

Index

• Numerics •

1099 (IRS), 652

1933 Act, 558–559

• A •

AARP (American Association of Retired Persons), 648

ABC (activity-based costing)

about, 437

allocating indirect costs by product, 449

analyzing and reallocating cost activities, 449–450

changing allocations to cost pools, 450–451

changing prices, 451–452

client activity levels, 439–440

computing total cost, profit, and sale price with, 448–452

grouping costs with a cost hierarchy, 443–444

overcosting, 440–442

peanut butter costing, 437–442

recognizing single indirect cost allocation, 438–439

system design, 442–447

testing designs of, 444–447

undercosting, 440–442

ABL (asset-based lending), 541–542

absorption costing, 488–489

accelerated filers, 569

accepting your losses, 89–90

Account column (chart of accounts), 20

accounting. *See also* specific topics about, 7–8, 12

changes in explanatory notes and disclosures, 328–329

compared with bookkeeping, 8–9

financial

about, 10, 49–50

characteristics of, 50–51

elements of financial statements, 51–52

financial statement measurements, 52

objective of, 50

international, 46, 49

management, 10

methods of

accrual basis, 43–44, 45–46, 396, 398

cash basis, 43–45, 395, 396–397

changing, 218

choosing, 43–52

standards, 46–49

panoramic view of, 9–10

system management, 58–63

accounting cycle, 10–13

accounting documents, 612–613

accounting equation, 14–15, 56

accounting estimates, in explanatory notes and disclosures, 329

accounting manual, 13

accounting principles, in explanatory notes and disclosures, 329

accounting procedures manual, in permanent file, 622

Accounting Research Bulletin No. 43 (FASB), 516

accounting software, 40–41

accounting systems, computerized

about, 160–161

replacing worksheets with, 183–184

testing balances with, 179–181

accounting transactions, effect on income statement and balance sheet, 212–214

accounts

about, 56

analyzing balances, 611

chart of

about, 17–18, 56, 58–59

balancing transactions, 19

- accounts (*continued*)
 - components of, 18–19
 - connecting to financial statements, 18
 - debits compared with credits, 21–22
 - double-entry accounting, 22–25
 - in permanent file, 622
 - setting up, 20–21
 - contra, 228, 261
 - contra-asset, 188
 - control, 432–433, 435–436
 - defined, 59
 - inventory, 68
 - merchant, 225
 - permanent, 35
 - petty cash, 149, 225
 - purchases, 68
 - in purchases journal, 33
 - T-accounts, 214–215
 - temporary, 34
- accounts payable (A/P)
 - about, 240
 - on balance sheet, 242–243
 - defined, 18
 - in purchases journal, 32
 - on statement of cash flows, 296
 - accounts payable aging summary, 166–167
 - accounts receivable (A/R)
 - about, 212
 - on balance sheet, 227–229
 - in cash receipts journal, 153
 - defined, 18, 28
 - monitoring, 89
 - accounts receivable aging summary, 165–166
 - accounts receivable journal, 164–165
 - accounts receivable subsidiary ledger, 37, 604
 - accounts receivable turnover, 316–317
 - accrual basis accounting, 43–44, 45–46, 396, 398
 - accrual transactions, recording, 31–33
 - accrued, 154–155
 - accrued income tax payable, on balance sheet, 272
 - accrued interest payable, on balance sheet, 272
 - accrued payroll, 193
 - accruing
 - uncollected revenue, 186
 - unpaid expenses, 186
 - year-end expenses, 269
 - accumulated depreciation, on depreciation schedule, 504
 - accuracy
 - financial statement worksheet, 181–183
 - replacing worksheets with computerized reports, 183–184
 - testing balance with computerized accounting systems, 179–181
 - trial balance, 175–179
 - accuracy management assertion, 610
 - ACFE (Association of Certified Fraud Examiners), 663
 - acquisitions, 330
 - activities
 - control
 - as component of internal controls, 628
 - defined, 638
 - cost, 449–450
 - financing
 - about, 311
 - accounting for, 298–299
 - on balance sheet, 310–311
 - as cash flow category, 391
 - investing
 - about, 311
 - on balance sheet, 310
 - as cash flow category, 391
 - operating
 - about, 311
 - on balance sheet, 310
 - as cash flow category, 391
 - activity measures, 315–317
 - activity-based costing (ABC)
 - about, 437
 - allocating indirect costs by product, 449
 - analyzing and reallocating cost activities, 449–450
 - changing allocations to cost pools, 450–451
 - changing prices, 451–452
 - client activity levels, 439–440

- computing total cost, profit, and sale price with, 448–452
- grouping costs with a cost hierarchy, 443–444
- overcosting, 440–442
- peanut butter costing, 437–442
- recognizing single indirect cost allocation, 438–439
- system design, 442–447
- testing designs of, 444–447
- undercosting, 440–442
- actual operating ratios, 269–270
- ad valorem, 48
- adding standard cost per unit, 474
- address verification service (AVS) fee, 151
- Adelphia, 668
- adjusted trial balance, 13, 194
- adjusting and adjustments
 - about, 185–186
 - accounting methods, 218
 - accounting records, 45
 - accounts to reflect normal balance, 178
 - allocations to
 - cost pools, 450–451
 - prepaid expenses, 188–189
 - allowing for bad debts, 190–193
 - counting inventory, 189–190
 - depreciating assets, 187–188
 - journal entries, 34
 - posting, 161–162
 - prices after activity-based costing, 451–452
 - testing adjusted trial balance, 194
 - unpaid salaries and wages, 193–194
- adjusting entries
 - defined, 623
 - recording routine, 63
- adoption assistance, 101
- adverse opinion, 345, 586
- aging report, 191
- aging summary report, 89
- AICPA (American Institute of Certified Public Accountants)
 - about, 61, 197
 - role of, 199–202
 - website, 575
- allocated costs, 422–423
- allocating
 - costs between land and buildings, 502–503
 - indirect costs
 - about, 424
 - by product, 449
 - prepaid expenses, 188–189
 - allocations, changing to cost pools, 450–451
 - allowance for a doubtful account, 228
 - allowance for bad debt, 190–193, 598–599
 - allowance for uncollectible accounts, 344
 - allowance method, for bad debt expense, 228–229
- American Association of Retired Persons (AARP), 648
- American Institute of Certified Public Accountants (AICPA)
 - about, 61, 197
 - role of, 199–202
 - website, 575
- AMEX (American Stock Exchange), 566–567
- amortization, 236
- amortization schedule, 144–145, 245
- analysis, variance
 - about, 469
 - adding up standard cost per unit, 474
 - calculating
 - direct labor variances, 478–481
 - direct materials variances, 475–478
 - overhead rate, 473
 - overhead variances, 481–482
 - determining direct labor standards, 472
 - establishing direct materials standards, 470–471
 - favorable label, 482
 - focusing on big numbers, 484–485
 - interpreting variances in action, 483–484
 - standard costs, 469–474
 - tracing little numbers, 485
 - unfavorable label, 482
 - variances, 474–482
- analytical procedures, 642
- analyzing
 - account balances, 611
 - cost activities, 449–450
 - effect of business transactions, 55–58

- analyzing (*continued*)
 - financial statements, 305–320
 - paperwork, 595–596
 - processes, 595–596
 - summary results, 167–168
- annual net cash flows, estimating, 526–527
- annual report
 - about, 335
 - Form 10-K, 342–346
 - private companies, 336
 - public companies, 336
 - purpose of, 337–338
 - reading to shareholders, 338–342
- annuity, 411
- anomalies, 672
- A/P (accounts payable)
 - about, 240
 - on balance sheet, 242–243
 - defined, 18
 - in purchases journal, 32
 - on statement of cash flows, 296
- applying
 - cash payback method, 522–523
 - current ratio, 308–309
 - indirect costs by using cost allocation
 - base, 445–446
 - inventory formula, 392–393
 - professional judgment, 617–620
 - revenue formula, 392
 - skepticism, 617–618
- appraisal, property, 503
- appraising assets, 578–579
- A/R (accounts receivable)
 - about, 212
 - on balance sheet, 227–229
 - in cash receipts journal, 153
 - defined, 18, 28
 - monitoring, 89
- AR (audit risk)
 - about, 585
 - evaluating results of, 604–606
 - materiality, 597–603
 - model of, 585–592
 - risk assessment procedures, 592–597
- around the world in 80 days fraud, 650
- articles of incorporation, 322, 622
- aspirational standards, 470
- assertions, management
 - about, 344, 607, 608
 - analyzing account balances, 611
 - financial statement presentation and disclosure, 608–609
 - monitoring classes of transactions, 609–610
- assessing
 - cost of goods sold, 393–394
 - financial adjustments, 594
 - financial restatements, 594
 - internal controls procedures, 631–641
- asset misappropriation, 653
- asset quality index, 671
- asset turnover ratio, 670
- asset-based lending (ABL), 541–542
- assets
 - appraising, 578–579
 - on balance sheet, 52, 611
 - clarifying values of in balance sheet, 281–285
 - converting into expenses, 186
 - current
 - about, 224–232
 - on chart of accounts, 18
 - defined, 141
 - recognizing, 306–308
 - defined, 14, 208
 - depreciating, 187–188
 - financial, 310
 - financing purchases with debt *versus* equity, 247
 - fixed (tangible)
 - on balance sheet, 233–234, 272
 - defined, 125, 499
 - forecasting spending on, 288
 - handling, 273–275
 - useful life of, 127
 - intangible
 - on balance sheet, 235–236, 272
 - in explanatory notes and disclosures, 328

- long-term
 - on balance sheet, 232–236
 - on chart of accounts, 18
 - net
 - about, 14
 - on balance sheet, 52, 611
 - on chart of accounts, 19
 - defined, 14, 56, 247, 350, 351
 - handling, 275
 - sources of, 350–352
 - operating, 314
 - physical control of, 590
 - replacing, 287–288
 - sales of as cash transaction, 29
 - selling for gains, 208
 - assigning cost allocation rates to products, 446–447
 - Association of Certified Fraud Examiners (ACFE), 663
 - athletic facilities, benefits for, 101
 - attestation, 199
 - attorney-in-fact, 346
 - audit evidence
 - about, 607–608
 - applying professional judgment, 617–620
 - assessing information from clients, 608–611
 - concepts of, 612–616
 - documenting, 621–624
 - requesting, 620–621
 - uncovering tax fraud with, 655–656
 - audit file, 621
 - audit plan, in current audit file, 623
 - audit program, requesting evidence with, 620–621
 - audit risk (AR)
 - about, 585
 - evaluating results of, 604–606
 - materiality, 597–603
 - model of, 585–592
 - risk assessment procedures, 592–597
 - audit trails, 64, 180, 577
 - audited financial statements, on Form 10-K, 344–345
 - Auditing For Dummies* (Loughran), 333
 - auditors, external, 575
 - audits
 - brainstorming with team members, 618–620
 - client’s internal controls, 625–645
 - by CPAs, 333
 - defined, 49
 - purpose of, 199
 - surprise, 577
 - authority, 76
 - authorization management assertion, 610
 - authorized shares, on balance sheet, 257
 - availability of financing, as factor leading to high inherent risk, 588
 - available-for-sale securities, 227, 298
 - average collection period for accounts receivable, 316
 - average operating assets, used in calculating ROI, 314
 - average total assets, used in calculating ROI, 314
 - AVS (address verification service) fee, 151
- B •**
- back of the envelope (BOTE), 375, 376
 - background checks, for employees, 578
 - bad debts
 - adjustments to, 186
 - allowing for, 190–193, 228–229
 - dealing with, 192–193
 - balance per book, 157
 - balance sheet
 - about, 52, 149, 281
 - accounting for bond issuances, 249–252
 - accounts payable, 242–243
 - asset section, 223–237
 - audit risk and, 586
 - budgeting to produce, 398–400
 - business entities, 253–255
 - capital stock, 255–257
 - clarifying values of assets in, 281–285
 - combining with income statement, 265–277
 - computing earnings per share, 262–263
 - current assets, 224–232
 - current liabilities, 241–246

