



THE BARATELLI INSTITUTE

Mentoring at Scale

BB Baratelli Bankable

Accounting Treatments and Limitations

A faculty appendix

This appendix states how Baratelli Bankable accounts for each area, the standard it follows, and where it simplifies. Every simplification is listed on purpose: each one is a question a student can answer by recomputing the figure by hand or writing the entry the program does not make.

*Use it three ways: as the instructor's reference when a student asks why a number came out as it did; as a list of ready-made exercises (the **Teaching point** column); and as the disclosure that lets faculty put their names on an assignment built on the program.*

How to read the tables. **Treatment** is what the program does. **Standard** is the guidance it follows or approximates (FASB ASC topics, the Internal Revenue Code, SBA SOP 50 10 8). **Limitation and teaching point** is what it leaves out and how to use that in class. The program is educational software and a bookkeeping tool; it is not an audit, a tax return preparer or a credit decision.

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1 · FOUNDATIONS

Area	Treatment	Standard	Limitation and teaching point
Double entry	Every screen posts balanced debits and credits; an entry out of balance cannot be saved. Amounts are kept in whole cents; allocations put any rounding cent on the last line.	Conceptual Framework	None material. Have students open the Journal report beside each form to see the entry it made.
Basis	Accrual by default. Cash-basis reports recognize invoices and bills when paid, in proportion to each payment. If journal entries touch receivables, payables or accruals, the report is labeled modified cash basis.	Accrual: ASC 606, 340, 720. Cash: tax method	Compare the same month on both bases and explain every difference.
Fiscal years and closing	Reports close income and expense to retained earnings by fiscal year automatically. In Principles mode, closing entries (CE-1 to CE-4, through Income Summary) are posted for the assignment period, and a post-closing trial balance is available.	Textbook closing cycle	Closing entries are shown in the journal and ledger but the reports do not depend on them, so a student cannot break the statements by closing twice.
Locks and changes after close	A closing date blocks edits on or before it; changes after a year-end close are listed for the CPA with who made them.	Internal control (COSO)	Void-only is optional; with it off, an unlocked entry can still be deleted, which is logged.

2 · REVENUE AND RECEIVABLES

Area	Treatment	Standard	Limitation and teaching point
Revenue	Recognized on the invoice or sales receipt date at the amounts entered. Deferred revenue schedules release a prepayment evenly over months.	ASC 606 (simplified)	No five-step engine: no allocation of price among performance obligations, variable consideration or contract assets. A good exercise: allocate a bundled sale by standalone selling prices and write the entry.
Customer returns	A credit memo reduces revenue and receivables. An inventory return comes back into stock at the unit cost of that item's most recent sale to the same customer, or at average cost if there was none.	ASC 606-10-55-22 to 29; ASC 330	No refund liability or returns reserve is estimated at the time of sale. Students can estimate one from history and book it.
Bad debts	Written off directly, or through an allowance account the user maintains.	ASC 326 (CECL)	No expected-credit-loss model. Compute an aging-based allowance from the A/R aging and post it.

3 · INVENTORY AND COST OF SALES

Area	Treatment	Standard	Limitation and teaching point
Cost flow	Moving (perpetual) weighted average. Each purchase blends into the average; each sale takes cost at the average on its date. Back-dated entries recalculate everything after them.	ASC 330-10-30	No FIFO, LIFO or specific identification. Recompute an item's cost of goods sold under FIFO by hand from its History and explain the difference.

