

BAR Complete Study Guide

Olivia Anderson · True North Accounting & Business Solutions · Study notes for educational use. Always confirm details against the current AICPA Blueprints and authoritative standards.

Business Analysis and Reporting, the discipline section for financial reporting, analysis and data. Organized by the 2026 AICPA Blueprint.

AREA	TOPIC	WEIGHT
I	Business Analysis	40–50%
II	Technical Accounting and Reporting	35–45%
III	State and Local Governments	10–20%

Business analysis is the largest area, so start there.

Area I: Business Analysis

Working With Data

Data governance treats data as a strategic asset. Key roles are data owners (accountable business leaders), data stewards (day-to-day quality) and data custodians (IT staff who maintain systems).

Data quality dimensions: accuracy, completeness, consistency across systems, timeliness, validity (conforms to formats and rules) and uniqueness (no duplicates).

Preparing data for analysis: identify the sources and structure needed, then extract, clean (handle missing values, errors and outliers), transform (standardize formats, aggregate) and load it. **Structured data** fits rows and columns.

Unstructured data such as emails, contracts and images needs more preparation.

TYPES OF ANALYTICS

TYPE	QUESTION	EXAMPLES
Descriptive	What happened?	Reports, dashboards, variance reports
Diagnostic	Why did it happen?	Drill-downs, root cause analysis
Predictive	What will happen?	Regression, forecasts, churn models
Prescriptive	What should we do?	Optimization, pricing and staffing recommendations

VISUALIZATIONS

- **Comparison:** bar and column charts, bullet charts for actual against target
- **Trend:** line and area charts
- **Composition:** stacked bars, waterfall charts and, sparingly, pie charts
- **Relationship:** scatter plots and bubble charts
- **Distribution:** histograms and box plots

Label axes, keep colors consistent, avoid 3-D effects that distort and choose the chart that answers the question.

Financial Statement Analysis

Horizontal analysis compares the same item across periods. If revenue grew from \$400,000 to \$500,000, the change is \$100,000, or 25%. **Index numbers** set a base year to 100.

Vertical (common-size) analysis expresses income statement items as a percentage of sales and balance sheet items as a percentage of total assets. It makes companies of different sizes comparable.

KEY RATIOS

Liquidity

- Current ratio = current assets ÷ current liabilities
- Quick ratio = (cash + marketable securities + receivables) ÷ current liabilities. A simpler version uses current assets minus inventory and prepaids.
- Cash ratio = (cash + marketable securities) ÷ current liabilities
- Working capital = current assets – current liabilities

Activity

- Receivables turnover = net credit sales ÷ average receivables. Days sales outstanding = $365 \div \text{turnover}$.
- Inventory turnover = cost of goods sold ÷ average inventory. Days inventory outstanding = $365 \div \text{turnover}$.
- Payables turnover = purchases (or COGS) ÷ average payables. Days payable outstanding = $365 \div \text{turnover}$.
- **Cash conversion cycle** = days inventory + days sales outstanding – days payable outstanding. Lower means less cash tied up.

- Total asset turnover = sales $\div$ average total assets

Solvency

- Debt to equity = total liabilities $\div$ total equity
- Debt ratio = total liabilities $\div$ total assets
- Equity multiplier = total assets $\div$ total equity
- Times interest earned = EBIT $\div$ interest expense
- Debt service coverage = cash available for debt service $\div$ principal and interest due

Profitability

- Gross, operating and net margins: gross profit, operating income and net income divided by sales
- Return on assets = net income $\div$ average total assets
- Return on equity = net income $\div$ average equity

Market

- Price-earnings ratio = market price $\div$ EPS
- Price-to-book = market price $\div$ book value per share
- Dividend yield = dividends per share $\div$ market price
- Payout ratio = dividends $\div$ net income

DUPONT ANALYSIS

ROE = net profit margin $\times$ asset turnover $\times$ equity multiplier

Example: net income \$100,000, sales \$1,000,000, assets \$800,000 and equity \$400,000. $ROE = 10\% \times 1.25 \times 2.0 = 25\%$.

The five-part version splits margin into a tax burden (net income $\div$ pretax income), an interest burden (pretax income $\div$ EBIT) and an operating margin (EBIT $\div$ sales).

Nonfinancial and Non-GAAP Measures

Non-GAAP measures include EBITDA, free cash flow (operating cash flow – capital expenditures), adjusted net income and "core" earnings. They can be useful, but check what's excluded and how consistently. SEC registrants must reconcile non-GAAP measures to the most comparable GAAP measure.

