

Index

• *Symbols and Numerics* •

- () (parentheses) around numbers, 3
- \$ (dollar signs), in income statements, 3
- (minus signs), negative numbers, 3, 80
- 10-K form, 262, 275, 335

• *A* •

- abandoning product lines, 93
- ABC (activity-based costing), 235, 343
- accelerated depreciation
 - definition, 145
 - financial statement differences, 145
 - fixed assets, 299–300
 - IRS rules, 155–156
- accountability, 272
- accountants. *See also* CPA (certified public accountant)
 - careers in accounting, 27–29
 - CFO (chief financial officer), 29
 - CMA (certified management accountant), 62–63
 - college degrees, 62–63
 - continuing education, 63
 - controllers, 28–29
 - education, 62–63
 - hiring guidelines, 62–63
 - insiders, 14–15
 - integrity, 63
 - outsiders, 15
 - related careers, 29
 - starting salaries, 29
 - stereotypes of, 15–16
- accounting
 - actual costs *versus* economic, 227
 - versus* bookkeeping, 54
 - definition, 343
 - methods, effects of changing, 93, 306
 - policies, choosing, 252, 326–327
 - range of uses, 17–18
 - software for, 72–74
 - in your personal life, 16–17
- accounting department, 20–21
- accounting equation, 25, 68, 69, 84, 97, 207, 343
- accounting fraud. *See also* internal (accounting) controls; tricks of the trade
 - arm's length bargaining, 71
 - controls, reviewing, 329–330
 - cooking the books, 72
 - definition, 343
 - discovery, recent failures, 318–319
 - embezzlement, 70–72
 - juggling accounts, 72
 - kickbacks, 70
 - losses, effects on profit, 306
 - money laundering, 71
 - related parties, 71
 - sales skimming, 70
 - shifting revenue and expenses, 71
 - in small businesses, 65
 - warning signs in reports, 340–341
- Accounting Workbook For Dummies*, 2
- accounts. *See also* books
 - accumulated depreciation, 61
 - allowance for doubtful accounts, 61
 - balance sheet, 35–36, 61
 - balancing, 69–70
 - bookkeeping cycle, 56–57
 - chart of, 59–60
 - complete set. *See* general ledger
 - contra, 61
 - definition, 60
 - general ledger, 60

- accounts (*continued*)
 - income statement, 61
 - index of. *See* chart of accounts
 - juggling, 72. *See also* accounting fraud
 - negative, 61
 - required categories, 59–60
 - source documents, 61–62
 - standardized recording procedures, 61–62
 - types of, 61
- accounts payable
 - cash flows, *versus* net income, 129–130
 - definition, 344
 - expenses, 111
 - managerial accounting, 300
 - profit-making activities, 89–90
- accounts receivable
 - as assets, 86
 - balance, statement differences, 143
 - changes, effects on cash flow, 126–127
 - definition, 344
 - sales revenues, 109
 - status, 297
- accrual-basis accounting
 - definition, 344
 - sales on credit, 86
 - window dressing cash flows, 147
- accrued expenses payable
 - changes, effects on cash flow, 129–130
 - definition, 344
 - expenses, 111, 113
 - liability, 146
 - managerial accounting, 300–301
 - profit-making activities, 89–90
- accumulated depreciation
 - balance sheets, 110–111
 - contra accounts, 61
 - definition, 344
 - financial statement differences, 145–146
 - fixed assets, 145–146, 299–300
- acid-test ratio, 287–288, 344
- active reading, 135–136. *See also* reading reports
- activities. *See* transactions
- Activity-based costing (ABC), 235, 343
- actual cost/actual output method, 239
- actual costs, 224, 230
- actual profits, *versus* smoothed, 260–261
- adjusted trial balance, 58
- adjusting entries, 65, 344
- adjustments to net income, 124–125
- adverse (negative) auditor opinion, 313
- AICPA (American Institute of Certified Public Accountants), 50, 319
- aligning dollar amounts, 4
- allied transactions, 91–92
- allocated fixed operating expenses, 197
- allowances, effects on profit, 305
- allowances for doubtful accounts, 61
- amortization, 112, 344
- arm's length bargaining, 71
- Arthur Anderson & Company, 318–319
- asset accounts, 86–89
- asset impairment write-downs, 157
- asset turnover ratio, 108, 303, 345
- asset/liability ratio, 105
- assets
 - amortization, 112
 - buying, 36
 - cash, 36
 - connection to sales revenues, 107
 - control benchmarks, 108
 - cost, *versus* depreciation, 110–111
 - fixed. *See* fixed assets
 - goodwill, 112
 - intangible, 112
 - inventory, 36
 - versus* liabilities, 36
 - liquid, 287
 - long-term resources. *See* fixed assets
 - net operating assets, 288–289
 - net worth, 36
 - non-cash, 107

- property, plant, and equipment. *See*
 fixed assets
 quick, 287
 and solvency, 104
 turning over, 108
 valuation, 226
 writing down, 93, 95
- assets, balance sheets
 amortization, 112
 cash, 36
 connections to sales revenues, 107
 control benchmarks, 108
 fixed, 36
 fixed, depreciation, 110–111
 goodwill, 112
 intangible, 112
 inventory, 36
 non-cash, 107
 sources of, 24
 turning over, 108
 types of, 36
 values, 24
- assumptions of financial statements,
 51
- audit committees, 320
- audit judgment failure, 319
- audit trails, 66, 74
- auditing firms, 315–316
- auditing the auditors, 319–320
- audits. *See also* internal (accounting)
 controls
 alternatives to, 313
 Arthur Anderson & Company,
 318–319
 audit judgment failure, 319
 auditing the auditors, 319–320
 clean (unqualified) opinion, 313–314
 cost of, 312–313
 definition, 345
 description, 313
 disclosures, 256
 Enron, 318–319
 ethical duties, 316–317
 federal requirements for, 312–313
 field audits, IRS, 66
 fraud controls, reviewing, 329–330
 fraud discovery, recent failures,
 318–319
 going concern, reservations about,
 315
 need for, 312–313
 negative (adverse) opinion, 313
 professional skepticism, 316–317
 qualified opinion, 314
 responses to irregularities, 317
 tips for reading, 291–292
 average cost method, 152
 avoiding income tax, *versus* evading,
 302
- **B** •
- bad debt, 143, 297, 345
- balance, definition, 102
- balance sheet accounts, 35–36, 61
- balance sheets. *See also* financial
 statements
 accounting equation, 25
 balance, 102
 book value, 117–118. *See also* owners'
 equity
 budgeted, 208
 contents, 35–37
 definition, 345
 disclosure, 251–256
 double-entry bookkeeping, 25
 due diligence, 249
 example, 35–37, 101–102
 external, 101–103
 humor in, 256
 importance of, 26–27
 versus income statements, 102
 internal, 103
 liabilities, 24
 management's role, 248–249
 market values, 117–118
 multiyear statements, 105–106
 net worth, 36

