

PROFESSIONAL CAREER CLUB

FREE CERTIFICATION PREP

FORMULA SHEET

CPA BAR

Business Analysis & Reporting · Discipline section

61 formulas **3** subject areas

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HOW TO USE THIS SHEET

BAR is one of three discipline sections — you sit ONE of BAR, ISC or TCP alongside the three core sections. BAR is the quantitative choice, and it is the natural pick for anyone heading into FP&A, valuation, corporate finance or technical accounting.

It has three very different halves. Business analysis is managerial accounting and finance — variances, CVP, capital budgeting, cost of capital. Technical accounting is the hard end of FAR. State and local government is GASB in depth.

Candidates underestimate the governmental portion because it is unfamiliar and it feels peripheral. It is not peripheral, and it is entirely learnable — which makes it some of the cheapest marks on the paper.

The ► notes flag the sign conventions, the denominators, and the moments where a formula quietly stops applying.

BUSINESS ANALYSIS · 30 formulas

Managerial accounting and corporate finance. Variances, CVP, capital budgeting and cost of capital.

Cost-volume-profit — break-even in units

$$\text{BE units} = \text{Fixed costs} / (\text{Price} - \text{Variable cost per unit})$$

Where: The denominator is the contribution margin per unit.

► Assumes linear costs and revenues within the relevant range. Step-fixed costs break it completely — and a question that mentions capacity expansion is telling you the assumption has failed.

CVP — break-even in dollars

$$\text{BE \$} = \text{Fixed costs} / \text{CM ratio}$$

$$\text{CM ratio} = (\text{Sales} - \text{Variable costs}) / \text{Sales}$$

Where: Use when per-unit data is unavailable or the product mix is complex.

► For a multi-product firm you need the WEIGHTED-AVERAGE CM ratio, which means the break-even point shifts whenever the sales mix shifts — even with no change in costs.

CVP — target profit

$$\text{Units} = (\text{Fixed costs} + \text{Target profit}) / \text{CM per unit}$$

$$\text{Dollars} = (\text{Fixed costs} + \text{Target profit}) / \text{CM ratio}$$

$$\text{After-tax: Pre-tax target} = \text{After-tax target} / (1 - t)$$

Where: Target profit simply joins fixed costs in the numerator.

► Gross up the AFTER-tax target to a PRE-tax figure BEFORE putting it in the numerator. Dividing at the end instead of the start is the classic sequencing error.

Margin of safety

$$\text{MoS} = \text{Actual sales} - \text{Break-even sales}$$

$$\text{MoS\%} = \text{MoS} / \text{Actual sales}$$

Where: How far sales can fall before you hit break-even.

► A low margin of safety plus high operating leverage is a genuinely dangerous combination — small revenue declines produce large profit declines from an already thin buffer.

Degree of operating and financial leverage

$$\text{DOL} = \% \Delta \text{EBIT} / \% \Delta \text{Sales} = \text{Contribution margin} / \text{EBIT}$$

$$\text{DFL} = \% \Delta \text{EPS} / \% \Delta \text{EBIT} = \text{EBIT} / (\text{EBIT} - \text{Interest})$$

$$\text{DCL} = \text{DOL} \times \text{DFL}$$

Where: DOL comes from fixed COSTS; DFL comes from DEBT.

► They MULTIPLY, they do not add. A firm with high fixed costs AND high leverage compounds its own fragility — which is exactly why airlines fail in recessions.

High-low method

$$\begin{aligned}\text{Variable cost per unit} &= (\text{High cost} - \text{Low cost}) / (\text{High activity} - \text{Low activity}) \\ \text{Fixed cost} &= \text{Total cost} - (\text{VC per unit} \times \text{Activity})\end{aligned}$$

Where: Uses only the two extreme OBSERVATIONS.

► Extremes by ACTIVITY level, not by cost. And because it uses only two points, one outlier destroys it — regression is more robust and the exam expects you to say so.

Direct materials variances

$$\begin{aligned}\text{Price variance} &= (\text{Actual price} - \text{Standard price}) \times \text{Actual quantity PURCHASED} \\ \text{Quantity variance} &= (\text{Actual quantity USED} - \text{Standard quantity allowed}) \times \text{Standard price}\end{aligned}$$

Where: Note: purchased for price, USED for quantity.

