

Table of Contents

Area I	1
Content Group A. Nature and Scope	1
Content Group B. Ethics, Independence and Professional Conduct	1
Topic B1. AICPA Code of Professional Conduct	1
AICPA Principles of Conduct	2
Part 1: Members in Public Practice	6
Conceptual Framework for Members in Public Practice (1.000.010)	6
Ethical Conflicts	10
Integrity and Objectivity Rule (1.100)	11
Conflict of Interest	11
Identifying Conflicts of Interest (1.110.010.05 - .08)	11
Evaluating Conflicts of Interest (1.110.010.09 - .11)	11
Disclosure Conflicts of Interest (1.110.010.12 - .18)	12
Gifts and Entertainment (1.120)	12
Misrepresentation of Facts (1.130.010)	12
Subordination of Judgment (1.130.020)	13
Independence Rule (1.200)	13
Assessment of Threats and Safeguards	15
Events that Impair Independence	17
Effects of the Impairment of Independence	26
General Standards Rule (1.300)	26
Compliance with Standards Rule (1.310)	27
Accounting Principles Rule (1.320)	27
Acts Discreditable Rule (1.400)	28
Contingent Fees Rule (1.510)	33
Commissions and Referral Fees Rule (1.520)	34
Advertising and Other Forms of Solicitations Rule (1.600)	35
Confidential Information Rule (1.700)	35
Form of Organization and Name Rule (1.800)	35
Part 2: Members in Business	36
Part 3: Other Members	37
Topic B2. Requirements of SEC and PCAOB	37
Sarbanes-Oxley Act and the PCAOB	37
Topic B3. Requirements of the GAO and DoL	44
Generally Accepted Government Auditing Standards	45
GAO Independence Requirements	45

The Department of Labor (DOL)	46
Content Group C. Terms of Engagement	46
Changing the Level of Service	47
Communications with Predecessor Auditor (AU-C 210 and AU-C 510)	47
Engagement Letters (AU-C 210)	49
Content Group D. Requirements for Engagement Documentation	51
Sufficiency of Evidence	51
Appropriateness of Evidence	51
Impact of Constraints of Evidence on Sufficiency	52
Working Papers	52
Form, Content and Nature of the Work Documentation	53
Sufficiency of Documentation	54
Working Paper Preparation and Retention	55
Content Group E	56
Communication with Management and Those Charged with Governance	56
Topics of Communication	57
Communication of Internal Control Related Matters	58
Content Group F	63
Communication with Component Auditors and Other Parties	63
Content Group G. A Firm’s System of Quality Control	64
Documentation and Communication of Quality Control Policies and Procedures	64
The Elements of Quality Control	65
Area II	71
Content Group A. Planning the Engagement (AU-C 300)	71
Content Group B. Understanding and Entity and Its Environment (AU-C 315)	76
Content Group C. Understanding an Entity’s Internal Control	81
Limitations of Internal Controls	82
Influences of Internal Controls	83
Components of Internal Control	84
Considering Internal Controls in Planning the Audit	88
Assessing the Risk of Material Misstatement	90
Document the Understanding of the Entity’s Internal Control	91
IT General and Application Controls	92
Content Groups D and E. Fraud	96
Responsibility to Prevent and Detect Fraud	97
Procedures Related to Fraud	98
Content Group F. Materiality (AU-C 320)	105
Content Group G. Planning and Using the Work of Others	109

Topic 1. The Internal Audit Function (AU-C 610)	109
Topic 2. Specialist (AU-C 620)	112
Topic 3. Component Auditors (AU-C 600)	113
Content Group H. Specific Areas of Engagement Risk	115
Topic 1. Compliance with Laws and Regulations	115
Topic 2. Accounting Estimates (AU-C 540)	118
Topic 3. Related Parties and Related Party Transactions (AU-C 550)	121
Area III	124
Content Group A. Understanding Sufficient Appropriate Evidence (AU-C 330)	124
Sufficiency of Evidence	124
Appropriateness of Evidence	125
Impact of Constraints of Evidence on Sufficiency	125
Content Group B. Sampling Techniques (AU-C 530)	126
Sampling Risk	127
Types of Sampling	128
Determining Sample Size	129
Attribute (Control) Sampling	130
Variables Sampling	131
Classical Sample Selection Methods	132
Sampling Methodology	133
Content Group C. Performing Specific Procedures to Obtain Evidence	139
Topic 1. Analytical Procedures	139
Performing Substantive Analytical Procedures	140
Reliability of the Information Used and Predictability of the Relationship	140
Following Up Analytical Procedures	141
Analytical Procedures at the Overall Review Stage	141
Topic 2. External Confirmations	142
Topic 3. Inquiry and Management and Others (AU-C 500)	144
Topic 4. Observation and Inspection (AU-C 500)	145
Topic 5. Recalculation and Reperformance (AU-C 500)	146
Topic 6. All Other Procedures	146
Content Group D. Specific Matters that Require Special Consideration	147
Topic 1. Opening Balances (U-C 310)	147
Topic 2. Investments in Securities and Derivatives	148
1. Investments in Securities When Valuations Are Based On Cost	148
2. Investments in Securities When Valuations Are Based On the Investee's Financial Results	149

3. Investments in Derivatives and Securities Measured or Disclosed At Fair Value	149
4. Impairment Losses	150
Topic 3. Physical Observation of Inventory and Inventory Held by Others	150
Evidence Regarding Inventory	152
Topic 4. Litigation, Claims and Assessments (AU-C 501)	152
Audit Procedures	153
Topic 5. Ability to Continue as Going Concern (AU-C 570)	156
Topic 6. Accounting Estimates, including Fair Value Estimates (AU-C 540)	158
Content Group E. Misstatements and Internal Control Deficiencies	161
Misstatements	161
Internal Control Deficiencies	164
Content Group F. Written Representations (AU-C 580)	166
Content Group G.	171
Subsequent Events and Subsequently Discovered Facts (AU-C 560).....	171
1. Subsequent Events	171
2. Discovering Facts BEFORE the Report Is Issued	172
3. Discovering Facts AFTER the Report Is Issued	172
4. Consideration of Omitted Procedures (AU-C 585)	173
Area IV	174
Group A. Reports on Auditing Engagements	174
Topic 1. Forming an Audit Opinion, Including Modifications	174
Topic 2. Form and Content of an Audit Report,	174
A. Overview of Types of Opinions	175
Unmodified Opinions	175
Modified Opinions	175
B. Unmodified Opinions.....	176
Standard Unmodified Opinion	176
C. Unmodified Opinions.....	179
Emphasis of Matter Paragraphs	179
Other-Matter Paragraphs	180
D. Modified Opinions.....	182
D1. Qualified Opinion (AU-C 705)	182
D2. Adverse Opinion (AU-C Section 705)	183
D3. Disclaimer of Opinion (AU-C Section 705)	184
The Modified Audit Report (Relevant to Qualified, Adverse and Disclaimer Opinions)	185
Sample Modified Opinions	188
E. The Date of the Auditor’s Report (AU-C 700.41).....	194
F. Reports on Comparative Financial Statements (AU-C 700.44-57).....	194