- balance sheets (*continued*)
 - owners' equity, 24, 37
 - publication delays, 101
 - publication schedule, 37
 - purpose of, 24, 249–250
 - reading, tips for. *See* reading reports
 - solvency, 103–105
 - standards and requirements, 250–251
 - versus* statement of cash flows, 102
 - trend analysis, 106
- balance sheets, assets
 - amortization, 112
 - cash, 36
 - connections to sales revenues, 107
 - control benchmarks, 108
 - fixed, 36
 - fixed, depreciation, 110–111
 - goodwill, 112
 - intangible, 112
 - inventory, 36
 - non-cash, 107
 - sources of, 24
 - turning over, 108
 - types of, 36
 - values, 24
- balance sheets, combined with income statements
 - asset turnover ratio, 108
 - assets
 - amortization, 112
 - connections to sales revenues, 107
 - control benchmarks, 108
 - fixed, depreciation, 110–111
 - goodwill, 112
 - intangible, 112
 - non-cash, 107
 - turning over, 108
 - cash accounts, 113
 - cash dividends, 114
 - cash reserves, adequacy of, 113
 - depreciation, 110–111
 - expenses
 - accounts payable, 111
 - accrued expenses payable, 111, 113
 - amortization, 112
 - connections to liabilities, 107
 - cost of goods sold, and inventory, 109–110
 - debt, 113
 - fixed asset depreciation, 110–111
 - income tax, 114
 - interest, 113
 - prepaid, 111
 - “record as you pay” method, 111
 - SG&A (sales, general, and administrative), 111–112
 - unpaid, 111
 - balancing accounts, 69–70
 - bending the rules, 51–52
 - Berkshire Hathaway, 286, 330
 - big businesses *versus* small, 82
 - Big Four auditing firms, 315–316
 - big-bath strategy, 95
 - bold numbers, 4
 - book entry form, 166–167

- book value, 117–118, 284–285, 345. *See also* owners' equity
- bookkeeping
versus accounting, 54
 categorizing information, 59–60
 chart of accounts, 59–60
 definition, 19
 error checking. *See* audits; internal (accounting) controls
 importance of, 19
 purpose of, 19
 quality controls. *See* audits; internal (accounting) controls
 reports, designing, 67–68
 unusual events, 66–67
- bookkeeping cycle, 55–58, 65–66
- books. *See also* accounts
 closing, 58
 cooking, 72. *See also* accounting fraud
 definition, 58
- books and publications
Accounting Workbook For Dummies, 2
How To Read A Financial Report, 4, 336
Investing For Dummies, 16, 273
Personal Finance For Dummies, 16
Small Business Financial Management Kit For Dummies
 corporate finance, 302
 financial management, 302, 307
 valuing a private business, 284
 valuing a small business, 142, 170
Taxes For Dummies, 155
- borrowed money. *See* debt
- bottom line. *See* net income; profit
- Boulding, Kenneth, 4
- break-even point, 193, 229, 323–324, 345
- budgeting
 avoiding, 212
 budgeted balance sheet, 208
 budgeted income statement, 208
 budgeted statement of cash flows, 208
 business *versus* government, 221
 capital expenditures, 220–221
 cost centers, 221
 costs, 227, 230–231
 decision making, 213–214
 favorable variances, 211
 financial statements, 208
 forecasting, 210
 income statement, 208
 internal accounting reports, 213–214
 management communication, 211
 management control, 209–210, 213
 managerial accounting, 327–328
 master budget, 209–210
 modeling, 207–208
 multi-year, 206
 overview, 206
 performance evaluation, 210–211
 planning, 208–209
 potential issues, 211–212
 profit report, 208, 216–218
 statement of cash flows, 208
 unfavorable variances, 211
 writing a business plan, 211
- budgeting, example
 budgeted profit report, 216–218
 cash flow for coming year, 218–220
 loss leaders, 215
 profit strategies, 216–218
 sales mix, 215
 scenario, 214–216
- Buffett, Warren
 annual reports, 33, 330
 Berkshire Hathaway investment, 286
How To Read A Financial Report, 4
 letter to shareholders, 254
 valuing a business, 170
- burden rate, 237–238
- business entities
 default, 176–177
 legal roots, 165
 most common type, 165
 multi-owner
 See corporations
 See LLCs (limited liability companies)

business entities, multi-owner

(continued)

See LLPs (limited liability partnerships)

See partnerships

See PCs (professional corporations)

one-owner. See sole proprietorships

business plan, writing from a

budget, 211

• C •

C corporations, 178, 179–180

calculated amounts in income statements, 3

capital

cost of, 227

definition, 115

sources of. See debt; owners' equity

capital accounts, 284

capital expenditures

budgeting, 220–221

definition, 345

statement of cash flows, 131–132

capital investment, 176

capital stock, 346

capital utilization test, 289

capitalized fixed assets, 299–300

careers in accounting, 27–29

cash

balance, adequacy of, 42–43, 113

balance, statement differences, 142–143

collections, responsibility for, 20

distribution from profits. See dividends

dividends, 114, 134

extraordinary demands, 297

limitations, 296–297

payments (disbursements), responsibility for, 20

status, 296–297

cash accounts, 113

cash assets, 36

cash flow. See also statement of cash flows

budgeting for coming year, 218–220

categories, 38–39

definition, 346

depreciation effects, 89

executive summary of, 120–121

managerial accounting, 306–309

from operating activities, 40, 122, 346

overview, 119–122

from profit, 120

versus profit, 325–326, 339

sources of, 120

cash flow, versus net income

accounts payable changes, 129–130

accounts receivable changes, 126–127

accrued expenses payable changes, 129–130

depreciation, 128–129

direct reporting, 130–131

FASB standards, 130–131

income tax payable changes, 129–130

indirect reporting, 130–131

inventory changes, 127

liability changes, 129–130

overview, 125–126

prepaid expense changes, 127–128

cash out days, 296

certified public accountant (CPA). See CPA (certified public accountant)

CFO (chief financial officer), 29

channel stuffing, 143

chart of accounts, 59–60

classes of stocks, 167–169

clean (unqualified) auditor opinion, 313–314

closing the books, 58

CMA (certified management accountant), 62–63

college degrees, 62–63

common stock, 167–169, 346

company contact information, 256

compensatory effects, 259–261

completed contract method, 261

comprehensive income, 346

- computerized accounting. *See*
software for accounting
- computing ratios
- acid-test ratio, 287–288
 - basic EPS, 282
 - book value, 284–285
 - book value per share, 284–285
 - capital utilization test, 289
 - current ratio, 287
 - diluted EPS, 281–282
 - dividend yield, 283
 - EPS (earnings per share), 280–282
 - financial leverage gain, 288–289
 - gross margin, 278–279
 - margin per unit, 279
 - MD&A (management discussion and analysis), 279
 - net operating assets, 288–289
 - overview, 276–278
 - P/E (price/earnings), 282–283
 - profit, 280
 - quick, 354. *See also* acid-test ratio
 - ROA (return on assets), 288–289
 - ROE (return on equity), 286
 - total margin, 279
- condensed financial statements, 266
- condensed information, 275
- conflicts of interest, 172
- continuing education, 63
- contra accounts, 61
- contribution margin, 191
- controllers
- definition, 346
 - job description, 28–29
 - required credentials, 63
- cooking the books, 72. *See also*
accounting fraud
- corporations
- C corporations, 178, 179–180
 - overview, 165–166
 - owners. *See* stockholders
 - ownership shares. *See* stock shares
 - PCs (professional corporations), 175
 - personal obligations, 166
 - S corporations, 178, 180–181
 - corporations, alternatives to
 - See* LLCs (limited liability companies)
 - See* LLPs (limited liability partnerships)
 - See* partnerships
 - See* sole proprietorships
 - corporations, private
 - Private Company Financial Reporting Committee, 50
 - profits, 173
 - versus* public, 49–50
 - stockholders, 167, 169
 - corporations, public
 - definition, 167
 - versus* private, 49–50
 - profits, 173
 - correctness, financial statements, 43–44. *See also* audits; internal (accounting) controls
 - cost behavior basis for operating expenses, 187–189
 - cost centers, 185, 221
 - cost of goods sold
 - average cost method, 152
 - FIFO (first-in, first-out) method, 149–150
 - income statements, 3
 - and inventory, 109–110
 - LIFO (last-in, first-out) method, 150–152
 - operating expenses, 190, 196
 - profit-making activities, 87
 - cost of goods sold expense, 324
 - cost-plus pricing, 225
 - costs
 - accounting *versus* economic, 227
 - actual, 224, 230
 - budgeted, 227, 230–231
 - of capital, 227
 - cost-plus pricing, 225
 - direct, 228–229
 - EVA (economic value added), 227
 - fixed, 229
 - full, 224
 - future, 229

costs (*continued*)