► Price variance uses quantity PURCHASED (so it can be isolated at the point of purchase); quantity variance uses quantity USED. Different quantities in the same pair of formulas — and the exam gives you both numbers.

Direct labour variances

$$\begin{aligned}\text{Rate variance} &= (\text{Actual rate} - \text{Standard rate}) \times \text{Actual hours} \\ \text{Efficiency variance} &= (\text{Actual hours} - \text{Standard hours allowed}) \times \text{Standard rate}\end{aligned}$$

Where: Same shape as materials.

► Every two-way variance follows one pattern: a PRICE variance (rate difference $\times$ actual quantity) and a QUANTITY variance (quantity difference $\times$ standard price). Learn the pattern once and it covers materials, labour and variable overhead together.

Variable overhead variances

$$\begin{aligned}\text{Spending} &= \text{Actual VOH} - (\text{Actual hours} \times \text{Standard rate}) \\ \text{Efficiency} &= (\text{Actual hours} - \text{Standard hours}) \times \text{Standard rate}\end{aligned}$$

Where: Same two-variance structure.

► The VOH efficiency variance is really a LABOUR efficiency variance in disguise — it arises only because overhead is applied on labour hours. It says nothing about overhead spending.

Fixed overhead variances

$$\begin{aligned}\text{Budget variance} &= \text{Actual FOH} - \text{Budgeted FOH} \\ \text{Volume variance} &= \text{Budgeted FOH} - \text{Applied FOH} \\ \text{Applied FOH} &= \text{Standard hours allowed} \times \text{Standard FOH rate}\end{aligned}$$

Where: Fixed overhead behaves differently.

► The VOLUME variance is NOT a spending variance at all — it measures capacity UTILISATION. It arises purely because fixed costs are being spread over a different volume than planned, and no manager "spent" it.

Sales volume variance

$$\text{Sales volume variance} = (\text{Actual units} - \text{Budgeted units}) \times \text{Budgeted CM per unit}$$

Where: Uses BUDGETED contribution margin.

► Favourable if actual units exceed budget. Note it holds the CM constant at budget — this isolates the VOLUME effect from any price or cost effect.

Activity-based costing

$$\begin{aligned}\text{Activity rate} &= \text{Estimated overhead cost for the activity} / \text{Estimated activity driver} \\ \text{Cost per product} &= \text{Activity rate} \times \text{Driver units consumed}\end{aligned}$$

Where: Traces overhead to the activities that cause it.

► ABC matters when products consume overhead in DIFFERENT PROPORTIONS from the volume-based allocation base. A plant-wide rate systematically over-costs high-volume products and under-costs low-volume ones — that cross-subsidy is what ABC exists to reveal.

Process costing — equivalent units (weighted average)

$$\text{EU} = \text{Units completed and transferred out} + (\text{Ending WIP} \times \% \text{ complete})$$

Where: Beginning WIP costs are LUMPED IN with current-period costs.

► Weighted average makes no attempt to separate periods. It is simpler, and it blurs the current period's actual performance — which is precisely why FIFO exists.

Process costing — equivalent units (FIFO)

$$EU = (\text{Beginning WIP} \times \% \text{ TO complete}) + \text{Started and completed} + (\text{Ending WIP} \times \% \text{ complete})$$

Where: Separates prior-period work from current-period effort.

► The first term is the work REMAINING on beginning WIP, not the work already done. FIFO yields a pure current-period cost per unit — better for performance evaluation, worse for arithmetic.

Economic order quantity

$$EOQ = \sqrt{(2DS / H)}$$

Where: D = annual demand, S = cost per order, H = carrying cost per unit per year.

► Minimises ordering plus carrying costs. It assumes constant demand, constant lead time and no stockouts — every one of which is false in practice, and the exam may ask you to say so.

Reorder point

$$ROP = (\text{Lead time} \times \text{Daily usage}) + \text{Safety stock}$$

Where: Expected usage during the lead time, plus a buffer.