Area	Treatment	Standard	Limitation and teaching point
Received not billed	A receipt debits inventory and credits Received not billed (GRNI); the matched bill moves the amount to accounts payable.	ASC 330; ASC 405	A clean lesson in an accrued liability; reconcile GRNI to the report at month end.
Price differences on the bill	The bill's difference from the receipt is split by the share of the received quantity still on hand at the bill date: that share adjusts inventory, the rest goes to cost of goods sold.	ASC 330-10-35	The on-hand share is an approximation: under average cost the received units are not tracked individually. Example: 10 units received at \$10, 6 sold, billed at \$12. \$8 to inventory, \$12 to COGS.
Vendor credits	With a quantity, stock leaves at the credit amount. With no quantity, the credit is a price allowance: it lowers value only.	ASC 705-20	A credit larger than the item's value on hand can leave a negative value; review it.
Lower of cost and NRV	NRV = expected selling price less a costs-to-sell percentage set per company. A write-down posts to a cost of goods sold account as a value-only adjustment; it is not reversed.	ASC 330-10-35-1B and 35-14	Selling prices are the user's estimate; nothing tests them. Ask students to support an NRV price with evidence from sales after year end.
Counts and shrinkage	A count posts the differences at average cost to Inventory shrinkage or another COGS account.	ASC 330	Cycle-count design and cutoff testing are left to the class.
Standard costs	Standard material, labor and overhead per unit of the finished product. The material variance is split into usage (actual less standard quantity at standard price, using each component's standard purchase cost scaled to the product's standard material) and price (the rest). Labor and overhead show spending variances only. All variances are expensed through COGS in the period.	ASC 330-10-30-12; cost accounting texts	No labor rate and efficiency split, no fixed overhead volume variance, and variances are not prorated to ending inventory. Each is a standard cost exercise.

4 · LONG-LIVED ASSETS AND DEBT

Area	Treatment	Standard	Limitation and teaching point
Depreciation	Book: straight-line, double-declining or 150% declining balance over a useful life, monthly. Tax: MACRS with bonus depreciation and section 179, on a separate schedule.	ASC 360; IRC §§167, 168, 179	No impairment testing (ASC 360-10-35) and no component depreciation. Compare book and tax depreciation for one asset and trace the deferred tax.
Leases	Rent is expensed as paid or billed.	ASC 842	No right-of-use asset or lease liability. Build the ASC 842 schedule for the sample's warehouse lease by hand.

Area	Treatment	Standard	Limitation and teaching point
Loans	Loan schedules compute payments, interest and principal, variable rate changes, balloons and escrow, and post the entries. Principal due in the twelve months after the balance sheet date is reclassified to current liabilities, capped at the account balance.	ASC 470-10-45	Only debts with a loan schedule are split between current and long-term; debt without a schedule stays in its account's category. No effective-interest amortization of loan fees (ASC 835-30).
Foreign currency	Foreign-currency bank accounts are revalued to the rate entered, with the gain or loss to income.	ASC 830 (remeasurement)	No translation of foreign subsidiaries and no cumulative translation adjustment.

5 · INCOME TAXES

Area	Treatment	Standard	Limitation and teaching point
Approach	Balance-sheet approach: current tax on taxable income; deferred tax on temporary differences at a blended rate (state + federal × (1 – state)); all deferred taxes noncurrent.	ASC 740; ASU 2015-17	One blended rate for all differences and years; no scheduling of reversals.
Interim periods	The provision is computed on actual year-to-date results. Tax depreciation for the current year is prorated by months elapsed so it compares with book depreciation to date.	ASC 740-270	ASC 740-270 generally requires an estimated annual effective rate applied to year-to-date income. Have students compute that rate and compare.
Permanent differences	Found by account name: 50% of meals, entertainment, fines and penalties, political and lobbying costs, life insurance premiums where the company is the beneficiary (IRC §264), tax-exempt interest. Each amount can be changed.	IRC §§162, 264, 274, 103	Name matching can miss or misread an account; the schedule is a starting point for review, not a determination.
Deferred revenue	Treated as taxed when received; the note explains the one-year deferral method.	IRC §451(c)	If the deferral method is used, the user enters the taxable amount. Compare the two methods.
Losses and credits	NOL deduction limited to 80% of taxable income; the carryforward is a deferred tax asset. Credits not used carry forward as a deferred tax asset at face value.	IRC §§172, 39; TCJA	Pre-2018 federal losses (20-year carryforward, no 80% limit) and state NOL rules must be entered separately. No carryback modeling.
Valuation allowance and uncertainty	Entered by the user at the beginning and end of the year.	ASC 740-10-30-5; 740-10-25-6	No more-likely-than-not evaluation and no uncertain tax positions. Write the valuation allowance memo.
Pass-through entities	S corporations, partnerships and Schedule C businesses are flagged; the screen can compute a state entity-level tax with the federal rate at zero.	IRC Subchapter S, K	Owner-level taxes are outside the company's books.