- balance sheet (*continued*)
 - current maturities of long-term debt, 245
 - data on, 340
 - debt on, 276–277
 - defined, 18
 - effect of accounting transactions on, 212–214
 - elements of, 52
 - equity section, 253–263
 - estimated warranty liability, 245–246
 - finding reductions to stockholders’ equity, 258–261
 - historic cost, 224
 - liabilities section, 239–252
 - long-term assets, 232–236
 - off-balance sheet transactions, 667–668
 - paid-in capital, 257
 - payroll and taxes, 243
 - planning for long-term obligations, 246–249
 - recording retained earnings, 258
 - reviewing changes in accounts, 311–312
 - short-term bank loans, 244–245
 - stock splits, 261
 - transactions on, 310–312
 - unearned revenue, 244
 - using in budgeting, 390
 - valuation on, 282–285
- balance sheet and net worth report, 184
- balance sheet equation
 - about, 14–15, 22, 281
 - posting entries
 - to both sides of, 23–24
 - to one side of, 23
- balanced entry, 81
- balances, testing, 179–181
- balancing transactions, 19
- bank accounts, reconciling, 157–161
- bank loans, securing, 286
- BankRate.com (website), 145
- banks, borrowing from, 539–541
- basic EPS, 340
- basis of accounting, 333
- batch-level costs, 443
- BE (break-even point), 461
- beginning inventory, 189
- benefit ratio formula, 114
- benefit wage formula, 114
- benefits, options for, 101–103
- Beneish model, 671–672
- big-bath strategy, 219
- bills, paying, 76–77
- biweekly pay period, 96
- blender fraud, 650
- blocked funds, 49
- blue sky laws, 567
- board members, on annual report, 342
- board of directors, 357, 626
- bond issuances, documents in permanent file, 623
- bonding, 336
- bonds
 - about, 249, 415
 - calculating present value of, 416–417
 - as debt investments, 297
 - issuance of, 249–252
 - issuing at face value, 417–418
 - in journals, 251–252
 - sample transactions, 250–252
 - valuing bonds payable, 415–416
- book value, 224, 287, 302, 503, 504
 - defined, 20–21
- booking, 27
- booking warranty estimates, 601
- bookkeeping. *See also* specific topics
 - about, 7–8
 - compared with accounting, 8–9
 - panoramic view of, 9–10
 - system management, 58–63
- books
 - closing the, 162–168
 - of original entry, 27
- borrowing, from banks, 539–541
- BOTE (back of the envelope), 375, 376
- brainstorming, with audit team members, 618–620
- brand awareness, 337
- break-even analysis, creating, 461–463
- break-even point (BE), 461
- bribes, 649
- British Chartered Institute of Management Accountants, 61

- budgeting
 - about, 383–385
 - with cash or accrual accounting, 395–398
 - factors affecting process of, 385–388
 - financials, 389–391
 - flexible, 400–405
 - for indirect costs, 429–430
 - to produce balance sheet, 398–400
 - to produce income statement, 398–400
 - revenue and production, 392–394
 - standard costs, 388–389
 - buildings
 - about, 234
 - allocating costs between land and, 502–503
 - business combinations, 330
 - business developments, reviewing, 63
 - business disruptions, 217–219
 - business entities. *See* entities
 - business organizations, 622
 - Business Owner’s Toolkit (website), 97
 - business plan
 - about, 371, 384
 - developing, 375–380
 - incorporating third-party information in, 380–382
 - for loans, 540
 - outlining, 371–375
 - business segments, 332
 - business transactions, 55–58. *See also* transactions
 - business valuation, 285–287
 - businesses
 - classification of the, 119
 - controlling your, 400–401
 - frauds committed against, 652–654
 - frauds committed by, 647–652
 - stability of, 538
 - buying
 - bonds at discounts, 250
 - supplies, 75
- C •
- C corporation, 366–367
 - cafeteria plans, 102–103
 - calculating
 - accounts receivable turnover, 316
 - asset turnover, 316
 - balance sheet amounts, 271
 - cash operating results, 295–297
 - commission checks, 104–106
 - contribution margin
 - about, 454–456
 - per unit, 456, 460
 - ratio, 456, 460–461
 - cost of goods sold
 - about, 68, 69
 - using FIFO, 516–517
 - credit card interest, 141
 - depreciation, 274–275
 - direct costs, 426–427, 431
 - direct labor variances, 478–481
 - direct materials variances, 475–478
 - dividends, 259
 - ending inventory
 - about, 511
 - and cost of goods sold using LIFO, 517
 - and cost of goods sold using weighted average, 517
 - using FIFO, 516–517
 - fixed markups, 489–490
 - FUTA taxes, 114–117
 - indirect costs, 427–428, 431
 - interest payments, 417–418
 - internal rate of return (IRR), 529–530
 - inventory turnover, 317
 - margin of safety, 465–466
 - net pay, 100
 - net present value (NPV), 526–528
 - number of goods sold, 68
 - overhead rate, 473
 - overhead variances, 481–482
 - partial year depreciation, 135
 - payroll for hourly employees, 103–104
 - present value of bonds, 416–417
 - profit with activity-based costing, 448–452
 - profitability, 312–315
 - sale price with activity-based costing, 448–452
 - sum-of-the-years’-digits, 132
 - target cost, 494–495

- calculating (*continued*)
 - target profit, 464
 - time value of money, 524–526
 - total contribution margin, 454–455, 459–460
 - total cost with activity-based costing, 448–452
- capital
 - about, 349–350, 545
 - cost of, 527
 - generating internal cash flow, 545
 - government aid, gifts, and grants, 546
 - leasing as a source of, 542–543
 - leveraging unsecured creditors, 545–546
 - partnering up, 546
- capital expenditure budget, 386
- capital expenditures, 310
- capital intensive, 350
- capital stock, types of, 255–257
- capitalization, 666
- capitalized leases, 234, 248
- CART (complete, accurate, reliable, and timely), 381–382
- cash
 - on balance sheet, 224–226
 - compared with profit, 291–293
 - ending, 148–149
 - investing uses of, 298
 - operating sources of, 295–296
 - operating uses of, 296–297
 - proving out the
 - about, 85–86, 147
 - closing cash journals, 150–155
 - ending cash, 148–149
 - finalizing cash outlays, 154–155
 - finalizing cash receipts, 150–154
 - reasons for, 147–148
 - temporary posting journal, 155
 - reviewing company's position with, 551–552
- cash back at closing, 654
- cash basis accounting, 43–45, 395, 396–397
- cash column, in cash receipts journal, 154
- cash disbursements journal, 30–31
- cash dividends, 259, 299, 340
- cash flow
 - about, 384
 - compared with net income, 551
 - debt load and, 552
 - planning for, 168
 - recognizing revenue and, 506
 - using, 288–290
- Cash Flow For Dummies*
 - (Tracy and Tracy), 306
- cash flow report, 184
- cash in checking, on receipts journal, 81
- cash journals, closing, 150–155
- cash outlays, finalizing, 154–155
- cash payback method, 520–523
- cash payment, for interest, 418
- cash payments journal, 28
- cash receipts
 - finalizing, 150–154
 - from sales of goods or services, 295
- cash receipts journal, 28–30, 153–154, 163–164
- cash sales, 79–82
- cash transactions, 28–31, 81–82
- categorizing financial information, 58–59
- centralized management, of corporations, 323
- certifications, as consideration in hiring personnel, 61
- certified management accountant (CMA), 61
- Certified Public Accountant (CPA), 333–334
- Certified Valuation Analyst (CVA), 286–287
- CGMA (Chartered Global Management Accountant), 61
- chairman of the board of directors, 339
- changing
 - accounting methods, 218
 - allocations to cost pools, 450–451
 - assets into expenses, 186
 - liabilities into revenue, 186
 - prices after activity-based costing, 451–452
- chargeback fees, 151
- charging customers for direct and indirect costs, 423–425

- chart of accounts
 - about, 17–18, 56, 58–59
 - balancing transactions, 19
 - components of, 18–19
 - connecting to financial statements, 18
 - debits compared with credits, 21–22
 - double-entry accounting, 22–25
 - in permanent file, 622
 - setting up, 20–21
- Chartered Global Management Accountant (CGMA), 61
- Cheat Sheet (website), 3
- check signer, 76
- choosing
 - accounting methods, 43–52
 - income statement format, 208–209
 - legal structures for income tax, 366–370
- clarifying values of assets in balance sheet, 281–285
- classes of transactions, monitoring, 609–610
- classification management assertion, 610
- Clayton, Mona (author)
 - A Guide to Forensic Accounting Investigation*, 2nd Edition, 669
- clients. *See also* customers
 - auditing internal controls of, 625–645
 - observing at work, 596–597
 - setting timelines for, 644
 - testing reliability of, 631–641
 - timing internal control procedures, 643–645
- closely held, 323, 336
- closing
 - cash journals, 150–155
 - journal entries, 34
- closing costs, as cost included in land account, 233
- closing the books, 13, 162–168
- cloud, 41
- CMA (certified management accountant), 61
- The Coalition Against Insurance Fraud (website), 653
- COGS (cost of goods sold)
 - assessing, 393–394
 - calculating
 - about, 68, 69
 - using FIFO, 516–517
 - using LIFO, 517
 - using weighted average, 517
 - on chart of accounts, 19
- collateral, 537–538, 539–540
- collateralizes, 248
- collecting employee taxes, 98–100
- collusion, 573, 598
- commission checks, calculating, 104–106
- Committee of Sponsoring Organizations (COSO) model, 627–628, 664
- common size financial statements, 320
- common stock
 - about, 256, 356
 - on balance sheet, 277
 - as equity investments, 297
- common stock caption, 261
- companies
 - manufacturing
 - compared with merchandising companies, 508
 - implementing job costing in, 425–428, 432–436
 - inventory for, 512–513
 - merchandising
 - compared with manufacturing companies, 508
 - inventory for, 509–511
 - public, 336
- company achievements, on annual report, 341
- company payments, as cash transaction, 30
- comparability, in financial accounting, 51
- comparative techniques, 669–670
- comparing
 - balance sheet valuations, 283–285
 - business valuation methods, 287–290
 - inventory cost-flow
 - assumptions, 515–517
 - merchandising and manufacturing companies, 508
 - net income to cash flow, 551
- competence, of audit evidence, 613–614

- Competitive Intelligence For Dummies* (Underwood), 373
- compilations, by CPAs, 333–334
- complete, accurate, reliable, and timely (CART), 381–382
- completeness management assertion, 610, 611
- compound interest, 138–139
- comprehensive income, 304
- computerized accounting systems
 - about, 160–161
 - replacing worksheets with, 183–184
 - testing balances with, 179–181
- computerized journal records, 169–173
- computing
 - accounts receivable turnover, 316
 - asset turnover, 316
 - balance sheet amounts, 271
 - cash operating results, 295–297
 - commission checks, 104–106
 - contribution margin
 - about, 454–456
 - per unit, 456, 460
 - ratio, 456, 460–461
 - cost of goods sold
 - about, 68, 69
 - using FIFO, 516–517
 - credit card interest, 141
 - depreciation, 274–275
 - direct costs, 426–427, 431
 - direct labor variances, 478–481
 - direct materials variances, 475–478
 - dividends, 259
 - earnings per share (EPS), 262–263
 - ending inventory
 - about, 511
 - and cost of goods sold using LIFO, 517
 - and cost of goods sold using weighted average, 517
 - using FIFO, 516–517
 - fixed markups, 489–490
 - FUTA taxes, 114–117
 - indirect costs, 427–428, 431
 - interest payments, 417–418
 - internal rate of return (IRR), 529–530
 - inventory turnover, 317
 - margin of safety, 465–466
 - net pay, 100
 - net present value (NPV), 526–528
 - number of goods sold, 68
 - overhead rate, 473
 - overhead variances, 481–482
 - partial year depreciation, 135
 - payroll for hourly employees, 103–104
 - present value of bonds, 416–417
 - profit with activity-based costing, 448–452
 - profitability, 312–315
 - sale price with activity-based costing, 448–452
 - sum-of-the-years'-digits, 132
 - target cost, 494–495
 - target profit, 464
 - time value of money, 524–526
 - total contribution margin, 454–455, 459–460
 - total cost with activity-based costing, 448–452
- Concept Statements*, 50
- confidentiality, in expense disclosure, 211
- consignment goods, 511
- consistency, in financial accounting, 51
- consolidating financial statements, 326
- construction fraud, 650–651
- contingencies, 330–331
- contingent liabilities, 248–249, 330–331
- continuing education, as consideration in hiring personnel, 61
- continuity, of corporations, 323
- contra account, 228, 261
- contra-asset, 57
- contra-asset account, 188
- contract fraud, 658–659
- contract price, as cost included in land account, 233
- contracts, in permanent file, 622
- contribution margin
 - about, 453, 549
 - calculating, 454–456
 - generating break-even analysis, 461–463
 - margin of safety, 465–466
 - operating leverage, 466–467

