance sheets, 280–283
- Association of Certified Fraud Examiners (ACFE), 698
- athletic facilities, as an employee benefit, 109
- attestation
 - about, 55
 - ASB standards, 56–57
- attorney-in-fact, 346
- attorneys, in acquisitions, 582–583, 587
- audit evidence
 - competence of, 651–652
 - evaluation of, 653–654
 - nature of, 650–651
 - sufficiency of, 652–653
- audit plan, in audit file, 661
- audit program, 658–659
- audit risk
 - about, 621–623
 - assessing, 621–644
 - control risk, 626
 - detection risk, 627–629
 - evaluating results, 641–644
 - inherent risk, 623–625
 - materiality and, 634–640
 - risk assessment procedures, 629–634
- audit trails, 74–75, 614
- Auditing Standards Board (ASB), 55, 56–57
- audits
 - about, 55, 333, 344, 645–646
 - applying professional judgment, 654–658
 - ASB standards, 56–57
 - audit evidence, 650–654
 - audit program, 658–659
 - documenting evidence, 659–662
 - due diligence and, 585–587
 - external auditors, 611–612
 - of internal controls, 663–684
 - management assertions, 646–649
 - requesting evidence, 658–659
 - surprise, 613
- authorized shares, 254
- available-for-sale securities, 225
- average balance, 506, 508
- average collection period for A/R, 317

B

- back of the envelope (BOTE), 380
- background checks, for employees, 614
- bad debt account, 98

- bad debts
 - adjusting entries for, 191
 - allowing for, 195–197
- bad-debt expenses
 - about, 219
 - allowance method for, 226–227
 - direct write-off method for, 227
- balance per bank, 162
- balance per book, 162
- balance sheet
 - about, 18, 22, 221, 237, 263–264, 310
 - accounts payable, 240–241
 - accounts receivable, 225–227
 - Asset section, 234–235
 - bond issuances, 247–250
 - budgeting and, 407
 - cash, 223–224
 - changes in accounts, 311–312
 - completing with debt, 274–276
 - contingent liabilities, 246–247
 - current assets, 222–234
 - current liabilities, 239–244
 - data from, in annual report to shareholders, 340
 - Debt section in, 275
 - debt *versus* equity, 244–245
 - defined, 622
 - depreciation on, 272–274
 - effect of transactions on, 208–210
 - Equity section in, 275–276
 - fixed assets on, 272–274
 - historic cost, 221–222
 - intangible assets, 232–234
 - inventory, 228–230
 - liabilities, 238–239
 - long-term debt, 245–246
 - long-term liabilities, 244–247
 - notes receivable, 227–228
 - operating ratios, 268–272
 - owners' equity, 274
 - payroll and taxes, 241
 - posting entries to one side of the, 23–24
 - property, plant, and equipment (PP&E), 230–232
 - relationship with income statement, 264–267
 - short-term investments, 224–225
 - short-term liabilities, 242–244
 - tangible assets, 230–232
 - transaction types, 310–311
 - unearned revenue, 241–242
 - using both sides of the, 24
 - using for budgets, 396
 - value of assets in, 280–283
- Balance Sheet and Net Worth report, 186
- balance sheet equation. *See* fundamental accounting equation
- balanced entry, 89
- bank loans, 284, 556–558
- BankRate.com, 151
- banks, borrowing from, 556–558
- batch-level costs, 451
- beginning inventory, 78, 193
- benefit ratio formula, 122
- benefit wage formula, 122
- benefits, options for employees, 108–111
- Beneish, Messod (professor), 704
- Beneish model, 704–705
- billing, managing, 86
- blender scam, 688
- blocked funds, 62
- board of directors, 338–339, 664
- bond issuances
 - about, 247
 - in audit file, 660
 - basics of, 247–248
 - journaling transactions, 249–250
 - sample transactions, 248–249
- bonding, defined, 336
- bonds
 - about, 423
 - calculating present value of, 424–425
 - issuing at face value, 425–426
 - valuing bonds payable, 423–424
- bonds payable, valuing, 423–424
- book accounting, 327
- book entry form, 367
- book value, 280, 286
- bookkeeping
 - about, 8, 65
 - analyzing effect of business transactions, 65–68
 - compared with accounting, 8–10
 - end-of-period procedures, 73–76
 - managing your system, 68–73
- books of original entry. *See* journals
- bottom-line profit/loss, 204
- brainstorming, with audit team members, 656–658
- brand awareness, 337
- break-even analysis
 - defined, 461
 - generating, 469–471
- bribery, 687
- budgeted indirect cost rate, 437–438
- budgets
 - about, 389–390, 403
 - with accrual accounting, 404, 406
 - balance sheets and, 407
 - basics of, 395–398
 - with cash accounting, 404–406
 - factors affecting, 391–394
 - flexing, 408–413
 - income statements and, 407, 408
 - for indirect costs, 437–438
 - key concepts for, 390–391
 - master, 390
 - production, 398–401
 - revenue, 398–401
 - strategic planning, 391
 - strategies for, 403–413
 - variance, 578
- buildings
 - cost allocation between land and, 520–521
 - as a tangible asset, 231
- business combinations, 330
- business disruptions, 214–215
- business entities, owners' equity and, 251–253
- business expense payments, as an operating cash outflow, 295
- business plans
 - about, 375
 - for bank loans, 558
 - developing, 379–386
 - evolution of, 379–380
 - executive summary, 376–377
 - financial summary, 379
 - incorporating third-party information into, 386–388

- business plans (*continued*)
 - KISS, 385–386
 - market assessment, 377–378
 - operational review, 378
 - outlining, 376–379
 - problem-solving approach for, 380–381
 - SWOT analysis, 384–385
 - business segments, 332
 - business structures
 - about, 349–353
 - choosing, 354–359
 - business transactions, analyzing
 - effect of, 65–68
 - business valuations
 - about, 283
 - CVA-certification, 284–285
 - methods of, 285–288
 - practical applications of, 283–284
 - buyers, in acquisitions, 582
 - buying
 - about, 537
 - cash payback method, 538–541
 - incremental costs, 538
 - measuring internal rate of return (IRR), 547–548
 - net present value (NPV), 541–546
 - opportunity costs, 538
 - qualitative factors, 548–549
 - supplies, 85–86
- C**
- C corporations, 355–356
 - cafeteria plans, as an employee benefit, 110–111
 - capital
 - creativity with, 562–564
 - defined, 15
 - paid-in, 255
 - securing, 362–365
 - structure of, 260–261
 - capital expenditures, 511, 513
 - capital stock, types of, 253–255
 - capital-intensive, 362
 - capitalization, 699
 - capitalized leases, 246
 - cash. *See also* proving out cash
 - compared with profit, 290–291
 - as a current asset, 223–224
 - defined, 28
 - evaluating position, 569–570
 - investing sources of, 296–297
 - investing uses of, 297
 - operating sources of, 293–294
 - operating uses of, 294–295
 - cash back at closing fraud, 692
 - Cash column, in cash receipts journal, 159
 - cash disbursements journal, 31–32
 - cash dividends
 - about, 257
 - in annual report to shareholders, 340
 - as a financing activity, 298
 - cash flow
 - about, 289
 - cash compared with profit, 290–291
 - compared with net income, 569
 - future, 286–288
 - internal, 562
 - as a key budgeting concept, 391
 - planning for, 172
 - present value on, 288
 - statement of cash flows, 298–302
 - transactions, 291–292
 - types of, 292–298
 - Cash Flow report, 186
 - cash in checking account, 89
 - cash journals, closing, 155–160
 - cash outlays, 159–160
 - cash payback method, 538–541
 - cash receipts, 155–159
 - cash receipts journal, 29–31, 158–159, 168
 - cash registers, proving out, 93–94
 - cash sales, 87–90
 - cash transactions
 - about, 291–292
 - recording, 28–32
 - recording in the books, 90
 - cash-basis accounting
 - about, 46–47
 - budgeting and, 404–406
 - centralized management, as a characteristics of corporations, 323
 - certifications, of personnel, 71
 - certified management accountants (CMAs), 71
 - certified public accountant (CPA), 55, 71, 333, 611–612
 - Certified Valuation Analyst (CVA), 283–285
 - chargeback fee, for credit cards, 156
 - chart of accounts
 - about, 17, 66–67
 - in audit file, 660
 - for categorizing financial information, 68–69
 - debits and credits, 21–22
 - double-entry accounting, 22–26
 - navigating, 18–19
 - setting up, 19–21
 - T-accounts and, 211
 - Chartered Global Management Accountant (CGMA), 71
 - Cheat Sheet (website), 4
 - check signer, 610, 616
 - claims on assets, 368
 - classes of transactions, monitoring, 647–648
 - Clayton, Mona (author)
 - A Guide to Forensic Accounting Investigation*, 2nd Edition, 702
 - clients
 - managing activity levels of, 447–448
 - observing at work, 633–634
 - closing cash journals, 155–160
 - closing costs, for land, 231
 - closing journal entries, 35–36
 - closing the books
 - about, 13, 161
 - analyzing summary results, 171
 - computerized journal records, 173–176
 - initial transaction details, 166–167
 - planning for cash flow, 172
 - posting to general ledger, 172–173
 - preparing for, 166–172
 - summarizing journal entries, 167–171
 - Coalition Against Insurance Fraud, 692

