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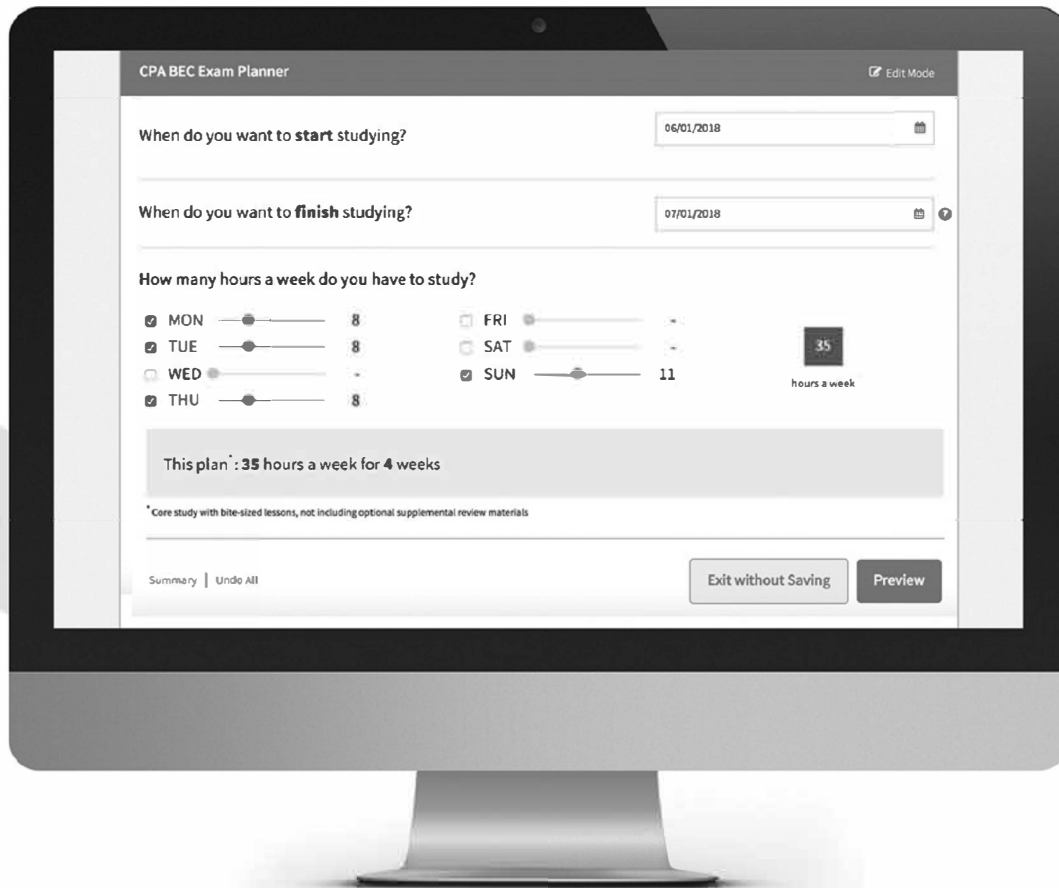
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— **Chris O, Tamuning, Guam**



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# **STUDY GUIDE**

**JANUARY 2020**

**FINANCIAL ACCOUNTING AND REPORTING**

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# Welcome to Financial Accounting and Reporting

## Overview

Welcome to Financial Accounting and Reporting (FAR)! This lesson is an important step in your journey to CPA exam success. The series of videos in this lesson will introduce you to your professors and provide guidance in the planning, application, and registration process. In addition, there are videos that provide an overview of the exam structure, time management hints, effective study strategies, and tips on how to maximize your points. Perhaps most important, the last video is a gentle reminder of how important it is to take care of you.

## Study Guide

The content presented throughout FAR is based on the AICPA Blueprint specifications. The CPA Examination Blueprint for FAR is presented in the following area headings, together with exam allocation for each content area:

AREA	Allocation
I. Conceptual Framework and Financial Reporting	25–35%
II. Select Financial Statement Accounts	30–40%
III. Select Transactions	20–30%
IV. State and Local Governments	5–15%

The exam consists of multiple-choice questions and task-based simulations. Specifically, the four-hour FAR exam is structured as follows:

Testlet 1: 33 multiple-choice questions

Testlet 2: 33 multiple-choice questions

Testlet 3: 2 task-based simulations

Testlet 4: 3 task-based simulations

Testlet 5: 3 task-based simulations

Here we present a broad overview from which to begin your journey toward successful completion of the CPA exam. Generally, the topics are presented in the study text in the same sequence as they are presented in the Blueprint. However, in a few cases, the order of the topics is different from in the Blueprint to present topics in a logical sequence for learning purposes. CPAexcel will continually provide you with the “map” and the resources needed to be a CPA!

## Area I. Conceptual Framework and Financial Reporting

Completion of the lessons in this area will ensure that you have the conceptual foundation for success in subsequent sections. This area covers the FASB’s standard-setting process and Accounting Standards Codification. A must-know in this section is the fundamentals of the conceptual framework and accrual accounting. A strong understanding of these concepts will provide you with the base needed to figure out specific questions. Trust your training and your gut instinct when answering the questions. Area I also reviews the reporting and presentation of a basic set of financial statements: the statement of financial position, the income statement, the statement of comprehensive income, the statement of shareowners’ equity, and the statement of cash flows. There are a series of lessons on how to consolidate financial statements. Public companies that are U.S. registrants must also comply with the reporting and disclosure requirements of the Securities and Exchange Commission, which includes earnings per share and segment and interim reporting. A solid understanding of the content in this area is important as you travel into the next section, which provides details on the financial statement accounts.