- preparing cost-volume-profit analysis, 457–461
- target profit, 463–464
- contribution margin income statement, 454–455
- contribution margin per unit, calculating, 456, 460
- contribution margin ratio, calculating, 456, 460–461
- control accounts, 432–433, 435–436
- control activities
 - as component of internal controls, 628
 - defined, 638
- control environment, as component of internal controls, 628
- control limits, 485
- control risk, 587, 589–590, 629
- control testing strategy, 630–631
- controlled destinations, 617–618
- controller, 27, 61
- controlling
 - bookkeeping and accounting system, 58–63
 - employee records, 120–122
 - internal controls, 583
 - long-term debt, 247–248, 407–414
 - value of inventory, 71–75
 - your business, 400–401
- convertible securities, 262
- convincing evidence, 615
- cookie jar reserves, 667
- cooking the books. *See* financial statements, fraud with
- copyrights, 235
- corporate charter, 322
- corporate governance, 321–322, 345–346
- corporation
 - about, 353–354
 - characteristics of, 322–323
 - owner equity in, 255
- corrections, posting, 161–162
- COSO (Committee of Sponsoring Organizations) model, 627–628, 664
- cost activities, analyzing and reallocating, 449–450
- cost allocation, 424–425
- cost basis, 128, 129
- cost driver, 424
- cost effectiveness, of internal controls, 581
- cost hierarchies, grouping costs by, 443–444
- cost objects, 422–423
- cost of capital, 527
- cost of goods sold (COGS)
 - assessing, 393–394
 - calculating
 - about, 68, 69
 - using FIFO, 516–517
 - using LIFO, 517
 - using weighted average, 517
 - on chart of accounts, 19
- cost pools
 - about, 443
 - in activity-based costing systems, 445
 - changing allocations to, 450–451
- cost smoothing. *See* peanut butter costing
- cost-allocation bases, 443
- cost-plus pricing, 489–491
- costs
 - allocated, 422–423
 - allocating between land and buildings, 502–503
 - batch-level, 443
 - compared with expenses, 292–293
 - defined, 500
 - depreciating, 501–503
 - on depreciation schedule, 504
 - direct
 - about, 392
 - in activity-based costing systems, 444–445
 - calculating, 426–427, 431
 - charging customers for, 423–425
 - in job costing, 423
 - estimating. *See* job costing
 - fixed, 403–404
 - grouping by cost hierarchies, 443–444
 - historic, 224
 - initial, 69–71
 - opportunity
 - about, 289, 384
 - to commit fraud, 665
 - identifying, 520

- costs (*continued*)
 - product
 - about, 488
 - defined, 508
 - identifying, 501
 - standard, 388–389, 469–470
 - target
 - about, 493–494
 - calculating, 494–495
 - when to use, 495
 - traced, 422–423
 - unit-level, 443
 - variable, 403–404
 - cost-volume-profit analysis, 453
 - cost-volume-profit graph, drafting, 457–459
 - counting inventory, 189–190
 - CPA (Certified Public Accountant), 333–334
 - creating
 - balance sheet amounts with ratios, 270–272
 - break-even analysis, 461–463
 - internal cash flow, 545
 - credit, selling on, 82–84
 - credit cards
 - calculating interest on, 141
 - fees, 151–152
 - credit columns
 - cash disbursements journal, 31
 - cash receipts journal, 29
 - credit lines, 142
 - credit sales, 222
 - creditors
 - about, 8
 - use of statement of cash flows by, 303
 - credit(s)
 - about, 57
 - compared with debits, 21–22
 - direct, 82
 - store
 - about, 82–83
 - defined, 79
 - recording transactions, 83–84
 - cross-border transactions, 606
 - current assets
 - about, 224–232
 - on chart of accounts, 18
 - defined, 141
 - recognizing, 306–308
 - current audit file, 623–624
 - current depreciation, on depreciation schedule, 504
 - current liabilities
 - about, 241–242
 - accounts payable, 242–243
 - on chart of accounts, 18
 - current maturities of long-term debt, 245
 - defined, 141
 - estimated warranty liability, 245–246
 - payroll and taxes, 243
 - recognizing, 306–308
 - short-term bank loans, 244–245
 - unearned revenue, 244
 - current ratio, 241, 308–309, 637, 670
 - custodian, 76
 - customer-level costs, 443
 - customers. *See also* clients
 - bad debts by, 191
 - charging for direct and indirect costs, 423–425
 - fraud and, 653
 - payments by as cash transaction, 29
 - sales to as cash transaction, 29
 - support fees, 151
 - cutoff management assertion, 610
 - CVA (Certified Valuation Analyst), 286–287
- D •
- data mining, 672
 - date, on general ledger, 38
 - date purchased, on depreciation schedule, 504
 - days sales in receivables, 671
 - day's sales outstanding, 316
 - de facto partnership, 369
 - debit columns
 - cash disbursements journal, 31
 - cash receipts journal, 29
 - debits
 - about, 57
 - compared with credits, 21–22

- debt. *See also* liabilities
about, 533
appropriateness of, 537–538
attributes of, 536
bad
 about, 186
 adjustments to, 186
 allowance method for, 228–229
 allowing for, 190–193
 dealing with, 192–193
on balance sheet, 276–277
capital, 545–546
debt maturity, 534
debt security, 535–536
debt-based capital, 534–536
defined, 247, 350
factoring receivables, 544
government programs, 543–544
leases, 542–543
leveraging equity capital with, 352–353
loans, 539–542
long-term, 143–145
SBA, 543–544
short-term, 140–142
on statement of cash flows, 299
subordinated, 544
debt extinguishment, 414
debt investments, 297
debt load, cash flow and, 552
debt maturity, 534
debt purchases, as investing use of
 cash, 298
debt security, 535–536
debt service, 408
debt-free, 414
debt-to-equity ratio, 670
declining balance method, 128, 130–132
deductible, on claims, 120
default, on debt, 535
default provisions, as debt attribute, 536
deferred tax assets and liabilities, 327
deficit, 351
dependent care assistance, 102
depletion, 129
depositing employee taxes, 107–110
depreciable base, 129, 131, 187, 502
depreciation
 about, 125–126, 384
 assets, 187–188
 calculating useful life, 127
 comparing methods of, 133–134
 cost basis, 128
 costs, 501–503
 declining balance, 130–132
 defined, 611
 evaluating options for, 128–135
 handling, 273–275
 partial year, 135
 real property, 502
 reviewing methods of, 325–326
 schedule of, 503–505
 straight-line method, 130
 sum-of-the-years'-digits, 132
 taxes and, 135–136
 units-of-production method, 133
 what can be depreciated, 126–127
depreciation tax shield, 527
description, on depreciation
 schedule, 504
Description column (chart of accounts), 20
designing
 activity-based costing systems,
 442–447
 reports, 65
 tests of internal controls, 635–636
detecting
 errors, 598–599
 fraud, 575
detection risk, 590–592, 619
determining
 direct labor standards, 472
 wage and salary types, 97–98
developing
 business plans, 375–380
 financial statement worksheet, 181–183
diagramming
 direct labor variances, 479–481
 direct materials variances, 476–478
diluted EPS, 340
dilution, 263
dilution of share value, 358–359
direct cost tracing, 443

- direct costs
 - about, 392
 - in activity-based costing systems, 444–445
 - calculating, 426–427, 431
 - charging customers for, 423–425
 - in job costing, 423
 - direct credit, 82
 - direct labor standard (SR), 472
 - direct labor standard hours (SH), 472
 - direct labor variances, calculating, 478–481
 - direct material inventory, 231, 512
 - direct materials
 - about, 242
 - costs of, 488
 - standards, establishing, 470–471
 - variances, calculating, 475–478
 - direct materials standard quantity (SQ), 471
 - direct method, of preparing statement of cash flows, 301–302
 - direct write-off method, 229
 - disclaimer of opinion, 345
 - discontinuities, 219
 - discount rate, 151–152
 - discounts
 - about, 409
 - accounting for bonds purchased at, 252
 - on bonds, 250
 - defined, 415
 - taking advantage of, 77
 - discriminatory benefits, 652
 - dispositions, 330
 - dividend income, as cash transaction, 29
 - dividends
 - on balance sheet, 257
 - defined, 183
 - effect on retained earnings, 258
 - as operating source of cash, 295–296
 - paying, 259–261
 - as reward to equity investors, 389–390
 - documents and documenting
 - accounting documents, 612–613
 - adequacy of, 590
 - audit evidence, 621–624
 - audit risk results, 606
 - internal control audit conclusions, 641
 - source documents
 - about, 10
 - examples of, 613
 - standardizing forms, 59–60
 - types of documents, 621–624
 - double-entry accounting, 22–25, 55
 - downsizing, 217
 - drafting cost-volume-profit graph, 457–459
 - drawing account, 183
 - due care, of AICPA, 202
- E ●**
- earned criterion, 45
 - Earned Income Credit (EIC), 96
 - earnings
 - positive, 539
 - retained
 - about, 315, 351–352
 - defined, 34–35, 611
 - recording, 258
 - reviewing, 548–551
 - earnings per share (EPS)
 - about, 339–340
 - computing, 262–263
 - dilution of, 358–359
 - testing, 549–551
 - ease of transferability of shares, of corporations, 323
 - education, as consideration in hiring personnel, 60–61
 - education assistance, 102
 - effective interest rate, 408, 416
 - efficiency, balancing internal controls and, 581–582
 - EFTPS (Electronic Federal Tax Payment System), 108, 113
 - EIC (Earned Income Credit), 96
 - EIN (Employer Identification Number), 92
 - EITF (Emerging Issues Task Force), 204
 - Electronic Federal Tax Payment System (EFTPS), 108, 113
 - embezzlement, 653
 - Emerging Issues Task Force (EITF), 204
 - employee discounts, 102