► Safety stock exists to absorb VARIABILITY — in demand or in lead time. With perfectly predictable demand and lead time, safety stock would be zero.

Net present value

$$NPV = \sum CF_t / (1 + r)^t - C_0$$

Where: r = required return / WACC.

► Accept if $NPV \geq 0$. NPV assumes reinvestment at the COST OF CAPITAL — which is realistic. That assumption is exactly why NPV beats IRR when the two conflict.

Internal rate of return

$$\text{The discount rate where } NPV = 0: \sum CF_t / (1 + IRR)^t = 0$$

Where: Accept if $IRR \geq$ the hurdle rate.

► IRR assumes reinvestment AT THE IRR, which for a high-return project is fantasy. It can also produce MULTIPLE answers when cash flows change sign more than once. When NPV and IRR disagree, NPV wins.

Modified internal rate of return

$$MIRR = (\text{Terminal value of inflows} / \text{PV of outflows})^{(1/n)} - 1$$

Where: Inflows reinvested at the cost of capital.

► MIRR fixes both of IRR's flaws: it uses a realistic reinvestment rate and it produces a single answer. It exists precisely because IRR is popular and wrong.

Profitability index

$$PI = \text{PV of future cash flows} / \text{Initial investment} = 1 + (NPV / \text{Initial investment})$$

Where: A ratio, not a dollar amount.

► Accept if $PI \geq 1$ (which is the same as $NPV \geq 0$). Its real use is CAPITAL RATIONING: when funds are limited, rank by PI to get the most NPV per dollar invested.

Payback period

Payback = Initial investment / Annual cash flow (if uniform); otherwise count years until cumulative CF $\geq$ the investment

Where: A liquidity proxy.

► Ignores the time value of money AND every cash flow after the payback point. It is a crude screening tool, not a decision rule — a project can pay back quickly and still destroy value.

Discounted payback period

$$\text{Years until } \sum CF_t / (1 + r)^t \geq C_0$$

Where: Payback, with discounting.

► Fixes the time-value flaw but STILL ignores everything after payback. Better than payback; still not NPV.

Weighted average cost of capital

$$WACC = (E/V) \times R_e + (D/V) \times R_d \times (1 - t)$$

Where: E and D at MARKET value; $V = E + D$.

► Only debt gets the tax shield — interest is deductible, dividends are not. And the weights are MARKET values, not book. Using book weights is the standard distractor.

Cost of equity — CAPM

$$r_e = r_f + \beta(r_m - r_f)$$

Where: β measures systematic risk.

► Only systematic risk is priced, because unsystematic risk can be diversified away for free. For a DIVISION rather than the whole firm, use a pure-play beta from comparable single-business companies.

Cost of equity — dividend discount model

$$R_e = (D_1 / P_0) + g$$

Where: D_1 = next year's dividend.

► Dividend yield plus growth. It requires $g < R_e$ and a stable dividend — useless for a company that pays none, which is why CAPM is the default.

Cost of debt and cost of preferred

$$K_d = YTM \times (1 - t)$$

$$K_p = \text{Preferred dividend} / \text{Net issue price}$$

Where: No tax adjustment for preferred.

► Preferred dividends are NOT deductible, so there is no $(1 - t)$. This is why preferred stock is an expensive way to raise money — it has debt-like fixed payments without the tax shield.

Economic value added

$$EVA = NOPAT - (WACC \times \text{Invested capital})$$

Where: NOPAT = net operating profit after tax.

► Charges a rent on ALL capital, including equity. A division can post positive accounting profit and NEGATIVE EVA — meaning it earned less than the capital cost. That gap is the entire point of the measure.

Return on investment (divisional)

$$ROI = \text{Operating income} / \text{Average operating assets} = \text{Margin} \times \text{Turnover}$$

Where: Margin = $OI/Sales$; Turnover = $Sales/Avg \text{ operating assets}$.

► ROI causes UNDERINVESTMENT: a manager running at 20% ROI will reject a project returning 15%, even when the firm's cost of capital is 10%. Residual income exists to fix exactly this.

Residual income

$$RI = \text{Operating income} - (\text{Required rate of return} \times \text{Average operating assets})$$

Where: A dollar amount, not a ratio.