Changing Opinion from One Period to the Next	195
Current Auditor Did Not Audit the Prior Period	195
Prior Period Financial Statements Not Audited	196
G. Consistency of Financial Statements (AU-C 708)	199
Topic 3. Examinations of Internal Control	201
Content Group B. Reports on Attestation Engagements	211
Topic 1. General Standards for Attestation Engagements	212
Examination and Review Reports	215
Topic 2. Agreed-Upon Procedures Reports (AT 201)	219
Topic 3.	221
Audit Considerations Relating to an Entity Using a Service Organization (AU-C 402)	222
Reporting on Controls at a Service Organization (AT-801)	223
Group C. Accounting and Review Service Engagements	224
Topic 1. Preparation Engagements	226
Topic 2: Compilation Reports (AR-C 80)	227
Accepting an Engagement	227
Establish an Understanding with the Client	227
Considering Change in the Engagement	229
Usage of Reports by Third Parties	229
Topic 3. Review Reports (AR-C 90)	232
Knowledge of Industry and Entity	232
Procedures for Review	232
Review Report	233
Subsequent Discovery of Facts Existing at the Date of Review Report	234
Reporting Issues for Both Compilations and Reviews	235
Compilation & Review of Comparative Financial Statements	236
Summary of Compilation, Review and Audit	237
Group D. Reporting on Compliance	238
Compliance with Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements (AU-C 806)	238
Reports on Compliance with Laws and Regulations (AT 601)	239
Group E. Other Reporting Considerations	242
Topic 1.	243
Topic 2.	243
Topic 3. Review of Interim Financial Information (AU-C 930)	245
Topic 4. Supplementary Information (AU-C 725)	249
Required Supplementary Information (AU-C 730)	251
Topic 5. Single Statements (AU-C 805)	253
Topic 6. Special-Purpose and Other Country Frameworks (AU-C 800)	257

1. Financial Statements in Conformity with Special Purpose Frameworks (AU-C 800)	257
2. Reporting on Financial Statements for Use in Other Countries (AU-C 910)	259
Topic 7. Letters for Underwriters and Filings with the SEC (AU-C 920)	260
Topic 8. Alerts that Restrict Use of Written Communication (AU-C 905)	264
Topic 9. Additional Reporting Requirements Under the GAO and.....	265
Government Auditing Standards	265
Governmental Auditing Purpose	266
Governmental Auditing Standards	266
Governmental Auditing	267
Internal Control Report	267
Compliance with Laws and Regulations	268
The Single Audit Act – OMB A-133	268

Table of Contents

Area I. Corporate Governance	1
Group A. Internal Control Frameworks	1
Introduction to Internal Control	1
Definition of Internal Control	1
Fundamental Concepts of Internal Control	3
Who Is Responsible for Internal Control?	4
COSO Report: Internal Control – Integrated Framework	5
Components of Internal Control	5
Effective Internal Control	15
Limitations of Internal Control	15
Corporate Governance	16
Defining Governance	16
Principles of Good Governance	19
Cornerstones of Good Corporate Governance	21
Group B. Enterprise Risk Management	22
Risk Management	22
Benefits of Risk Management	22
Types of Risk	23
Internal and External Risk	24
The Risk Management Process	24
Enterprise Risk Management (ERM)	30
The Role of Portfolio Management in an ERM Program	30
Corporate Governance and Enterprise Risk Management	32
Enterprise Risk Management and Achievement of Objectives	33
Components of an Enterprise Risk Management System	33
Component 1: Internal Environment	34
Component 2: Objective Setting	34
Component 3: Event Identification	34
Component 4: Risk Assessment	35
Component 5: Risk Response	35
Component 6: Control Activities	36
Component 7: Information and Communication	36
Component 8: Monitoring	36
Cost-Benefit Analysis In Risk Assessment and Decision Making	38
Group C. Other Regulatory Frameworks and Provisions	39
Foreign Corrupt Practices Act (FCPA)	39
Sarbanes-Oxley Act	40

Whistleblower Legislation in Sarbanes-Oxley and Dodd-Frank	44
Area II: Economic Concepts and Analysis	46
A. Changes in Economic and Business Cycles – Economic Measures / Indicators .	46
Economics Overview	46
Microeconomics	47
Demand	47
Price Elasticity of Demand	52
Cross Elasticity of Demand (Substitute or Complementary Goods)	58
Income Elasticity of Demand (Normal or Inferior Goods)	59
Utility Theory: The Benefit Derived by the Consumer	60
The Indifference Curve: What the Consumer Wants to Buy	62
Budget Constraints: What the Consumer is Able to Buy	64
Supply	66
Elasticity of Supply	68
Individual Market Equilibrium	70
Production Costs	78
Economic Profit versus Accounting Profit	80
Short-Run Versus Long-Run Costs	83
Marginal Costs and Average Costs	83
Production Costs in the Long Run	86
Market Structures	88
Governmental Regulation	101
Antitrust Regulations	102
Economic Measures	102
Methods of Calculating the Value of US Output	103
Economic Growth	110
Business Cycles	112
Economic Indicators	115
Money and the Economy	118
The Money Supply	119
Demand for Money	119
Banks and Deposit Creation	121
Government and the Economy: Monetary Policy in the US	124
Functions of the Federal Reserve	125
Unemployment and the Economy	128
Types of Unemployment	128
Costs of Unemployment	129
Full Employment and the Natural Rate of Unemployment	129
Government and the Economy: Fiscal Policy	129

Inflation and the Economy	133
Deflation and the Economy	137
Macroeconomic Theories	138
International Trade	140
Multinational Corporations (MNCs)	140
Trade Barriers	142
The Nature and Theory of Foreign Exchange	147
B. Market Influences on Business Strategies	160
Fixed Versus Variable Cost Inputs	167
Product-Mix Decisions Under Constraints	168
Competitive Advantage and the Value Chain	169
Group C. Financial Risk Management	174
Financial Risks	174
Mitigating and Controlling Financial Risks	176
1) Mitigating and Controlling Borrowing Risks	176
2) Mitigating and Controlling Investing Risks	180
3) Mitigating and Controlling Transaction Risks	206
Area III. Financial Management	212
Group A: Capital Structure	212
Bonds	214
The Bond Instrument	217
Equity	224
Cost of Capital	231
Raising Capital	242
Group B: Working Capital.....	250
Analyzing Working Capital	250
Managing Working Capital	254
The Operating Cycle	257
Cash Flow Management	259
Marketable Securities Management	264
Accounts Receivable Management	269
Inventory Management	272
Short-Term Financing	279
Group C: Financial Valuations	288
Fair Value	289
The Fair Value (Appropriate Price) of a Share of Stock	290
Valuing Businesses, Business Segments, and Business Combinations	295
Valuing Debt Issues (Bonds)	303
Capital Budgeting: Valuing Potential Investment Projects.....	306

Introduction to Capital Budgeting	306
Capital Budgeting Process	306
The Stages in Capital Budgeting	307
Identifying and Calculating the Relevant Cash Flows	309
Example of Calculation of After-Tax Relevant Cash Flows	314
Capital Budgeting Methods	316
Discounted Cash Flow Methods	320
The Profitability (or Excess Present Value) Index	329
Capital Rationing in Capital Budgeting	331
Summary and Review of Relevant Cash Flows	332
Risk in Capital Budgeting	333
Real Options in Capital Budgeting	340
The Qualitative Factor in Capital Budgeting Decisions	342