- employee theft, 653
- employees
 - about, 91
 - asking for information from, 594–595
 - attitudes about internal controls, 595
 - background checks, 578
 - benefits in explanatory notes and disclosures, 327
 - cafeteria plans, 102–103
 - calculating
 - commission checks, 104–106
 - net pay, 100
 - payroll for hourly, 103–104
 - classification of the, 119
 - collecting employee taxes, 98–100
 - depositing taxes, 107–110
 - determining
 - benefits options, 101–103
 - wage and salary types, 97–98
 - federal withholding tax, 99–100
 - government forms, 92–96
 - incentives to commit fraud for, 600–601
 - Medicare tax, 98–99
 - paying salaried, 104
 - posting payroll, 106–107
 - selecting pay periods, 96–97
 - Social Security tax, 98
 - state and local withholding taxes, 100
 - taking advantages of, 651–652
 - taxable benefits, 102
 - tax-exempt benefits, 101–102
- Employer Identification Number (EIN), 92
- employment taxes, fraud with, 657–658
- ending cash, 148–149
- ending inventory
 - about, 511
 - calculating
 - using FIFO, 516–517
 - using LIFO, 517
 - using weighted average, 517
- end-of-period procedures, 12–13, 63–65
- enforcing strong internal controls, 62–63
- Enron, 667–668
- entities
 - C corporation, 366–367
 - corporation
 - about, 353–354
 - characteristics of, 322–323
 - owner equity in, 255
 - legal roots of, 353–354
 - limited liability company (LLC), 353–354, 361–364, 366, 369–370
 - partnership
 - about, 353–354, 361–362, 364, 366, 369–370
 - for capital, 546
 - owner equity in, 254–255
 - pass-through, 366
 - S corporation, 366, 368–369
 - sole proprietorship
 - about, 353–354, 365
 - owner equity in, 253–254
- environment factors, leading to high inherent risk, 587–588
- EPS (earnings per share)
 - about, 339–340
 - computing, 262–263
 - dilution of, 358–359
 - testing, 549–551
- Epstein, Lita (author)
 - Reading Financial Reports For Dummies*, 338, 548
- equipment
 - about, 234
 - fees for, 152
 - used compared with new, 543
- equity
 - about, 14
 - on balance sheet, 52, 611
 - on chart of accounts, 19
 - defined, 14, 56, 247, 350, 351
 - handling, 275
 - sources of, 350–352
- equity capital, leveraging with debt, 352–353
- equity investments, 297, 298
- errors
 - compared with fraud, 598–600
 - detecting, 598–599
- establishing
 - direct materials standards, 470–471
 - year-end procedures, 645
- estimated warranty liability, 245–246

- estimating
 - annual net cash flows, 526–527
 - receivable balance at year-end, 267–268
 - evaluating
 - audit evidence, 615–616
 - audit risk results, 604–606
 - depreciation options, 128–135
 - financial condition, 211–212
 - how management assesses its controls, 632–633
 - internal controls with questionnaires, 634–635
 - NPV of capital projects, 528
 - strong internal controls, 640
 - exception, management by, 401, 483–485
 - exchanges and associations, 562
 - executive summary, in business plan, 372–373
 - exempt employees, 97
 - exemptions, SOX and, 567–569
 - existence management assertion, 611
 - expected operating ratios, 269–270
 - expense disclosure, 210–211
 - expenses
 - accruing unpaid, 186
 - on chart of accounts, 19
 - compared with costs, 292–293
 - converting assets into, 186
 - defined, 310, 500
 - on income statement, 51
 - interest, 140–145
 - prepaid
 - adjustments to, 186
 - allocating, 188–189
 - on balance sheet, 232
 - repairs and maintenance, 503
 - experience
 - as consideration in hiring personnel, 60–61
 - as factor in budgeting, 386
 - expiring patents, as factor leading to high inherent risk, 587–588
 - explanatory notes and disclosures
 - about, 321
 - corporate governance, 321–322
 - identifying corporate characteristics, 322–323
 - preparing, 332–334
 - reviewing, 324–332
 - expropriation, 49
 - extent, of audit procedures, 642, 643
 - external auditors, 575
 - external factors, 587–588, 631–632
 - extraordinary gains and losses
 - managing, 552–553
 - reporting, 217–219
- F •**
- face, 408–409
 - face amount, 249, 408
 - face value
 - defined, 415, 417
 - issuing bonds at, 417–418
 - facility-sustaining costs, 444
 - factoring receivables, 544
 - Fair Labor Standards Act (FLSA), 97
 - Farris, Sharon (author)
 - Nonprofit Bookkeeping & Accounting For Dummies*, 48
 - FASB (Financial Accounting Standards Board)
 - about, 203–205
 - Accounting Research Bulletin No. 43, 516
 - favorable variances, 474, 482
 - Federal Tax Deposit (FTD)
 - Coupon, 107
 - Federal Unemployment Tax Act (FUTA), 113
 - federal withholding tax, 99–100
 - fiduciary tax, 657
 - fieldwork, 644
 - FIFO (first in, first out)
 - about, 71–75
 - calculating ending inventory and cost of goods sold using, 516–517
 - of inventory valuation, 515
 - filing
 - Form 941, 112–113
 - unemployment taxes to state governments, 118

- finalizing
 - cash outlays, 154–155
 - cash receipts, 150–154
- financial accounting
 - about, 10, 49–50
 - characteristics of, 50–51
 - elements of financial statements, 51–52
 - financial statement measurements, 52
 - objective of, 50
- Financial Accounting Standards Board (FASB)
 - about, 203–205
 - Accounting Research Bulletin No. 43, 516
- financial adjustments, assessing, 594
- financial assets, 310
- financial condition, evaluating, 211–212
- financial effects, 11
- financial highlights, on Form 10-K, 344
- financial leverage, 247
- financial performance, 540
- financial plan
 - about, 371, 384
 - developing, 375–380
 - incorporating third-party information in, 380–382
 - for loans, 540
 - outlining, 371–375
- financial restatements, assessing, 594
- financial results
 - about, 547–548
 - extraordinary gains and losses, 552–553
 - importance of, 548
 - limits of, 554
 - reviewing company's cash position, 551–552
 - reviewing profit and earnings, 548–551
 - risks of restatement, 553–554
- financial statement presentation and disclosure, 608–609
- financial statement worksheet, developing, 181–183
- financial statements
 - analyzing, 305–320
 - audit risk and, 586
 - balance sheet
 - about, 52, 149, 281
 - accounting for bond issuances, 249–252
 - accounts payable, 242–243
 - asset section, 223–237
 - audit risk and, 586
 - budgeting to produce, 398–400
 - business entities, 253–255
 - capital stock, 255–257
 - clarifying values of assets in, 281–285
 - combining with income statement, 265–277
 - computing earnings per share, 262–263
 - current assets, 224–232
 - current liabilities, 241–246
 - current maturities of long-term debt, 245
 - data on, 340
 - debt on, 276–277
 - defined, 18
 - effect of accounting transactions on, 212–214
 - elements of, 52
 - equity section, 253–263
 - estimated warranty liability, 245–246
 - finding reductions to stockholders' equity, 258–261
 - historic cost, 224
 - liabilities section, 239–252
 - long-term assets, 232–236
 - off-balance sheet transactions, 667–668
 - paid-in capital, 257
 - payroll and taxes, 243
 - planning for long-term obligations, 246–249
 - recording retained earnings, 258
 - reviewing changes in accounts, 311–312
 - short-term bank loans, 244–245
 - stock splits, 261
 - transactions on, 310–312
 - unearned revenue, 244
 - using in budgeting, 390
 - valuation on, 282–285
 - common size, 320
 - connecting to chart of accounts, 18
 - consolidating, 326
 - elements of, 51–52
 - fraud with, 663–672

- financial statements (*continued*)
 - income statement
 - about, 51–52, 183, 207
 - account transactions affecting balance sheet and, 212–214
 - audit risk and, 586
 - budgeting to produce, 398–400
 - choosing format for, 208–209
 - combining activity into one journal entry, 215–216
 - combining with balance sheet, 265–277
 - defined, 18
 - elements of, 51–52
 - financial effects of making a profit, 214–216
 - interest, 139–140
 - misconceptions about profit, 220–222
 - profit, 207–208
 - reporting gains, 217–219
 - reporting losses, 217–219
 - sizing up business final condition, 211–212
 - T-accounts, 214–215
 - using in budgeting, 390
 - what to disclose, 210–211
 - measurements of, 52
 - statement of cash flows
 - about, 52
 - audit risk and, 586
 - cash flow sections, 294–299
 - defined, 46
 - elements of, 52
 - interpreting, 303
 - methods for preparing, 299–303
 - purpose of, 293–294
 - using in budgeting, 390–391
 - statement of profit or loss (P&L), 52
 - financial strength, 538
 - financial summary, in business plan, 374–375
 - financials, budgeting, 389–391
 - financing activities
 - about, 311
 - accounting for, 298–299
 - on balance sheet, 310–311
 - as cash flow category, 391
 - financing asset purchases with debt *versus* equity, 247
 - financing cost, real, 543
 - financing section, statement of cash flows, 294
 - finding
 - fraud, 599
 - reductions to stockholders' equity, 258–261
 - weak internal controls, 640–641
 - finished goods, 231
 - finished goods inventory, 432, 512–513
 - first in, first out (FIFO)
 - about, 71–75
 - calculating ending inventory and cost of goods sold using, 516–517
 - of inventory valuation, 515
 - fixed assets
 - on balance sheet, 233–234, 272
 - defined, 125, 499
 - forecasting spending on, 288
 - handling, 273–275
 - useful life of, 127
 - fixed costs, 403–404
 - fixed dividend, 356
 - fixed markups, calculating, 489–490
 - fixtures, 234
 - flexible budget, 400–405
 - FLSA (Fair Labor Standards Act), 97
 - FOB destination, 513
 - footnotes, 668. *See also* explanatory notes and disclosures
 - forecasting spending on fixed assets, 288
 - forms
 - after SOX, 569–570
 - government, 92–96
 - IRS
 - 940, 108, 109, 115–117
 - 941, 108, 109–110, 112–113
 - 1120, 108, 109
 - 8109, 107–108
 - SS-4, 92, 93
 - SEC
 - 8-K, 570
 - 10-K, 342–346, 569–570
 - 10-Q, 570

- fraud
 about, 647
 committed against businesses, 652–654
 committed by businesses, 574–575,
 647–652
 compared with errors, 598–600
 defined, 553, 576, 647
 detecting, 575
 discussing, 619–620
 with financial statements, 663–672
 finding, 583–584, 599
 government, 655–661
 meeting with audit team members to
 discuss, 618
 Ponzi scheme, 661–662
 procedures for discovering, 582
 providing opportunities for, 602–603
 spotting common methods of, 666–668
 susceptibility to, 589
 suspecting in initial assessment, 605
 triangle of, 600–603
 fraud triangle, 664–665
 free of material misstatement, 585
 free on board (FOB) shipping point, 513
 freight-in, 502
 FTD (Federal Tax Deposit) Coupon, 107
 fund accounting, 48
 fundamental accounting equation,
 14–15, 56
 furniture, 234
 FUTA (Federal Unemployment
 Tax Act), 113
 FUTA taxes, 114–117
 future earnings, 288–290
 future status, on annual report, 341
- **G** •
- GAAP (generally accepted accounting
 principles), 14, 46, 197, 204, 313
 gains
 extraordinary
 managing, 552–553
 reporting, 217–219
 on income statement, 52
 selling assets for, 208
- GASB (Governmental Accounting
 Standards Board), 46, 49, 203
 general column, in cash receipts
 journal, 154
 general journal, 34–35
 general ledger
 about, 38–39, 56, 612
 defined, 37
 in permanent file, 622
 posting to, 168–169
 general partners, 362
 general purpose, 10
 generally accepted accounting principles
 (GAAP), 14, 46, 197, 204, 313
 generating
 balance sheet amounts with ratios,
 270–272
 break-even analysis, 461–463
 internal cash flow, 545
 gifts, 546
 going concern, 587
 Golden, Thomas (author)
*A Guide to Forensic Accounting
 Investigation*, 2nd Edition, 669
 goodwill, 223, 235–236, 631
 government aid, 546
 government forms, 92–96
 government fraud, 655–661
 government lending programs, 543–544
 governmental accounting, 46, 48–49
 Governmental Accounting Standards
 Board (GASB), 46, 49, 203
 GPP (gross percentage profit)
 method, 657
 grants, 546
 graphs, depicting margin of safety
 with, 465
 gross margin index, 671
 gross margin ratio, 549
 gross percentage profit (GPP)
 method, 657
 group term life insurance, 102
 grouping costs by cost hierarchies,
 443–444
 growing sales, 192–193
 guarantee of obligations, 248–249

A Guide to Forensic Accounting Investigation, 2nd Edition (Skalak, Golden, Clayton and Pill), 669

