

Accountants' Guidebook

Part 1

A Financial and Managerial Accounting Reference

Steven M. Bragg

Table of Contents

Chapter 1 – The Role of the Accountant.....	1
Learning Objectives	1
Introduction.....	1
The Accountancy Concept.....	1
Financial and Managerial Accounting	3
Types of Accountants.....	4
Responsibilities of the Accounting Department	5
Customer-oriented Responsibilities	5
Supplier-oriented Responsibilities.....	5
Employee-oriented Responsibilities	5
Financial Statements.....	6
Analysis.....	6
Organizational Structure of the Accounting Department	7
Summary.....	9
Review Questions	10
Review Answers.....	11
Chapter 2 – The Chart of Accounts.....	12
Learning Objectives	12
Introduction.....	12
Overview of the Chart of Accounts	12
Assets.....	12
Liabilities.....	13
Stockholders' Equity.....	13
Revenue	13
Expenses.....	13
The Three-Digit Chart of Accounts	14
The Five-Digit Chart of Accounts	15
The Seven-Digit Chart of Accounts.....	16
Chart of Accounts Reduction	19
Alphanumeric Account Coding.....	20
Summary	21
Review Questions	22
Review Answers.....	23
Chapter 3 – The General Ledger and Trial Balance.....	24
Learning Objectives	24
Introduction.....	24
The Ledger Concept	24
General Ledger Overview	25
The Accounts Receivable Ledger	26
The Purchase Ledger.....	27
Overview of the Trial Balance	28
The Trial Balance Format.....	28
The Extended Trial Balance.....	29
Trial Balance Error Correction.....	30
The Post-Closing Trial Balance.....	31
Evaluation of the Trial Balance	31
Summary	31
Review Questions	33
Review Answers.....	34

Table of Contents

Chapter 4 – Accounting Procedures.....	35
Learning Objectives	35
Introduction.....	35
The Nature of a Procedure.....	35
The Need for Procedures.....	35
The Number of Procedures to Develop	37
The Mechanics of Procedure Production.....	37
Procedure Production Steps	37
Formatting Steps.....	38
Procedure Design Tips.....	39
Dissemination of Procedures	40
Procedural Updates	41
Enforcement of Procedures	41
“Carrot” Activities.....	42
“Stick” Activities.....	42
Deviations from Procedures.....	43
Presented Procedures	43
The Credit Examination Procedure (Manual System)	43
The Shipping Procedure (Manual System)	48
The Billing Procedure.....	51
The Check Receipts Processing Procedure	55
The Purchasing Procedure	59
The Supplier Invoice Processing Procedure (Manual System)	63
The Check Payment Issuance Procedure	66
Summary.....	69
Review Questions	70
Review Answers.....	71
 Chapter 5 – Accounting for Receivables.....	 72
Learning Objectives	72
Introduction.....	72
Accounting for Billings.....	72
Accounting for Sales Taxes	73
The Allowance for Doubtful Accounts	74
Notes Receivable	76
Acquisition, Development, and Construction Arrangements	78
Nonrefundable Fees and Other Costs	79
Loans and Debt Securities Acquired with Deteriorated Credit Quality	82
Troubled Debt Restructurings by Creditors.....	83
Receivables Presentation	84
Receivables Disclosures	84
Summary.....	89
Review Questions	90
Review Answers.....	91
 Chapter 6 – Accounting for Investments.....	 92
Learning Objectives	92
Introduction.....	92
Overview of Investments – Debt and Equity Securities	92
Accounting for Investments.....	92
Impairment of Investments.....	93
Restricted Stock.....	94
Dividend and Interest Income	95
The Equity Method.....	95

Table of Contents

Investment Disclosures	97
Summary	99
Review Questions	100
Review Answers.....	101
Chapter 7 – Accounting for Inventory.....	102
Learning Objectives	102
Introduction.....	102
Overview of Inventory	102
The Periodic Inventory System	104
The Perpetual Inventory System.....	105
Inventory Costing	105
The First In, First Out Method	106
The Last In, First Out Method	107
The Weighted Average Method	108
Standard Costing	109
The Retail Inventory Method.....	110
The Gross Profit Method	111
Overhead Allocation.....	112
The Lower of Cost or Market Rule	114
Work in Process Accounting	115
Accounting for Obsolete Inventory.....	116
Consignment Accounting	117
Goods in Transit.....	118
Inventory Disclosures.....	119
Summary	119
Review Questions	120
Review Answers.....	121
Chapter 8 – Accounting for Property, Plant, and Equipment.....	122
Learning Objectives	122
Introduction.....	122
Overview of Fixed Assets.....	122
Initial Fixed Asset Recognition	123
Fixed Assets Acquired through a Business Combination	124
Nonmonetary Exchanges.....	124
Depreciation and Amortization	127
Straight-Line Method.....	128
Sum-of-the-Years’ Digits Method	129
Double-Declining Balance Method.....	129
Depletion Method	131
Units of Production Method.....	132
Land Depreciation	133
Land Improvement Depreciation.....	133
Depreciation Accounting Entries.....	133
Fixed Asset Impairment	135
Fixed Asset Disposal.....	137
Assets Held for Sale.....	137
Abandoned Assets	141
Idle Assets.....	141
Fixed Asset Disposal Accounting.....	141
Fixed Asset Disclosures.....	142
General Fixed Asset Disclosures.....	142
Change in Estimate Disclosures	143
Intangible Asset Impairment Disclosures.....	143