Code of Professional Conduct (AICPA), 57–58

collateral
 for bank loans, 557
 offering for debt, 555

collateralized mortgage, 245, 420

collusion, 609, 635

commercial bank loans, 584

commission checks, calculating, 112–114

Committee of Sponsoring Organizations (COSO) model, 666, 696

common explanatory notes, 324–332

common size financial statements, 320

common stock, 254, 255, 275, 302, 368–369

common-stock caption, 259

company achievements, in annual report to shareholders, 340–341

comparability, of financial reports, 50

comparative techniques, 702–703

competence, of audit evidence, 651–652

Competitive Intelligence For Dummies (Underwood), 378

compilations, 334

complete, accurate, reliable, and timely (CART) concept, 387–388

completeness, as a management assertion, 649

compound interest, 144–145

computer controls, 615–616

computerized accounting system
 for account reconciliation, 164–165
 replacing worksheets with computerized reports, 185–187
 testing trial balance using, 182–183

consistency, of financial reports, 50

consolidation, of financial statements, 326–327, 330

construction fraud, 688–689

contingent liabilities, 246–247, 331

continuing education, of personnel, 71

continuities, 216

continuity, as a characteristics of corporations, 323

contra account, 226, 259

contra-asset, 67

contra-asset account, 192

contract price, for land, 231

contracts, in audit file, 660

contribution margin
 about, 461
 calculating, 462–465
 calculating operating leverage, 474–475
 calculating target profit, 471–472
 evaluating, 567
 generating break-even analysis, 469–471
 generating cost-volume-profit analysis, 465–469
 margin of safety, 472–474

contribution margin income statement, 462–464

contribution margin per unit, calculating, 464–465, 468

contribution margin ratio, 465, 467–469

control accounts, managing costs with, 440–443

control activities, as a component of internal controls, 666

control environment, as a component of internal controls, 666

control risk, 626

control testing strategy, 668

convertible securities, 260

convincing evidence, 653

cookie jar reserves, 700

cooking the books
 about, 695–696
 common methods of fraud, 698–701
 financial statement fraud, 701–705
 financial statement fraud triangle, 696–698

copyrights, 232–233

corporate charter, 322

corporate governance, 321, 345–346

corporations
 identifying characteristics of, 322–323
 owners' equity and, 253

corrections, posting, 165–166

cost accounting, 50–51

cost allocation
 about, 432–433
 changing to cost pools, 458
 defined, 446
 inventory and, 532
 between land and buildings, 520–521
 single indirect, 446–447

cost allocation base
 in ABC design, 453–455
 as a task of refined costing systems, 450–451

cost basis, 133–134, 135

cost driver, 432

cost effectiveness, evaluating for internal controls, 617–618

cost objects, 430–431

cost of capital, 545

cost of goods sold (COGS), 19, 400–401, 441–443, 509, 528, 533–534

cost pools
 in ABC design, 452–453
 changing cost allocations to, 458
 as a task of refined costing systems, 450–451

cost smoothing, 445–450

cost-plus percentage, 498

cost-plus pricing, 497–499

costs
 about, 518–519
 analyzing and reallocating cost activities, 457–458
 compared with expenses, 291
 depreciable, 519–521
 grouping by cost hierarchy, 451–452
 historic, 221–222
 managing with control accounts, 440–443

cost-volume-profit analysis
 defined, 461
 generating, 465–469

credit balance, 68

credit cards
 calculating interest, 147–148
 fees for, 156–157

- credit columns
 - in cash disbursements journal, 31
 - in cash receipts journal, 30
- credit lines, 148–149
- credit sales, 90–93, 218–219
- creditors
 - as stakeholders, 8
 - statement of cash flows and, 302
- credits, 21–22, 67
- cross-border transactions, 643
- crowdfunding, 564
- current assets
 - about, 18, 222, 510
 - accounts receivable, 225–227
 - cash, 223–224
 - defined, 147
 - intangible, 232–234
 - inventory, 228–230
 - notes receivable, 227–228
 - property, plant, and equipment (PP&E), 230–232
 - recognizing, 306–307
 - short-term investments, 224–225
 - tangible, 230–232
- current (short-term) debt, 552
- current liabilities
 - about, 18, 239–240, 510
 - accounts payable, 240–241
 - defined, 147
 - payroll and taxes, 241
 - recognizing, 306–307
 - short-term, 242–244
 - unearned revenue, 241–242
- current maturities, of long-term debt, 243
- current ratio, 239–240, 307–310, 703
- custodian, 610
- customer acquisition cost (CAC), 574–575
- customer fraud, 691
- customer support fees, for credit cards, 156–157
- customer-level costs, 451
- customers
 - bad debt by, 195
 - charging for direct/indirect costs, 431–433
 - recording payments, 29
 - recording sales of, 29

D

- data mining, 705
- Days sales in receivables index, 704
- debentures, 598
- debit columns
 - in cash disbursements journal, 32
 - in cash receipts journal, 30
- debits
 - about, 21–22
 - defining, 67
- debt
 - balance sheet and, 274–276
 - equity *versus*, 244–245
 - leveraging equity capital with, 364–365
 - long-term, 149–152
 - managing, 512–513
 - recording, 150
 - short-term, 147–149
- debt extinguishment, 422
- debt load, 570
- debt maturity, 552
- Debt section, in balance sheet, 275
- debt security, 552–553
- debt-based capital
 - about, 551–552
 - attributes of debt, 554
 - creativity with capital, 562–564
 - debt maturity, 552
 - debt security, 552–553
 - determining appropriateness of debt, 554–556
 - using loans, leases, and other sources of debt, 556–562
- debt-to-equity ratio, 703
- declining balance method, of depreciation, 134, 136–137
- deferred tax assets and liabilities, 327
- dependent-care assistance, as an employee benefit, 109
- depletion, 135
- depreciable base, 136
- depreciable costs, 519–521
- depreciation
 - about, 131–132, 326
 - adjusting the books and, 191–192
 - assets for, 132