• H •

harmonization, 49
 healthcare provider fraud, 659–660
 held-to-maturity debt investments, as
 investing sources of cash, 298
 hidden liabilities, 666–667
 hiring competent personnel, 60–61
 historical cost, 52, 224, 282
 Holtzman, Mark P. (author)
 Managerial Accounting For Dummies, 47
 homogeneous cost pools, 443
 horizontal analysis, compared with
 vertical analysis, 317–319
 hour laws, violations of, 651
 hourly employees, calculating payroll
 for, 103–104
How to Read a Financial Report
 (Tracy), 575

• I •

I-9 (USCIS), 94–95
 IASB (International Accounting Standards Board), 49
 icons, explained, 2–3
 ideal standards, 470
 identifying
 incentives to commit fraud, 600–601
 incremental costs, 520
 opportunity costs, 520
 period costs, 501
 product costs, 501
 IFRS (international financial reporting standards), 205
 illegal flipping, 654
 IMA (Institute of Management Accountants), 47, 61
 impairment, 236, 282
 implementing
 computer controls, 579
 flexible budgets, 402–405
 job costing in manufacturing, 425–428,
 432–436
 imprest account, 225
 in the field, 644
 incentives, to commit fraud, 600–601,
 601–602, 664–665
 income, net
 compared with cash flow, 551
 defined, 500
 effect on retained earnings, 258
 used in calculating ROI, 314
 income and expenses report, 184
 income statement
 about, 51–52, 183, 207
 account transactions affecting balance
 sheet and, 212–214
 audit risk and, 586
 budgeting to produce, 398–400
 choosing format for, 208–209
 combining
 activity into one journal entry, 215–216
 with balance sheet, 265–277
 defined, 18
 elements of, 51–52
 financial effects of making a profit,
 214–216
 interest, 139–140
 misconceptions about profit, 220–222
 profit, 207–208
 reporting
 gains, 217–219
 losses, 217–219
 sizing up business final condition,
 211–212
 T-accounts, 214–215
 using in budgeting, 390
 what to disclose, 210–211
 income summary, 34
 income taxes
 accounting for, 326–327
 fraud with, 656–657
 incorporating
 about, 349, 354
 business entities, 353–354
 capital, 349–353
 classes of stock shares, 355–357

- conflicts between stockholders and managers, 360
- determining market value of stock shares, 357–358
- dilution of share value, 358–359
- issuing stock shares, 355
- incorporation, 322
- incremental costs, identifying, 520
- incurred, 44
- independence, of AICPA, 202
- independent contractor, 652
- indifferent management, 602
- indirect costs. *See also* normal costing
 - about, 392
 - allocating
 - about, 424
 - by product, 449
 - budgeting for, 429–430
 - calculating, 427–428, 431
 - as category in control account, 433
 - charging customers for, 423–425
 - in job costing, 423
- indirect method, of preparing statement
 - of cash flows, 302–303
- industry standards, comparing to, 221
- inflation, 290, 523
- information and communication, as
 - component of internal controls, 628
- inherent risk, 587–589
- initial cost, 69–71
- initial public offering (IPO), 323
- initial transaction, 162–163
- insider trading provisions, 562
- Institute of Internal Auditors (website), 575
- Institute of Management Accountants (IMA), 47, 61
- insurance fraud, 653–654
- intangible assets
 - on balance sheet, 235–236, 272
 - in explanatory notes and disclosures, 328
- integrity
 - of AICPA, 201
 - as consideration in hiring
 - personnel, 61
- interest
 - interest expense, 140–145
 - interest income, 29, 139–140
 - loans, 140–145
 - long-term debt, 143–145
 - as operating source of cash, 295–296
 - short-term debt, 140–142
 - types, 137–139
- interest payments
 - about, 250
 - calculating, 417–418
 - on statement of cash flows, 296–297
- interest rate, setting, 527
- interim audits, 644–645
- interim dates, 643
- internal cash flow, generating, 545
- internal controls
 - assessing procedures for, 631–641
 - auditing client's, 625–645
 - checklist for, 576–580
 - components of, 627–628
 - controlling, 583
 - defined, 620
 - defining, 626–627
 - designing tests of, 635–636
 - details of, 580–582
 - documents in permanent file, 622
 - dual purpose of, 573–574
 - employee attitudes about, 595
 - enabling, 575–582
 - enforcing, 62–63
 - evaluating with questionnaires, 634–635
 - flawed or sound, 638–641
 - limitations of, 582–584
 - periodically reviewing, 578
 - preventing loss with, 572–573
 - requirements for auditing, 629–631
 - testing
 - with sampling, 636–639
 - weaknesses of, 642–643
 - weak, 602
- internal rate of return (IRR), calculating, 529–530
- Internal Revenue Service (IRS)
 - about, 92
 - forms
 - 940, 108, 109, 115–117
 - 941, 108, 109–110, 112–113

- Internal Revenue Service (IRS) (*continued*)
 - 1099, 652
 - 1120, 108, 109
 - 8109, 107–108
 - SS-4, 92, 93
 - W-2, 652
 - W-4, 92, 94
 - W-5, 96
 - website, 136, 577, 652
- internal users, 317
- international accounting, 46, 49
- International Accounting Standards Board (IASB), 49
- international financial reporting standards (IFRS), 205
- interpreting variances in action, 483–484
- inventory
 - about, 507
 - on balance sheet, 230–232
 - beginning, 189
 - components of, 432
 - connected with revenue, 508
 - counting, 189–190
 - defined, 310
 - direct material, 231, 512
 - effect of valuation on financial statements, 507–508
 - ending
 - about, 511
 - calculating using FIFO, 516–517
 - calculating using LIFO, 517
 - calculating using weighted average, 517
 - finished goods, 432, 512–513
 - logging for service companies, 509
 - managing, 71–75
 - manufacturing, 231–232
 - merchandise, 231, 507
 - for merchandising companies, 509–511
 - periodic, 68
 - preparing an inventory worksheet, 518
 - product, 507
 - reviewing methods of valuation, 325–326
 - tracking, 68–75
 - types of, 509–513
 - valuation methods for, 513–517
 - value of, 71–75
 - work-in-process, 231, 432, 512
- inventory account, 68
- inventory cost flow assumption, 515–517
- inventory formula, 392–393
- inventory shrinkage, 69
- inventory turnover, 317
- invested capital, 351
- investing, in bonds at a premium, 251
- investing activities
 - about, 311
 - on balance sheet, 310
 - as cash flow category, 391
- investing section, statement of cash flows, 294, 297–298
- Investment Advisers Act (1940), 563
- Investment Company Act (1940), 563
- investment contract, 564
- investors
 - fraud committed on, 648–649
 - as a source of equity, 350–351
 - use of statement of cash flows by, 303
- invoice, 84
- involuntary bankruptcy, 306
- IPO (initial public offering), 323
- IRR (internal rate of return), calculating, 529–530
- IRS (Internal Revenue Service)
 - about, 92
 - forms
 - 940, 108, 109, 115–117
 - 941, 108, 109–110, 112–113
 - 1099, 652
 - 1120, 108, 109
 - 8109, 107–108
 - SS-4, 92, 93
 - W-2, 652
 - W-4, 92, 94
 - W-5, 96
 - website, 136, 577, 652
- IRS Employer's Tax Guide (website), 99
- issued shares, on balance sheet, 257
- issuer, 565–566
- issuing
 - bonds at face value, 417–418
 - stock shares, 355

• **J** •

- job cost sheet, 431
- job costing
 - about, 421–422
 - budgeting for indirect costs, 429–430
 - charging customers for direct and indirect costs, 423–425
 - cost objects, 422–423
 - implementing in manufacturing, 425–428, 432–436
 - normal costing, 428–431
- journals
 - about, 11, 612–613
 - accounts receivable, 164–165
 - bond transactions in, 251–252
 - cash payments, 28
 - cash receipts, 28–30, 153–154, 163–164
 - complex entry, 24–25
 - entries
 - about, 57
 - adjusting, 34
 - closing, 34
 - in current audit file, 623–624
 - defined, 27
 - examples of common, 35–37
 - general, 34–35
 - maintaining a, 27–37
 - payroll, 33
 - purchases, 32–33
 - purchases return and allowances, 33
 - recording
 - cash transactions in, 28–31
 - entries, 22–24
 - sales, 32
 - sales returns and allowances, 33
 - special, 33
 - summarizing entries, 163–167
 - temporary posting, 155

• **K** •

- KISS (keep it simple, stupid), 380
- Kranitz, Richard (securities attorney), 568

• **L** •

- labor, as category in control account, 433
- land
 - about, 233
 - allocating costs between buildings and, 502–503
- land improvements, as cost included in land account, 233
- last in, first out (LIFO)
 - about, 71–75
 - calculating ending inventory and cost of goods sold using, 517
 - of inventory valuation, 515
- late payments, risks of, 306
- laundering money, 649–650
- lawsuits, settling, 218
- leasehold improvements, 236, 283
- leasing
 - copies of leases in permanent file, 622
 - as a source of capital, 542–543
- ledgers
 - about, 37
 - accounts receivable subsidiary, 37, 604
 - example of general, 38–39
 - general
 - about, 38–39, 56, 612
 - defined, 37
 - in permanent file, 622
 - posting to, 168–169
 - posting to, 38
 - subsidiary, 37, 612
 - trial balance, 39–40
- legal issues, of internal controls, 580–581
- legal structure
 - about, 361, 370
 - C corporation, 366–367
 - choosing for income tax, 366–370
 - limited liability company (LLC), 361–362, 363–364, 369–370
 - partnership, 361–362, 364, 369–370
 - S corporation, 368–369
 - sole proprietorship, 365
- lending agreement covenants, as debt attribute, 536

- levels of authority, for internal controls, 627
- leverage and leveraging
 - equity capital with debt, 352–353
 - financial, 247
 - operating leverage
 - about, 466
 - defined, 453
 - formula for, 467
 - graphing, 466–467
 - unsecured creditors, 545–546
- liabilities. *See also* debt
 - about, 239–241
 - on balance sheet, 52, 611
 - contingent, 248–249, 330–331
 - converting into revenue, 186
 - current
 - about, 241–242
 - accounts payable, 242–243
 - on chart of accounts, 18
 - current maturities of long-term debt, 245
 - defined, 141
 - estimated warranty liability, 245–246
 - payroll and taxes, 243
 - recognizing, 306–308
 - short-term bank loans, 244–245
 - unearned revenue, 244
 - defined, 14, 390
 - hidden, 666–667
 - long-term
 - about, 143–145, 407
 - bonds, 415–418
 - calculating present value of bonds, 416–417
 - on chart of accounts, 18
 - current maturities of, 245
 - debt-free, 414
 - issuing at face value, 417–418
 - managing, 407–414
 - notes payable, 408–413
 - planning for, 246–249
 - treasury bonds, 413
 - valuing bonds payable, 415–416
 - unlimited, 362, 365
- life, on depreciation schedule, 504
- LIFO (last in, first out)
 - about, 71–75
 - calculating ending inventory and cost of goods sold using, 517
 - of inventory valuation, 515
- limited liability
 - of corporations, 323
 - defined, 354
- limited liability company (LLC), 353–354, 361–364, 366, 369–370
- limited liability partnerships (LLPs), 363
- limited partners, 362
- liquidity, 305, 357
- liquidity ratios, 241
- LLC (limited liability company), 353–354, 361–362, 363–364, 366, 369–370
- LLPs (limited liability partnerships), 363
- loans
 - about, 140–145
 - borrowing from banks, 539–541
 - as investing sources of cash, 297–298
 - as investing use of cash, 298
 - lying on applications for, 654
- local withholding taxes, 100
- long-term assets
 - on balance sheet, 232–236
 - on chart of accounts, 18
- long-term debt sales and collection, as investing sources of cash, 297–298
- long-term liabilities
 - about, 143–145, 407
 - bonds, 415–418
 - calculating present value of bonds, 416–417
 - on chart of accounts, 18
 - current maturities of, 245
 - debt-free, 414
 - issuing at face value, 417–418
 - managing, 407–414
 - notes payable, 408–413
 - planning for, 246–249
 - treasury bonds, 413
 - valuing bonds payable, 415–416
- long-term solvency, 552
- loss contingencies, 599