Nonfinancial measures include customer retention, employee turnover, labor productivity, defect rates and response times.

Benchmarking compares performance internally, over time or across units, and externally, against competitors or industry data.

The balanced scorecard tracks performance from four perspectives:

1. **Financial:** profitability, growth, return on investment

2. **Customer:** satisfaction, retention, market share
3. **Internal business processes:** quality, cycle time, efficiency
4. **Learning and growth:** employee skills, systems and culture

Managerial and Cost Accounting

COST BEHAVIOR

- **Variable costs** change in total with activity but are constant per unit.
- **Fixed costs** are constant in total within the relevant range.
- **Mixed costs** have both elements. The **high-low method** splits them: $\text{variable rate} = \text{change in cost} \div \text{change in activity}$ between the highest and lowest activity levels. Regression gives a better estimate.

COSTING METHODS

- **Job order costing:** for unique jobs. Costs are accumulated by job.
- **Process costing:** for continuous mass production. Costs are accumulated by department and assigned using **equivalent units** (weighted-average or FIFO).
- **Activity-based costing:** assigns overhead using multiple cost drivers, such as setups or inspections, for more accurate product costs.
- **Absorption costing** (required for GAAP and taxes) treats fixed manufacturing overhead as a product cost. **Variable costing** expenses it in the period. When production exceeds sales, absorption costing income is higher, because some fixed overhead is deferred in inventory.

VARIANCE ANALYSIS

VARIANCE	FORMULA
Direct materials price	$(\text{Actual price} - \text{standard price}) \times \text{actual quantity purchased}$
Direct materials quantity	$(\text{Actual quantity used} - \text{standard quantity allowed}) \times \text{standard price}$
Direct labor rate	$(\text{Actual rate} - \text{standard rate}) \times \text{actual hours}$
Direct labor efficiency	$(\text{Actual hours} - \text{standard hours allowed}) \times \text{standard rate}$

Variances are favorable when actual cost is below standard. Overhead variances split into spending, efficiency and volume components.

Sales variances separate the effects of **price**, **volume** and **mix** on revenue or contribution margin. *Example:* a price variance equals $(\text{actual price} - \text{budgeted price}) \times \text{actual units sold}$.

Budgeting, Forecasting and Projections

The **master budget** starts with the sales budget and flows through production, purchases, labor, overhead, selling and administrative expenses, the cash budget and the budgeted financial statements. **Flexible budgets** adjust to

actual activity, so variances compare like with like.

Time series forecasting considers the trend, seasonality, cycles and random variation. Methods include moving averages, weighted moving averages and exponential smoothing.

Regression: $y = a + bx$, where b is the slope and a is the intercept. R^2 measures the share of variation explained, from 0 to 1. A high R^2 shows correlation, not causation.

Example: sales = \$50,000 + 3 × advertising means each \$1 of advertising is associated with \$3 of sales, and expected sales with no advertising are \$50,000.

Planning techniques: sensitivity analysis changes one assumption at a time, scenario or what-if analysis changes several, and simulation runs many random trials.

COST-VOLUME-PROFIT ANALYSIS

- Contribution margin per unit = price – variable cost per unit
- Contribution margin ratio = contribution margin ÷ price
- **Breakeven units** = fixed costs ÷ contribution margin per unit
- **Breakeven sales dollars** = fixed costs ÷ contribution margin ratio
- **Units for a target profit** = (fixed costs + target profit) ÷ contribution margin per unit
- **Margin of safety** = actual sales – breakeven sales
- **Degree of operating leverage** = contribution margin ÷ operating income

Example: price \$100, variable cost \$60 and fixed costs \$200,000. Contribution margin is \$40, or 40%. Breakeven is 5,000 units, or \$500,000 of sales.

Multiple products: use the weighted-average contribution margin. With product A at a \$40 margin and 60% of units, and B at \$30 and 40%, the weighted margin is \$36 per unit.

Capital Structure and the Cost of Capital

Weighted average cost of capital (WACC) = $(E/V \times \text{cost of equity}) + (D/V \times \text{cost of debt} \times (1 - \text{tax rate}))$, where E , D and V are the market values of equity, debt and the total.

- **Cost of debt** is reduced by the tax deduction for interest.
- **Cost of equity** can be estimated with the **capital asset pricing model**: risk-free rate + beta × (market return – risk-free rate), or with the dividend growth model: next dividend ÷ price + growth rate.