- calculating, 273–274
- calculating useful life of fixed assets, 133
- comparing options for, 134–140
- cost basis, 133–134
- creating depreciation schedules, 521–523
- declining balance method, 136–137
- fixed assets and, 272–274
- as a key budgeting concept, 390–391
- partial year, 139–140
- of real property, 520
- straight-line method, 136
- sum-of-the-years'-digits method, 137–138
- taxes and, 141–142
- units-of-production method, 138–139
- depreciation tax shield, 545
- desired rate of return, 541
- detection risk, 627–629
- diluted EPS, in annual report to shareholders, 340
- dilution, of share value, 371–372
- direct costs
 - in ABC design, 452
 - assigned to cost objects, 431
 - calculating, 433–435, 438
 - charging customers for, 431–433
 - tracing, as a task of refined costing systems, 450–451
- direct credit, 90
- direct labor
 - calculating variances for, 486–489
 - cost of, 496
 - determining standards for, 480
- direct labor standard hours (SH), 480
- direct labor standard rate (SR), 480
- direct material inventory, 229, 530
- direct materials
 - about, 240
 - calculating variances for, 483–486
 - cost of, 496
 - establishing standards for, 479
- direct method, of preparing statement of cash flows, 298–300
- direct write-off method, for bad-debt expenses, 227

disclaimer of opinion, 345
 disclosures
 about, 321
 for acquisitions, 586
 common explanatory notes, 324–332
 identifying corporate characteristics, 322–323
 on income statements, 206–207
 preparers, 333–334
 self-governance, 321–322
 discontinuities, 216
 discount rate, for credit cards, 157
 discounts
 of bonds, 247, 248, 250, 423–424
 sales, 94–95
 discretionary expenses, in normalized financial statements, 589
 discriminatory benefits, 690
 dispositions, 330
 disruptions, business, 214–215
 dividend income, recording, 29
 dividends
 calculating, 257
 defined, 184, 396
 interest and, 294
 paying, 257–259
 posting, 257–259
 retained earnings and, 256
 as a reward for equity investors, 396
 for shares, 255
 documentation
 adequacy of, 626
 as audit evidence, 659–662
 domestic standards, 61–62
 double-entry accounting system, 22–26, 66
 downsizing, as a business disruption, 214
 drawing account, 184
 due diligence, 584–587

E

Earned Income Credit (EIC), 103–104
 earnings
 increasing, 576–577
 management evaluation of, 566–569

earnings before interest, tax, depreciation, and amortization (EBITDA), 576
 earnings per share (EPS)
 in annual report to shareholders, 339–340
 calculating, 260–261
 dilution of, 371–372
 future, 286–288
 testing, 567–569
 economic conditions
 acquisitions and, 589–590
 as an external factor if inherent risk, 624
 EDGAR database, 597
 education, of personnel, 71
 education assistance, as an employee benefit, 110
 effective interest rate, 424
 efficiency, balancing with internal controls, 618
 elective insurance payable, 114
 electronic cash registers (ECRs), 528
 Electronic Federal Tax Payment System (EFTPS), 117, 121
 embezzlement. *See* fraud and embezzlement
 employee payroll and benefits
 about, 99, 119
 accounting for, 328
 categorizing employees, 105
 collecting employee taxes, 106–108
 as current liabilities, 241
 depositing employee taxes, 115–117
 determining net pay, 108
 employer taxes on Social Security/Medicare, 119–121
 government forms, 100–104
 maintaining employee records, 126–128
 options for benefits, 108–111
 posting payroll in the books, 111–115
 preparing payroll, 111–115
 selecting pay periods, 104–105
 staffing your business, 100–105
 unemployment reports/taxes, 121–125
 workers' compensation insurance, 125–126

employee stock ownership plans (ESOPs), 584
 employee taxes
 collecting, 106–108
 depositing, 115–117
 employees
 background checks for, 614
 discounts, as an employee benefit, 110
 maintaining records for, 126–128
 risk assessment and, 631–632
 taking advantage of, 689–690
 theft by, 691
 Employer Identification Number (EIN), 100–101
 employer taxes, paying on Social Security/Medicare, 119–121
 ending cash, verifying, 153–155
 ending inventory, 529, 533–534
 end-of-period procedures, 12–13, 73–76
 end-of-year entries, limiting access to, 614
 environmental factors, risk and, 623–624
 Epstein, Lisa (author)
 Reading Financial Reports For Dummies, 4th Edition, 338
 equipment
 as a tangible asset, 232
 used *versus* new, 560
 equipment fee, for credit cards, 157
 equity. *See also* owners' equity
 about, 15, 18, 66, 233
 analyzing account balances, 649
 debt *versus*, 244–245
 defined, 15, 251
 sources of, 362–364
 equity capital, 364–365, 512
 equity purchase, 297, 587–588
 Equity section, in balance sheet, 275–276
 equity-based value, estimating, 577
 errors
 compared with fraud, 635–637
 correction of, as a business disruption, 215
 in trial balance, 180–181
 estimated warranty liability, 242, 243–244
 event disclosures, 328–332

- evidence exhibits, on Form 10-K, 346
 - executive summary, in business plans, 376–377
 - exempt employees, 105
 - existence, as a management assertion, 649
 - expectations, in annual report to shareholders, 341
 - expenses
 - about, 19, 518–519
 - accruing unpaid, 190
 - compared with costs, 291
 - converting assets into, 190
 - defined, 310
 - disclosure of, on income statements, 206
 - effect on assets and liabilities, 207–210
 - prepaid, 190
 - experience
 - as a factor affecting budgets, 392
 - of personnel, 71
 - explanatory notes, 324–332
 - expropriation, 62
 - extent, internal controls and, 681
 - external auditors, 611–612
 - external factors
 - internal controls and, 669–670
 - risk and, 623–624
 - extorting the elderly scam, 686
 - extraordinary gains/losses
 - managing, 570–571
 - reporting, 213–216
- F**
- face amount
 - about, 416–417
 - of bonds, 247
 - issuing bonds at, 425–426
 - face value. *See* face amount
 - facility-sustaining costs, 451–452
 - Fair Labor Standards Act (FLSA), 105
 - FASB Accounting Standards Codification, 51
 - favorable label, 490
 - Federal Unemployment Tax Act (FUTA), 121–125
 - federal withholding tax, 107–108, 114
 - filing
 - frequency of, 121
 - IRS Form 941, Employer's Quarterly Federal Tax Return, 120–121
 - FIN46, 701
 - financial accounting, 10, 49–50
 - Financial Accounting Foundation (FAF), 59–60
 - Financial Accounting Standards Board (FASB)
 - about, 59–60, 298, 701
 - domestic compared with international, 61–62
 - generally accepted accounting principles (GAAP), 60–61
 - website, 61
 - financial assets, 310–311
 - financial availability, as an external factor if inherent risk, 624
 - financial condition, evaluating, 208
 - financial controls, 321
 - financial effects, of transactions, 11
 - financial factors, in acquisitions, 574–577
 - financial formulas
 - about, 505
 - for analyzing profitability, 505–507
 - for assets, 507–509
 - for debt management, 512–513
 - for evaluating company solvency, 511–512
 - for evaluating firm liquidity, 509–511
 - for project management, 512–513
 - financial leverage, 245, 507
 - financial performance
 - for bank loans, 557
 - on Form 10-K, 343–345
 - financial plans, 390. *See also* business plans
 - financial reporting, for sole proprietorships, 353–354
 - financial statement fraud triangle, 696–698
 - financial statements
 - about, 305
 - activity measures, 315–317
 - balance sheet, 310–312
 - common size, 320
 - comparing horizontal and vertical analysis, 317–320
 - consolidating, 326–327, 330
 - developing worksheets for, 183–185
 - evaluating solvency and liquidity, 306–310
 - on Form 10-K, 344–345
 - fraud with, 702–705
 - managers and, 566
 - measuring profitability, 313–315
 - normalizing, 588–589
 - presentation and disclosure, 646–647
 - financial summary, in business plans, 379
 - financing activities
 - on balance sheet, 311
 - as a cash-flow category, 397
 - financing asset purchases, 244–245
 - Financing section, of statement of cash flows, 293, 297–298
 - finished goods inventory, 229, 440, 531
 - firm. *See* partnership
 - first in, first out (FIFO), 81–85, 531, 533
 - fixed assets. *See* tangible assets
 - fixed costs, 412
 - fixed dividend amount, 368
 - fixtures, as a tangible asset, 232
 - flexibility
 - of budgets, 408–413
 - of LLCs, 351
 - flipping, illegal, 692
 - footed trial balance, 661
 - Foreign Corrupt Practices Act (FCPA), 687
 - forensic accounting, 52
 - Form 8-K, 597, 605
 - Form 10-K Annual Reports, 337, 342–346, 597, 605
 - Form 10-Q Quarterly Reports, 342, 597, 605
 - Form I-9, 102–103
 - fraud and embezzlement. *See also* scams
 - about, 572, 607–608
 - audit trails, 614
 - collusion, 609