- importance of, 225–226
 - imputed, 227
 - incremental, 227
 - indirect, 224, 228–229
 - irrelevant, 226, 229–230
 - marginal, 227
 - markup on cost, 225
 - measuring gross margin, 225
 - opportunity, 227
 - period, 231
 - predatory pricing, 225
 - product. *See* costs, manufacturing; product costs
 - relevant, 226, 229–230
 - replacement, 227
 - setting sales prices, 225
 - standard, 227, 231
 - sunk, 230
 - valuing assets, 226
 - variable, 227, 229
- costs, manufacturing. *See also* product costs
- actual cost/actual output method, 239
 - burden rate, 237–238
 - classifying, 234–235
 - direct labor, 232
 - excessive production, 240–243
 - fixed costs, 237–239
 - fixed overhead, 232–234
 - idle capacity, 238
 - increasing inventory, 238–239
 - indirect costs, 234–235
 - product cost, calculating, 236
 - production capacity, 237–239
 - raw materials, 232
 - shifting to the future, 240–241
 - variable overhead, 232
- cover (transmittal) letter, 254
- CPA (certified public accountant)
- consulting services, 329
 - credentials, 28, 62–63
 - definition, 346
 - public nature of, 27
- creative accounting, 52
- credentials for accountants
- CMA (certified management accountant), 62–63
 - college degrees, 62–63
 - continuing education, 63
 - controllers, 63
 - CPA (certified public accountant), 27–28, 62–63
 - education, 62–63
 - hiring guidelines, 62–63
 - integrity, 63
- credits, 69, 347
- current assets, 347
- current liabilities, 347
- current ratio, 287, 347
- current replacement costs, fixed assets, 299–300
- customers, transactions with, 21, 23
- • •
- damage, inventory losses, 153–154
- DDB (double-declining balance), 155
- debits, 69, 347
- debt
- advantages, 115
 - deciding on, 162–163
 - defaulting on, 116–117
 - disadvantages, 116
 - to equity ratio, 163
 - expenses, 113
 - financial leverage, 116
 - financing a business, 115–117
 - interest rates, 163
 - interest-bearing, 302
 - involuntary bankruptcy, 117
 - management, 38
 - personal obligations, 163
 - problems, reporting, 290
 - sources of capital, 22–23
 - statement of cash flows, 133
- debt, bad
- definition, 345
 - expense, 143
 - managerial accounting, 297

- decision making. *See also* managerial accounting
from budgets, 213–214
designing reports for, 213–214
from P&L (profit and loss) reports, 198–199
- deductions, income statements, 3
- deferred maintenance, 262
- deferring write-offs, 262
- deficit, 164
- Deloitte Touche Tohmatsu, 315–316
- depreciation
accumulated, 110–111, 145–146
accumulated recording, 61
cash flows, *versus* net income, 128–129
versus cost of assets, 110–111
DDB (double-declining balance), 155
definition, 88, 347
effects on cash flow, 89
expense, recording, 57
front-loading methods, 155
IRS code, 154–155
overview, 154
salvage value, 154
straight-line, 145, 155–156
- depreciation, accelerated
definition, 145
financial statement differences, 145
fixed assets, 299–300
IRS rules, 155–156
- depreciation, fixed assets
accelerated depreciation, 299–300
accumulated depreciation, 110–111, 299–300
definition, 88
immediate, 299–300
profit-making activities, 88–89
property, plant, and equipment account, 156
ratio of depreciation, 110–111
- depreciation expense
financial statement differences, 145–146
managerial accounting, 299–300
- deterioration, inventory losses, 153–154
- diluted EPS, 281–282, 290, 337
- dilution effect, 170–171
- direct cash flow reporting, 122–123, 130–131
- direct costs, 228–229
- direct fixed operating expenses, 188, 197
- direct labor costs, 232
- direct materials. *See* raw materials
- disclosure
accounting policies and methods, 252
additional information and details, 252
company contact information, 256
cover (transmittal) letter, 254
expenses, 82
FASB standards, 253
footnotes, 252–254
graphics, 255
highlights table, 255
historical summaries, 255
IASB standards, 253
inadequate, 256
independent auditor's report, 256
internal reporting control, 255
limits of, 272
management profiles, 255
management's responsibility statement, 255
MD&A (management discussion and analysis), 255
minimum requirements, 48
overview, 251–252
promotional material, 255
quarterly profit summaries, 255
SEC standards, 253
segment information, 255
supplementary schedules and tables, 252
- discontinuities
abandoning product lines, 93
becoming continuities, 95
big-bath strategy, 95
changing accounting methods, 93

- discontinuities (*continued*)
 - downsizing, 93
 - error corrections, 94
 - examples, 93–94
 - misusing, 95
 - restructuring, 93
 - settling lawsuits, 93
 - writing down damaged and impaired assets, 93, 95
 - discounts, effects on profit, 305
 - discretionary expenses, 157, 306
 - disruptions of business. *See*
 - discontinuities
 - dividend yield, 283, 347
 - dividends
 - common stocks, 167–168
 - deciding to issue, 44
 - patronage dividends, 177
 - preferred stocks, 167–168
 - dollar signs (\$), in income statements, 3
 - double-declining balance (DDB), 155
 - double-entry accounting, 25, 68–70, 347
 - downsizing, effects of, 93
 - due diligence, 249
- **E** ●
- earnings management, 258–263
 - earnings per share (EPS). *See* EPS (earnings per share)
 - earnings report. *See* profits
 - earnings statements. *See* income statements
 - earthquake mentality, 338
 - EBIT (earnings before interest and income tax)
 - definition, 191, 348
 - financial leverage, 116
 - economic costs *versus* accounting costs, 227
 - economic value added (EVA), 227
 - EDGAR database
 - annual form 10-K, 262
 - definition, 348
 - disclosure guidelines, 157
 - education for accountants. *See*
 - credentials for accountants
 - embezzlement. *See also* accounting fraud
 - effects on profit, 306
 - overview, 70–72
 - employee post-retirement benefits, 157, 290
 - employees, transactions with, 21
 - end-of-period procedures, 57, 65–66
 - Enron, 318–319
 - EPS (earnings per share)
 - basic, 282
 - computing, 280–282
 - definition, 348
 - diluted, 281–282, 290, 337
 - tracking profit to, 337–338
 - equity sources of capital, 22–23
 - Ernst & Young, 315–316
 - error checking, 57, 65. *See also* audits;
 - internal (accounting) controls
 - error corrections, effects of, 94
 - estimates
 - financial statements, 51
 - future obligations, 146
 - GAAP (generally accepted accounting principles), 51
 - ethics
 - auditor duties, 316–317
 - making a profit, 45
 - EVA (economic value added), 227
 - evading income tax, *versus*
 - avoiding, 302
 - events, 22–23, 66–67
 - excessive production, 240–243
 - exercise price, 171
 - expense accounting
 - asset impairment write-downs, 157
 - discretionary operating expenses, 157
 - employee post-retirement benefits, 157, 290
 - income tax expense, 157
 - management stock options, 158
 - expense characteristics, cash flow, 307