## Area II. Select Financial Statement Accounts

This area covers the accounting and reporting of balance sheet accounts starting with cash all the way through equity. For each topic, think about what is recognized and when, and for how much. Also make note if there are important disclosure requirements. Concentrate on the tools you need to solve problems (diagrams, T-accounts, journal entries, etc.). If you know what tools to use to answer questions and understand how to record a transaction and how the financial statements are affected, you are 85% there. Keep in mind that even though this section lists balance sheet accounts, every balance sheet account impacts the income statement. Accounts receivable impacts revenue, inventory impacts cost of goods sold, fixed assets impact depreciation and gains or losses on disposal, accrued liabilities impact operating

expenses, and debt impacts interest expense. International Financial Reporting Standards (IFRS) are presented in certain lessons. Significant differences between U.S. GAAP and IFRS are tested on the CPA exam. The lessons that present IFRS focus on differences in recognition and measurement.

### **Area III. Select Transactions**

This area addresses the accounting and reporting of select transactions that are not covered in Area II. Many of these transactions are complex, and you may find the content very challenging. If you have covered these topics in classes, you will “relearn” them quickly. If the topics are new to you (or you never understood them the first time), be patient with yourself and take the time you need to gain a basic understanding of the accounting. The select transactions presented in this area are related to revenue recognition, compensation arrangements such as pensions and stock awards, income taxes, and leases. Area III also includes the accounting and reporting associated with business combinations, derivative financial instruments and hedging, and foreign currency denominated transactions. This area also includes the accounting for accounting changes and error corrections.

Don’t just ignore the topics you find really challenging. You are smart and capable of learning the basics related to the topics. You don’t have to be an expert, but you do need to know the basics! I am confident that you will succeed in your goals if you spend quality time studying the material and practicing with all question formats.

*~ Professor Pam Smith*

We wrap up this section with financial reporting and accounting for not-for-profit entities. FASB made a major change in this area so you should expect questions about donor restrictions, contributions, categories of net assets, and financial statements. Healthcare organizations and colleges and universities are also covered. The concepts are very straightforward and you will do well in this area after completing your study.

*~ Professor Don Deis*

### **Area IV. State and Local Governments (5–15%)**

Financial reporting and accounting for state and local governments is the final section of your FAR study. If you have experience working with governments or you took a governmental accounting course, you probably just need to brush up on the area and learn about some of the recent changes made by GASB. If you are new to governmental accounting, you will need to focus on the types of funds used, budgetary and encumbrance accounting, modified accrual accounting, government-wide financial statements, fund-level financial statements, accounting for infrastructure, types of fund balance, categories of net position, interfund transfers, nonexchange transactions, and deferred inflows and deferred outflows of resources. It may sound pretty dry, but the exam questions for governmental accounting are fairly predictable and easy! You should do very well in this area.

*~ Professor Don Deis*

# **Conceptual Framework and Financial Reporting**

# Financial Accounting Standards Board (FASB)

## Overview of U.S. GAAP

### FASB and Standard Setting

This lesson presents an overview of the standard-setting process in the United States.

**After studying this lesson, you should be able to:**

1. Describe the role of the Financial Accounting Standards Board.
2. Describe the primary purpose of financial reporting.
3. List the three aspects of financial reporting addressed by GAAP.
4. Identify the major organizations in U.S. accounting standards.

#### I. Introduction

- A. Financial accounting and reporting is concerned with providing relevant information to all users of the financial statements: investors, creditors, competitors, employees, and regulatory bodies. Financial statement information is used to make informed decisions regarding allocation of resources. A common use is whether to invest in a firm or to lend money to it.
- B. Financial information is disseminated in many forms including news releases, prospectuses for future securities offerings, filings with the Securities and Exchange Commission (SEC), and annual reports to shareholders. Financial statements are the culmination of the accounting process and represent the most comprehensive financial information disclosures made by firms. The footnotes and other textual and tabular information provide supplementary information and help to explain the amounts disclosed in those statements.

#### II. Generally Accepted Accounting Principles (GAAP)

##### Definition

*Generally Accepted Accounting Principles (GAAP):* The rules of financial reporting for business enterprises. GAAP are also called *accounting standards*.

- A. **What GAAP Addresses**—GAAP is a set of reporting rules to address three aspects of financial reporting:
  1. **Recognition**—A recognized item is recorded in an account and ultimately affects the financial statements.

##### Note

*Recognition* is an accounting concept that indicates that the item is recorded on the financial statements. In contrast, *realization* is an economic concept that indicates that cash is paid or received. GAAP focuses on accrual accounting and therefore is concerned with recognition more than with realization.

2. **Measurement**—Concerns the dollar amount assigned to an item.
3. **Disclosure**—Many unrecognized amounts are reported in the footnotes to complete the portrayal of the firm's financial position and performance.