- committed by the business, 610–611
- common methods of, 698–701
- compared with errors, 635–637
- finding, 636–637
- limitations of internal controls, 619–620
- meeting to discuss, 656
- preventing with internal controls, 608–612
- procedures for, 618–619
- segregation of duties, 610, 613, 616–617
- surprise audits, 613
- susceptibility to, 625
- suspicious of, 642–643
- triangle of fraud, 637–640
- using internal controls, 612–619
- whistleblowing, 613–614
- free on board (FOB) destination, 531
- free on board (FOB) shipping point, 531
- full costing. *See* absorption costing
- fundamental accounting equation, 14–15, 66, 274
- funds, sources of, 395–396
- furniture, as a tangible asset, 232
- future cash flow, 286–288
- future earnings, 286–288
- future value (FV), 542

G

- General column, in cash receipts journal, 159
- general journal, 35–36
- general ledger
 - about, 39–40
 - as audit evidence, 650
 - posting to, 172–173
- general partners, 350
- general purpose accounting, 10
- generally accepted accounting principles (GAAP), 15, 49, 53, 60–61, 206, 253, 254, 285, 313, 333, 344, 424, 496, 526, 572, 576, 669–670
- generally accepted accounting standards (GAAS), 344
- gifts, 563
- global standards, 62

- Golden, Thomas (author)
 - A Guide to Forensic Accounting Investigation*, 2nd Edition, 702
- goods or services, cash receipts from sale of, 293
- goodwill, 233
- government aid, 563
- government forms, for employees, 100–104
- government lending programs, 561
- governmental accounting, 49, 52
- Governmental Accounting Standards Board (GASB), 49, 52, 60
- grants, 563
- Great Recession, 692
- Gross margin index, 704
- gross margin ratio, evaluating, 567
- group term life insurance, as an employee benefit, 110
- guarantee of obligations, 246
- A Guide to Forensic Accounting Investigation*, 2nd Edition (Skalak, Golden, Clayton and Pill), 702

H

- hidden liabilities, 699
- hiring personnel, 70–72
- historical cost
 - about, 221–222
 - as an option for balance sheet valuation, 280
- homogeneity, of cost pools, 451
- horizontal analysis, 317–320
- hour law violations, 690
- hourly employees, calculating payroll for, 111–112
- How to Read a Financial Report: Wringing Vital Signs Out of the Numbers*, 9th Edition (Tracy), 611
- hybrid interest, 145–146
- hybrid method, 48

I

- icons, explained, 3
- ideal standards, 478
- impairment, as an option for balance sheet valuation, 280

- incentives, to commit fraud, 637–638
- Income and Expenses report, 186
- income statement
 - about, 18, 186, 203, 263–264
 - assets and liabilities on, 207–210
 - budgeting and, 407, 408
 - choosing format of, 204–206
 - defined, 622
 - depreciation, 272–274
 - disclosures on, 206–207
 - effect of transactions on, 208–210
 - financial effects of making profits, 210–213
 - fixed assets, 272–274
 - nature of profit, 204
 - operating ratios, 268–272
 - owners' equity, 274
 - profit misconceptions, 217–219
 - relationship with balance sheet, 264–267
 - reporting extraordinary gains and losses, 213–216
 - sales and expenses on, 207–210
 - segregating, 213–214
 - using for budgets, 396–397
- income taxes, accounting for, 327–328
- incorporation
 - about, 322, 361
 - legalities, 365–366
 - process of, 366–373
 - securing capital, 362–365
 - of third-party information into business plans, 386–388
- incorporation documents, in audit file, 659–660
- incremental costs, 538
- indirect costs
 - in ABC design, 453–455
 - about, 398, 430
 - allocating, 432
 - allocating evenly by product, 456–457
 - assigned to cost objects, 431
 - calculating, 435, 438
 - as a category of control accounts, 440
 - charging customers for, 431–433
 - normal job costing and, 436–439

- indirect method, of preparing statement of cash flows, 300–301
 - industry conditions, acquisitions and, 589–590
 - industry standards, for profit, 218
 - inflation rate, 541
 - information and communication, as a component of internal controls, 666
 - inherent risk, 623–625
 - initial cost, entering, 79–81
 - initial public offering (IPO), 323
 - initial transaction details, 166–167
 - insider trading, 598
 - Institute of Internal Auditors (website), 612
 - Institute of Management Accountants (IMA), 51, 71
 - insurance costs, 430
 - insurance fraud, 692
 - intangible assets
 - about, 232–234
 - accounting for, 328
 - on balance sheet, 270
 - integrity, of personnel, 72
 - Integrity principle, in AICPA Code of Professional Conduct, 58
 - interest income, 29, 146–147, 294
 - interest payments
 - as an operating cash outflow, 295
 - of bonds, 248, 426
 - interest rates
 - about, 143
 - compound interest, 144–145
 - credit card, 147–148
 - handling interest income, 146–147
 - hybrid interest, 145–146
 - loans and interest expenses, 147–152
 - setting, 545
 - simple interest, 144
 - types of interest, 143–146
 - interim procedures, 681–684
 - internal auditing, 620
 - internal cash flow, generating, 562
 - internal controls
 - about, 663–664
 - assessing procedures for clients, 669–679
 - in audit file, 660
 - auditing, 663–684
 - balancing with efficiency, 618
 - components of, 665–666
 - curbing indifference to, 616
 - defining, 664–665
 - dual purpose of, 609–610
 - enforcing, 72–73
 - fraud and weakness of, 639
 - limitations of, 619–620
 - limiting audit procedures for strong, 679–680
 - periodic review of, 615
 - preventing loss with, 608–612
 - tailoring audits for weak, 680–681
 - timing, 681–684
 - using, 612–619
 - when to audit, 667–669
 - internal rate of return (IRR), measuring, 547–548
 - Internal Revenue Service (IRS)
 - about, 49, 68, 100–101, 116, 614, 688, 690
 - Employer’s Tax Guide, 107
 - Form 940, Employer’s Annual Federal Unemployment (FUTA) Tax Return, 116, 123–124
 - Form 941, Employer’s Quarterly Federal Tax Return, 116, 120–121
 - Form 1120, U.S. Corporation Income Tax Return, 116
 - Form 4070, Employee’s Report of Tips to Employer, 113
 - Form 8109, Federal Tax Deposit (FTD) Coupon, 115–116
 - Publication 15, 117
 - Publication 946, How to Depreciate Property, 142
 - Publication 1244, Employees Daily Record of Tips and Report to Employer, 113
 - W-2, 690
 - W-4 (Employee’s Withholding Allowance Certificate), 101–102
 - W-5, 103–104
 - international accounting, 49, 61–62
 - International Accounting Standards Board (IASB), 62
 - International Financial Reporting Standards (IFRS), 61–62, 424
 - inventory
 - about, 440
 - asset liquidation and, 511
 - components of, 440
 - cost flows for, 525–535
 - cost-flow assumptions about, 532–534
 - counting, 193–195
 - as a current asset, 228–230
 - estimating year-end balance for, 267
 - logging for service companies, 527
 - relationship with revenue, 526
 - tracking, 77–85
 - types of, 527–531
 - valuation methods for, 193–195, 326, 526
 - inventory formula, 399–400
 - inventory shrinkage, 78
 - inventory turnover, 317, 509
 - invested capital, incorporation and, 364
 - investing activities
 - on balance sheet, 310–311
 - as a cash-flow category, 397
 - Investing section, of statement of cash flows, 292–293, 295–297
 - Investment Advisers Act (1940), 598
 - investment bankers, in acquisitions, 583
 - Investment Company Act (1940), 598
 - investment schemes, 687
 - investors
 - as a source of equity, 362, 363
 - statement of cash flows and, 302
 - issuance, of bonds, 247, 249
 - issued shares, 255
 - issuer, 600–601
- ## J
- job cost sheet, 438–439
 - job costing
 - about, 429
 - budgeting for indirect costs, 437–438
 - cost objects, 430–431
 - direct costs, 431–433