Table of Contents

Area IV: Information Technology	1
Information Technology Governance	1
Role of IT in Supporting the Organization's Vision and Strategy	2
IT Risk Assessment	2
Information Systems	4
Business Information Systems	5
Summary of Information Systems	6
MRP, MRPII, and ERP Systems	6
Information Security.....	13
Threats to Information Systems	13
Cybercrime	14
Introduction to Systems Controls.....	17
The Classification of Controls	19
Logical and Physical Controls	20
Application Controls (Processing Integrity)	25
Controls Classified as Preventive, Detective and Corrective	30
Controls Classified as Feedback, Feedforward and Preventive	30
Business Continuity Planning.....	31
Disaster Recovery	32
Systems Development and Maintenance	33
Program Development and Documentation Controls	37
Area V. Operations Management	42
Group A. Measures of Performance Management.....	42
Responsibility Centers and Reporting Segments	44
Evaluating the Manager vs. Evaluating the Business Unit	45
Allocation of Common Costs	46
The Contribution Income Statement Approach to Evaluation	48
Transfer Pricing	51
Performance Measurement.....	56
Financial Performance Measures	56
Nonfinancial Performance Measures	62
Balanced Scorecard	62
Group B. Cost Accounting.....	69
Classifications of Costs	69
The Difference Between Costs and Expenses	69
Direct Versus Indirect Costs	69
Costs Based on Level of Activity (Fixed, Variable and Mixed Costs)	70

Production vs. Period Costs	73
Cost of Goods Sold (COGS) and Cost of Goods Manufactured (COGM)	76
Costing Systems	78
Introduction to Cost Measurement Systems	78
Introduction to Cost Accumulation Methods	83
Direct Material and Direct Labor Variances	84
What Causes Manufacturing Input Variances?	85
Direct Materials Variances	85
Direct Labor Variances	88
Overhead Allocation.....	89
Manufacturing Overhead Allocation	90
Traditional (Standard) Allocation Method	91
The Process of Accounting for Factory Overhead	95
Over-Applied and Under-Applied Manufacturing Overhead	96
Manufacturing Overhead Variances	98
Total Manufacturing Overhead Variance (Fixed and Variable)	99
Variable Overhead (VOH) Variances	99
Fixed Overhead (FOH) Variances	102
The <i>Total Overhead Flexible Budget Variance</i>	104
Summary Table of Manufacturing Variance Calculations	106
Process Costing	107
Steps in Process Costing	108
Process Costing Summary	116
Job-Order Costing.....	117
Operation Costing	117
Activity-Based Costing	118
Life-Cycle Costing	123
Joint Products and Byproducts	124
Methods of Allocating Costs to Joint Products	124
Accounting for Byproducts	129
Variable and Absorption Costing.....	130
Fixed Factory Overheads Under Absorption Costing	130
Fixed Factory Overheads Under Variable Costing	130
Effects of Changing Inventory Levels	131
Income Statement Presentation	132
Shared Services Cost Allocation	134
Allocating Costs of <i>Multiple</i> Service or Support Departments	135
Group C. Process Management	139
Business Process Reengineering	140

Benchmarking Process Performance	141
The Concept of <i>Kaizen</i> : Continuous Improvement	142
Management Philosophies and Techniques for Process Improvement	143
Lean Manufacturing	143
Just-in-Time (JIT) Production and Inventory Management Systems	145
<i>Kanban</i>	147
Demand Flow Technology (DFT)	148
Integrated Information Systems: Materials Requirements Planning (MRP)	148
Outsourcing	149
Shared Services and Global Business Centers	150
Theory of Constraints (TOC)	151
Quality and The Costs of Quality	155
Total Quality Management (TQM)	157
Six Sigma	158
ISO 9000	160
Quality Management and Productivity	160
Other Quality Related Issues	161
Group D. Planning Techniques	162
Budgeting, Analysis and Coordinating Planning Information.....	162
The Relationship Among Planning, Budgeting, and Performance Evaluation	162
Advantages of Budgets	163
Time Frames for Budgets	165
Methods of Developing the Budget	166
Who Should Participate in the Budgeting Process?	166
The Budget Development Process	166
Best Practice Guidelines for the Budget Process	167
Budgetary Slack and Its Impact on Goal Congruence	169
Responsibility Centers and Controllable Costs	170
Standard Costs Used in Budgeting	170
Budget Methodologies	172
The Budgeting Cycle	172
Budget/Profit Planning Manual	172
The Annual/Master Budget or Profit Plan	173
The Master Budget	173
Development of the Master Budget	174
Flexible Budgets	186
Other Types of Budgets	188
Project Budgeting	188
Activity-Based Budgeting (ABB)	189
Zero-Based Budgeting versus Incremental Budgeting	189

Continuous (Rolling) Budgets	190
Ongoing Budget Reports	190
Forecasting and Projection: Top-Level Planning and Analysis	191
Pro Forma Financial Statements	191
Forecasting for Planning	192
Analysis of Pro Forma Financial Statements	202
Other Uses of Pro Forma Financial Statements	204

Table of Contents

Area I: Conceptual Framework, Standard-Setting, and Financial Reporting	1
Group A. Accounting Standard Setting Bodies and Processes	1
Topic 1. Conceptual Framework	1
1. Conceptual Framework – Financial Reporting by Business Entities.....	1
Concepts Statement 8, Ch. 1: The Objective of Financial Reporting	2
Concepts Statement 6: Elements of Financial Statements	2
Concepts Statement 8, Ch. 3: Qualitative Characteristics of Useful Accounting Information	4
Concepts Statement 5: Recognition, Measurement, and Disclosure Concepts	5
Concepts Statement 7: Using Cash Flow Information and Present Value in Accounting Measurements	10
2. Conceptual Framework –	10
Financial Reporting by Not-For-Profits (Nongovernmental) Entities	10
Concepts Statement 4: Objectives of Financial Reporting by Nonbusiness Organizations	11
3. Conceptual Framework –	13
Financial Reporting by State and Local Government Entities.....	13
Concepts Statement No. 1: Objectives of Governmental Financial Reporting	13
Concepts Statement No. 3: Communication Methods in Basic Financial Statements	14
Concepts Statement No. 4: Elements of Governmental Financial Statements	14
Concepts Statement No. 6: Measurement of Elements of Financial Statements	15
Concepts Statement No. 2 (Amended): Service Efforts and Accomplishments	15
Topic 2. Standard-Setting Process	16
1) The U.S. Securities Exchange Commission (SEC)	16
2) The Financial Accounting Standards Board (FASB)	18
3) The Governmental Accounting Standards Board (GASB)	19
Group B. General Purpose Financial Statements:.....	21
For-Profit Business Entities	21
Topic 1. The Balance Sheet (Statement of Financial Position).....	21
Elements of the Balance Sheet	21
Current and Non-current Classification of Assets and Liabilities	22
Topic 2. The Income Statement (Statement of Profit or Loss).....	27
Elements of the Income Statement	29
Other Income Statement Items	30
Uses of the Income Statement	31
Limitations of the Income Statement	31
Topic 3. Statement of Comprehensive Income	32
Topic 4. Statement of Changes in Stockholders' Equity.....	34
Topic 5. The Statement of Cash Flows	35