- expenses
- accounts payable, 111
 - accrued expenses payable, 111, 113
 - amortization, 112
 - cash flows from, 122–123
 - changes, effects on profit, 306
 - connections to liabilities, 107
 - cost of goods sold, and inventory, 109–110
 - debt, 113
 - disclosing, 82
 - effects on profit, 305–306
 - fixed asset depreciation, 110–111
 - income tax, 114
 - interest, 113
 - prepaid, 111
 - “record as you pay” method, 111
 - SG&A (sales, general, and administrative), 111–112
 - shifting, 71
 - summary. *See* income statements
 - timing, 260–263
 - unpaid, 111
- external balance sheets
- classified balance sheets, 103
 - description, 103
 - example, 101–102
- external cash flows, 132
- external financial reports, 272. *See also* managerial accounting
- extraordinary gains and losses, 92–95, 338, 348
- **F** ●
- FASB (Financial Accounting Standards Board)
- cash flow reporting standards, 130–131
 - cash flows, *versus* net income, 130–131
 - definition, 348
 - disclosure standards, 253
 - management stock options, 158
 - revenue recognition, 156–157
 - role of, 48
- favorable budget variances, 211
- field audits, IRS, 66
- FIFO (first-in, first-out) method, 149–150, 349
- financial exigencies, 291
- financial imperatives, 37
- financial leverage
- debt, 116
 - definition, 348
 - EBIT (earnings before interest and income tax), 116
- financial leverage gain
- ratios, computing, 288–289
 - reading reports, computing ratios, 288–289
- financial reports. *See also* financial statements
- accountability, 272
 - definition, 348–349
 - external, 272
 - How To Read A Financial Report*, 4
 - for managers. *See* managerial accounting
 - for non-manager stakeholders, 272
 - reading, tips for. *See* reading reports
 - rules for. *See* laws and regulations; standards
- financial statements
- See also* balance sheets
 - See also* financial reports
 - See also* income statements
 - See also* P&L (profit and loss)
 - See also* statement of cash flows
 - annual reporting form (10-K), 262
 - archival purposes, 266
 - assumptions, 51
 - browsing your interests, 265–266
 - budgets, 208
 - cash balance, adequacy of, 42–43
 - condensed versions, 266
 - correctness, 43–44
 - definition, 349
 - effects of income tax, 50–52
 - estimates, 51

- financial statements (*continued*)
 - flows of activities. *See* income statements; statement of cash flows
 - going-concern assumption, 51
 - government entities, 47
 - information overload, 265–267
 - key information, 41–44
 - language, 33
 - for managers. *See* managerial accounting
 - not-for-profit entities, 47
 - other information sources, 267
 - private companies, 264–265
 - profit performance, 41–42
 - proxy statements, 267
 - public companies, 263–264
 - publishing schedule, 23
 - reading, tips for. *See* reading reports
 - reliability, 43–44
 - for a specific period. *See* balance sheets
 - summaries, 23, 266
 - tone, 33
- financial statements, explaining
 - differences
 - accelerated depreciation, 145
 - accounts receivable balance, 143
 - accrued expenses payable liability, 146
 - accumulated depreciation, 145–146
 - bad debt expense, 143
 - cash balance, 142–143
 - channel stuffing, 143
 - depreciation expense, 145–146
 - estimated future obligations, 146
 - fixed asset costs, 145–146
 - inventory and cost of goods sold, 144
 - overview, 141–142
 - product cost inflation, 144
 - sales on approval, 143
 - straight-line depreciation, 145
 - window dressing, 142–143, 147
 - financial statements, tricks of the trade
 - actual profits, *versus* smoothed, 260–261
 - compensatory effects, 259–261
 - completed contract method, 261
 - deferred maintenance, 262
 - deferring write-offs, 262
 - earnings management, 258–263
 - fluffing the cash balance, 257–258
 - profit smoothing, 258–263
 - timing revenue and expenses, 260–263
 - window dressing, 257–258
 - financing a business, 133. *See also* capital; debt; owners' equity
 - financing activities
 - balance sheet transaction, 98–100
 - definition, 306, 349
 - versus* operating activities, 307
 - statement of cash flows, 132–134
 - firms. *See* partnerships
 - first-in, first-out (FIFO) method, 149–150, 349
 - fixed assets
 - accelerated depreciation, 299–300
 - accounting department
 - responsibilities, 21
 - accumulated depreciation, 299–300
 - capitalized, 299–300
 - costs, statement differences, 145–146
 - current replacement costs, 299–300
 - definition, 349, 353
 - immediately expensed, 299–300
 - liquidating. *See* depreciation
 - statement of cash flows, 131–133
 - fixed assets, depreciation
 - expenses, 110–111
 - full depreciation, 156
 - managerial accounting, 299–300
 - profit-making activities, 88–89
 - fixed costs
 - break-even point, 323–324
 - burden rate, 237–238
 - changes, effects on profit, 306
 - definition, 349
 - idle capacity, 238
 - increasing inventory, 238–239
 - production capacity, 237–239
 - versus* variable, 229

- fixed operating expenses
 definition, 190
 examples, 190–191
 leverage effect, 199–200
 in the P&L (profit and loss) report, 197
versus variable, 198
- fixed overhead, 232–234
- flow amounts, 79
- flow numbers, 25
- flows of activities. *See* income statements; statement of cash flows
- fluffing the cash balance, 257–258
- footnotes
 accounting policies and methods, 252
 additional information and details, 252
 definition, 349
 important topics, 289–290
 required, 253
 standards, 253
 types of, 252–254
- forecasting with budgets, 210
- form 10-K, 262, 275, 335
- fraud. *See also* internal (accounting) controls; tricks of the trade
 arm's length bargaining, 71
 controls, reviewing, 329–330
 cooking the books, 72
 definition, 343
 discovery, recent failures, 318–319
 embezzlement, 70–72
 juggling accounts, 72
 kickbacks, 70
 losses, effects on profit, 306
 money laundering, 71
 related parties, 71
 sales skimming, 70
 shifting revenue and expenses, 71
 in small businesses, 65
 warning signs in reports, 340–341
- free cash flow, 134–135, 349
- front-loading depreciation, 155
- full costs, 224
- future costs, 229
- G •
- GAAP (generally accepted accounting principles)
 AICPA (American Institute of Certified Public Accountants), 50
 assumptions, 51
 bending the rules, 51–52
 creative accounting, 52
 definition, 350
 disclosure, minimum requirements, 48
 effects of income tax, 50–52
 estimates, 51
 going-concern assumption, 51
 good faith principle, 52
 government entities, 47
 income smoothing, 52
 not-for-profit entities, 47
 overview, 45–46
 Private Company Financial Reporting Committee, 50
 public *versus* private companies, 49–50
- gains, extraordinary, 92–95, 338
- general ledger, 60
- general partners, 174
- going-concern, reservations about, 315
- going-concern assumption, 51
- good faith principle, 52
- goodwill, 112, 350
- government entities, 22–23, 47, 221
- gross earnings. *See* gross wages
- gross margin
 definition, 350
 income statements, 3, 80
 measuring, 225
 in the P&L (profit and loss) report, 186
 variations in meaning, 191
- gross margin ratio, 278–279, 336
- gross profit. *See* gross margin
- gross wages, 20
- guidelines. *See* standards