Table of Contents

Intangible Asset Disclosures	144
Summary	145
Review Questions	146
Review Answers.....	147
Chapter 9 – Accounting for Intangibles.....	148
Learning Objectives	148
Introduction.....	148
Goodwill.....	148
General Intangibles Other than Goodwill	151
Internal-Use Software	153
Website Development Costs.....	155
Intangibles Disclosures	155
Summary	158
Review Questions	159
Review Answers.....	160
Chapter 10 – Accounting for Equity.....	161
Learning Objectives	161
Introduction.....	161
Overview of Equity	161
Stock Dividends and Stock Splits	161
Stock Dividend	162
Stock Split	162
Treasury Stock	162
Purchase of Treasury Stock.....	163
Resale of Treasury Stock.....	163
Cost Method	163
Constructive Retirement Method	164
Equity-Based Payments to Non-Employees.....	164
Initial Recognition.....	165
Spinoffs and Reverse Spinoffs.....	166
Equity Disclosures.....	167
Rights and Privileges	167
Preferred Stock	167
Contingently Convertible Securities	167
Redeemable Securities.....	168
Treasury Stock.....	168
Changes in Shareholders' Equity.....	168
Equity-Based Payments to Non-Employees.....	168
Summary	169
Review Questions	170
Review Answers.....	171
Chapter 11 – Revenue Recognition.....	172
Learning Objectives	172
Introduction.....	172
Overview of Revenue Recognition.....	172
Public Company Revenue Recognition	172
The Installment Method.....	175
The Cost Recovery Method	175
The Right of Return.....	175
Extended Warranty Revenue	175
Advertising Barter Transactions.....	176

Table of Contents

Management Fees	177
Revenue Recognition for Multiple-Element Arrangements.....	177
The Milestone Method.....	180
Construction-Type and Production-Type Contracts.....	180
Elements of Revenue.....	181
Elements of Cost.....	181
Back Charges.....	182
Provisions for Losses.....	182
Percentage of Completion Method	183
Completed Contract Method	184
Summary.....	185
Gains and Losses	186
Principal Agent Considerations.....	187
Gross or Net Considerations.....	187
Shipping and Handling Charges	188
Expense Reimbursements.....	188
Customer Payments and Incentives	188
Accounting by the Supplier	189
Accounting by the Customer.....	189
Accounting by Service Providers for Payments to Equipment Producers or Resellers.....	190
Presentation of Consideration Paid by Suppliers (Supplier Viewpoint)	190
Presentation of Consideration Paid by Suppliers (Customer Viewpoint).....	191
Layaway Sales Arrangements	191
Nonrefundable Up-Front Fee Arrangements	191
Consignment Arrangements	192
Contingent Rental Income.....	193
Revenue Recognition Disclosures	193
Private Company Disclosures.....	193
Public Company Disclosures	195
Summary.....	195
Review Questions	196
Review Answers.....	197
Chapter 12 – Accounting for Payroll.....	198
Learning Objectives	198
Introduction.....	198
The Chart of Accounts	198
Types of Payroll Journal Entries	199
Primary Payroll Journal Entry.....	199
Accrued Wages.....	201
Accrued Bonuses.....	201
Accrued Commissions	202
Benefit Payments	203
Accrued Benefits	204
Stock Subscriptions.....	204
Manual Paycheck Entry	205
Employee Advances	205
Accrued Vacation Pay.....	206
Tax Deposits	207
Payroll Information in the Financial Statements – Wages	207
Payroll Information in the Financial Statements – Payroll Taxes.....	207
Summary.....	208
Review Questions	209
Review Answers.....	210

Table of Contents

Chapter 13 – Accounting for Stock-Based Compensation	211
Learning Objectives	211
Introduction.....	211
Overview of Stock Compensation	211
The Volatility Concept	214
Fair Value Calculation Alternatives	215
Awards Classified as Equity.....	216
Award Measurement Problems.....	217
Contingent Features.....	217
Award Modifications	217
Income Tax Effects	218
Awards Classified as Liabilities.....	218
Employee Share Purchase Plans	219
Stock-Based Compensation Disclosures.....	220
Summary.....	222
Review Questions	223
Review Answers.....	224
Chapter 14 – Accounting for Income Taxes	225
Learning Objectives	225
Introduction.....	225
Overview of Income Taxes.....	225
Accounting for Income Taxes.....	227
Tax Positions.....	227
Deferred Tax Expense	228
Applicable Tax Rate	228
Interest and Penalties	229
Intraperiod Tax Allocation	229
Taxes Related to Undistributed Earnings	230
Interim Reporting.....	231
Income Taxes Presentation	232
Income Taxes Disclosure.....	233
Balance Sheet.....	233
Income Statement.....	233
Other	234
Summary	235
Review Questions	236
Review Answers.....	237
Chapter 15 – Accounting for Business Combinations	238
Learning Objectives	238
Introduction.....	238
Overview of Business Combinations	238
Identifiable Assets and Liabilities, and Noncontrolling Interests.....	239
Goodwill or Gain from Bargain Purchase.....	241
Goodwill Calculation.....	241
Bargain Purchase.....	242
Reverse Acquisitions.....	243
Related Issues	244
Acquisition of Assets	244
Transactions between Entities under Control of Same Parent.....	245
Pushdown Accounting.....	245
Income Taxes.....	245
Business Combination Disclosures.....	246

Table of Contents

General Disclosures	246
Identifiable Assets and Liabilities, and any Noncontrolling Interest	247
Goodwill or Gain from Bargain Purchase.....	248
Reverse Acquisitions.....	248
Transactions between Entities under Control of Same Parent	249
Income Taxes.....	249
Summary	249
Review Questions	250
Review Answers.....	251
Glossary	253
Index	260