Classification within the Statement of Cash Flows	35
Noncash Investing and Financing Activities	36
Uses of the Statement of Cash Flows	36
Limitations of the Statement of Cash Flows	37
Topic 6. Notes to Financial Statements	37
Topic 7. Consolidated and Combined Financial Statements	39
Consolidated Financial Statements	39
Combined Financial Statements	41
Topic 8. Discontinued Operations	42
Topic 9. Going Concern	42
Group C. General Purpose Financial Statements:	43
Nongovernmental, Not-for-Profit Entities	43
Group D. The SEC and Its Reporting Requirements	44
Reporting Requirements	44
SEC Filings and the SEC's Integrated Disclosure System	45
Segment Reporting	47
Earnings Per Share	49
Group E. Financial Statements of Employee Benefit Plans	49
Statement of Net Assets Available for Benefits	50
Statement of Changes in Net Assets Available for Benefits	51
Statement of Accumulated Plan Benefits – Defined Benefit Plans	51
Statement of Benefit Obligations – Health and Welfare Benefit Plans	52
Notes to the Financial Statements	52
Group F. Special Purpose Frameworks (SPF)	52
1. Cash Basis	53
2. Modified Cash Basis	54
3. Income Tax Basis	54
Area II. Select Financial Statement Accounts	56
Group A. Cash and Cash Equivalents	56
Cash	56
Cash Equivalents	59
The Bank Reconciliation	59
Group B. Trade Receivables	61
Discounts and Initial Recording of the Account Receivable	61
Determining the Receivable Amount and Valuing the Receivable	64
Sales Returns	71
Customer Deposits	71
Receivables as an Immediate Source of Cash	72

Group C. Inventory	78
Classifications of Inventory	78
Valuing the Inventory When It Is Purchased	78
What Goods Are Included in Inventory	79
What Costs Are Included in Inventory	80
Standard Inventory Calculations	80
Determining Which Item Is Sold – Cost Flow Assumptions	82
Effect of the Different Methods	86
The Frequency of Determining Inventory Balances	86
The Physical Inventory Count	92
Errors in Inventory	93
Dollar-Value LIFO	95
Recognizing Permanent Declines through the Lower of Cost or Market (LCM)	101
Estimating Inventory	103
Group D. Property, Plant and Equipment.....	114
Valuation at Acquisition	114
Capitalization of Interest on Internally-Constructed Assets	116
Depreciation	121
Subsequent Expenditures	128
Acquisition and Disposal by Exchange	128
1. Accounting for Exchanges that HAVE Commercial Substance	130
2. Accounting for Exchanges That LACK Commercial Substance	130
Summary of Exchange of Fixed Assets	135
Impairment of Long-Lived Assets to be Held and Used	137
Disposals of Long-Lived Assets	138
Group E. Investments	141
1. The Cost Method	142
Debt Securities	142
Equity Securities	142
Issues in Accounting for Marketable Securities	143
2. The Fair Value Method Option.....	150
The Fair Value Option for Available-for-Sale and Held-to-Maturity	150
The Cost Method Compared and Contrasted with the Fair Value Method	153
Cost Method Summary	154
3. The Equity Method	155
When to Use the Equity Method	155
Acquisition of the Equity Method Investment	155
Post-Acquisition Events	155
Changes in Level of Ownership or Degree of Influence	159
Group F. Intangible Assets – Goodwill and Other	160

1. Initial Recording of the Intangible Asset	161
2. Amortization and Accounting Treatments of Intangibles	161
Patents	162
Trademarks, Trade names and Copyrights	162
Franchises	162
Leasehold Improvements	163
Goodwill	163
Presentation of Intangible Assets	164
3. Impairment of Intangible Assets	164
Impairment of Limited-Life Intangible Assets	164
Impairment of Indefinite-Lived Intangible Assets Other Than Goodwill	164
Impairment of Goodwill	165
Group G. Payables and Accrued Liabilities	167
Definitely Determinable Liabilities	167
Accounts Payable	167
Short-Term Interest-Bearing Notes Payable	167
Short-Term Zero-Interest-Bearing Notes	168
Current Maturities of Long-Term Debt	169
Dividends Payable	170
Unearned Revenue	170
Customer Advances and Deposits Received	170
Sales Taxes Payable	170
Income Taxes Payable	171
Estimated Liabilities	171
Compensated Absences	172
Warranties	172
Premiums and Coupons	174
Asset Retirement Obligation	175
Exit or Disposal Activities	177
Group H. Long-term Debt (Financial Liabilities)	178
Long-Term Notes Payable	178
Bonds Payable	181
Accounting for Bonds Payable	183
Troubled Debt Restructurings	200
Group I. Equity	203
1. Overview of Owners' Equity	203
Corporate Shareholders' Equity	203
2. Common Stock	204
Types of Common Stock	204
Rights and Expectations of Common Shareholders	204

Issuing Common Stock	206
Issuance of Shares for Property or Services	206
Share Issuance Costs	206
3. Subscription of Shares	207
4. Common Stock Dividends	208
A. Cash Dividends	208
B. Property Dividends	209
C. Scrip Dividends	209
D. Liquidating Dividends	210
E. Stock Dividends	210
5. Stock Splits	211
Stock Splits for the Shareholder	212
Similarities and Differences Between Stock Dividends and Stock Splits	212
6. Preferred Stock	212
Types of Preferred Shares	213
7. Preferred Dividends	214
Cumulative Preferred Dividends	214
Noncumulative Preferred Dividends	214
Participating Preferred Shares	214
8. Classification of Shares	215
Authorized Shares	215
Issued Shares	215
Outstanding Shares	215
9. Treasury Stock	216
Accounting for Treasury Stock	216
Recognition of Gain or Loss on Treasury Stock Transactions	217
The Cost Method	217
The Par Value Method	218
General Treasury Stock Summary	220
Constructive Retirement Method	221
10. Retained Earnings	223
11. Quasi-Reorganization	224
12. Stock Rights	225
13. Employee Stock Ownership Plans (ESOP)	226
Group J. Revenue Recognition	227
Specific Revenue/Profit Recognition Situations	227
1. Revenue Recognized at the Completion of Production	227
2. Installment Method of Profit Recognition	228
3. Cost Recovery Method of Profit Recognition	232

4. Revenue Recognition When the Right of Return Exists	234
5. Sales with Buyback Agreements	235
6. Channel Stuffing and Trade Loading	235
7. The Deposit Method	236
8. Consigned Goods.....	236
9. Long-Term Construction Contracts.....	237
Completed Contract Method	237
Percentage-of-Completion Method	238
Journal Entries for Long-Term Contracts	240
Reporting Long-Term Contracts on the Balance Sheet	240
Recognizing Losses on Long-Term Contracts	242
Earnings Per Share	245
Income Available to Common Stockholders (IAC)	245
Weighted Average Number of Common Shares Outstanding (WANCSO)	247
Basic Earnings Per Share	252
Diluted Earnings Per Share (DEPS)	253
Options and Warrants	254
Convertible Securities	255
DEPS Calculation	255
EPS Disclosures	263
Group K. Compensation and Benefits.....	264
Topic 1. Compensated Absences	264
Topic 2. Retirement Benefits	264
Pensions	264
Types of Pension Plans	265
Pension Terminology	266
Five Main Components of Pension Expense	268
1. Service Cost	268
2. Interest Cost	268
3. Expected Return on Plan Assets	269
4. Amortization of Unrecognized Prior Service Costs	269
5. Amortization of Gains and Losses on Differences in Actuarial Assumptions	270
Unrecognized Transition Net Obligation/Asset	272
The Pension Journal Entry (Again).....	273
Pension Liability Disclosures	274
Other Postretirement Benefits	276
Accounting for Settlements and Curtailments	276
Accounting for Termination Benefits	277
Pension and Other Post Retirement and Postemployment	277