• H •

harmonization, 49
 highlights table in financial statements, 255
 hiring guidelines, 62–63
 historical summaries in financial statements, 255
How To Read A Financial Report, 4, 336
 humor in financial statements, 256

• I •

IASB (International Accounting Standards Board), 49, 253, 350–351
 icons in this book, 9
 idle capacity, 238
 illegal payments, effects on profit, 306
 immediate depreciation, 299–300
 imputed costs, 227
 income, net. *See* net income
 income smoothing, 52, 350
 income statement accounts, 61
 income statements
 See also financial statements
 See also P&L (profit and loss)
 See also statement of cash flows
 aligning dollar amounts, 4
 versus balance sheets, 102
 bold numbers, 4
 bottom line, 4, 25
 budgeted, 208
 calculated amounts, indicating, 3
 content, 33–34
 cost of goods sold, 3
 critical analysis, 81–83
 deductions, 3
 definition, 33, 350
 disclosure, 251–256
 discontinuities, 93–95
 \$ (dollar signs) in, 3
 due diligence, 249
 example, 3, 33–34
 extraordinary gains and losses, 92–95

flow amounts, 79
 gross margin, 3, 80
 humor in, 256
 importance of, 26–27
 income, 34
 internal. *See* P&L (profit and loss)
 management's role, 248–249
 - (minus signs), negative numbers, 3, 80
 negative numbers, indicating, 3
 net earnings. *See* net income; profits
 net income, 25, 34. *See also* profits
 net income...before unusual gains and losses, 94
 net loss, 25
 net profit. *See* net income; profits
 operating costs, 81
 parentheses around numbers, 3
 product-oriented businesses, 78–79
 profit, 37, 78–86. *See also* net income
 profit performance, 41–42, 83
 profit *versus* cash flow from profit, 40–41
 purpose of, 249–250
 reading, tips for. *See* reading reports
 reading from top down, 3
 rounding, 4
 sales revenue, 3, 34, 80
 second layer, 94
 standards and requirements, 250–251
 underlined numbers, 3, 4, 80
 income statements, combined with
 balance sheets
 asset turnover ratio, 108
 assets, 107–108, 110–112
 cash accounts, 113
 cash dividends, 114
 cash reserves, adequacy of, 113
 depreciation, 110–111
 expenses, 107–114
 inventory, 109–110
 liabilities, 107–108, 114
 net income, 114
 overview, 106–107

- retained earnings, 114
- sales revenues, 107, 109
- SG&A (sales, general, and administrative) expenses, 111–112
- income statements, disclosures
 - expense, 82
- income tax. *See also* IRS (Internal Revenue Service)
 - avoidance *versus* evasion, 302
 - effects on accounting methods, 50–52
 - expense accounting, 157
 - expenses, 114
 - required account categories, 59–60
- income tax, structuring for
 - C corporations, 178, 179–180
 - LLCs (limited liability companies), 178, 181–182
 - partnerships, 178, 181–182
 - pass-through tax entities, 90, 178, 182, 352–353
 - S corporations, 178, 180–181
 - taxable entities, 178
- income tax payable
 - changes, effect on cash flows, 129–130
 - liabilities, 114
 - managerial accounting, 301–302
 - profit-making activities, 89–90
- incremental costs, 227
- independent auditor's report, 256
- indirect cash flow reporting, 124–125, 130–131
- indirect costs, 224, 228–229, 234–235
- information overload, 265–267, 294–295
- insiders, 14–15
- insurance summary report, 299–300
- intangible assets, 112
- integrity, 63
- interest expenses, 113
- interest rates on debt, 163
- internal (accounting) controls. *See also* audits
 - bookkeeping cycle, 57
 - definition, 19, 350
 - examples, 64
 - importance of, 63–65
 - for mistakes, 64
 - reasons for, 57
 - for theft, 64
- internal accounting reports, 213–214
- internal balance sheets, 103
- internal cash flow, 132
- internal reporting control, 255
- Internal Revenue Service (IRS). *See* IRS (Internal Revenue Service)
- International Accounting Standards Board (IASB). *See* IASB (International Accounting Standards Board)
- inventory
 - accounting department responsibilities, 20–21
 - assets, 36, 87
 - average holding period, 110
 - changes, effects on cash flow, 127
 - cost of goods sold, 109–110, 144
 - costs of increasing, 238–239
 - definition, 87
 - knocking down value, 154
 - LIFO liquidation gain, 298
 - management information, 298
 - shrinkage, 153–154, 196–197
 - status check, 298
 - turnover analysis, 298
- invested capital accounts, 164
- investigations, reporting, 290
- investing activities
 - balance sheet transaction, 98–100
 - definition, 306, 351
 - versus* operating activities, 307
 - profit-making activities, 78
 - statement of cash flows, 131–132
- Investing For Dummies*, 16, 273
- investors, reading financial reports, 273. *See also* specific reports
- involuntary bankruptcy, 103, 117
- irrelevant costs, 226, 229–230
- IRS (Internal Revenue Service), 66, 154–156. *See also* income tax

• J •

journal entries, 56–57
journals, 56
juggling accounts, 72. *See also*
accounting fraud

• K •

kickbacks, 70. *See also* accounting
fraud
knocking down inventory cost value,
154
KPMG, 315–316

• L •

language of financial statements, 33
last-in, first-out (LIFO) method,
150–152, 351
laws and regulations. *See also*
standards
federal audit requirements, 312–313
IRS (Internal Revenue Service), 66,
154–156
PCAOB (Public Company Accounting
Oversight Board), 65, 319–320, 354
Sarbanes-Oxley Act of 2002, 64–65,
319–320
lawsuits, reporting, 290
lawsuits, settling, 93
LCM (lower of cost or market) rule,
153–154, 351
leverage effect, 199–200
liabilities (financial)
versus assets, 36
balance sheets, 24
changes, effects on cash flow,
129–130
connection to expenses, 107
control benchmarks, 108
income tax payable, 114
short-term notes payable, 104
and solvency, 104–105
spontaneous, 115

liability accounts, 90
liability (personal), 174, 177
LIFO (last-in, first-out) method,
150–152, 351
LIFO liquidation gain, 298
limited partners, 174
liquid assets, 287
liquidating fixed assets. *See*
depreciation
liquidity, stocks, 169
list sales prices, effects on profit, 305
litigations, reporting. *See* lawsuits
LLCs (limited liability companies),
174–176, 178, 181–182
LLPs (limited liability partnerships),
175
long-term investments, 38
long-term resources. *See* fixed assets
loss leaders, 215
losses
extraordinary, 92–95, 338
statement of cash flows, 133
summary. *See* income statements;
P&L (profit and loss)
lower of cost or market (LCM) rule,
153–154, 351

• M •

management
conflicts with stockholders, 172
profiles, in financial statements, 255
responsibility statement in financial
statements, 255
role in accounting, 248–249
stock options, 158, 171
stockholders as, 168
use of budgets, 209–211, 213
management discussion and analysis
(MD&A), 255, 279
managerial accounting
accounting policies, choosing,
326–327
accounts payable, 300
accounts receivable status, 297