► Positive RI means the division earned above its cost of capital. Because it is a DOLLAR figure, the manager accepts any project with positive RI — which cures the underinvestment problem ROI creates.

Operating income and free cash flow

$$\text{Operating income} = \text{Sales} - \text{Operating expenses}$$

$$FCFF = OI \times (1 - t) + D\&A - \text{CapEx} - \Delta NWC$$

Where: Used in DCF valuation.

► D&A is added back because it is non-cash; CapEx and working capital are subtracted because they are real cash outflows that never touched the income statement.

EXAM TIPS — BUSINESS ANALYSIS

- Every two-way variance has the same shape: a PRICE variance (rate difference × actual quantity) and a QUANTITY variance (quantity difference × standard price). Learn the pattern once.
- Capital budgeting: NPV is the correct rule. IRR is popular and flawed (reinvestment assumption, multiple roots). PI is for capital rationing. Payback is a liquidity screen, not a decision rule.
- For any variance, FAVOURABLE means actual was better than standard. Compute the number, then decide the direction from the economics — never from the sign alone.

TECHNICAL ACCOUNTING & REPORTING · 16 formulas

The hard end of FAR: consolidation, derivatives, revenue and capitalisation judgements.

Acquisition method — goodwill

Goodwill = Consideration transferred + FV of NCI + FV of previously held interest – FV of identifiable net assets

Where: Goodwill is the plug.

► If negative, it is a BARGAIN PURCHASE GAIN recognised in income immediately — never a negative asset. Reassess your fair values first; a bargain purchase is rare and usually signals an error.

Non-controlling interest — full vs partial goodwill

FULL (required under US GAAP): $GW = (FV \text{ of consideration} + FV \text{ of NCI}) - FV \text{ of net assets}$; NCI at FAIR VALUE

PARTIAL (IFRS option only): $GW = FV \text{ of consideration} - (\text{parent } \% \times FV \text{ of net assets})$; $NCI = NCI\% \times FV \text{ of net assets}$

Where: A genuine GAAP/IFRS divergence.

► Under full goodwill, some goodwill is attributed to the NCI. Under partial, none is. US GAAP requires full; IFRS lets you choose per transaction — which is itself an examinable fact.

Fair value hedge

Change in FV of the HEDGED ITEM → Net income (adjusting its carrying amount)

Change in FV of the DERIVATIVE → Net income

Net P&L impact = the INEFFECTIVE portion only

Where: Both sides hit income and offset.

► The effective portions cancel out in net income, which is the point — the hedge works. Only the ineffectiveness shows through. Hedging an existing asset or liability ⇒ fair value hedge.

Cash flow hedge

EFFECTIVE portion of the FV change → OCI (deferred)

Reclassified from AOCI → Net income WHEN the hedged item affects earnings

INEFFECTIVE portion → Net income immediately

Where: Hedges a FORECASTED transaction.

► The gain sits in OCI until the forecasted transaction actually hits earnings — that is what achieves the matching. Fair value hedge ⇒ income now. Cash flow hedge ⇒ OCI now, income later.

Net investment hedge

EFFECTIVE portion → OCI, within the Cumulative Translation Adjustment

INEFFECTIVE portion → Net income

Where: Hedges a foreign subsidiary.

► Released to income only on SALE or substantial liquidation of the foreign sub. It parks alongside the translation adjustment it is hedging — which is the whole logic.

Foreign currency translation adjustment

$CTA = \Sigma(\text{Assets at current rate} - \text{Liabilities at current rate}) - \text{Equity at historical rate} - \text{NI at average rate}$

Where: Recorded in OCI / equity.

► Reclassified to **NET INCOME** only on the sale or substantial liquidation of the foreign subsidiary. Until then it accumulates in equity, sometimes for decades.

Long-term contracts — percentage of completion

$\% \text{ complete} = \text{Costs to date} / \text{Total estimated cost}$

$\text{Revenue} = \% \text{ complete} \times \text{Contract price}$

$\text{Gross profit} = \% \text{ complete} \times \text{Estimated total profit}$

Where: Cost-to-cost input method.