6 · CONSOLIDATION AND FAMILY OFFICE

Area	Treatment	Standard	Limitation and teaching point
Scope	Companies in one file consolidate; intercompany balances and income and expense recorded through the Intercompany screen are eliminated.	ASC 810	Intercompany profit left in inventory or fixed assets is not eliminated. Build the elimination for a sale at a markup still on the buyer's shelf.
Investment and goodwill	An Investment in account is eliminated against the subsidiary's equity. Companies under common family control record no goodwill; any difference stays in equity.	ASC 805-50	A company bought from outside owners needs its purchase price allocated with a journal entry (ASC 805-20). No step acquisitions or bargain purchases.
Noncontrolling interest	Outside owners' share of a subsidiary's equity is shown as noncontrolling interest; the consolidating P&L splits net income between the group and the NCI by ownership percentage.	ASC 810-10-45	One ownership percentage per company; no preferred interests or disproportionate allocations.
Holdings at value	Real estate, collectibles, funds and securities are carried at cost on the books, with current values on the holdings registers and the family office statement.	ASC 274 (personal statements)	The family statement is not a full ASC 274 presentation: no estimated income taxes on unrealized appreciation and no separate column of estimated current values for every liability.
Trusts and estate	Trusts are companies in the file; beneficiaries are not owners. The estate inventory lists the holdings and each company's net equity for the estate attorney and CPA.	IRC §§2031 to 2044	It does not separate assets in and out of the gross estate (irrevocable trusts, for example) or estimate estate tax. Build that split for the sample family.

7 · CASH FLOWS AND FINANCIAL STATEMENTS

Area	Treatment	Standard	Limitation and teaching point
Cash flow	The direct method comes from the bank and card transactions; the indirect method reconciles net income to the same operating total, with any residual shown as "Other non-cash items, net". Noncash investing and financing are disclosed; interest and income taxes paid are supplemental.	ASC 230	The residual line should be small; tracing it is an exercise in classification.
Classification	By account type and subtype, with current assets excluding fixed and other noncurrent assets and deferred taxes.	ASC 210	Classification follows the chart of accounts the user sets up; a misclassified account misstates the ratios.

8 · LENDING MEASURES

Area	Treatment	Standard	Limitation and teaching point
Debt service coverage	EBITDA basis (ratios and covenants): EBITDA ÷ the next twelve months of scheduled principal and interest, or what was paid if there is no schedule. Cash flow basis (SBA analysis, readiness, projections): EBITDA less taxes, capital spending and distributions ÷ debt service.	Bank covenant practice; SBA SOP 50 10 8	Two bases on purpose, each labeled. Loan readiness tests existing debt plus the requested loan at the coverage required for the loan's purpose.
Collateral	Value × advance rate, less liens. Art, collectibles, jewelry and wine start at 0%. A blanket lien reaches all business assets of its borrower and is senior; liens apply in order of the loans' original dates.	Lender practice	Advance rates are common starting points, not a lender's policy. Lien priority actually depends on UCC filing dates, which the program does not record.
Partial years	A year in the three-year spread with revenue in fewer than twelve months is marked.	Lender practice	The program does not annualize; students decide whether and how.
SBA rules	Program limits, guaranty fees and injection rules as of the date shown on the screen.	SBA SOP 50 10 8	Rules change; cite the current SOP. Everything is an estimate for planning, not a credit decision.

9 · CONTROLS

Area	Treatment	Standard	Limitation and teaching point
Users and roles	Owner, bookkeeper, accountant, reviewer, approver and viewer roles; PINs of at least six characters stored as PBKDF2 hashes; five failed tries pause sign-in for five minutes.	COSO; NIST SP 800-63B	Roles guard a shared computer, not the file: anyone with the file (and its passcode, if set) can read it. Test the limits in an AIS lab.
Audit trail	Every change is logged with user, time and, for transactions, the fields changed. Restores are owner-only and keep users and the audit trail.	AU-C 315	The trail is stored in the same file it records.
Payments	Three-way match on bills; duplicate vendor invoice warning; bill approvals with segregation of duties; printed checks are void-only; Positive Pay export; vendor changes to name, address or email are logged and flagged for 30 days.	AICPA fraud guidance	A planted-fraud exercise: change a vendor's remit-to address and see which controls catch it.

A simplification disclosed is a lesson; one discovered by a student is a credibility problem. This appendix is meant to be handed out with the first assignment.