- accrued expenses payable, 300–301
 asset turnover ratio, 303
 bad debts, 297
 budgeting, 327–328
 capitalized fixed assets, 299–300
 cash, extraordinary demands, 297
 cash flow, 306–309
 cash limitations, 296–297
 cash out days, 296
 cash status, 296–297
 cost centers, 185
 CPA consulting services, 329
 critical factors, identifying, 328
 debt, interest-bearing, 302
 definition, 184, 351
 depreciation expense, 299–300
 executive summary of cash flows, 120–121
 fixed asset depreciation, 299–300
 fraud controls, reviewing, 329–330
 income tax payable, 301–302
 information overload, 294–295
 insurance summary report, 299–300
 inventory status, 298
 mining data, 294
 opportunity alerts, 294
 organizational structure, 184–185
 owners' equity, 303
 participating in reports, 330
 prepaid expenses, 298–299
 problem warnings, 294
 profit, 323–326
 profit centers, 185–186
 profit information, 304–306. *See also*
 income statement; P&L (profit
 and loss)
 profit performance. *See* P&L (profit
 and loss)
 sales prices, setting, 324–325
 stray receivables, 297
 talking the talk, 331
 window dressing, 296
 manufacturing costs. *See* costs,
 manufacturing; product costs
- margin
 definition, 352
 effects on profit, 304–305
 sales prices, setting, 225
 variations in meaning, 191
 margin per unit, 192–194, 199–202, 279
 margin ratios, 278–279
 marginal costs, 227
 market cap, 352
 market value, 117–118, 169–170
 markup on cost, 225
 massaging the numbers, 52. *See also*
 income smoothing
 master budget, 209–210
 MD&A (management discussion and
 analysis), 255, 279
 mining data, 294
 minus signs (-), negative numbers,
 3, 80
 modeling with budgets, 207–208
 money laundering, 71. *See also*
 accounting fraud
 multiyear statements, 105–106
 Munro, Margaret Atkins, 155
- **N** •
- negative accounts, 61
 negative (adverse) auditor opinion, 313
 negative cash flow, 133
 negative numbers, indicating, 3
 negotiable stocks, 167
 net earnings. *See* net income; profits
 net income. *See also* profits
 adjustments to, statement of cash
 flows, 124–125
 balance sheets, 114
 before...unusual gains and losses, 94
 versus cash flow, 125–131
 definition, 352
 income statements, 25, 34
 net income statements. *See* income
 statements
 net loss, 25

net operating assets, 288–289
 net operating earnings. *See* profits
 net profit. *See* net income; profits
 net realizable value, 153–154
 net worth, 36
 new products, effects on profit, 306
 non-cash assets, 107
 not-for-profit entities, 47

● 0 ●

object of expenditure basis, 187
 operating activities
 balance sheet transaction, 98–100
 cash flows from, 122, 132
 definition, 306, 352
 versus financing activities, 307
 versus investing activities, 307
 managing, 308–309
 retained earnings, 308
 operating costs, 81
 operating cycle, 104
 operating earnings. *See* operating profit
 operating expenses, P&L (profit and loss) report
 allocated fixed, 197
 cost behavior basis, 187–189
 cost of goods sold, 190, 196
 direct fixed, 188, 197
 fixed, 190–191, 197, 198, 199–200
 inventory shrinkage, 196–197
 object of expenditure basis, 187
 revenue-driven expenses, 188, 196–197
 variable expenses, 189–190, 196–197, 198
 volume-driven, 197
 operating liabilities, 352
 operating profit, 191–192
 operating statements. *See* income statements
 opportunity alerts, 294
 opportunity costs, 227
 outsiders, 15

owners' equity. *See also* statement of changes in owners'/stockholders' equity
 account types, 164
 balance sheet, 24, 37, 101–102
 book value, 284–285
 capital accounts, 284
 to debt ratio, 163
 definition, 352
 financing a business, 115–117
 invested capital accounts, 164
 managerial accounting, 303
 plowing back profits, 164
 profit as percent of. *See* ROE (return on equity)
 retained earnings account, 164, 284
 sources of, 115–117, 163–164
 ownership accounts, per partner, 176

● P ●

parentheses around numbers, 3
 partnerships, 174–176, 178, 181–182
 pass-through tax entities, 178, 182, 352–353
 patronage dividends, 177
 payroll, 20
 PCAOB (Public Company Accounting Oversight Board), 65, 319–320, 354
 PCs (professional corporations), 175
 P/E (price/earnings) ratio, 282–283, 353
 perceived shortages, 103–104
 performance evaluation, with budgets, 210–211
 period, definition, 57
 period costs, 231
Personal Finance For Dummies, 16
 persons, transactions with, 21–22
 P&L (profit and loss). *See also* income statement
 annual report, example, 188
 critical analysis, 192–194
 decision-making analysis, 198–199
 definition, 353

- example, 202–203
- overview, 186–187
- profit model, 207
- reading, tips for. *See* reading reports
- sales revenue, 195
- P&L (profit and loss), operating
 - expenses
 - allocated fixed, 197
 - cost behavior basis, 187–189
 - cost of goods sold, 190, 196
 - direct fixed, 188, 197
 - fixed, 190–191, 197, 198, 199–200
 - inventory shrinkage, 196–197
 - object of expenditure basis, 187
 - revenue-driven expenses, 188, 196–197
 - variable expenses, 189–190, 196–197, 198
 - volume-driven, 197
- P&L (profit and loss), profit
 - contribution margin, 191
 - EBIT (earnings before interest and tax), 191
 - fixed expenses, 190–191, 197–200
 - gross margin, 186, 191
 - increasing, 194, 199–202
 - leverage effect, 199–200
 - margin, 187, 191
 - margin per unit, 192–194, 199–202
 - operating, 191–192
 - sales price changes, 200–201
 - sales volume
 - definition, 189
 - for diverse products, 195
 - effects on profits, 194, 201–202
 - imbalance with production, 243
 - sources of, 192–193
 - total margin, 192
- planning, with budgets, 208–209
- plowing back profits, 85, 164
- positive cash flow, 133
- posting journal entries, 56–57
- pounce ratio. *See* acid-test ratio
- predatory pricing, 225
- preferred stock, 167–169, 353
- prepaid expense assets, 87–88
- prepaid expense changes, 127–128
- prepaid expenses, 111, 298–299, 353
- prepaying operating costs, 87–88
- price/earnings (P/E) ratio, 282–283, 353
- PricewaterhouseCoopers, 315–316
- primary capital market, 273
- principles-based standards, 49
- private companies
 - financial statements, 264–265
 - GAAP rules, *versus* public companies, 49–50
 - Private Company Financial Reporting Committee, 50
 - profits, 173
 - versus* public, 49–50, 274–275, 284–285
 - stockholders, 167, 169
- Private Company Financial Reporting Committee, 50
- problem warnings, 294
- procurement, responsibility for, 20–21
- product costs. *See also* costs,
 - manufacturing
 - calculating, 224, 236
 - definition, 353
 - inflation, 144
 - versus* period cost, 231
- production capacity, 237–239
- product-oriented businesses, 78–79, 186
- professional corporations (PCs), 175
- professional skepticism, 316–317
- profit centers, 185–186
- profit-making activities
 - accounts payable, 89–90
 - accounts receivable assets, 86
 - accrued expenses payable, 89–90
 - allied transactions, 91–92
 - asset accounts, 86–89
 - cost of goods sold, 87
 - fixed asset depreciation, 88–89
 - income tax payable, 89–90
 - inventory assets, 87
 - investments, 78
 - liability accounts, 90
 - prepaid expense assets, 87–88