► An expected **TOTAL LOSS** is recognised in **FULL, IMMEDIATELY** — never spread. Profits get spread; losses land at once. That asymmetry is conservatism in action, and it is the exam point.

Completed-contract method

During the contract: $\text{Revenue} = 0$, $\text{Profit} = 0$ (accumulate CIP and billings)

At completion: $\text{Profit} = \text{Contract price} - \text{Total costs}$

Losses: recognise immediately when probable

Where: Rare under ASC 606.

► Permitted only when control transfers at a **POINT IN TIME**. ASC 606 pushed nearly all construction contracts to over-time recognition, so completed-contract is now the exception, not the alternative.

Software revenue recognition (ASC 606)

1. Identify the POs: licence, implementation, post-contract support, training
2. The licence is either **FUNCTIONAL** (point in time, at delivery) or **SYMBOLIC/access** (over time)
3. Allocate the price on relative standalone selling price
4. PCS recognised **RATABLY** over the support period

Where: The licence type drives the timing.

► **Functional licences** (the software works as-is) ⇒ recognise at delivery. **Symbolic licences** (value depends on ongoing activity, like a brand) ⇒ recognise over time. That classification IS the question.

Franchise revenue recognition

Initial fee: recognise when the performance obligations are satisfied (training, site selection substantially performed)

Continuing royalties: recognise over time as the franchisee operates

Pre-opening services: recognise as each PO is met

Where: The sales-based royalty exception applies to the ongoing fees.

► You may **NOT** recognise the whole initial fee on signing. The franchisor still owes training and site selection — the cash arrived before the obligation was satisfied.

Stock-based compensation

$\text{Compensation expense per period} = \text{Total grant-date fair value} \div \text{Vesting period}$

Where: FV from Black-Scholes or a binomial model at GRANT date.

► Fixed at the **GRANT** date and **NEVER** remeasured for later share-price movements. If the stock collapses, the expense continues unchanged. The only true-up is for **FORFEITURES**.

Convertible debt (post-ASU 2020-06)

1. Record the full proceeds as DEBT, at face
2. Amortise using the stated rate – no beneficial conversion feature, no cash-conversion bifurcation
3. Bifurcate ONLY if the conversion feature is a derivative under ASC 815, or a substantial premium exists

Where: Effective for public business entities from 2022; others from 2024.

► ASU 2020-06 SIMPLIFIED this dramatically — the old BCF and cash conversion models are gone. If your study material still splits the proceeds between debt and equity by default, it is out of date.

Software costs — internal use

1. Preliminary stage: EXPENSE
2. Application development: CAPITALISE (coding, configuration, testing); expense training
3. Post-implementation: EXPENSE

Where: ASC 350-40.

► Only the middle phase is capitalised, and training is expensed in every phase. The same three-phase shape governs cloud computing arrangements.

Software costs — sale to others

- Pre-technological feasibility: EXPENSE as R&D
- Post-technological feasibility: CAPITALISE
- Post-release: amortise at the GREATER of (a) straight-line over economic life or (b) current revenue / total expected revenue

Where: ASC 985-20.

► The GREATER of two amortisation methods — an unusual conservatism rule found almost nowhere else in GAAP.

R&D costs

- Default: EXPENSE as incurred (ASC 730).

Where: Capitalise: a tangible asset with an alternative future use; software after technological feasibility; IPR&D acquired in a business combination.

► IPR&D from an acquisition becomes an INDEFINITE-life intangible — tested for impairment, not amortised — until the project completes or is abandoned.

IFRS vs GAAP — inventory and impairment

- IFRS: LIFO PROHIBITED; inventory at lower of cost or NRV; impairment reversals ALLOWED (except goodwill)
- GAAP: LIFO permitted (with LCM); FIFO/WA use LCNRV; NO impairment reversals

Where: Two of the biggest divergences.

► The reversal rule is the memorable one: under IFRS a written-down asset can be written back up; under GAAP the write-down is permanent. GAAP fears the earnings management that reversals invite.