Benefit Disclosures	277
FASB ASC 715 – Disclosures for Pensions	277
FASB ASC 712 <i>Compensation-Nonretirement Post-Employment Benefits</i>	279
Pension Accounting Example	280
Topic 3. Stock Compensation	286
Compensatory or Noncompensatory?	286
Liability or Equity?	286
Accounting for Share-Based Compensation Plans	287
1. Stock Option Plans	288
Accounting Stock Option Plans	289
2. Stock Appreciation Rights	291
3. Restricted Stock	293
Employee Stock Purchase Plan (ESPP)	295
Employee Stock Ownership Plans (ESOP)	295
Group L. Income Taxes	296
Deferred Taxes	296
Temporary Timing Differences	298
Deferred Tax Asset, or Prepaid Taxes	299
Deferred Tax Liability, or Taxes Payable	300
Presentation on the Income Statement	300
Calculation of Deferred Income Tax Expense or Benefit	301
Calculation of the Deferred Tax Asset or Liability	301
Presentation of Deferred Tax Assets and Liabilities on the Balance Sheet	304
Permanent Timing Differences	305
Treatment of Net Operating Losses	306
Intra-period Tax Allocation	307
The Statement of Cash Flows (SCF)	308
Classification Within the SCF	308
Cash Flows from Operating Activities	308
Cash Flows from Investing Activities	309
Cash Flows from Financing Activities	309
Cash Equivalents on the Statement of Cash Flows	310
Preparing the Statement of Cash Flows	311
Overview of the Two Methods	311
Format of the Statement of Cash Flows	312
The Direct Method	313
Direct Method Adjustments	313
Cash Collected from Customers	313
Cash Paid to Suppliers	315
Depreciation, Bad Debt Expense, Gains and Losses	316

Deferred Taxes	316
Amortization of Bond Premium or Discount	317
The Indirect Method	318
1. Eliminate Noncash Income Statement Items	318
2. Eliminate Investing and Financing Activity Events Included in the Income Statement	318
3. Individual Account Adjustments	319
General Rule for Operating Activity Asset and Liability Accounts	320
4. Cash Flows from the Purchase, Maturity and Sale of Trading Securities	321
Disclosures Under the Indirect Method	321
Cash Flows from Investing Activities	322
Cash Flows from Financing Activities	323

Table of Contents

Area III. Select Transactions	1
Group A. Accounting Changes and Error Corrections	1
Detecting Accounting Errors	1
Investigating Accounting Errors	2
Correcting Identified Errors	4
Three Methods of Accounting for Changes or Corrections	4
Five Types of Accounting Changes and Corrections	5
1) Change in Accounting Principle – <i>Retrospective Application</i>	5
2) Change in Reporting Entity – <i>Retrospective Application</i>	7
3) Change in Accounting Estimate – <i>Prospective Adjustment</i>	8
4) Change in Accounting Estimate Caused by a Change in Accounting Principle	8
5) Correction of Errors in Previously Issued Financial Statements – <i>Restatement</i>	9
Presentation in Retained Earnings	9
Group B. Business Combinations	10
Accounting for a Business Combination	10
Accounting for Business Combinations	11
1. Identify the Acquiring Company	12
2. Determine the Acquisition Date	12
3. Determine the Acquisition Cost	13
4. Recognizing and Measuring Identifiable Assets Acquired, Liabilities Assumed, and Any Noncontrolling Interest in the Acquiree	14
5. Recognizing and Measuring Goodwill	16
Disclosure Requirements for Business Combinations	19
Consolidation of Financial Statements	20
When to Present Consolidated Financial Statements	20
Consolidation Worksheet	21
Transactions Between Related Companies	22
1. Intercompany Payables, Receivables and Loans	22
2. Intercompany Sales of Inventory	22
3. Intercompany Sale of Fixed Assets	26
4. Intercompany Bonds	28
5. Dividends and Owners' Equity of the Subsidiary	28
Noncontrolling Interests	28
Subsidiary Entity Records	29
Combined Financial Statements	29
Group C. Contingencies and Commitments	30
Contingencies	30
Probable Contingent Loss	30

Reasonably Possible Contingent Loss	31
Remote Contingent Loss	31
Contingent Gains	31
Purchase Commitments	32
Guarantees	33
Recording the Guarantee	33
Guarantee Disclosures	34
Group D. Derivatives and Hedge Accounting	34
Derivatives	34
US GAAP Definition of a Derivative	38
Types of Derivatives	39
Classification of Hedges	40
Accounting for Derivatives	42
Group E. Foreign Currency Transactions and Translations	45
1. Accounting for Transactions Denominated in a Foreign Currency	45
2. Accounting for Foreign Operations	47
Restatement of Non-U.S. GAAP Financial Statements into U.S. GAAP	47
Introduction to Conversion of Foreign Currency Financial Statements	47
Determining the Functional Currency of a Foreign Entity	48
Remeasurement to The Functional Currency	50
Translation from the Functional Currency to the Reporting Currency	51
Group F. Leases	54
The Two Categories of Leases for the Lessee	54
The Three Categories of Leases for the Lessor	55
Lessee Accounting	55
Classification of the Lease by the Lessee	55
Lessee Accounting for Operating Leases	56
Lessee Accounting for Capital Leases	58
Examples – Lessee Accounting for Capital Leases	64
Comparison of Charges to Operations for an Operating Lease and a Capital Lease	72
Accounting for Leases by the Lessor	73
Classification of the Lease by the Lessor	73
Lessor Accounting for Operating Leases	73
Lessor Accounting for Direct Financing or Sales-Type Leases	75
Examples – Lessor Accounting for Direct Financing Leases	76
Example – Lessor Accounting for a Sales-Type Lease	84
Balance Sheet Presentation by the Lessor	87
Lessor Accounting for Costs of Creation and Execution of Leases	88
Sale-Leaseback Transactions	88
Accounting for Sale-Leaseback Transactions	89

Lease Disclosures	93
Lease Disclosures – Lessee	93
Lease Disclosures – Lessor	94
Summary of Leases	94
Group G. Nonreciprocal Transfers	96
Group H. Research and Development Costs	96
Ways in Which Research & Development Costs Are Incurred	96
Accounting Treatment of R&D Expenses	96
Milestone Method of Revenue Recognition	97
Group I. Software Costs	98
Computer Software Developed for Sale or Lease to Others	98
Summary of Expenditure Classifications	99
Computer Software to be Used Internally within the Company	100
Group J. Subsequent Events	101
Group K. Fair Value Measurements	102
1. When the Fair Value Accounting Standards Apply	102
2. The Definition of Fair Value	104
3. The Fair Value Hierarchy	105
4. Fair Value Valuation Techniques	105
5. Disclosure Requirements	106
Group L. Differences Between IFRS and US GAAP	107
Area IV. State and Local Governments	108
Group A. State and Local Government Concepts	108
Introduction to Governmental Accounting	108
Objectives of the Government and Governmental Information	109
Characteristics of Information	109
Governmental Accounting Standards	110
Topic 1. Conceptual Framework	110
Concepts Statement No. 1: Objectives of Governmental Financial Reporting	111
Concepts Statement No. 3: Communication Methods in Basic Financial Statements	111
Concepts Statement No. 4: Elements of Governmental Financial Statements	112
Concepts Statement No. 6: Measurement of Elements of Financial Statements	112
Concepts Statement No. 2 (Amended): Service Efforts and Accomplishments	113
Topic 3. The Funds in Governmental Accounting	113
How to Visualize the Funds	114
1. Governmental Funds	115
2. Proprietary Funds	117
3. Fiduciary Funds	118
4. The Account Groups	120