- loss prevention
 - about, 571–572
 - details of internal controls, 580–582
 - dual purpose of internal controls, 573–574
 - enabling internal controls, 575–582
 - fraud committed by the business, 574–575
 - with internal controls, 572–573
 - internal controls checklist, 576–580
 - limitations of internal controls, 582–584
- losses
 - accepting your, 89–90
 - extraordinary
 - managing, 552–553
 - reporting, 217–219
 - on income statement, 52
- Loughran, Maire (author)
 - Auditing For Dummies*, 333
- M •**
- MACRS (Modified Accelerated Cost Recovery System), 135, 136
- Madoff, Bernie (fraudster), 661
- maintaining
 - bookkeeping and accounting system, 58–63
 - employee records, 120–122
 - internal controls, 583
 - long-term debt, 247–248, 407–414
 - value of inventory, 71–75
 - your business, 400–401
- maintenance, expensing, 503
- management
 - on annual report, 342
 - conflicts with stockholders, 360
 - evaluating how it assesses its controls, 632–633
 - incentives to commit fraud by, 601–602
 - ineffective monitoring of, 603
 - quality of company, 593–594
 - turnover, 594
- management accounting, 10
- management assertions
 - about, 344, 607, 608
 - analyzing account balances, 611
 - financial statement presentation and disclosure, 608–609
 - monitoring classes of transactions, 609–610
 - management by exception, 401, 483–485
 - management discussion and analysis, on Form 10-K, 344
 - management overrides, 635–636
 - managerial accounting, 46, 47
 - Managerial Accounting For Dummies* (Holtzman), 47
- managing
 - bookkeeping and accounting system, 58–63
 - employee records, 120–122
 - internal controls, 583
 - long-term debt, 247–248, 407–414
 - value of inventory, 71–75
 - your business, 400–401
- manipulators, 672
- manufacturing companies
 - compared with merchandising companies, 508
 - implementing job costing in, 425–428, 432–436
 - inventory for, 512–513
- manufacturing inventory, 231–232
- margin, contribution
 - about, 453, 549
 - calculating, 454–456
 - generating break-even analysis, 461–463
 - margin of safety, 465–466
 - operating leverage, 466–467
 - preparing cost-volume-profit analysis, 457–461
 - target profit, 463–464
- margin of safety, 453, 465–466
- market, 409
- market assessment, in business
 - plan, 373
- market information, on Form 10-K, 344
- market price, of bonds, 250
- market value
 - of assets, 282
 - determining of stock shares, 357–358
- marketable securities, 224

- master budget, 384
- matching principle, 44, 129, 398, 500–501
- materiality
 - defined, 585
 - in expense disclosure, 211
- materially correct, 592, 625
- materials
 - as category in control account, 433
 - defined, 553, 597
- matures, 415
- meals, benefits for, 102
- measuring
 - accounts receivable turnover, 316
 - asset turnover, 316
 - balance sheet amounts, 271
 - cash operating results, 295–297
 - commission checks, 104–106
 - contribution margin
 - about, 454–456
 - per unit, 456, 460
 - ratio, 456, 460–461
 - cost of goods sold
 - about, 68, 69
 - using FIFO, 516–517
 - credit card interest, 141
 - depreciation, 274–275
 - direct costs, 426–427, 431
 - direct labor variances, 478–481
 - direct materials variances, 475–478
 - dividends, 259
 - ending inventory
 - about, 511
 - and cost of goods sold using
 - LIFO, 517
 - and cost of goods sold using weighted average, 517
 - using FIFO, 516–517
 - fixed markups, 489–490
 - FUTA taxes, 114–117
 - indirect costs, 427–428, 431
 - interest payments, 417–418
 - internal rate of return (IRR), 529–530
 - inventory turnover, 317
 - margin of safety, 465–466
 - net pay, 100
 - net present value (NPV), 526–528
 - number of goods sold, 68
 - overhead rate, 473
 - overhead variances, 481–482
 - partial year depreciation, 135
 - payroll for hourly employees, 103–104
 - present value of bonds, 416–417
 - profit with activity-based costing, 448–452
 - profitability, 312–315
 - sale price with activity-based costing, 448–452
 - sum-of-the-years'-digits, 132
 - target cost, 494–495
 - target profit, 464
 - time value of money, 524–526
 - total contribution margin, 454–455, 459–460
 - total cost with activity-based costing, 448–452
- Medicaid fraud, 659–660
- Medicare fraud, 659–660
- Medicare tax, 98–99, 111–113
- Memo, on general ledger, 39
- merchandise inventory, 231, 507
- merchandise purchases, as cash transaction, 30
- merchandiser, 30
- merchandising companies
 - compared with manufacturing companies, 508
 - inventory for, 509–511
- merchant account, 225
- merchant provider, 225
- mergers, 330
- method, on depreciation schedule, 504
- misstatement, 597–598
- misstatements, 599
- Modified Accelerated Cost Recovery System (MACRS), 135, 136
- money laundering, 649–650
- monitoring
 - accounts receivable, 89
 - classes of transactions, 609–610
 - as component of internal controls, 628
 - supplies, 75
- monthly minimum fee, 152
- monthly pay period, 96

mortgage fraud, 654
mortgages, 248
mortgages payable, 413
moving expense reimbursements, 102
multi-step format, for income statement, 209

• N •

NACVA (National Association of Certified Valuers and Analysts), 286

name

on general ledger, 38
in purchases journal, 33

NASDAQ, 566–567

National Association of Certified Valuers and Analysts (NACVA), 286

National Council on Compensation Insurance (NCCI), 119

nature

of audit procedures, 642, 643
of the company, recognizing the, 593
of services of AICPA, 202

NCCI (National Council on Compensation Insurance), 119

negative assurance, 333

negative balance, 178, 226

negotiability, of stock shares, 355

negotiating business purchases, 285

net assets

about, 14
on balance sheet, 52, 611
on chart of accounts, 19
defined, 14, 56, 247, 350, 351
handling, 275
sources of, 350–352

net book value, 20–21, 224, 287, 302, 503, 504

net cash flows, using cash payback method with equal, 521–522

net credit sales, 316

net income

compared with cash flow, 551
defined, 500
effect on retained earnings, 258
used in calculating ROI, 314

net loss, 500

net of tax, 330

net pay

calculating, 100
defined, 33

net present value (NPV) method

about, 523–524
calculating, 526–528
calculating time value of money, 524–526

net realizable value (NRV), 52

net receivables, 228

net worth

about, 14
on balance sheet, 52, 611
on chart of accounts, 19
defined, 14, 56, 247, 350, 351
handling, 275
sources of, 350–352

new equipment, 543

New York Stock Exchange (NYSE), 566–567
1933 Act, 558–559

No., on general ledger, 38

no-face, interest bearing, 410–413

no-face, no-interest, 409–410

non-accounting evidence, 613

noncash transactions, effect on profit of, 292

noncurrent assets. *See* long-term assets

nonexempt employees, 97

nonmanipulators, 672

Nonprofit Bookkeeping & Accounting For Dummies (Farris), 48

nonpublic, 199

nonrecognized event, 331

normal balance, 58, 177–178

normal costing

about, 428–429
budgeting for indirect costs, 429–430
system of, 430–431

notes, 668

notes payable. *See also* explanatory notes and disclosures

about, 10, 240, 248, 408
defined, 407
face, 408–409

notes receivable, on balance sheet, 230

not-for-profit accounting, 46, 47–48
 NPV (net present value) method
 about, 523–524
 calculating, 526–528
 calculating time value of money, 524–526
 NRV (net realizable value), 52
 number of goods sold, calculating, 68
 number of periods, 138
 NYSE (New York Stock Exchange), 566–567

● 0 ●

objectivity, of AICPA, 202
 observed evidence, 613
 observing clients at work, 596–597
 occurrence management assertion, 610
 off-balance sheet transactions, 667–668
 Olsen, Erica (author)
 Strategic Planning For Dummies, 385
 omitting key information, 599–600
 operating activities
 about, 311
 on balance sheet, 310
 as cash flow category, 391
 operating assets, used in calculating
 ROI, 314
 operating budget, 386
 operating checking account, 225
 operating cycle, 306
 operating expense payments, as cash
 transaction, 30
 operating income, used in calculating
 ROI, 314
 operating leverage
 about, 466
 defined, 453
 formula for, 467
 graphing, 466–467
 operating plan, 384
 operating ratios
 about, 269
 expected compared with actual, 269–270
 generating balance sheet amounts with,
 270–272
 operating section, statement of cash flows,
 294, 295–296

operational overview, in business plan, 374
 opportunity costs
 about, 289, 384
 to commit fraud, 665
 identifying, 520
 organization chart, in permanent file, 622
 original entries, 11
 out of balance, 40
 outlining business plan, 371–375
 outstanding shares, on balance sheet, 257
 overallocating, 441–442
 overcosting, 440–442
 overhead control, 433
 overhead costs, 429–430, 488
 overhead rate, calculating, 473
 overhead variances, calculating, 481–482
 over-the-counter market, 342
 overtime, 97
 owners' equity
 about, 14, 350, 351–352
 on balance sheet, 52, 611
 on chart of accounts, 19
 defined, 247, 350, 351
 handling, 275
 sources of, 350–352
 ownership
 of audit documentation, 624
 risk of, 542

● p ●

paid-in capital, 257
 “paper expenses,” 75
 paperwork, analyzing, 595–596
 par value
 on balance sheet, 257
 of common/preferred stock, 257
 defined, 415, 417
 parent, 329
 partial year depreciation, 135
 participating preferred stock, 356
 partnership
 about, 353–354, 361–362, 364, 366,
 369–370
 for capital, 546
 owner equity in, 254–255

- pass-through entities, 366
- pass-through tax entity, 369
- patents, 235, 328
- pay periods, selecting, 96–97
- payback period, 519
- paying
 - dividends, 259–261
 - employer taxes, 111–113
 - unemployment taxes to state governments, 118
 - vendors, 552
- payroll
 - accrued, 193
 - on balance sheet, 243
 - calculating for hourly employees, 103–104
 - posting, 106–107
- payroll checking account, 225
- payroll decline ratio formula, 114
- payroll journal, 33
- payroll subsidiary ledger, 37
- payroll taxes
 - about, 111
 - Form 941, 112–113
 - FUTA taxes, 114–117
 - maintaining employee records, 120–122
 - paying employer taxes on Social Security and Medicare, 111–113
 - paying unemployment taxes, 113–118
 - unemployment reports, 113–118
 - workers' compensation insurance, 118–120
- pay-to-entity, 31
- PCAOB (Public Company Accounting Oversight Board), 199–200, 624
- PCAOB (website), 642
- PCC (Private Company Council), 205
- PCs (professional corporations), 363
- peanut butter costing
 - about, 437–438
 - client activity levels, 439–440
 - overcosting, 440–442
 - single indirect cost allocation, 438–439
 - undercosting, 440–442
- peer reviews, 200
- pending litigation, 248–249
- percentage
 - bad debts by, 191
 - of completion, 604
- period costs, identifying, 501
- periodic inventory, 68
- periodic management testing, for internal controls, 627
- periodic reporting, under 1934 Act, 561–562
- periodic system, 511
- permanent accounts, 35
- permanent audit file, 621–623
- perpetual inventory, 68
- perpetual system, 510
- personal guarantees, as debt attribute, 536
- personnel, hiring, 60–61
- persuasive evidence, 615
- petty cash accounts, 149, 225
- Pill, Jessica (author)
 - A Guide to Forensic Accounting Investigation*, 2nd Edition, 669
- planning
 - for cash flow, 168
 - for long-term obligations, 246–249
 - strategically, 385
- point-of-sale system, 510
- Ponzi scheme, 661–662
- portfolio income, 29
- positive assurance, 333
- posting
 - about, 12
 - adjustments, 161–162
 - corrections, 161–162
 - dividends to accounting records, 259–261
 - entries
 - to both sides of balance sheet equation, 23–24
 - to one side of balance sheet equation, 23
 - to general ledger, 168–169
 - to ledgers, 38
 - payroll, 106–107
- PP&E (property, plant, and equipment)
 - on balance sheet, 233–234
 - as investing use of cash, 298