More debt can lower WACC at first because debt is cheaper, but it raises financial risk, tightens covenants and eventually raises the cost of both debt and equity.

Evaluating Investments

Time value of money: $PV = FV \div (1 + r)^n$. An annuity's present value = $\text{payment} \times [1 - (1 + r)^{-n}] \div r$.

METHOD	DECISION RULE	WATCH OUT FOR
Payback period	Shorter is better	Ignores time value and later cash flows
Net present value	Accept if NPV > 0	Requires a discount rate
Internal rate of return	Accept if IRR > required return	Can mislead with unusual cash flows or mutually exclusive projects
Profitability index	Accept if $PV \text{ of inflows} \div \text{investment} > 1$	Useful to rank projects under a budget limit
Economic value added	Positive EVA adds value	$EVA = \text{after-tax operating profit} - (\text{capital} \times WACC)$

Example: a \$100,000 investment returns \$30,000 a year for five years at 10%. Payback is 3.33 years. $NPV = \$30,000 \times 3.791 - \$100,000 = \mathbf{\$13,730}$, so accept.

Make, buy, lease or replace decisions: compare only **relevant costs**, the future costs that differ between alternatives. Ignore sunk costs and unavoidable fixed costs, and include opportunity costs.

Valuation: discounted cash flow models, the dividend growth model (value = next dividend $\div$ (required return – growth)) and market multiples such as P/E and EV/EBITDA. Option values, such as those from Black-Scholes, rise with volatility, time to expiration and the risk-free rate.

Risk Management

COSO Enterprise Risk Management (2017) connects risk with strategy and performance through five components:

1. Governance and culture
2. Strategy and objective-setting
3. Performance: identifying, assessing, prioritizing and responding to risks
4. Review and revision
5. Information, communication and reporting

Risk responses: accept, avoid, pursue, reduce or share, such as by insurance or hedging. COSO's ESG guidance applies the same framework to environmental, social and governance risks.

Financial risks include market, interest rate, currency, credit and liquidity risk. They can be managed with diversification, matching assets and liabilities, and derivatives such as swaps, forwards and options.

Working capital management balances liquidity and return through cash budgeting, credit and collection policies, inventory models such as economic order quantity and just-in-time, and timing payables to use available credit.

SWOT analysis sets internal strengths and weaknesses against external opportunities and threats.

Economic Influences

- **Supply and demand:** price elasticity of demand = $\% \text{ change in quantity demanded} \div \% \text{ change in price}$. If the absolute value is above 1, demand is elastic, and a price cut raises total revenue.
- **Inflation:** real value = $\text{nominal value} \div (1 + \text{inflation rate})$. Inflation erodes fixed-rate debt for borrowers and fixed-income investments for lenders.
- **Opportunity cost:** the benefit given up by choosing one alternative over the next best.
- **Exchange rates and interest rates** affect pricing, sourcing, borrowing costs and the value of foreign operations.

Area II: Technical Accounting and Reporting

Goodwill and Indefinite-Lived Intangibles

- **Goodwill** isn't amortized by public companies. It's tested for impairment at the reporting unit level at least annually and when a triggering event occurs. An optional qualitative assessment comes first. If it's more likely than not that the unit's fair value is below its carrying amount, compare them. The **impairment loss is the excess of carrying amount over fair value**, limited to the unit's goodwill.
- **Indefinite-lived intangibles** are tested at least annually by comparing fair value with carrying amount, again with an optional qualitative step.
- Private companies may elect to amortize goodwill over ten years or less and test it only when a triggering event occurs.

Internally Developed Software

- **Internal-use software (ASC 350-40):** expense preliminary project costs, capitalize application development costs such as coding and testing, and expense training and maintenance. ASU 2025-06, effective for annual periods beginning after December 15, 2027, replaces the stages with a test based on management's commitment and the probability of completion.
- **Software to be sold (ASC 985-20):** expense costs until technological feasibility is established, then capitalize until general release. Amortize using the greater of the revenue ratio or straight-line.
- **Cloud computing arrangements:** implementation costs for a hosting arrangement that's a service contract follow the internal-use rules and are expensed over the term of the arrangement.

Revenue Recognition (Advanced)

- **Variable consideration** is estimated by the expected value or most likely amount and constrained to the amount it's probable won't reverse significantly. Reassess each period.
 - *Example:* a retroactive 10% volume discount if the customer buys 200 or more units. If the customer probably will, recognize revenue net of the expected discount from the first sale.