Topic 2. Measurement Focus and Basis of Accounting	121
Modified Accruals Accounting and Fund Transactions	121
1. Budget Journal Entries	121
2. Encumbrances and the Expenditure of Money	122
3. Actual Fund Transactions and Activity	124
3A. Revenue Recognition	124
3B. Bond Anticipation Notes	125
3C. Cash Grants and Other Types of Financial Assistance	126
3D. Depreciation	126
3E. Inventory Accounting	127
3F. Leases	127
3G. Interfund Transactions (Transfers, Revenues and Reporting)	128
Interfund Revenue Recognition (Enterprise and Internal Service Funds)	129
Interfund Receivable/Payable Balance Reporting	129
3H. Nonexchange Transactions	129
Illustrative Example	131
Capital Projects Fund Example	141
Miscellaneous Other Government Accounting Topics	148
1. Municipal Solid Waste Landfills	148
2. Postemployment Benefits	149
3. Investments and Investment Pools	150
Group B. The Comprehensive Annual Financial Report (CAFR).....	152
Comprehensive Annual Financial Report (CAFR)	152
Topic 1. Government Wide Financial Statements (GWFS)	154
Columns in the GWFS	154
1. Statement of Net Assets	156
2. Statement of Activities	157
Fund Financial Statements Overview	158
Topic 2. Governmental Funds Financial Statements	159
Balance Sheet	159
Statement of Revenues, Expenditures and Changes in Fund Balances	160
Topic 3. Proprietary Funds Financial Statements	160
Statement of Net Assets <i>or</i> Balance Sheet	160
Statement of Revenues, Expenses, and Changes in Fund Equity (or Fund Net Assets)	160
Statement of Cash Flows	161
Topic 4. Fiduciary Funds Financial Statements.....	162
Statement of Fiduciary Net Assets	162
Statement of Changes in Fiduciary Net Assets	162
Topic 5. Notes to the Financial Statements	162

Topic 6. Management Discussion and Analysis	163
Topic 7. Budgetary Comparison Reporting.....	163
Topic 8. Required Supplementary Information Other than the MD&A.....	163
Topic 9. Financial Reporting Entity (Blended and Discrete Component Units)	164
Group C. Deriving Government-Wide Financial Statements	164
and Reconciliation Requirements.....	164
Group D. Typical Items and Specific Types of Transactions and Events	164
Example Formats of Government Financial Statements	165
Non-profit Accounting	168
Non-profit Reporting for All Types of Entities	168
Restricted Money	170
Contributions	170
Hospitals	172
Non-profit Colleges and Universities.....	176
Voluntary Health and Welfare Organizations (VHWO)	179
Other Nonprofit Organizations	180

Table of Contents

Area I. Ethics, Professional and Legal Responsibilities	1
Content Group A. Ethics and Responsibility in Tax Practice	1
Topic 1.....	1
Topic 2.....	1
AICPA Statements on Standards for Tax Services	1
Circular 230: Regulations Governing Practice Before the IRS	4
Additional Preparer Responsibilities	5
Burden of Proof	5
Potential Preparer Penalties	6
Safeguarding Taxpayer Information	7
Payment	8
Taxpayer Supporting Documentation	8
Practicing Before the IRS	8
Content Group B. Licensing and Disciplinary Systems.....	9
Licensing of CPAs	9
Disciplinary Systems	9
Content Group C. Federal Tax Procedures	11
Topic 1. Audits, Appeals and Judicial Process	11
Audits/Examinations	11
Results of the Examination	13
Appeals Conference	14
Topic 2. Substantiation and Disclosure of Tax Positions	15
Topic 3. Taxpayer Penalties.....	16
Civil Penalties	16
How to Stop Interest from Accruing	17
Suspension of Interest and Penalties	17
Abatement of Interest	18
Reasonable Cause	18
Criminal Penalties	19
Topic 4. Authoritative Hierarchy	21
Internal Revenue Code	21
Internal Revenue Bulletin	23
Internal Revenue Manual	23
Content Group D. Accountant’s Legal Duties and Responsibilities	23
Topic 1. Common Law Duties to Clients and Third Parties	23
Accountant’s Civil Liability to Clients	23
1. Contractual Liability	23
2. Liability for Negligence	24

3. Liability for Fraud	25
Accountant’s Civil Liability to Third Parties	26
Common Law	26
Liability Under Federal Law	27
Accountant’s Criminal Liability	31
Internal Revenue Code (IRC)	31
Racketeer Influenced Corrupt Organizations (RICO) Act	31
Mail and Wire Fraud	31
State Criminal Laws	31
Topic 2	32
Accountant’s Nondisclosure Responsibilities	32
Legal Nondisclosure Requirements	32
Professional Nondisclosure Requirements	32
Area II: Business Law	33
Group A: Agency	33
Types of Agents and Creating the Agency Relationship	33
Types of Agents	33
Creating (Forming) the Agency Relationship	34
Methods of Formation of an Agency Relationship	35
Contractual Liability of the Principal and Agent to Third Parties	36
1) Disclosure of the Principal	36
2) Type of Authority	37
Liability of the Agent and Principal with Disclosed or Partially Disclosed Principal	37
Liability of the Agent and Principal with an Undisclosed Principal	37
Additional Situations in which the Agent Has Contractual Liability to Third Parties	38
Liability of the Principal for Torts of the Agent	39
Duties of the Agent to Principal and Principal to Agent	40
Duties of the Agent to the Principal	40
Duties of Principal to Agent	41
Termination of Agency	42
1. Automatic Termination	42
2. Termination by Revocation by the Principal or Renunciation by the Agent	42
3. Termination by Operation of Law	42
Notice Requirements for Termination	43
Group B: Contracts	44
Types of Contracts	44
Statuses of Contracts	45
Third-Party Beneficiary Contracts	46
Conditions to Contracts	46
Elements of Valid Contracts	47