- practicality, in expense disclosure, 211
- predatory lending, 651
- preferred stock, 255–256, 304, 356
- premiums
 - accounting for bonds purchased at, 252
 - on bonds, 250
 - defined, 415
 - paying, 251
- prepaid expenses
 - adjustments to, 186
 - allocating, 188–189
 - on balance sheet, 232
- preparing
 - cost-volume-profit analysis, 457–461
 - explanatory notes and disclosures, 332–334
 - inventory worksheet, 518
- present value, 290
- price maker, 487
- price points, 493
- price taker, 487
- pricing
 - about, 487
 - absorption costing, 488–489
 - changing after activity-based costing, 451–452
 - at cost-plus, 489–491
 - product differentiation, 487–488
 - target cost, 493–495
 - variable-cost, 491–493
- principal
 - about, 144–145
 - as component of note receivable, 230
 - defined, 408
- principal repayment, 250
- principal statements, 663
- prior years' analytical procedures,
 - documents in permanent file, 623
- priority creditors, as debt attribute, 536
- prior-period misstatements, 588–589
- private companies, 336
- Private Company Council (PCC), 205
- private placement, 560
- pro forma financial statements, 389
- probable, 249
- process costing, 432
- processes, analyzing, 595–596
- processing procedures, standardizing, 59–60
- product costs
 - about, 488
 - defined, 508
 - identifying, 501
- product differentiation, 487–488
- product inventory, 507
- product lines
 - abandoning, 218
 - adding, 221
- product overcosting, 440–442
- product undercosting, 440–442
- product-cost cross-subsidization, 441
- production budgets, reviewing, 392–394
- products, selling, 208
- product-sustaining costs, 444
- professional corporations (PCs), 363
- professional judgment, applying, 617–620
- professional skepticism, 604
- profit
 - about, 207–208
 - on balance sheet, 312
 - calculating with activity-based costing, 448–452
 - compared with cash, 291–293
 - effect of noncash transactions on, 292
 - financial effects of making, 214–216
 - misconceptions about, 220–222
 - reviewing, 548–551
 - target
 - calculating, 464
 - defined, 453, 463
- profit and loss report, 183
- profit margin, 289
- profit margin ratio, 670
- profitability, measuring, 312–315
- profit-making activities, 216
- projecting
 - ending accounts payable, 268
 - ending inventory balance, 268
- promissory note, 143
- property, plant, and equipment (PP&E)
 - on balance sheet, 233–234
 - as investing use of cash, 298

proprietary accounting software, 38
 prospectus, 559
 providing services, 208
 proving out the cash
 about, 85–86, 147
 closing cash journals, 150–155
 ending cash, 148–149
 finalizing
 cash outlays, 154–155
 cash receipts, 150–154
 reasons for, 147–148
 temporary posting journal, 155
 proxy solicitations, 562
 public, 357
 public companies, 336
 Public Company Accounting Oversight
 Board (PCAOB), 199–200, 624
 publicly owned corporations, 355
 publicly traded company, 593
 purchase discounts, 31
 purchases
 about, 67, 189, 519
 bills, 76–77
 buying and monitoring supplies, 75
 cash payback method, 520–523
 identifying incremental costs, 520
 identifying opportunity costs, 520
 measuring internal rate of return (IRR),
 529–530
 net present value (NPV) method, 523–528
 qualitative factors, 530–531
 tracking inventory, 68–75
 purchases account, 68
 purchases journal, 32–33
 purchases return and allowances journal, 33

• Q •

qualified opinion, 345
 qualitative factors, 530–531, 637
 quantitative factors, 637
 questionnaires, evaluating internal
 controls with, 634–635
 quick ratios, 308–309
 QuickBooks, 40, 160–161

• R •

rapid change, as factor leading to high
 inherent risk, 587
 rate
 as component of note receivable, 230
 defined, 408
 ratio analysis, 596, 670
 rationalizing fraudulent acts, 603, 665
 ratios
 current, 241, 308–309, 637, 670
 gross margin, 549
 liquidity, 241
 operating
 about, 269
 expected compared with actual, 269–270
 generating balance sheet amounts with,
 270–272
 profit margin, 670
 quick, 308–309
 raw materials, 231, 432
Reading Financial Reports For Dummies
 (Epstein), 338, 548
 real estate fraud, 654
 real property, 233
 real property depreciation, 502
 realistic standards, 470
 realizable, 45
 realized gain or loss, 226
 reallocating cost activities, 449–450
 reasonableness, 221, 596
 reasonably estimated, 249
 recipient fraud, 660
 reclassifications, 623–624
 recognizing risks of restatement, 553–554
 reconciliation, 140
 reconciliation summary, 160–161
 reconciling
 bank accounts, 157–161
 credit card statements, 152–153
 record keeper, 76
 recording
 accrual transactions, 31–33
 cash transactions
 about, 81–82
 in journals, 28–31

- recording (*continued*)
 - journal entries, 22–24
 - retained earnings, 258
 - routine adjusting entries, 63
 - sales returns and allowances, 87–88
 - stock transactions on balance sheet, 256–257
 - store credit transactions, 83–84
- records. *See also* source documents
 - adequacy of, 590
 - physical control of, 590
- recovery periods, 127
- red flag, 221–222
- refined costing system, 442–443
- registered agent, 622
- registrant, 342–343
- registration statement, 342
- regulators, 8
- regulatory requirements, 338
- related party transaction, 600
- relevance
 - of audit evidence, 613–614
 - in financial accounting, 51
- reliability
 - of audit evidence, 614
 - in financial accounting, 51
 - testing of clients, 631–641
- reliance strategy. *See* control testing strategy
- Remember icon, 2
- repairs, expensing, 503
- re-performance, 636
- replacement value, 287–288
- replacing worksheets with computerized reports, 183–184
- reports and reporting
 - aging summary report, 89, 191
 - designing, 65
 - entities in explanatory notes and disclosures, 329
 - extraordinary gains and losses, 217–219
 - unemployment, 113–114
- reserve ratio formula, 114
- reserves, 667
- responding to high-risk assessments, 605–606
- responsibility
 - of AICPA, 201
 - level of, 594
- restructuring, 217
- retail inventory, 231. *See also* merchandise inventory
- retained earnings
 - about, 315, 351–352
 - on balance sheet, 277
 - defined, 34–35, 611
 - recording, 258
- retention, of audit documentation, 624
- retrieval fees, 151
- return on equity (ROE), 315
- return on investment (ROI), 314
- revenue
 - on chart of accounts, 19
 - connected with inventory, 508
 - converting liabilities into, 186
 - on income statement, 51
 - recognizing cash flow and, 506
 - revenue recognition principle, 505
 - uncollected, 186
 - unearned
 - about, 240
 - on balance sheet, 244
 - defined, 611
- revenue budgets, reviewing, 392–394
- revenue formula, 392
- revenue recognition principle, 499, 505
- reviewing
 - business developments, 63
 - company's cash position, 551–552
 - by CPAs, 333
 - earnings, 548–551
 - production budgets, 392–394
 - profit, 548–551
 - revenue budgets, 392–394
- rights and obligations management
 - assertion, 611
- risk assessment
 - as component of internal controls, 628
 - following procedures for, 592–597

risk of material misstatement, 614
 risk of ownership, 542
 risks of restatement, recognizing,
 553–554
 ROE (return on equity), 315
 ROI (return on investment), 314
 Roosevelt, Franklin Delano (U.S.
 president), 558
 Rule of 72, 139

• S •

S corporation, 366, 368–369
 safety violations, 652
 Sage Peachtree, 40
 salaries
 determining types, 97–98
 paying, 104
 recognizing unpaid, 193–194
 salaries payable, 240
 salary rosters, 10
 sale price, calculating with activity-based
 costing, 448–452
 sales
 about, 79, 189–190
 accepting your losses, 89–90
 cash, 79–82
 in cash receipts journal, 153
 credit, 82–84
 growing, 192–193
 monitoring accounts receivable, 89
 prove out cash, 85–86
 on receipts journal, 81
 recording sales returns and allowances,
 87–88
 tracking discounts, 86–87
 sales allowances, recording, 87–88
 sales discounts
 about, 29
 tracking, 86–87
 sales growth index, 671
 sales journal, 32
 sales of equity investments, as investing
 sources of cash, 298
 sales of property, plant, and equipment
 (PP&E) and intangibles, as investing
 sources of cash, 298
 sales projections, as factor in budgeting,
 387–388
 sales receipts, 80–81
 sales returns, recording, 87–88
 sales returns and allowances journal, 33
 sales tax
 collected, on receipts journal, 81
 fraud with, 657
 salespeople, as factor in budgeting, 387
 salvage value
 about, 329
 on depreciation schedule, 504
 sampling, testing internal controls with,
 636–639
 Sarbanes-Oxley Act (SOX) (2002)
 about, 62, 557
 forms, 569–570
 scope of, 563–569
 Securities laws before, 558–563
 SAS No. 99, “Consideration of Fraud in a
 Financial Statement Audit,” 618
 SAS No. 109, “Understanding the Entity
 and Its Environment and Assessing the
 Risks of Material Misstatement,” 618
 SBA (Small Business Administration),
 543–544
 scientific wild-ass guess (SWAG), 375, 376
 scope of services, of AICPA, 202
SEC v. WJ Howey Co., 564
 secondary repayment, 540
 Section 179, 135–136
 secure payment gateway fee, 152
 secured debt, 535
 securing bank loans, 286
 securities
 about, 564
 convertible, 262
 marketable, 224
 trading, 226–227, 295, 296
 Securities Act of 1933, 558–559
 Securities and Exchange Commission
 (SEC). *See also* Sarbanes-Oxley Act
 (SOX) (2002)
 forms
 8-K, 570
 10-K, 342–346, 569–570
 10-Q, 570

- Securities and Exchange Commission (SEC)
 - (continued)
 - powers given to, 561
 - rulemaking authority for SOX, 561
- Securities Exchange Act (1934), 559–562
- security, 537–538
- segregating income statement, 217
- segregation of duties, 76–77, 576–577, 589, 602, 627
- selecting
 - accounting methods, 43–52
 - bad debt method, 191–192
 - income statement format, 208–209
 - legal structures for income tax, 366–370
 - pay periods, 96–97
- self-assessment, of management, 632–633
- selling
 - assets for gains, 208
 - on credit, 82–84
 - products, 208
- semimonthly pay period, 96
- service companies, logging inventory for, 509
- service to public interest, of AICPA, 201
- services, providing, 208
- setting
 - cost-plus percentages, 490
 - interest rate, 527
 - timelines for clients, 644
- setup, chart of accounts, 20–21
- SH (direct labor standard hours), 472
- share value, dilution of, 358–359
- shareholders, reading annual report to, 338–342
- shell company, 650
- short sale, 414
- short-term bank loans, on balance sheet, 244–245
- short-term debt, 140–142
- short-term investments, 226–227
- short-term solvency, 552
- show me technique, 617–618
- significant accounting practices, 325–328
- simple interest, 138
- single indirect cost allocation, 438–439
- single-step format, for income statement, 209
- Skalak, Steven L. (author)
 - A Guide to Forensic Accounting Investigation*, 2nd Edition, 669
- skepticism, applying, 617–618
- Small Business Administration (SBA), 543–544
- Social Security Administration (SSA) (website), 660
- Social Security fraud, 660–661
- Social Security number (SSN), 661
- Social Security tax, 98, 111–113
- software, accounting, 40–41
- software fees, 152
- sole proprietorship
 - about, 353–354, 365
 - owner equity in, 253–254
- solvency, 305, 551–552
- source documents
 - about, 10
 - examples of, 613
 - standardizing forms, 59–60
- source of funds, in budgeting, 389–390
- SOX (Sarbanes-Oxley Act) (2002)
 - about, 62, 557
 - forms, 569–570
 - scope of, 563–569
 - Securities laws before, 558–563
- special journals, 33
- special purpose entities (SPEs), 667
- specific identification method, of inventory valuation, 514
- SPEs (special purpose entities), 667
- SQ (direct materials standard quantity), 471
- SR (direct labor standard), 472
- SSN (Social Security number), 661
- standard cost per unit, adding, 474
- standard costs, 388–389, 469–470
- standardizing
 - processing procedures, 59–60
 - source document forms, 59–60
- standards. *See also* standard costs
 - about, 197
 - accounting, 46–49