EXAM TIPS — TECHNICAL ACCOUNTING & REPORTING

- Hedge accounting reduces to one question: WHERE does the gain go? Fair value hedge ⇒ income now. Cash flow hedge ⇒ OCI, then income when the hedged item hits earnings. Net investment hedge ⇒ OCI within CTA.
- Any construction or long-term contract question: profits are spread, losses are immediate. That asymmetry answers most of them.
- Know the GAAP/IFRS divergences as a list — LIFO, impairment reversal, development costs, contingency measurement. They are easy marks and they come up reliably.

STATE & LOCAL GOVERNMENTS · 15 formulas

GASB in depth. Unfamiliar, entirely learnable, and routinely under-prepared — which makes it cheap marks.

Governmental fund balance equation

Fund balance = Assets + Deferred outflows – Liabilities – Deferred inflows

Where: Modified accrual, current financial resources.

► *Note there are no capital assets and no long-term debt in a governmental fund. They exist only in the government-wide statements — which is why the reconciliation is necessary.*

Fund balance classifications (NRSCAU)

Nonspendable → Restricted → Committed → Assigned → Unassigned

Where: Ordered from most to least constrained.

► *COMMITTED requires the government's HIGHEST-level formal action (a council vote). ASSIGNED needs only an intent expressed at a lower level. And only the GENERAL FUND can report a positive Unassigned balance.*

Government-wide net position

Net position = Assets + Deferred outflows – Liabilities – Deferred inflows

Where: Full accrual, economic resources focus.

► *Three categories: Net investment in capital assets; Restricted; Unrestricted. Same equation as fund balance, entirely different measurement basis — and that is the whole architecture of GASB reporting.*

Modified accrual revenue recognition

Recognise revenue when MEASURABLE and AVAILABLE.

Where: Available = collectible within the current period or within 60 days after year-end.

► *The 60-day rule is THE number in governmental accounting. Expenditures are recorded when the LIABILITY is incurred — with exceptions for debt service and long-term liabilities.*

Property tax revenue

Revenue = Levy – Uncollectible allowance – Deferred inflows

Where: Recognised when LEVIED, if measurable and available.

► *Amounts expected to be collected MORE than 60 days after year-end become DEFERRED INFLOWS OF RESOURCES — not revenue, and not a liability either. Deferred inflows are their own category in GASB.*

Five governmental fund types (GRaSPP)

General; Special Revenue (earmarked); Debt Service (long-term principal and interest); Capital Projects (major construction); Permanent (corpus restricted, only income spendable)

Where: All five: modified accrual, current financial resources.

► *GRaSPP. A PERMANENT fund benefits the GOVERNMENT itself; a private-purpose trust benefits outsiders. That distinction decides which of the two you use, and it is regularly tested.*

Two proprietary fund types (SE)

**Internal Service – serves INTERNAL government customers on a cost-reimbursement basis
Enterprise – serves EXTERNAL customers**

Where: Full accrual, economic resources.

► *An Enterprise fund is REQUIRED if ANY of: debt is secured solely by fee revenue, law requires fees to recover costs, or pricing policy is set to recover costs. Any one triggers it.*

Four fiduciary fund types (PAPI)

Pension (and OPEB) trust; Agency/Custodial; Private-purpose trust; Investment trust

Where: Full accrual, economic resources.

► *Fiduciary funds are EXCLUDED from the government-wide statements entirely — the assets are not the government's to spend. That exclusion is the most distinctive fact about them.*

Government-wide vs fund-level reconciliation

GW net position = Fund balance + Capital assets (net of accumulated depreciation) – Long-term debt + Deferred inflow/outflow adjustments + Internal Service Fund net position

Where: Converts modified accrual to full accrual.

► Shown at the **BOTTOM** of the fund balance sheet and the statement of revenues and expenditures. You are adding back everything modified accrual left out — that is all the reconciliation does.

Encumbrance accounting

PO issued: DR Encumbrances / CR Reserve for Encumbrances

Goods received: (1) DR Reserve for Encumbrances / CR Encumbrances (2) DR Expenditures / CR Vouchers Payable

Where: Governmental funds only.

► Encumbrances are a **BUDGETARY** control, not an expenditure — they reserve spending authority. Year-end open encumbrances reduce the unassigned fund balance, because that money is already spoken for.