- flow of costs through manufacturing systems, 439–443
- how it works, 429–436
- implementing in manufacturing, 433–436
- indirect costs, 431–433
- managing costs with control accounts, 440–443
- normal, 436–439
- job descriptions, as an internal control, 665
- journal entries
 - in audit file, 661
 - for bond transactions, 249–250
 - combining activities into, 212
 - recording, 23–24
 - summarizing, 167–171
 - writing complex, 24–26
- journal records, computerized, 173–176
- journals
 - about, 27–28
 - as audit evidence, 650
 - examples of common entries, 36–38
 - general, 35–36
 - recording accrual transactions, 32–34
 - recording cash transactions, 28–32
 - special, 34–35

K

- keep it simple, stupid (KISS), 385–386
- Kranitz, Richard (attorney), 603

L

- labor, as a category of control accounts, 440
- land
 - cost allocation between buildings and, 520–521
 - as a tangible asset, 230–231
- land improvements, 521
- last in, first out (LIFO), 81–85, 531, 533–534
- late payments, risks of, 306
- laundering money, 687–688
- lawsuit settlements, as a business disruption, 214

- leasehold improvements, 234, 281
- leases
 - in audit file, 660
 - as a source of capital, 559–561
- ledgers
 - about, 27–28, 38–39
 - example of general, 39–40
 - posting to, 39
 - purpose of trial balance, 41–42
- legal contingencies disclosure, 586
- legal issues
 - about, 349
 - as a business disruption, 214
 - business structures, 349–353
 - choosing a business structure, 354–359
 - incorporation and, 365–366
 - internal controls and, 617
 - sole proprietorships, 353–354
- leveraging
 - about, 364–365
 - unsecured creditors, 562–563
- liabilities. *See also* current liabilities
 - about, 14
 - accounting for, 238–239
 - analyzing account balances, 649
 - converting into revenue, 190
 - current, 147
 - effect of sales and expenses on, 207–210
 - hidden, 699
 - long-term compared with current, 18
 - reporting for sole proprietorships, 353–354
- limited liability, 323, 367
- limited liability companies (LLCs)
 - about, 351
 - profit distribution with, 352–353
 - taxes and, 357–358
- limited liability partnerships (LLPs), 351–352
- limited partners, 350
- liquidity
 - compared with solvency, 570
 - defined, 222, 370
 - evaluating, 306–310, 509–511
- loans
 - bank, 556–558

- debt purchases and, as an investing use of cash, 297
- interest expenses and, 147–152
- lying on applications, 693
- local withholding taxes, 108
- long-term (noncurrent) assets, 18, 230
- long-term debt
 - about, 149–152, 552
 - current maturities of, 243
 - managing, 245–246
 - sales/collection, as an investing source of cash, 296
- long-term liabilities
 - about, 18
 - bonds, 423–426
 - calculating present value of bonds, 424–425
 - issuing bonds at face value, 425–426
 - managing long-term debt, 415–422
 - notes payable, 416–421
 - paying off debt, 422
 - planning for, 244–247, 415–426
 - treasury bonds, 421
 - valuating bonds payable, 423–424
- long-term periods, 147
- loss contingencies, 636
- losses, accepting, 98

M

- management
 - about, 565
 - conflicts between stockholders and, 372–373
 - evaluating company cash position, 569–570
 - extraordinary gains/losses, 570–571
 - financial reports and, 566
 - fraud and indifference of, 639
 - fraud and ineffective monitoring of, 639–640
 - internal controls and, 670–672
 - quality of, 630–631
 - reports for, 75–76
 - reviewing profit and earnings, 566–569
 - risks of restatement, 571–572
 - turnover of, 630–631

- management assertions, 344, 645, 646–649
 - management by exception, 490–491, 492
 - management discussion and analysis, on Form 10-K, 343–344
 - management governance, on Form 10-K, 345–346
 - management incentives, to commit fraud, 638–639
 - manager compensation, 372
 - managerial accounting, 10, 48, 50–51
 - mandated vacations, 616
 - manufacturing
 - flow of costs through systems for, 439–443
 - implementing job costing in, 433–436
 - manufacturing inventory, 229, 526, 530–531
 - margin of safety
 - defined, 461
 - setting, 472–474
 - marital property, 581
 - market assessment, in business plans, 377–378
 - market information, on Form 10-K, 343–344
 - market rate, 417
 - market value
 - as an option for balance sheet valuation, 280
 - determining for stock shares, 370–371
 - marketable securities, 222
 - marketing, as a reason for reports, 338
 - markups, calculating for cost-plus pricing, 497–498
 - master budget, 390
 - matching principle, 135, 406, 518–519
 - materiality, 621, 634–640
 - materially correct, 585, 663
 - materials control, 440
 - maturity, of bonds, 247
 - meals, as an employee benefit, 110
 - medical insurance payable, 114
 - Medicare tax, 106, 119–121
 - meeting management, in annual report to shareholders, 341
 - merchandise (retail) inventory, 228–229, 527–530. *See also* inventory
 - merchandise purchases, on cash disbursements journal, 31
 - merchandising companies, inventory and, 526
 - merchant account, 223–224
 - mergers, 330
 - misrepresentation, 572
 - mission statement, 579
 - misstatement, 634–635
 - Modified Accelerated Cost Recovery System (MACRS), 141, 142
 - money laundering, 687–688
 - monitoring, as a component of internal controls, 666
 - monthly compounding, 145
 - monthly minimum fee, for credit cards, 157
 - monthly recurring revenue (MRR), 575–576
 - mortgage fraud, 692–693
 - mortgages, 245
 - mortgages payable, 420–421
 - moving expense reimbursements, as an employee benefit, 110
 - multistep format, for income statements, 205
- N**
- name, in purchases journal, 34
 - National Association of Certified Valuators and Analysts (NACVA), 284
 - National Council on Compensation Insurance (NCCI), 125
 - National Securities Markets Improvements Act (1996), 603
 - nature, internal controls and, 680, 681
 - negative balance, 180
 - net assets. *See* equity
 - net book value, 301
 - net cash flow
 - using cash payback method with equal annual, 539–540
 - using cash payback method with unequal annual, 540–541
 - net credit sales, 316
 - net income
 - about, 314
 - compared with cash flow, 569
 - defined, 518
 - retained earnings and, 256
 - net of amortization, 235
 - net of tax, 330
 - net pay, determining, 108
 - net present value (NPV)
 - about, 541–542
 - calculating, 544–546
 - calculating time-value-of-money, 542–544
 - net worth. *See* equity
 - New York Stock Exchange (NYSE), 601–602
 - no-face, interest bearing note payable, 419–420
 - no-face, no-interest note payable, 417–419
 - nonaccelerated filers, 603–604
 - nonaccounting evidence, as audit evidence, 651
 - noncash transactions, 290–291
 - noncurrent (long-term) assets, 18, 230
 - nonexempt employees, 105
 - nonfinancial factors, in acquisitions, 574–577
 - non-manipulators, 705
 - nonoperating income, in normalized financial statements, 589
 - nonpublic, 55
 - nonrecognized events, 332
 - normal balances, 68, 179–180
 - normal costing, 436–439
 - normalized financial statements, 588–589
 - normative operating ratio, 268
 - notes no one can comprehend fraud, 701
 - notes payable, 238, 246, 416–421
 - notes receivable, as a current asset, 227–228
 - not-for-profit accounting, 48, 51–52
 - number of periods, 144