- American Institute of Certified Public Accountants (AICPA), 199–202
- Financial Accounting Standards Board (FASB), 203–205
- origins of, 198
- U.S. Securities and Exchange Commission (SEC), 202–203
- Standards of Ethical Conduct for Management Accountants*, 47
- state governments, filing and paying unemployment taxes to, 118
- state of economy, as factor leading to high inherent risk, 588
- state withholding taxes, 100
- stated interest rate, 408
- statement of cash flows
 - about, 52
 - audit risk and, 586
 - cash flow sections, 294–299
 - defined, 46
 - elements of, 52
 - interpreting, 303
 - methods for preparing, 299–303
 - purpose of, 293–294
 - using in budgeting, 390–391
- statement of changes in stockholders equity, 304
- statement of financial condition. *See* balance sheet
- statement of profit or loss (P&L), 52
- Statement on Auditing Standards (SAS) No. 99, 600
- Statements of Financial Accounting Concepts*, 50
- Statements on Auditing Standards* (SAS), 200–201
- states, how they calculate FUTA tax rate, 114
- static budget, 401
- stock appreciation, as reward to equity investors, 389–390
- stock dividends, 259
- stock exchanges, 566–567
- stock shares
 - classes of, 355–357
 - determining market value of, 357–358
 - issuing, 355
 - stock splits, 261, 359
- stockholders
 - about, 8, 355
 - conflicts with managers, 360
- stockholders' equity, finding reductions to, 258–261
- stocks
 - capital, 255–257
 - common
 - about, 256, 356
 - on balance sheet, 277
 - as equity investments, 297
 - issuances, 623
 - preferred, 255–256, 304, 356
 - transactions, recording on balance sheet, 256–257
 - treasury
 - about, 261
 - on statement of cash flows, 299
- store credit
 - about, 82–83
 - defined, 79
 - recording transactions, 83–84
- straight-line method, 128, 130, 187–188
- strategic planning, 385
- Strategic Planning For Dummies* (Olsen), 385
- subordinated debt, 544
- subordination agreements, as debt attribute, 536
- subprime lending, 651
- subsequent payment test, 610
- subsidiary, 329
- subsidiary ledger
 - about, 612
 - defined, 37
- substantive procedures, 641–642
- substantive strategy, 629–631
- substantive testing, 629–631
- sufficiency, of audit evidence, 614–615
- summarizing
 - cash receipts journal, 153–154
 - journal entries, 163–167
- summary of operations, 339
- sum-of-the-years'-digits method, 129, 132

- supplies
 - adjustments to, 186
 - buying and monitoring, 75
- surprise audits, 577
- survey costs, as cost included in land account, 233
- sustainable level of profit, 221
- SWAG (scientific wild-ass guess), 375, 376
- sweat equity, 350
- sweep account, 226
- SWOT analysis, 378–380
- Symbol Technologies, 667

• T •

- T-accounts, 214–215
- take-home pay. *See* net pay
- talent, as factor in profit allocation, 364
- tangible assets
 - on balance sheet, 233–234, 272
 - defined, 125, 499
 - forecasting spending on, 288
 - handling, 273–275
 - useful life of, 127
- target cost
 - about, 493–494
 - calculating, 494–495
 - when to use, 495
- target profit
 - calculating, 464
 - defined, 453, 463
- tax fraud, 655–658
- tax gap, 655
- taxable benefits, 102
- taxable-entity, 366
- taxes
 - on balance sheet, 243
 - depositing employee, 107–110
 - depreciation and, 135–136
 - employee, 98–100
 - FUTA, 114–117
 - income
 - accounting for, 326–327
 - fraud with, 656–657
 - local withholding, 100

- payroll
 - about, 111
 - Form 941, 112–113
 - FUTA taxes, 114–117
 - maintaining employee records, 120–122
 - paying employer taxes on Social Security and Medicare, 111–113
 - paying unemployment taxes, 113–118
 - unemployment reports, 113–118
 - workers' compensation insurance, 118–120
- sales
 - collected, on receipts journal, 81
 - fraud with, 657
 - Social Security, 98, 111–113
 - unemployment, 118
- tax-exempt benefits, 101–102
- The Tax Foundation (website), 657
- temporary accounts, 34
- temporary posting journal, 155
- 1099 (IRS), 652
- tender offers, 562
- terms
 - defined, 408
 - in purchases journal, 32
- testing
 - activity-based costing systems, 444–447
 - adjusted trial balance, 194
 - balances, 179–181
 - client reliability, 631–641
 - earnings per share (EPS), 549–551
 - internal control weaknesses, 642–643
 - internal controls with sampling, 636–639
- theft, susceptibility to, 589
- third-party information, incorporating into business plan, 380–382
- thoroughness, of audit evidence, 616
- tidying up the books, 63–64
- time
 - as component of note receivable, 230
 - as factor in profit allocation, 364
- time cards, 10, 433
- time series basis, 670
- time value of money, calculating, 524–526

- timing
 - of audit procedures, 642, 643
 - client's control procedures, 643–645
 - as factor in budgeting, 386
 - Tip icon, 2
 - total accrual to total assets, 671–672
 - total assets, used in calculating ROI, 314
 - total contribution margin, calculating, 454–455, 459–460
 - total cost, calculating with activity-based costing, 448–452
 - traced costs, 422–423
 - tracking
 - inventory, 68–75
 - sales discounts, 86–87
 - Tracy, John A. (author)
 - Cash Flow For Dummies*, 306
 - How to Read a Financial Report*, 575
 - Tracy, Tage C. (author)
 - Cash Flow For Dummies*, 306
 - trade payables, 242
 - trade receivable, 230
 - trademarks, 235, 328
 - trading securities, 226–227, 295, 296
 - transaction fee, 152
 - transactions
 - balancing, 19
 - cash, 28–31, 81–82
 - cross-border, 606
 - explaining connections with, 267–269
 - initial, 162–163
 - methodology of, 57–58
 - monitoring classes of, 609–610
 - off-balance sheet, 667–668
 - transfer pricing, 658
 - transferability, of stock, 354
 - treasure, as factor in profit allocation, 364
 - treasury bonds, 413
 - treasury stocks
 - about, 261
 - on statement of cash flows, 299
 - trend analysis, 313–314, 596
 - trends, 549
 - trial balance
 - about, 39–40, 175–176
 - adjusted, 13, 194
 - conducting your, 176–178
 - dealing with errors, 178–179
 - triangle of fraud, 600–603
 - trust fund, 323
 - Trust Indenture Act (1939), 563
 - turnover, management, 594
 - type, on general ledger, 38
 - Type column (chart of accounts), 20
 - Type I event, 331
 - Type II event, 331
- U •
- unbiased audit evidence, 616
 - uncollected revenue, accruing, 186
 - underallocating, 441–442
 - undercosting, 440–442
 - understandability, in financial accounting, 50
 - Underwood, Jim (author)
 - Competitive Intelligence For Dummies*, 373
 - unearned revenue
 - about, 240
 - on balance sheet, 244
 - defined, 611
 - unemployment reports, 113–114
 - unemployment taxes, filing and paying to state governments, 118
 - unfavorable variances, 474, 482
 - unit-level costs, 443
 - units-of-production (UOP) method, 129, 133
 - unlimited liability, 362, 365
 - unlimited life, 354
 - unqualified opinion, 345, 587
 - unrealized gain or loss, 226
 - unsecured creditors, leveraging, 545–546
 - unsecured debt, 535–536
 - unusual events and developments, 64–65
 - UOP (units-of-production) method, 129, 133
 - upside potential, 356
 - U.S. Citizenship and Immigration Services (USCIS), 94
 - U.S. Department of Labor (website), 97, 652

U.S. Securities and Exchange Commission (SEC). *See* Securities and Exchange Commission (SEC)
 used equipment, 543
 useful life, of fixed assets, 127

• U •

valuation
 on balance sheets, 282–285
 bonds payable, 415–416
 business, 285–287
 methods for inventory, 513–517
 valuation and allocation management
 assertion, 611
 value
 market
 of assets, 282
 determining of stock shares, 357–358
 par
 on balance sheet, 257
 of common/preferred stock, 257
 defined, 415, 417
 salvage
 about, 329
 on depreciation schedule, 504
 variable costs, 403–404
 variable-cost pricing, 491–493
 variance analysis
 about, 469
 adding up standard cost per unit, 474
 calculating
 direct labor variances, 478–481
 direct materials variances, 475–478
 overhead rate, 473
 overhead variances, 481–482
 determining direct labor standards, 472
 establishing direct materials standards, 470–471
 favorable label, 482
 focusing on big numbers, 484–485
 interpreting variances in action, 483–484
 standard costs, 469–474
 tracing little numbers, 485
 unfavorable label, 482
 variances, 474–482

variances
 about, 389, 474–475, 483
 budget, 401
 interpreting in action, 483–484
 vendor fraud, 653
 vendors, paying, 552
 vertical analysis, compared with horizontal
 analysis, 317–319
 vulnerable populations, fraud committed
 on, 648

• W •

W-2 (IRS), 652
 W-4 (IRS), 92, 94
 W-5 (IRS), 96
 WAG (wild-ass guess), 375, 376
 wages
 determining types, 97–98
 recognizing unpaid, 193–194
 violations of wage laws, 651
 walkthrough, 636
 Warning! icon, 3
 websites
 AICPA, 201, 202
 American Association of Retired Persons (AARP), 648
 American Institute of Certified Public Accountants, 575
 BankRate.com, 145
 Business Owner's Toolkit, 97
 Cheat Sheet, 3
 The Coalition Against Insurance Fraud, 653
 Committee of Sponsoring Organizations (COSO) model, 628
 Electronic Federal Tax Payment System (EFTPS), 108, 113
 Financial Accounting Standards Board (FASB), 203, 205, 516
 Form 940 (IRS), 115
 Governmental Accounting Standards Board (GASB), 49
 Institute of Internal Auditors, 575
 Institute of Management Accountants (IMA), 47

- Internal Revenue Service (IRS), 92, 96, 108, 136, 577, 652
 - International Accounting Standards Board (IASB), 49
 - IRS Employer's Tax Guide, 99
 - National Council on Compensation Insurance (NCCI), 119
 - Public Company Accounting Oversight Board (PCAOB), 624, 642
 - Sarbanes-Oxley Act (SOX), 633
 - Social Security Administration (SSA), 660
 - state tax rates and forms, 100
 - The Tax Foundation, 657
 - U.S. Citizenship and Immigration Services (USCIS), 95
 - U.S. Department of Labor, 97, 652
 - withholding taxes, 99
 - weekly pay period, 96
 - weighted average
 - about, 71–75
 - calculating ending inventory and cost of goods sold using, 517
 - of inventory valuation, 514
 - weighted average shares, computing EPS for, 262–263
 - whistle-blowing, 577
 - WJ Howey Co., SEC v.*, 564
 - workers' compensation insurance, 118–120
 - working capital, 241, 309
 - working capital loan, 244–245
 - working trial balance, in current audit file, 623
 - work-in-process inventory, 231, 432, 512
 - workpapers, 596, 623
 - WorldCom, 666–667
 - write-offs, 62
 - writing off, 218
 - written job descriptions, for internal controls, 627
 - written narrative, 635
- *y* ●
- year-end audits, 644–645
 - year-end procedures, 643
 - yield to maturity, 250, 415

