

**Strategy:**

For interim financial statements most methods of recording revenues, costs, expenses and reporting are the same as those used for annual financial statements. Concentrate on the exceptions and required disclosures for studying interim financial statements.

**Inventory Disclosures:**

- Disclose if the gross profit method or another method different from the year-end method of valuing inventories is used at the interim date.
- If there is a LIFO layer liquidation and it is deemed to be temporary and it will be replaced by year-end, use the NIFO (next-in first-out) method to determine the cost of goods sold. I.e., expected replacement cost.
- Market declines that are deemed to be temporary need not be recognized at the interim date.
- Market declines that have been recognized in prior interim financial statements can be recovered in subsequent interim financial statements of the same year.

**Other Disclosures:**

- Apply the effective annual tax rate for both gains and losses in determining provision for income taxes.
- Recognize the tax benefit from losses only when realized or when future realization is assured beyond any reasonable doubt.
- All changes in accounting principle are to be treated as though they occurred on the first day of the year. I.e., retroactively adjust to the first interim period, restating prior interim periods reported if necessary, to reflect the new method.
- Companies with material seasonal sales fluctuations must disclose this fact. It is also advisable to show an income statement for the year ended at the interim date, as well as a comparative income statement for the same interim period for the prior year.
- Depreciation expense is determined by allocating the annual depreciation amount on a straight-line basis.

**Minimum Disclosures Required of Publicly Traded Companies:**

(Disclosing the minimum does not necessarily constitute a fair presentation in accordance with GAAP.)

- Sales or gross revenues
- Provision for income taxes
- Disposal of a segment of a business, extraordinary items and change in an accounting principle or practice; all with related tax effects
- Net income
- Basic and fully diluted earnings per share
- Seasonal revenue, costs, or expenses

- Contingent items
- When a condensed or summarized balance sheet and statement of changes in financial position is not shown, the following must be disclosed. Significant changes, since the last reporting period, in:
  - Liquid assets
  - Working capital
  - Long-term liabilities
  - Shareholders' equity
- If fourth quarter interim financial statements are not shown separately at year-end, the following fourth quarter items must be disclosed in a footnote to the financial statements:
  - Disposal of a segment of a business
  - Extraordinary items
  - Unusual or infrequent items
  - Aggregate effect of year-end adjustments that are material to the results of that quarter