- **Licenses:** functional IP, such as software or patents, is recognized at a point in time. Symbolic IP, such as brands and franchises, is recognized over time. Sales- or usage-based royalties are recognized when the later sales or usage occur.
- **Principal or agent:** a principal controls the good or service before it transfers and reports gross revenue. Indicators include primary responsibility for fulfillment, inventory risk and pricing discretion.
- **Allocating discounts:** generally proportionate to standalone selling prices, unless observable evidence ties the discount to specific obligations.
- **Contract modifications:** a separate contract if distinct goods are added at standalone prices, prospective treatment if the remaining goods are distinct, otherwise a cumulative catch-up.
- **Software as a service** is generally a service recognized over time. Distinct implementation services may be separate obligations.
- **Over-time revenue when progress can't be reasonably measured:** recognize revenue only to the extent of costs incurred, if the entity expects to recover them.

Stock Compensation (ASC 718)

- **Equity-classified awards** are measured at **grant-date fair value** and expensed over the requisite service period.
- **Liability-classified awards**, such as cash-settled stock appreciation rights, are remeasured at fair value each period until settled.
- **Vesting conditions:**
 - *Service and performance conditions* affect whether expense is recognized. For performance conditions, recognize cost only if achievement is probable, and true up.
 - *Market conditions*, such as stock price targets, are reflected in grant-date fair value. Expense isn't reversed if the condition isn't met but the service is provided.
- **Graded vesting:** recognize straight-line over the whole award, or by tranche.
- **Forfeitures:** estimate them, or account for them as they occur.
- **Modifications:** recognize any incremental fair value.
- **Taxes:** excess tax benefits and deficiencies go to income tax expense.

Research and Development (ASC 730)

R&D costs are **expensed as incurred**. Equipment and facilities with alternative future uses are capitalized and depreciated, and the depreciation is R&D expense. R&D performed for others under contract isn't R&D for the performer. **In-process R&D acquired in a business combination** is capitalized as an indefinite-lived intangible until the project is complete or abandoned. Acquired R&D assets that aren't part of a business combination are expensed unless they have an alternative future use.

Business Combinations

The **acquisition method**: identify the acquirer, determine the acquisition date, measure identifiable assets, liabilities and noncontrolling interest at fair value, and recognize goodwill or a bargain purchase gain.

- **Goodwill** = consideration transferred + fair value of noncontrolling interest + fair value of any previously held interest – fair value of identifiable net assets.
- **Contingent consideration** is measured at fair value. If classified as a liability, it's remeasured through earnings.
- **Acquisition costs** are expensed.
- **Measurement period**: provisional amounts may be adjusted for up to one year for information about facts that existed at the acquisition date.

Step acquisitions. When control is obtained in stages, remeasure the previously held interest to fair value and recognize a gain or loss in earnings.

Example: an investor holds 30% of a company under the equity method, carried at \$100,000, and buys another 30% for \$120,000, obtaining control. If the original 30% is worth \$110,000 at that date, recognize a **\$10,000 gain**. Goodwill is then measured using total consideration of \$230,000 plus the fair value of the 40% noncontrolling interest.

Pushdown accounting is **optional** for an acquired entity when an acquirer obtains control. If elected, the acquiree's own statements reflect the acquirer's new basis, including goodwill.

Reverse acquisitions: the legal acquirer is the accounting acquiree, as when a private company merges into a smaller public shell.

Consolidated Financial Statements

Variable interest entities: the **primary beneficiary** has both the **power** to direct the activities that most significantly affect the VIE's economic performance and the **obligation to absorb losses or right to receive benefits** that could be significant. It must consolidate the VIE. The assessment is ongoing.

Noncontrolling interest is reported in equity, separately from the parent's equity. Net income and comprehensive income are attributed to the parent and the NCI. Changes in ownership that don't change control are equity transactions, with no gain or loss.

Intercompany sales of depreciable assets. Eliminate the unrealized gain and adjust depreciation over the remaining life.

Example: the parent sells equipment with a carrying amount of \$100,000 to a subsidiary for \$130,000. The subsidiary depreciates it straight-line over ten years.

- In the year of sale, eliminate the \$30,000 gain and reduce equipment by \$30,000.
- Each year, reduce depreciation expense by \$3,000 ($\$30,000 \div 10$) and adjust accumulated depreciation.

Intercompany bonds: if one group member buys another's bonds from outsiders, the bonds are treated as retired. A gain or loss equals the difference between the debt's carrying amount and the price paid.