O

- Objectivity and independence
 - principle, in AICPA Code of Professional Conduct, 58
 - off-balance-sheet transactions, 700–701
 - on account, 527
 - operating account, 223
 - operating activities
 - on balance sheet, 310, 311–312
 - as a cash-flow category, 397
 - operating budget. *See* operating plan
 - operating cycle, 306–307
 - operating expense payments, on cash disbursements journal, 31
 - operating income, 315, 589
 - operating leverage
 - defined, 461
 - measuring, 474–475
 - operating plan, 390
 - operating ratios
 - about, 268
 - expected compared with actual, 268
 - generating balance sheet amounts using, 269–272
 - Operating section, of statement of cash flows, 292, 293–295
 - operational review, in business plans, 378
 - operations, evaluating for businesses, 578–579
 - opportunity costs, 391, 538
 - organization chart/framework, 579, 660
 - original entries, of financial effects, 11–12
 - out of balance, 42
 - outsourcing, 504
 - outstanding account payments, in cash disbursements journal, 31
 - outstanding shares, 255
 - overallocating, 449–450
 - overcosting, 448–450
 - overhead control, 440
 - overhead costs, 496
 - overhead rate, calculating, 480–481
 - overhead variances, calculating, 489–490
 - over-the-counter market, 342
 - owners
 - in acquisitions, 582
 - as a source of equity, 362, 363–364
 - owners' equity
 - about, 15, 251
 - on balance sheet, 274
 - business entities and, 251–253
 - capital stock types, 253–255
 - earnings per share (EPS), 260–261
 - incorporation and, 362, 363–364
 - paid-in capital, 255
 - retained earnings, 256
 - stock splits, 259
 - ownership, risk of, 560
- ## P
- paid-in capital, 255
 - par value
 - of common or preferred stock, 255
 - of shares, 254
 - parent company, 326, 330
 - partial year depreciation, 139–140
 - partnership agreement, 350
 - partnerships
 - about, 350–351
 - owners' equity and, 252–253
 - profit distribution with, 352–353
 - as a source of capital, 563
 - taxes and, 357–358
 - pass-through entities (partnerships, S corporations, and LLCs), 354
 - pass-through tax entity, 358
 - patents, 232–233, 328, 624
 - pay periods, selecting, 104–105
 - payables, managing, 86
 - payback period, 288, 537
 - paying back debt, as a financing activity, 298
 - payroll account, 223
 - payroll decline ratio formula, 122
 - payroll journal, 34
 - payroll subsidiary ledger, 39
 - peanut butter costing. *See* cost smoothing
 - peer reviews, 56
 - pending litigation, 246
 - people, as a factor affecting budgets, 393
 - percentage, bad debt by, 195
 - percentage markup on cost, 498
 - period, 12–13
 - period costs, 519
 - periodic inventory, 78
 - periodic reporting, 597–598
 - periodic system, 529–530
 - perpetual inventory, 78
 - perpetual system, 528–529
 - personal guarantee (PG), 557–558
 - personnel, hiring, 70–72. *See also* employee payroll and benefits
 - persuasive evidence, 653
 - petty-cash account, 154, 224
 - physical control, of assets and records, 626
 - Pill, Jessica (author)
 - A Guide to Forensic Accounting Investigation*, 2nd Edition, 702
 - point-of-sale system, 92–93, 528
 - policies and procedures, documenting, 579
 - policies manual, 579
 - portfolio income. *See* interest income
 - positive earnings, for bank loans, 557
 - posting
 - adjustments, 165–166
 - corrections, 165–166
 - entries to one side of the balance sheet equation, 23–24
 - financial effects, 12
 - to ledgers, 39
 - PR messages, as a reason for reports, 338
 - predatory lending, 689
 - predetermined indirect cost rate, 437–438
 - preferred stock, 254, 255, 302, 368–369
 - premiums, for bonds, 247, 248–249, 250, 423–424
 - prepaid expenses
 - about, 229–230, 510
 - adjusting entries for, 190
 - allocating, 193

- preparers, disclosures and, 333–334
 - present value (PV)
 - about, 542
 - calculating for bonds, 424–425
 - on cash flows, 288
 - previous-period misstatements, 624–625
 - price maker, 495
 - price point, 449–450
 - pricing
 - about, 495
 - absorption costing, 496–497
 - of bonds, 426
 - changing after activity-based costing, 459
 - cost-plus, 497–499
 - product differentiation, 495–496
 - target cost, 501–504
 - variable-cost, 499–501
 - principal
 - defined, 245
 - notes receivable and, 228
 - separating from interest, 151–152
 - principal repayment, of bonds, 248
 - private companies, compared with public companies, 336
 - private equity firms, 583–584
 - private placement, 596
 - problem-solving approach, to business plans, 381–382
 - procedures manual, 579
 - process analysis, 632–633
 - process costing, 439
 - processing procedures, standardizing, 70
 - product costs
 - about, 519
 - defined, 496
 - inventory and, 526
 - product differentiation, 495–496
 - product inventory, 525
 - product line
 - abandonment of, as a business disruption, 214
 - addition of, profit and, 218
 - product overcosting, 448–450
 - product undercosting, 448–450
 - product-cost cross-subsidization, 449
 - production budgets, 398–401
 - products
 - acquisitions and, 579–580
 - allocating indirect costs evenly by, 456–457
 - product-sustaining costs, 451
 - professional corporations (PCs), 351–352
 - professional judgment, applying to audits, 654–658
 - profit
 - calculating using activity-based costing, 455–459
 - compared with cash, 290–291
 - distribution of in partnerships/LLCs, 352–353
 - financial effects of, 210–213
 - industry standards for, 218
 - management evaluation of, 566–569
 - nature of, 204
 - return on equity (ROE), 315
 - return on investment (ROI), 314–315
 - target, 471–472
 - trend analysis, 313–314
 - Profit and Loss (income statement) report. *See* income statement
 - profit margin ratio, 506, 703
 - profitability, analyzing and measuring, 313–315, 505–507
 - profit-making activities, 212–213
 - project management, 512–513
 - property, plant, and equipment (PP&E), 230–232, 273–274, 297
 - proprietary accounting software, 39
 - proving out cash
 - about, 153
 - closing cash journals, 155–160
 - using temporary posting journals, 160
 - verifying ending cash, 153–155
 - proving out cash registers, 93–94
 - proxy solicitations, 597
 - public accounting, 52
 - public companies, compared with private companies, 336
 - Public Company Accounting Oversight Board (PCAOB), 55–56, 60–61, 662, 680–681
 - public reports
 - about, 335
 - annual report to shareholders, 338–341
 - finding purpose in, 337–338
 - Form 10-K, 342–346
 - for managers, 75–76
 - private compared with public companies, 336
 - publicly owned companies, 53, 367
 - purchases
 - about, 77
 - buying supplies, 85–86
 - entering initial cost, 79–81
 - funding for acquisitions, 583–584
 - handling billing and payables, 86
 - inventory and, 194
 - major, 150–151
 - managing inventory and value, 81–85
 - tracking inventory, 77–85
 - purchases journal, 33–34
 - purchases returns and allowances journal, 34
- ## Q
- qualified opinion, 345
 - qualitative factors, 548–549, 675
 - quantitative factors, 675
 - questionnaires, internal controls and, 672–673
 - quick ratio, 307–310, 510
 - QuickBooks, 42, 164–165
- ## R
- rate
 - defined, 245
 - notes receivable and, 228
 - ratio analysis, 316, 633, 703
 - rationalizations, of fraud, 640
 - raw materials, 229, 440
 - Reading Financial Reports For Dummies*, 4th Edition (Epstein), 338
 - real estate fraud, 692–693
 - real financing cost, 560
 - real property, 230–231, 520