1. Offer	47
2. Acceptance	49
3. Consideration	51
4. Proper Form	54
5. Lawful Object	55
6. Competent Parties	57
Conduct or Events that Invalidate the Mutual Assent of the Contract	58
1. Fraud	59
2) Innocent Misrepresentation	61
3) Mistakes	61
4) Duress	62
5) Undue Influence	62
The Parol Evidence Rule.....	63
Exceptions to the Parol Evidence Rule	64
Discharge of Contracts	65
Remedies for Breach of Contract	67
Assigning Rights and Delegating Duties.....	68
Assigning Rights	68
Delegating Duties	69
Group C: Debtor Creditor Relationships	70
Secured Transactions	70
A PMSI Creditor	71
Attachment and Perfection	72
1) Unsecured Creditor (no Attachment or Perfection)	72
2) Attachment (A Secured Creditor)	73
3) Perfection	74
Priority Between Creditors and Purchasers.....	76
Unsecured Creditor (Not Attached, Not Perfected) <i>vs. Purchaser</i>	77
Attached Creditors <i>vs. Purchaser</i>	77
Perfected Creditors <i>vs. Purchaser</i>	77
<i>Perfected Creditor vs. Consumer in the Ordinary Course of Business</i>	78
Priority Between Competing Creditors.....	78
Secured Creditor <i>vs. Unsecured Creditors</i>	78
Secured Creditors <i>vs. Other Secured Creditors</i>	78
Exception 1: PMSI Creditor in INVENTORY Collateral	79
Exception 2: PMSI Creditor in NON-inventory Collateral	79
Creditor's Remedy Upon Debtor's Default.....	80
Repossession and Auction Sale	80
Adjudication	81
Lien Creditors – Another Type of Secured Creditor.....	81

1. Consensual Liens	81
2. Statutory and Common Law Liens	81
Legal Actions Available to Unsecured Creditors	82
Other Collection Options	83
Federal Bankruptcy Law	84
Operative Chapters of the Bankruptcy Code	84
Commencement of Bankruptcy	88
Voluntary Bankruptcy	88
Involuntary Bankruptcy	88
Filing for Joint Bankruptcy	89
Administrative Proceedings in the Bankruptcy	89
Administrative Duties of the Trustee and the Debtor	89
The Stay, or The Order for Relief	89
Creditors and Their Claims	90
Criteria for Acceptance of Claims against the Debtor	91
Allowed Administrative Expenses	91
Order of Priority of Claims	92
Debtor's Benefits Through Bankruptcy	93
Debtor Property Not Liquidated	93
List of Federally Exempted Property	93
Debts Not Discharged through Bankruptcy	94
Effect of Discharge	94
Waiving Discharge of Debts	95
The Bankruptcy Estate	95
Voiding Preferential Transfers	96
Voiding Fraudulent Transfers	97
One-Page Summary of Chapters 7, 11 and 13 Bankruptcy	98
Group D: Government Regulation of Business	99
Topic 1: Securities Regulation	99
The Securities and Exchange Commission (SEC)	99
The Securities Act of 1933	99
Exempt Securities	100
Exempt Transactions	101
The Registration Process	104
The 1933 Act and Fraud	105
The Securities Act of 1934	106
Proxy Solicitation	108
Tender Offer Reporting	108
Topic 2: Other Federal Laws and Regulations	109
The Federal Social Security Act	109

Employee Safety – Occupational Safety and Health Act (OSHA)	112
Workers’ Compensation	113
The Affordable Care Act and The Employer Mandate	115
Anti-Discrimination Laws	116
Group E: Business Structure	119
Partnerships.....	119
Advantages	119
Disadvantages	120
Who Can Be a Partner	120
Partnership Formation	121
Determination of the Formation of a Partnership	121
Types of Partnerships	122
Classification of Partners	122
Rights of Partners	122
Agency within the Partnership	125
Unanimous Partner Agreement	126
Dissolution of a Partnership	126
Dissolution of a Partnership-at-Will	127
Withdrawal of a Partner	127
Notification of Dissolution	127
Winding Up the Partnership	127
Limited Partnerships	128
Corporations	129
Types of Corporations	130
Corporate Characteristics	130
Corporate Formation	132
Articles of Incorporation	132
Defects in Formation	134
Financing the Corporation	135
Transfer of Stock	136
Corporate Liabilities	136
Directors and Officers	137
Duties of the Board of Directors	138
Business Judgment Rule	139
Stockholders’ Rights and Obligations	139
Asset Share on Dissolution	140
Dividends	140
Shareholder Meetings	140
Shareholder Control Devices	142
Liabilities of Shareholders	143
Fundamental Changes	143

S Corporations	144
Area III: Federal Taxation of Property Transactions	145
Content Group A. Acquisition and Disposal of Assets	145
Basis and Holding Period of Assets	145
Purchased Property	146
Original Basis of <i>Purchased</i> Property	146
Holding Period of <i>Purchased</i> Property	146
Property Acquired as a Gift	146
Original Basis of Property Acquired By <i>Gift</i>	146
Basis and Calculation of Gain or Loss on Gifted Property	146
Holding Period for Gifted Property	147
Property Acquired By <i>Inheritance</i>	148
Basis for Inherited Property	148
Holding Period for Inherited Property	148
Adjusted Basis of Property	149
Content Group B. Cost Recovery	149
Depreciation of Property	149
Depreciation for Tax Purposes	150
Depreciation Conventions (Methods)	152
Section 179 Deduction (Deducted on Schedule C; Supported by Form 4562)	152
Special Depreciation Allowance	153
Sale and Other Disposition of Property	154
Capital Assets	155
Treatment of Capital Gains and Losses for <i>Individual</i> Taxpayers	155
Treatment of Capital Gains and Losses for <i>Corporate</i> Taxpayers	156
Sale of Real and Tangible Personal Property Used in Business	156
Treatment of Gains and Losses for 1231 Property	156
Determining if a Gain or Loss Should be Recognized in the Current Year	158
Sale of Securities – Gains and Losses on Different Transactions	163
Transactions Between Related Parties – No Loss Recognized	165
Related Parties	165
Treatment of Gain or Loss	166
Content Group C. Estate and Gift Taxation	167
1. The Unified Credit	167
2. The Gift Tax (Form 709)	167
Gift Tax Exclusions	168
The Generation Skipping Tax (GST)	169
3. Overview of Trusts and Estates	169
4. Estates and Estate Administration	170

Dying Testate (<i>With</i> a Will)	170
Dying Intestate (<i>Without</i> a Will)	171
Administration of an Estate	171
5. The Estate Tax	173
The Unlimited Marital Deduction for Spouses	174
Estate Tax Notes	174
6. Trusts and Trust Administration	174
Formation of the Trust	174
Types of Trusts	176
Termination of a Trust	178
Allocation of Trust Income	178
7. Estate and Trust Income Taxation	179
Area IV: Federal Taxation of Individuals	182
Summary of 1040	182
Form 1040	182
Tax Administration for Individuals	185
Who Must File	185
The Tax Year	185
The Accounting Method	185
Filing the Tax Return	186
Extensions for Filing	186
Statute of Limitations on Tax Liabilities and Refunds	186
Filing Status (Lines 1-5)	186
Personal Exemptions	189
Income (Lines 7 – 22)	193
Taxable Income – Included in Gross Income	193
Items NOT Included in Gross Income	200
Adjusted Gross Income (Lines 23-37)	202
Deductions FOR Adjusted Gross Income (<i>Lines 23-36</i>)	202
Tax and Credits (Lines 39-43)	209
Additional Standard Deductions (<i>Line 39</i>)	209
Standard Deduction vs. Itemized Deductions (<i>Line 40</i>)	209
The Standard Deduction (<i>Line 40</i>)	210
Itemized Deductions (<i>Line 40; supported by Schedule A</i>)	210
Schedule A – Itemized Deductions	210
Line 41 – Calculation of Income	220
Exemptions (<i>Line 42</i>)	220
Taxable Income (<i>Line 43</i>)	220
Income Tax Computation (<i>Line 44</i>)	221
Alternative Minimum Tax (<i>Line 45; Supported by Form 6251</i>)	221