Derivatives and Hedge Accounting

All derivatives are recognized at fair value. Hedge accounting requires formal designation and documentation at inception and a highly effective relationship.

Fair value hedges cover recognized assets, liabilities or **firm commitments**. Changes in fair value of both the derivative and the hedged item, for the hedged risk, go to earnings.

Example, firm commitment to buy inventory for €100,000: the euro strengthens. A forward contract gains \$5,000 and the firm commitment loses \$5,000.

- Debit Derivative Asset 5,000, credit Gain 5,000.
- Debit Loss 5,000, credit Firm Commitment Liability 5,000.
- When the inventory is bought, the firm commitment balance adjusts the inventory's carrying amount.

Cash flow hedges cover forecasted transactions and variable cash flows. The change in the derivative's fair value included in the effectiveness assessment goes to **OCI**. It's reclassified into earnings, in the same line as the hedged item, when the hedged item affects earnings. For a forecasted inventory purchase, that's cost of goods sold when the inventory is sold. Under ASU 2017-12, ineffectiveness isn't measured separately for cash flow hedges.

Net investment hedges of foreign operations: gains and losses go to the cumulative translation adjustment in OCI.

Excluded components, such as the time value of options or forward points, may be excluded from the effectiveness assessment and recognized in earnings systematically.

Highly inflationary economies: if cumulative inflation exceeds about 100% over three years, a foreign entity's statements are remeasured as if its functional currency were the reporting currency, with gains and losses in earnings.

Area III: State and Local Governments

The Annual Comprehensive Financial Report

The financial section of the **annual comprehensive financial report (ACFR)** contains:

1. The auditor's report
2. **Management's discussion and analysis**, as required supplementary information
3. **Basic financial statements:**
 - **Government-wide statements:** the statement of net position and the statement of activities
 - **Fund statements:** for governmental, proprietary and fiduciary funds
 - **Notes**
4. **Required supplementary information**, such as budgetary comparisons and pension and OPEB schedules
5. Combining and individual fund statements and other supplementary information

GASB Statement No. 103, effective for fiscal years beginning after June 15, 2025, revises MD&A, adds separate presentation of unusual or infrequent items, defines operating and nonoperating items for proprietary funds and requires budgetary comparisons to be presented as RSI.

Governmental Concepts

Objectives: accountability, including **interperiod equity** (whether current revenues cover current services) and information for decision-making.

Elements: assets, liabilities, **deferred outflows of resources** (a consumption of net assets for a future period), **deferred inflows of resources** (an acquisition of net assets for a future period) and net position.

Fund Types

CATEGORY	FUNDS	BASIS AND FOCUS
Governmental	General, special revenue, capital projects, debt service, permanent	Modified accrual, current financial resources
Proprietary	Enterprise, internal service	Accrual, economic resources
Fiduciary	Pension and OPEB trust, investment trust, private-purpose trust, custodial	Accrual, economic resources

- **General fund:** every government has exactly one. It accounts for everything not required elsewhere.
- **Special revenue funds:** restricted or committed revenue sources for specific purposes other than debt service or capital projects, such as a gas tax.
- **Capital projects funds:** major capital acquisitions and construction.
- **Debt service funds:** resources for paying general long-term debt principal and interest.
- **Permanent funds:** resources whose earnings, but not principal, may be spent for the government's programs, such as perpetual cemetery care.
- **Enterprise funds:** business-type activities that charge external users. Required if debt is backed solely by fees, laws require cost recovery through fees, or pricing policies are set to recover costs. Examples: water utilities, airports and parking.
- **Internal service funds:** services to other departments, such as a motor pool, IT or self-insurance.
- **Fiduciary funds:** resources held for others that the government can't use for its own programs.

Modified Accrual (Governmental Funds)

Revenues are recognized when **measurable and available**. Available means collectible in the current period or soon enough afterward to pay current liabilities. For property taxes, that's within **60 days** after year-end.

Property tax example: a government levies \$1,000,000 for the current year and expects 5% to be uncollectible. During the year it collects \$900,000, and it expects to collect \$30,000 more within 60 days after year-end and \$20,000 later.

- Debit Property Taxes Receivable 1,000,000, credit Allowance for Uncollectible Taxes 50,000.
- Credit Property Tax Revenue **930,000**, the amount collected or available.
- Credit Deferred Inflows (Unavailable Revenue) **20,000**.

Taxes levied for a **future** year are reported as deferred inflows until that year.