realistic standards, 478
 reasonableness, 218, 633
 receipts journal, 89
 reclassifications, 661
 reconciling credit card statements, 157–158
 record keeper, 610
 records
 adequacy of, 626
 as audit evidence, 651
 recovery periods, for depreciation, 133
 red flags, 218–219
 refined costing system, 450–451
 registered agent, 322
 registrant information, on Form 10-K, 343
 registration statement, 342
 Regulation D (Securities Exchange Act), 596
 regulators, as stakeholders, 8
 regulatory requirements, 337
 related-party transactions
 about, 637
 disclosure of, 586
 in normalized financial statements, 589
 relevance
 of audit evidence, 651–652
 of financial reports, 50
 reliability
 of audit evidence, 652
 of financial reports, 50
 reliance strategy, 668
 Remember icon, 3
 repairs and maintenance, as an expense, 521
 reperformance, 674
 reporting entities, 330
 reports. *See* public reports
 reserve ratio formula, 122
 responsibilities principle, in AICPA Code of Professional Conduct, 57
 restatement, risks of, 571–572
 restructuring, as a business disruption, 214
 retail (merchandise) inventory, 228–229, 527–530. *See also* inventory

retained earnings
 about, 275–276
 defined, 315
 incorporation and, 364
 recording, 256
 retrieval fee, for credit cards, 156
 return on equity (ROE), 315, 506
 return on investment (ROI), 314–315
 returns, recording, 95–97
 revenue
 about, 19
 accruing uncollected, 190
 converting liabilities into, 190
 relationship with inventory, 526
 revenue budgets, 398–401
 revenue formula, 399
 revenue recognition principle, 517, 523–524
 reviews, 333–334
 revolving line of credit, 243
 rights and obligations, as a management assertion, 649
 rip-offs scam, 686
 risk assessment, as a component of internal controls, 666
 risk of material misstatement, 652
 robbing the poor scam, 686
 Roosevelt, Franklin Delano (US President), 593, 594
 Rule of 72, 145

S

S corporations, 356–357
 safety violations, 690
 Sage 50 Accounting, 42
 salaried employees, calculating payroll for, 112
 salaries payable, 238
 sale price
 in acquisitions, 587–590
 calculating using activity-based costing, 455–459
 sales
 about, 87
 accepting losses, 98
 cash, 87–90
 in cash receipts journal, 158
 credit, 90–93
 effect on assets and liabilities, 207–210
 of equity investments, as an investing source of cash, 296
 inventory and, 194
 monitoring accounts receivable, 97–98
 of PP&E/intangibles, as an investing source of cash, 297
 projections for, as a factor affecting budgets, 393–394
 proving out cash registers, 93–94
 recording allowances, 95–97
 recording returns and allowances, 95–97
 tracking discounts, 94–95
 sales account, 89
 Sales growth index, 704
 sales journal, 33
 sales receipts, 88–89
 sales returns and allowances journal, 34
 sales tax collected account, 89
 salvage value, 135
 sampling
 detection risk and, 627–628
 internal controls and, 674–677
 Sarbanes-Oxley Act (2002), 72, 593, 597, 599–604, 666, 672
 SAS No. 99, “Consideration of Fraud in a Financial Statement Audit,” 656
 SAS No. 109, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement,” 656
 scamming the sick, 686
 scams. *See also* fraud and embezzlement
 about, 685
 frauds committed against businesses, 691–693
 frauds committed by businesses, 685–690
 scientific wild-ass guess, 380, 381
 Scope and nature of services principle, in AICPA Code of Professional Conduct, 58
 SEC v. W.J. Howey Co, 599–600
 secondary repayment, for bank loans, 557
 Section 179, 141–142

- secure payment gateway fee, for credit cards, 157
- secured debt, 553
- securities
 - about, 593
 - early laws, 594–598
 - post-SOX, 604–605
 - regulation of, 593–605
 - Sarbanes-Oxley Act (2002), 72, 593, 597, 599–604, 666, 672
 - Securities Act (1933), 593, 594–595
 - Securities Exchange Act (1934), 59, 595–598, 602
- Securities Act (1933), 593, 594–595
- Securities Exchange Act (1934), 59, 595–598, 602
- security, offering for debt, 555
- segment reports, 332
- segregation of duties, 610, 613, 616–617, 626, 639, 665
- self-assessment, 670–672
- self-governance, 321–322
- service companies, logging inventory for, 527
- services, acquisitions and, 579–580
- Serving the public interest principle, in AICPA Code of Professional Conduct, 57–58
- share value, dilution of, 371–372
- shareholders of record, 257
- shell company scam, 688
- short sales, of homes, 422
- short-term bank loans, 242–243
- short-term debt, 147–149
- short-term investments, as current assets, 224–225
- short-term liabilities, 242–244
- short-term periods, 147
- significant accounting policies, 325–328
- simple interest, 144
- single indirect cost allocation, 446–447
- single-step format, for income statements, 205
- Skalak, Steven L. (author)
 - A Guide to Forensic Accounting Investigation*, 2nd Edition, 702
- skepticism, applying to audits, 655–656
- Social Security tax, 106, 119–121
- software, accounting, 42–43
- software fee, for credit cards, 157
- sole proprietorships
 - about, 353
 - liability and financial reporting, 353–354
 - owners' equity and, 252
- solvency
 - compared with liquidity, 570
 - defined, 149
 - evaluating, 306–310, 511–512, 569–570
- source documents, 10–11, 70. *See also* records
- special journals, 34–35
- special-purpose entities (SPEs), 700
- specific identification, 81–85
- spending, questionable, 617
- stability, of business, 555
- staffing, 100–105
- stakeholders, 8
- standard costs
 - adding up per unit, 481–482
 - setting up, 478–482
- standard price (SP), 479
- standard quantity (SQ), 479
- standards
 - about, 53
 - Financial Accounting Standards Board (FASB), 59–62
 - global, 62
 - origins of, 54
 - role of American Institute of Certified Public Accountants (AICPA), 55–58
 - U.S. Securities and Exchange Commission (SEC), 58
 - Standards of Ethical Conduct for Management Accountants*, 51
- state withholding taxes, 108, 114
- statement of cash flows
 - defined, 622
 - Financing section, 293, 297–298
 - importance of, 291
 - interpreting, 301–302
 - Investing section, 293, 295–297
 - Operating section, 292, 293–295
 - preparing, 298–301
 - sections of, 292–298
 - using for budgets, 397–398
- statement of changes in stockholders' equity, 302–303
- statement of financial condition. *See* balance sheet
- Statements on Auditing Standards (SAS), 56–57, 656
- stock dividends, 257
- stock exchanges, 601–602
- stock shares
 - appreciation, as a reward for equity investors, 396
 - classes of, 368–370
 - determining market value of, 370–371
 - issuances of in audit file, 660
 - issuing, 367–368, 371
- stock splits, 259, 372
- stockholders
 - about, 367
 - conflicts between managers and, 372–373
 - as stakeholders, 8
- stockholders' equity
 - changes in, 302–303
 - earnings per share (EPS), 260–261
 - reductions to, 256–259
 - stock splits, 259
- store credit, 91–93
- straight-line method, of depreciation, 134, 136, 191–192
- strategic plans, budgets and, 391
- strengths, weaknesses, opportunities, and threats (SWOT) analysis, 384–385
- subordinated debt, as source of debt-based capital, 562
- subprime lending, 689
- subsequent payment test, 648
- subsidiaries, 326, 330
- subsidiary ledger, as audit evidence, 650
- substantive strategy, 667, 668–669
- sufficiency, of audit evidence, 652–653
- summary of operations, in annual report to shareholders, 339
- sum-of-the-years'-digits method, of depreciation, 134, 137–138
- sunk costs, 538
- supplies
 - adjusting entries for, 191
 - buying, 85–86

