

TABLE OF CONTENTS

PREFACE	V
ACKNOWLEDGMENTS	IX

PART I. FIRST PRINCIPLES

Chapter 1. Three Pillars	3
A. Introduction	3
B. Introduction to GAAP	6
C. Components of Financial Statements	13
D. Introduction to GAAS.....	17
E. Finance and Using Financial Information	25
F. Historical Perspective	26

PART II. ACCOUNTING

Chapter 2. The Fundamental Equation	35
A. Assets, Liabilities and Equity.....	35
B. Journal Entries.....	38
C. Creating the Balance Sheet.....	41
D. Revenues and Expenses.....	44
E. Creating the Income Statement	48
F. Nine Possible Pairs	54
G. Data Management.....	56
Chapter 3. The Accrual System and Recognition Principles	59
A. Cash Versus Accrual Accounting	60
B. Revenue and Expense Recognition	61
C. Four Timing Matters.....	64
D. Adjusting Entries	70
E. Conversion Exercise	70
Chapter 4. Inventory and the Cost of Goods Sold.....	77
A. Recording COGS.....	78
B. Determining COGS	84
C. Lower of Cost or Market	91
D. Cost Accounting.....	93
E. Disclosure and Tax Matters	94
Chapter 5. Fixed Assets and Depreciation.....	99
A. Relationship to Other Concepts	99
B. Required Judgments	101
C. Depreciation Bookkeeping.....	103
D. Depreciation Methods	109

E. Tax Depreciation Distinguished.....	114
F. Consistency, Disclosure and Changing Prices.....	117
G. Depletion and Amortization	119
Chapter 6. Other Asset and Liability Issues	123
A. Receivables	123
B. Intercompany Ownership	128
C. Financial Instruments	135
D. Intangible Assets.....	140
E. Leases and Other Long-Term Obligations	144
F. Employee Matters	149
G. Loss Contingencies.....	150
H. Going Concern Disclosure.....	152
Chapter 7. Capital Accounts	157
A. Contributed Capital and Distributions.....	157
B. Retained Earnings and Dividend Bookkeeping	166
C. Other Comprehensive Income	172
D. Hybrid Instruments	173
E. Non-Corporate Entities.....	173
Chapter 8. Financial Statement Analysis.....	177
A. Introduction	177
B. Liquidity and Activity	181
C. Profitability and Performance	187
D. Management's Discussion and Analysis (MD&A).....	199
E. Critical Accounting Policies	210
F. Segment Reporting.....	213
G. Ratio Categories	213
Chapter 9. The Statement of Cash Flows	219
A. Rationale and Organization.....	220
B. Direct Method	221
C. Indirect Method	223
D. Assessment	229
E. Analyzing Cash Flow	230
F. Interpreting Cash Flow.....	233

PART III. FINANCE

Chapter 10. Valuation Principles	243
A. The Time Value of Money	243
B. Future Value.....	245
C. Present Value	250
D. Rule of 72s.....	256
E. Interest Rates, Tax Effects, and Inflation	258
F. Valuing Bonds	261
G. The Cost of Equity.....	263

Chapter 11. Valuation Techniques.....	267
A. The Old Man and the Tree.....	267
B. Balance Sheet Based Valuation	276
C. Income Statement Based Valuation.....	281
D. Cash Flow Based Valuation.....	287
E. Synthesis.....	292
Chapter 12. Finance Theory and Investing	295
A. Introductory Statistics	295
B. Modern Portfolio Theory	301
C. Capital Asset Pricing Model	309
D. Efficient Capital Market Hypothesis	313
E. Passive Versus Active Investing	317
PART IV. AUDITING	
Chapter 13. Audit Practice.....	333
A. Reasonable Assurance.....	334
B. Internal Control.....	337
C. Substantive Tests	346
D. Concluding an Audit	352
E. Technology: Audit Data Analytics.....	355
Chapter 14. Audit Policy.....	359
A. Audit Committees	359
B. Auditor Independence	360
C. Legal Responsibilities	361
Chapter 15. Perspectives on the Lawyer's Role.....	391
A. Loss Contingencies and Lawyers' Letters	391
B. The Problem of Privileges	400
C. Internal Reporting.....	405
D. Lawyers as Part-Time Accountants	406
E. Forensic Accounting	408
Chapter 16. Shenanigans.....	419
A. Testing the Line	419
B. Crossing the Line	423
C. Audit Failure	430
D. Satire.....	437
Glossary	443
Bibliography	467
INDEX.....	471