Grants are recognized when all eligibility requirements, including time requirements, are met and the resources are available. For reimbursement grants, that's when allowable costs are incurred.

Expenditures are recognized when the liability is incurred, with exceptions:

- **General long-term debt principal and interest:** when due
- **Compensated absences, claims and judgments, and pensions:** when due and payable from current resources
- **Inventory and prepaids:** either the purchases method (expenditure when bought) or the consumption method (expenditure when used)

Capital assets and long-term debt aren't reported in governmental funds.

- Buying an asset: debit Expenditures — Capital Outlay, credit Cash or Vouchers Payable.
- Issuing bonds: debit Cash, credit Other Financing Sources — Bond Proceeds, with any premium as a separate other financing source.
- Paying debt service: debit Expenditures — Principal and Expenditures — Interest, credit Cash.
- Transfers between funds: other financing sources and uses.

ENCUMBRANCES

An encumbrance records a commitment, such as a purchase order, for budgetary control. It's **not an expenditure**.

- Order placed: debit Encumbrances 10,000, credit Budgetary Fund Balance — Reserved for Encumbrances 10,000.
- Goods received for \$10,200: reverse the encumbrance, then debit Expenditures 10,200 and credit Vouchers Payable 10,200.
- At year-end, outstanding encumbrances aren't reported separately. The related amounts are included in **restricted, committed or assigned fund balance**, as appropriate.

FUND BALANCE CLASSIFICATIONS (GASB 54)

1. **Nonspendable:** not in spendable form, such as inventory, or legally required to remain intact, such as a permanent fund's principal
2. **Restricted:** externally imposed by creditors, grantors or laws, or by enabling legislation
3. **Committed:** set by formal action of the highest decision-making authority
4. **Assigned:** intended for specific purposes by a body or official with delegated authority

5. **Unassigned:** the residual, which is positive only in the general fund

Proprietary Funds

Proprietary funds use full accrual accounting. They record capital assets, depreciation and long-term debt.

Statements: the statement of net position, the statement of revenues, expenses and changes in fund net position, and a statement of cash flows using the **direct method**, with four categories: operating, noncapital financing, capital and related financing, and investing.

Net position: net investment in capital assets, restricted and unrestricted.

Capital contributions, such as capital grants and tap fees above the cost of connection, are reported separately after nonoperating revenues and expenses.

Fiduciary Funds

Pension trust funds report additions (contributions and investment income) and deductions (benefits and administrative costs). The government employer reports its **net pension liability** (total pension liability – the plan's fiduciary net position) in the government-wide statements, not in governmental funds.

Custodial funds hold resources for others that aren't held in a trust, such as taxes collected for other governments.

Government-Wide Statements

Government-wide statements use the economic resources focus and accrual basis. They present **governmental activities** and **business-type activities** separately, and exclude fiduciary activities.

Statement of activities

LINE

Expenses by function or program

– Program revenues: charges for services, operating grants and capital grants = Net (expense) revenue by function

+ General revenues: taxes, unrestricted grants and investment earnings, plus transfers

= Change in net position

RECONCILING GOVERNMENTAL FUNDS TO GOVERNMENTAL ACTIVITIES

1. Add capital assets, net of depreciation, and remove capital outlay expenditures, adding depreciation expense.
2. Add long-term liabilities, such as bonds, compensated absences, net pension liabilities and accrued interest.
Remove bond proceeds and principal repayments from the flows.
3. Recognize revenues that were deferred as unavailable in the funds.
4. Add the internal service funds' net position, since they mainly serve governmental funds.

Required Supplementary Information

- **Management's discussion and analysis**
- **Budgetary comparison schedules** for the general fund and major special revenue funds with legally adopted budgets, showing the original budget, final budget, actual amounts on the budgetary basis and variances
- **Pension and OPEB schedules**
- **Infrastructure condition information** for governments using the modified approach

Quick Reference

	GOVERNMENTAL FUNDS	GOVERNMENT-WIDE (AND PROPRIETARY FUNDS)
Basis	Modified accrual	Accrual
Focus	Current financial resources	Economic resources
Capital asset purchase	Expenditure	Capitalized and depreciated
Bond proceeds	Other financing source	Liability
Principal payment	Expenditure	Reduces the liability
Revenue	Measurable and available	Earned or, for taxes, when the levy applies

Prioritize: Area I analysis (ratios, variances, budgeting, capital budgeting and cost of capital), then Area II technical topics (business combinations, consolidations, stock compensation and derivatives), then governmental accounting.