survey costs, for land, 231
sustainable level of profit, 218
sweep account, 224

T

T-accounts, 211
take-home pay, determining, 108
Taking the due care principle, in
AICPA Code of Professional
Conduct, 58
tangible assets
about, 230–232, 517
on balance sheet, 271
business costs/expenses, 518–519
creating depreciation schedules,
521–523
depreciable costs, 519–521
depreciation and, 272–274
determining useful life for, 133
forecasting spending on, 286
pairing accounts, 286
revenue recognition principle,
523–524
target company, 330
target cost, 501–503
target profit, calculating, 471–472
taxable benefits, 110–111
taxable entries (C corporations), 354
taxes
depreciation and, 141–142
for S corporations, 357
tax-exempt benefits, 109–110
Technical Stuff icon, 3
temporary posting journal, 160
1099 form, 690
tender offers, 597
terms
defined, 245
in purchases journal, 33
theft, susceptibility to, 625
third-parties, incorporating
information into business
plans, 386–388
Thompson, Huston, 594
time cards, 440

time-value-of-money, calculating,
542–544
timing
as a factor affecting budgets,
392–393
internal controls and, 680, 681–684
notes receivable and, 228
Tip icon, 3
title company, 421
Total accruals to total assets
index, 704
total contribution margin,
calculating, 462–464
total cost, calculating using activity-
based costing, 455–459
total dollars, inventory and, 532
Tracy, John A. (author)
*How to Read a Financial Report:
Wringing Vital Signs Out of the
Numbers*, 9th Edition, 611
trade payables, 240
trademarks, 232–233, 328
trading portfolio purchases, as an
operating cash outflow, 295
trading portfolio sales, 294
trading securities, 224–225
training, acquisitions and, 579–580
transaction fee, for credit cards, 157
transactions
on balance sheet, 310–311
cash, 291–292
effect on income statement and
balance sheet, 208–210
methodology for, 67–68
monitoring classes of, 647–648
noncash, 290–291
transfer price, 503–504
transferability of shares,
as a characteristics of
corporations, 323
treasury bonds, 421
treasury stock, 255, 259, 297, 421
trend analysis, 313–314, 567, 633
trial balance
about, 177–178
in audit file, 661
conducting, 178–180
error handling, 180–181

purpose of, 41–42
testing adjusted, 198–199
triangle of fraud, 637–640
true cost, 560
Trust Indenture Act (1939), 598
turnover ratios, 508
Type I events, 331–332
Type II events, 332

U

underallocating, 449–450
undercosting, 448–450
understandability, of financial
reports, 49
Underwood, Jim (author)
*Competitive Intelligence For
Dummies*, 378
unearned revenues
about, 238, 649
as current liabilities, 241–242
unemployment reports/taxes,
121–125
unfavorable label, 490
Uniform Commercial Code (UCC)
document, 552–553
unit-level costs, 451
units, inventory and, 532
units-of-production method (UOP),
of depreciation, 134, 138–139
unpaid salaries/wages, adjusting the
books for, 197–198
unqualified opinion, 344
unsecured creditors, leveraging,
562–563
unsecured debt, 553
upside potential, 369
U.S. Citizenship and Immigration
Services (USCIS), 102–103
U.S. Department of Labor, 105, 690
U.S. Securities and Exchange
Commission (SEC), 49, 55,
59, 206, 324, 335, 337, 342,
593, 595–598, 602–603, 699,
700, 701
U.S. Small Business Administration
(SBA), 561
useful life, determining for fixed
assets, 133

V

valuation and allocation, as a management assertion, 649

value

- of assets in balance sheets, 280–283
- of business, 283–285
- defined, 279
- maximizing for businesses, 574–582
- replacing, 286
- valuation methods, 285–288

variable costs, 412

variable-cost pricing, 499–501

variances

- about, 477
- adding up standard cost per unit, 481–482
- analyzing, 578
- budgeting, 578
- in budgets, 409–410
- calculating direct labor variances, 486–489
- calculating direct materials variances, 483–486
- calculating overhead rate, 480–481
- calculating overhead variances, 489–490
- control limits, 492
- defined, 395
- determining direct labor standards, 480
- establishing direct materials standards, 479
- interpreting variances in action, 491
- setting up standard costs, 478–482
- variances, 482–493

vendor fraud, 691

vertical analysis, 317–320

Vinson & Elkins, 700

vision statement, 579

vulnerable populations, scams against, 686

W

wage law violations, 690

wages payable control, 440

walk-through, 674

Warning icon, 3

websites

- AARP, 686
- American Institute of Certified Public Accountants (AICPA), 57, 612
- American Institute of Professional Bookkeepers, 71
- BankRate.com, 151
- Cheat Sheet, 4
- Coalition Against Insurance Fraud, 692
- Committee of Sponsoring Organizations (COSO) model, 666
- EDGAR database, 597
- Electronic Federal Tax Payment System (EFTPS), 121
- Financial Accounting Standards Board (FASB), 61
- GASB, 52
- Institute of Internal Auditors, 612
- Institute of Management Accountants (IMA), 51
- Internal Revenue Service (IRS), 100, 116, 614, 690
- IRS Employer's Tax Guide, 107
- IRS Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, 123
- IRS Publication 15, 117
- IRS Publication 1244, Employees Daily Record of Tips and Report to Employer, 113
- National Association of Certified Valuators and Analysts (NACVA), 284
- National Council on Compensation Insurance (NCCI), 125
- Public Company Accounting Oversight Board (PCAOB), 56, 662, 680–681

Sarbanes-Oxley Act (2002), 672

state tax rates/forms, 108

U.S. Citizenship and Immigration Services (USCIS), 103

U.S. Department of Labor, 105, 690

U.S. Securities and Exchange Commission (SEC), 597

weighted average, 81–85, 260–261, 531, 534

whistleblowing, 613–614

wild-ass guess, 380

work papers, 633, 661

workers' compensation insurance, 125–126

working capital, 309–310

working-capital loan, 242

work-in-process inventory, 229, 440, 530–531

worksheets

- financial statement, 182–183
- replacing with computerized reports, 185–187

WorldCom, 699

writing off assets

- as a business disruption, 214
- using amortization, 233–234

Y

year-end procedures, 681–684

yield to maturity, 248, 423–424

yields, for bonds, 423–424

Z

zone of possible agreement (ZONA), 590