- profit-making activities (*continued*)
 - prepaying operating costs, 87–88
 - sales on credit, 86
 - selling products, 78, 87
 - selling services, 78
 - statement of cash flows, 38
 - types of, 78
 - unpaid expenses, 89–90
 - profits. *See also* net income; P&L
 - (profit and loss)
 - actual, *versus* smoothed, 260–261
 - allocation, partnerships, 175–176
 - annual performance, 41–42
 - break-even point, 323–324
 - budgeted, 216–218
 - calculating, 84–86
 - versus* cash flow, 40–41, 325–326
 - cash flows from, 120, 133
 - cost of goods sold expense, 324
 - definition, 353
 - drivers, 183
 - EPS (earnings per share), 337–338
 - ethics of, 45
 - fixed costs, 323–324
 - gross. *See* gross margin
 - information for managers, 304–306
 - levers of, 183
 - for most recent period, 37
 - patronage dividends, 177
 - as percent of owners' equity. *See* ROE (return on equity)
 - as percent of sales. *See* return on sales
 - performance, 41–42, 83, 336–337
 - plowing back, 85
 - for product-oriented businesses, 78–79
 - ratio, computing, 280
 - retained earnings, 84–85
 - return on equity, 42
 - return on sales, 42
 - sharing with customers, 177
 - smoothing, 258–263
 - strategies, 216–218
 - summary. *See* income statements; P&L (profit and loss)
 - synonyms for, 80, 83
 - promotional material in financial statements, 255
 - property, plant, and equipment
 - account, 156. *See also* fixed assets
 - property accounting, responsibility for, 21
 - proxy statements, 267, 275–276, 354
 - public companies
 - definition, 167
 - financial statements, 263–264
 - versus* private, 49–50, 274–275, 284–285
 - profits, 173
 - stockholders, 167
 - Public Company Accounting Oversight Board (PCAOB), 65, 319–320, 354
 - publication delays, 101
- **Q** •
- qualified auditor opinion, 314
 - quality of earnings, 339, 354
 - quarterly profit summaries, 255
 - quick assets, 287
 - quick ratio, 354. *See also* acid-test ratio
- **R** •
- ratios, computing
 - acid-test ratio, 287–288
 - basic EPS, 282
 - book value, 284–285
 - book value per share, 284–285
 - capital utilization test, 289
 - current ratio, 287
 - diluted EPS, 281–282
 - dividend yield, 283
 - EPS (earnings per share), 280–282
 - financial leverage gain, 288–289
 - gross margin, 278–279
 - margin per unit, 279

- MD&A (management discussion and analysis), 279
net operating assets, 288–289
overview, 276–278
P/E (price/earnings), 282–283
profit, 280
quick, 354. *See also* acid-test ratio
ROA (return on assets), 288–289
ROE (return on equity), 286
total margin, 279
raw materials, 232
readers, of reports, 334
readers, of this book, 5–6, 14–15
reading reports
 active reading, 135–136
 aggressive *versus* conservative numbers, 139–141
 auditor’s reports, 291–292
 cash flow, *versus* profit, 339
 computing ratios. *See* ratios, computing
 condensed information, 275
 debt problems, 290
 diluted EPS, 290, 337
 earthquake mentality, 338
 educational aids, 336
 employee post-retirement benefits, 290
 EPS (earnings per share), 337–338
 extraordinary gains and losses, 338
 financial exigencies, 291
 fluffing the pillows, 139
 footnotes, 289–290
 frame of mind, 333–334
 fraud risks, 340–341
 gross margin ratio, 336
 How To Read A Financial Report, 4, 336
 income statements, 3
 lawsuits, litigations, investigations, 290
 private companies *versus* public, 274–275, 284–285
 profit performance analysis, 336–337
 proxy statements, 275–276
 quality of earnings, 339
 readers, types of, 334
 recognizing bias, 138–139
 reporting limits, 341–342
 restatement risks, 340–341
 segment information, 290
 selectively, 335
 statement of cash flows, 135–136
 stock options, 290
 warning signs, 340
rebates, effects on profit, 305
“record as you pay” method, 111
recordkeeping. *See* bookkeeping
related parties, 71
relevant costs, 226, 229–230
reliability, financial statements, 43–44
Remember icon, 9
replacement costs, 153–154, 227
reports. *See* financial reports; financial statements; *specific items*
reports, designing, 67–68
reports, reading
 active reading, 135–136
 aggressive *versus* conservative numbers, 139–141
 auditor’s reports, 291–292
 cash flow, *versus* profit, 339
 computing ratios. *See* ratios, computing
 condensed information, 275
 debt problems, 290
 diluted EPS, 290, 337
 earthquake mentality, 338
 educational aids, 336
 employee post-retirement benefits, 290
 EPS (earnings per share), 337–338
 extraordinary gains and losses, 338
 financial exigencies, 291
 fluffing the pillows, 139
 footnotes, 289–290
 frame of mind, 333–334
 fraud risks, 340–341
 gross margin ratio, 336

reports, reading (*continued*)

How To Read A Financial Report,
4, 336

income statements, 3

lawsuits, litigations, investigations,
290

private companies *versus* public,
274–275, 284–285

profit performance analysis, 336–337

proxy statements, 275–276

quality of earnings, 339

readers, types of, 334

recognizing bias, 138–139

reporting limits, 341–342

restatement risks, 340–341

segment information, 290

selectively, 335

statement of cash flows, 135–136

stock options, 290

warning signs, 340

restatement risks, 340–341

restructuring, effects of, 93

retained earnings

definition, 354

operating activities, 308

owners' equity, 84–85, 114

retained earnings accounts, 164, 284

retirement benefits, 157, 290

return on sales, 42

revenue

sales. *See* sales revenue

shifting, 71

timing, 260–263

revenue-driven expenses, 188, 196–197

right to sell, 167–168

ROA (return on assets), 288–289, 354

ROE (return on equity), 42, 286, 354

ROI (return on investment), 355

rounding figures, 4

rules. *See* laws and regulations;

standards

rules-based standards, 49

• S •

S corporations, 178, 180–181

salaries for accountants, 29

sales

on approval, 143

cash flows from, 122–123

characteristics, 307

on credit, 86

demand, inventory losses, 153–154

mix, budgets, 215

price changes, effects on profits,
200–201

prices, setting, 225, 324–325

profit as percent of. *See* return on
sales

returns, effects on profit, 305

sales, general, and administrative

(SG&A) expenses, 111–112

sales revenue

accounts receivable, 109

connection to assets, 107

effects on profit, 305–306

income statements, 3, 34, 80

overview, 195

recognition, 156–157

summary. *See* income statements

sales skimming, 70. *See also*

accounting fraud

sales volume

definition, 189

for diverse products, 195

effects on profits, 194, 201–202, 305

imbalance with production, 243

salvage value of assets, 133, 154

Sarbanes-Oxley Act of 2002, 64–65,
319–320

SEC (Securities and Exchange
Commission)