AMTI Adjustments	222
AMTI Preferences	223
AMT Exemption	223
AMTI Tax Rates	223
AMTI Calculation Summary	224
Excess Advance Premium Tax Credit Repayment (<i>Line 46, Supported by Form 8962</i>)	224
Summary Line (<i>Line 47</i>)	224
Tax Credits (<i>Lines 48-56</i>)	225
Foreign Tax Credit (<i>Line 48, From 1116</i>)	225
The Childcare and Dependent Care Credit (<i>Line 49</i>)	226
Education Credits (<i>Line 50; Supported by Form 8863</i>)	226
Retirement Savings Contribution Credit (<i>Line 51; Supported by Form 8880</i>)	227
Child Tax Credit (<i>Line 52; Supported by Schedule 8812</i>)	227
Residential Energy Credits (<i>Line 53; Supported by Form 5695</i>)	228
Other Credits (<i>Line 54; Supported by relevant forms related to the credit</i>)	228
General Business Credit (<i>Supported by Form 3800</i>)	228
Credit for Elderly or Disabled (<i>Supported by Schedule R</i>)	229
Summary Line (<i>Line 55</i>)	229
Summary Line (<i>Line 56</i>)	229
Other Taxes (<i>Lines 57-63</i>)	229
Self-employment Tax (<i>line 57 supported by Schedule SE</i>)	230
Unreported Social Security and Medicare Tax from Forms 4137 and 8919 (<i>Line 58</i>)	231
Additional Tax on IRAs and Other Qualified Retirement Plans (<i>Line 59, Form 5329</i>)	231
Household employment taxes from Schedule H (<i>Line 60a</i>)	231
First-time Homebuyer Credit Repayment (<i>Line 60b, Supported by Form 5405</i>)	233
Health Care: Individual Responsibility (<i>Line 61</i>)	233
Taxes from Other Forms (<i>Line 62</i>)	233
Total Tax (<i>Line 63</i>)	233
Payments (<i>Lines 64-74</i>)	233
Federal Income Tax Withheld From Forms W-2 and 1099-R (<i>Line 64</i>)	234
2015 Estimated Tax Payments and Amount Applied from 2014 Return (<i>Line 65</i>)	234
Earned Income Credit (<i>Line 66a</i>)	234
Non-taxable Combat Pay Election (<i>Line 66b</i>)	235
Additional Child Tax Credit (<i>Line 67, Supported by Schedule 8812</i>)	235
American Opportunity Credit from Form 8863, line 8 (<i>Line 68</i>)	235
Net Premium Tax Credit (<i>Line 69, Form 8962</i>)	235
Amount Paid with Request for Extension to File (<i>Line 70</i>)	236
Excess Social Security and Tier 1 RRTA Tax Withheld Credit (<i>Line 71</i>)	236
Credit for Federal Tax on Fuels (<i>Line 72 supported by Form 4136</i>)	236
Credits from Form 2439, 8885 or Other Forms (<i>Line 73</i>)	236
Total Payments (<i>Line 74</i>)	236
Refund, or Amount Owed (<i>Lines 75-79</i>)	236

Estimated Tax Penalty (Line 79)	237
Phaseouts, Floors and Ceilings	238
Area V: Entities Taxation	239
Content Group A	239
Content Group B. Differences Between Book and Tax Income (Loss)	239
Form M-1	240
Form M-3	241
Form M-2	241
Content Group C. C Corporations	242
C Corporation Tax Filing Requirements	242
Estimated Tax Payments	243
Topic 1. Computations of Taxable Income	244
Miscellaneous Corporate Taxation Income and Deduction Items	244
1. Travel, Meals and Entertainment and Lobbying	246
2. Organizational and Start-up Costs	246
3. Dividends Received Deduction	247
4. Charitable Contributions	249
5. Keyman Life Insurance	250
6. Business Tax Credits	250
7. Alternative Minimum Tax	251
Exemptions from Corporate AMT	251
AMTI Adjustments	252
AMTI Preferences	252
ACE Adjustment	252
AMT Exemption	252
AMTI Tax Rates	253
AMTI Calculation Summary	253
Additional Penalty Taxes	254
Topic 2. Net Operating Losses and Capital Loss Limitations	256
Net Operating Losses	256
Capital Losses	257
Topic 3. Entity / Owner Transactions	257
Transfers of Property in Exchange for Stock	257
Earnings and Profits (E&P)	258
Non Cash Distributions to Shareholders	260
Redemptions and Liquidations	260
Corporate Reorganizations	261
Tax Treatment	262
Topic 4. Consolidated Tax Returns	262
Consolidated Taxable Income	263

Topic 5. Multijurisdictional Tax Issues	264
Nexus – the Basis for Multijurisdictional Transactions	264
Apportionment and Allocation	265
Foreign Branches and Foreign Subsidiaries	265
Types of Foreign Income	265
Content Group E. Partnerships	266
Topic 3. Partnership and Partner Elections	266
Tax Filing and Accounting for Partnerships	267
Topic 1. Determination of Ordinary Business Income (Loss)	268
Separately Stated Items	268
How the Partners Share the Distributable Income of the Partnership	270
Topic 2. Basis of Partner’s Interest and Basis of Assets Contributed	271
Initial Basis in the Partnership	271
Assumption of Partnership Liabilities by a Partner	271
Adjusted Basis in the Partnership	273
Topic 4. Transactions Between a Partner and a Partnership	274
Topic 5. Impact of Partnership Liabilities on a Partner’s Interest	274
Topic 6. Distributions of Partnership Assets	275
Non-Liquidating Distributions	275
Liquidating Distributions	277
Topic 7. Ownership Changes	278
Termination of Partnership	278
Sale of the Partnership Interest	280
Content Group D. S Corporations	281
Topic 1. Eligibility and Election	281
S Corporation Tax Administration	282
Topic 2. Determination of Ordinary Business Income (Loss)	282
Separately Stated Items	282
Ordinary Business Income (Loss)	283
Topic 3. Basis of Shareholder’s Interest	283
Taxability / Deduction of S Corporation Income and Distributions	284
Topic 4. Entity/Owner Transactions	287
Topic 5. Built-In Gains Tax	287
Miscellaneous S Corporation Items	288
Content Group F. Limited Liability Companies (LLC)	288
Content Group G: Trusts and Estates	289
Content Group H. Tax Exempt Organizations	289
Content Topic 1. Types of Organizations	289
Content Topic 2. Obtaining and Maintaining Tax Exempt Status	290

Qualifying as an IRC Section 501 (c)(3) tax exempt organization	290
Federal Filing and Disclosure Requirements to Obtain Tax Exempt Status	291
Annual Federal Filing and Disclosure Requirements	291
Requirements for Retaining Tax Exempt Status	292
Procedures to Regain Tax Exempt Status After it has been Revoked	292
Content Topic 3. Unrelated Business Income.....	293
Definition of Unrelated Business Income	293
Items NOT Considered Unrelated Business Income	293
Tax Treatment of Unrelated Business Taxable Income	294