Capital lease (government)

FUND LEVEL (modified accrual): DR Expenditure – Capital Outlay (PV of minimum lease payments); CR Other Financing Source – Lease (PV)

GOVERNMENT-WIDE: DR Capital Asset; CR Lease Liability

Where: GASB 87.

► The fund level records **BOTH** an expenditure and an other financing source, grossing up both sides — because current financial resources cannot show a long-term asset or liability. It looks strange, and it is correct.

Special vs extraordinary items

SPECIAL: unusual OR infrequent, AND within management's control (e.g. a gain on selling land)

EXTRAORDINARY: unusual AND infrequent, AND OUTSIDE management's control (e.g. a natural disaster)

Where: Both shown separately at the bottom of the government-wide Statement of Activities.

► **CONTROL** is the distinguishing feature. Management chose to sell the land (special); nobody chose the hurricane (extraordinary). Note that GASB retains "extraordinary" even though FASB abolished it.

Component units — discrete vs blended

DISCRETE (the default): a separate column on the government-wide statements

BLENDED if ANY: the governing body is substantively the same; services are provided almost exclusively to the primary government; the debt is expected to be repaid by the primary government

Where: GASB 61.

► Blending treats the unit as if it were part of the primary government. The test is essentially: is this a separate organisation, or the same government wearing a different hat?

GASB vs FASB — which framework?

Use GASB if ANY: (1) a majority of the governing body is appointed by a government (2) unilateral dissolution with assets reverting to a government (3) the power to enact and enforce a TAX LEVY

Where: Otherwise FASB ASC 958 (not-for-profit).

► The **TAX LEVY** power is the decisive one. Most public hospitals, universities and museums are GASB — which surprises candidates who assume "non-profit" automatically means FASB.

MD&A required content (GASB 34)

(1) A brief overview of the financial statements (2) a condensed prior-year comparison (3) analysis of overall financial position and results (4) discussion of significant variations (5) capital asset and long-term debt activity (6) currently known facts affecting the future

Where: Required supplementary information, presented **BEFORE** the basic statements.

► MD&A comes *BEFORE* the statements — unusual, and examinable. It is RSI, so it is subject to limited auditor procedures rather than a full audit opinion.

EXAM TIPS — STATE & LOCAL GOVERNMENTS

- Governmental accounting is one question in disguise: which measurement focus and basis of accounting applies? Identify the fund type, and the answer follows automatically.
- GRaSP (modified accrual) vs SE and PAPI (full accrual). Learn which funds sit in which camp and half the topic is done.
- The 60-day availability rule is the most-tested number in GASB. Know it, and know that anything beyond it becomes a deferred inflow.

PASSING BAR

Choosing BAR as your discipline

- BAR suits candidates heading into FP&A, valuation, corporate finance or technical accounting — and candidates who are simply more comfortable with numbers than with tax law or IT controls.
- It has the heaviest quantitative load of the three disciplines. If you enjoyed the managerial and finance portions of your degree, this is your section.
- It overlaps substantially with FAR. Sitting BAR soon after FAR, while consolidation and revenue are still fresh, is a genuine scheduling advantage.

The high-yield core

- Variance analysis. Every two-way variance shares one structure — learn it once and it covers materials, labour and overhead.
- Capital budgeting. NPV is correct; know precisely why IRR fails (reinvestment assumption, multiple roots).
- Governmental accounting. Unfamiliar, entirely learnable, and where most candidates leave marks on the table.
- Hedge accounting. One question: where does the gain go — income or OCI?
- Cost of capital: market weights, and the tax shield on debt alone.

The traps

- The FOH volume variance is NOT a spending variance — it measures capacity utilisation, and nobody "spent" it.
- Materials price variance uses quantity PURCHASED; quantity variance uses quantity USED.
- WACC uses MARKET-value weights. Book weights are the standard distractor.
- Preferred stock gets NO tax shield — the $(1 - t)$ applies to debt only.
- Expected losses on long-term contracts are recognised in full, immediately.
- The 60-day availability rule, and the deferred inflow that follows from it.

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