10-K form, 275

definition, 355

disclosure standards, 253

- EDGAR database, 157
online forms, 275
powers, 48
secondary capital market, 273
segment information, 255, 290
selling. *See also* sales
products, 78, 87
services, 78
stock, 167–170
SG&A (sales, general, and administrative) expenses, 111–112
shares. *See* stock shares
shifting revenue and expenses, 71
short-term notes payable, 104
Silverman, David J., 155
skimming sales, 70. *See also*
accounting fraud
Small Business Financial Management Kit For Dummies
corporate finance, 302
financial management, 302, 307
valuing a private business, 284
valuing a small business, 142, 170
small businesses, 65, 82, 170
software for accounting, 72–74
sole proprietorships, 176–177
solvency
current asset/liability ratio, 105
current assets, 104
current liabilities, 104–105
definition, 103, 355
involuntary bankruptcy, 103
judging, 103–105
operating cycle, 104
perceived shortages, 103–104
short-term notes payable, 104
tricks of the trade, 257–263
solvency, tricks of the trade
actual profits, *versus* smoothed, 260–261
compensatory effects, 259–261
completed contract method, 261
deferred maintenance, 262
deferring write-offs, 262
earnings management, 258–263
fluffing the cash balance, 257–258
profit smoothing, 258–263
timing revenue and expenses, 260–263
window dressing, 257–258
source documents, 55, 61–62
sources of assets, 24
special incentives, effects on profit, 305
splits, stock, 171
standard costs, 227, 231
standards
evolution of, 250–251
organizational, 58, 61–62
worldwide, 49
standards, U.S.
See also FASB (Financial Accounting Standards Board)
See also GAAP (generally accepted accounting principles)
See also laws and regulations
See also SEC (Securities and Exchange Commission)
AICPA (American Institute of Certified Public Accountants), 50, 319
audit committees, 320
Private Company Financial Reporting Committee, 50
public *versus* private companies, 49–50
rules-based method, 49
versus worldwide, 49
statement of assets, liabilities, and owners' equity. *See* balance sheets
statement of cash flows. *See also* financial statements; income statements
active reading, 135–136
adjustments to net income, 124–125
average size, 136

- statement of cash flows (*continued*)
 - versus* balance sheets, 102
 - bottom-line profit, 40
 - budgeted, 208
 - capital expenditures, 131–132
 - cash dividends, 134
 - cash flow categories, 38–39
 - cash flow from operating activities, 40
 - changes during the year, 125
 - contents, 38–40
 - debt, 133
 - definition, 355
 - direct reporting, 122–123
 - disclosure, 251–256
 - due diligence, 249
 - example, 39, 123–124
 - executive summary, 120–121
 - external sources, 132
 - financial imperatives, 37
 - financing, definition, 133
 - financing activities, 132–134
 - fixed assets, 131–133
 - free cash flow, 134–135
 - humor in, 256
 - importance of, 26–27
 - indirect reporting, 124–125
 - internal sources, 132
 - investing activities, 131–132
 - long-term investments, 38
 - losses, 133
 - management's role, 248–249
 - managing debt, 38
 - most important numbers, 40
 - negative flow, 133
 - from operating activities, 132
 - overview, 122–125
 - positive flow, 133
 - profit-making activities, 38
 - profits, 133
 - purpose of, 122, 249–250
 - reading, tips for. *See* reading reports
 - from sales and expenses, 122–123
 - standards and requirements, 250–251
- statement of changes in owners' equity
 - comprehensive income, 268
 - definition, 355
 - description, 267–269
 - equity sources, 267
 - example, 99–100
 - format, 269
- statement of changes in stockholders' equity
 - comprehensive income, 268
 - definition, 355
 - description, 267–269
 - equity sources, 267
 - example, 99–100
 - format, 269
- statement of earnings. *See* income statements
- statement of financial condition. *See* balance sheets
- statement of financial position. *See* balance sheets
- statement of operating results. *See* income statements
- statement of operations. *See* income statements
- stereotypes of accountants, 15–16
- stock options, 158, 171, 290
- stock shares
 - book entry form, 166–167
 - book value, 284–285
 - book value per share, 284–285
 - classes, 167–169
 - common stock, 167–169
 - dilution effect, 170–171
 - dividends, 167–168
 - EPS (earnings per share), 280–282
 - exercise price, 158, 171
 - issuing, 166–167
 - liquidity, 169
 - management stock options, 158, 171
 - market cap, 281
 - market value, determining, 169–170
 - negotiable, 167

- outstanding, 281
 - preferred stock, 167–169
 - right to sell, 167–168
 - selling, 169–170
 - splits, 171
 - strike price, 158, 171
 - treasury stock, 282
 - stockholders, 167–169, 172
 - straight-line depreciation, 145, 155–156
 - stray receivables, 297
 - strike price, 171
 - structuring a business. *See* business entities
 - stubs, 20
 - summaries. *See* condensed financial statements
 - sunk costs, 230
 - supplementary schedules and tables, 252
 - suppliers, transactions with, 21, 23
 - sweat equity, 162
- **T** •
- taxable entities, structuring for income tax, 178
 - Taxes For Dummies*, 155
 - Technical Stuff icon, 9
 - 10-K form, 262, 275, 335
 - theft, 64, 153–154
 - Tip icon, 9
 - tone, financial statements, 33
 - total margin, 192, 279
 - Tracy, Tage C.
 - corporate finance, 302
 - financial management, 302, 307
 - valuing a private business, 284
 - valuing a small business, 142, 170
 - transactions
 - business persons or entities, 21–22
 - definition, 98
 - events, 22–23
 - financial effects, 56
 - in financial statements, 99
 - financing activities, 98–100
 - investing activities, 98–100
 - operating activities, 98–100
 - types of, 98–100
 - transmittal (cover) letter, 254
 - trend analysis, from balance sheets, 106
 - tricks of the trade. *See also* accounting fraud
 - actual profits, *versus* smoothed, 260–261
 - bending the rules, 51–52
 - big-bath strategy, 95
 - channel stuffing, 143
 - compensatory effects, 259–261
 - completed contract method, 261
 - cooking the books. *See* accounting fraud
 - creative accounting, 52
 - deferred maintenance, 262
 - deferring write-offs, 262
 - earnings management, 258–263
 - fluffing the cash balance, 257–258
 - fluffing the pillows, 139
 - income smoothing, 52, 350
 - juggling the books. *See* accounting fraud
 - knocking down inventory cost value, 154
 - massaging the numbers, 52
 - profit smoothing, 258–263
 - shifting manufacturing costs to the future, 240–241
 - taking advantage of discontinuities, 95
 - timing revenue and expenses, 260–263
 - window dressing, 142–143, 257–258
 - truing up statements, 170
 - turning over assets, 108
 - turnover analysis of inventory, 298
 - Tyson, Eric, 16, 155, 273

• *U* •

underlined numbers, 3, 4, 80
unfavorable budget variances, 211
unpaid expenses, 89–90, 111
unqualified (clean) auditor opinion,
313–314
URLs, breaking across lines, 4

• *V* •

valuation, 169–170, 226
variable costs, 227, 229, 355
variable operating expenses, 189–190,
196–197, 198
variable overhead, 232
vendors, transactions with, 21, 23
volume-driven operating expenses, 197
voting rights, stockholders, 168–169

• *W* •

Warning icon, 9
window dressing
cash balance, 142–143, 257–258
cash flows, 147
definition, 355
financial statement differences,
142–143, 147
managerial accounting, 296
write-offs, deferring, 262
writing down damaged and impaired
assets, 93, 95

