ACCT 2301: Principles of Financial Accounting

Credit for Prior Learning Review Guide

- Financial reporting & financial statements
  - Review the content of each financial statement
  - The <u>sequence</u> of preparation of financial statements
  - The professional format of financial statements (heading, use of commas, dollar signs, underlines, & sequence of information on statements)
  - The use of financial statements by outside stakeholders
  - Calculation of net income (might have to ignore some info)
  - Calculation total assets (remember to subtract contra accts: Accumulated Depreciation Or Allowance for Doubtful Accts.)
- Accounting rules
  - Who sets accounting standards?
  - What are some of the principles that guide recording/reporting?
- Definitions, relationships and impacts of transactions
  - Be able to define terminology: assets, liabilities, equity, expenses, revenues, specific account names, permanent vs. temporary accounts, closing the books, adjusting the books, ,
  - Understand which accounts are labeled “current” and “long-term” on the classified balance sheet
  - What 3 items impact retained earnings?
  - Which accounts are adjusted (or not)?
  - What is the purpose of adjusting entries?
  - What is the difference between accrual & deferral adjustments?
  - What is meant by “capitalizing”; how is this different from reporting immediately as an expense?
  - What are contra accounts?
  - What is the purpose of closing entries? Which accounts are closed?
  - Be able to identify the impacts of transactions (analysis); regular, adjusting and closing.
- Application questions
  - Be able to determine the amount that would be reported on the financial statements based on given information
    - solving for a missing piece of date for the accounting equation
    - solving for the ending balance of a specific account
    - knowing when to report cost vs. market information
    - knowing when to record as an asset…and how much to later record as an expense
    - knowing when to record revenue or liability (unearned revenue)
    - being able to apply revenue recognition & expense recognition under a cash accounting system…and an accrual accounting system
      1. when is revenue reported in accrual? In cash?
      2. When are expenses reported in accrual? In cash?
- Accounting framework questions
  - Purpose of journal, ledger and trial balance
  - Application of debit/credit to record increases & decreases to assets, liabilities, equity, revenue, expense & dividend accounts…what is the “normal” balance?
  - Calculation of ending balance of specific accounts when given information about the beginning balance and debit/credit transactions recorded during the period (t-account)
  - Steps in accounting cycle…what does each accomplish? Sequence?
  - Journal entry recordings…taking the impact analysis from the previous section and using debit/credit entries to create the increases and decreases

  - Journal entry for adjusting entries… Adjusting entries: depreciation, prepaid expenses (supplies, rent, insurance)
  - What is the purpose of closing entries?
- Merchandising & Multi-step Income Statement
  - New accounts reported on income statement and balance sheet due to nature of business.
  - Differences between recording periodic and perpetual inventory transactions.
  - Recording basic purchasing transactions (purchase/returns/discounts/allowances)
  - Recording sales transactions (using perpetual system = 4 accounts!) Perpetual inventory: recording of original acquisition costs to inventory account, journal entry for sale of merchandise (2 parts); when does inventory become an expense?
  - New contra revenue accounts…purpose & reporting
  - Freight charges can be reported as part of cogs or as a selling expense…why/when?
  - Discounts…determine $
  - Calculation of cost of goods sold (COGS) using equation (periodic system)
  - Format of multi-step income statement. Calculation of net sales and gross profit. What is the difference between operating and non-operating?
  - Analysis: gross profit ratio, return on sales ratio
- Inventory
  - How do freight terms on purchases & sales of inventory potentially impact the financial statements?
  - Understanding of differences on financial reports created by inventory costing methods (FIFO, LIFO, Wt. Avg.)
  - LCM rule and application
  - Impact of inventory errors on financial statements
  - Gross margin % calculation and analysis… Importance?
  - Inventory Costing (FIFO,LIFO, Wt. Average)…calculate cogs, ending inventory, gross profit for each (revenue will be provided)
  - Calculation of COGS using model: BI + P = EI + COGS; gross profit %
  - Analysis: inventory turnover and days sales in inventory
- Internal Control & Cash
  - Internal control purposes
  - Internal control principles and procedures
  - Bank reconciliation (outstanding checks, deposits in transit, NSF) and necessary journal entries
  - Cash budgeting
- Accounts Receivable
  - What is the reporting guideline?
  - When is it acceptable to use the direct write-off method? What is the journal entry?
  - Calculation of bad debt expense using the allowance method
  - Journalizing the adjusting entry to recognize bad debt expense and writing-off of customer account using allowance method.
  - New contra account (Allowance for Bad Debt)…purpose, recording & reporting
  - What is net receivables, where is it reported?
  - Analysis: inventory turnover and days in receivables
- Notes receivables…recording initial transaction + adjusting entry to accrue interest revenue (Review of adjusting)+ maturity of note (honor)
  - Calculation of interest revenue
- Long-term Assets
  - What is the reporting guideline for determining original cost?
  - Be able to calculate straight-line depreciation. Does the impact on the income statement change over the years?

    - Be able to calculate DDB (accelerated) depreciation. How does the impact on the income statement change over the years?
    - What is the impact on reported expense if the salvage value estimate is increased? Estimated life is increased? What would be the overall impact on profitability?
    - What is the difference between routine expensing and "capitalized" expenses after the initial purchase of an asset?
    - Asset reporting: market or cost?
    - Calculation of asset book value (original – contra)
    - Calculation of losses or gains on asset disposal
    - Analysis: Return on Assets
- Liabilities
    - Be able to distinguish between current and long term debt?
    - Unearned Revenue (adjusting required) + Short-term notes payable (review from earlier chapters). Requires calculation of interest expense. May require adjusting entry for partial period of interest.
    - Payroll. Which employee deductions are required by law? How are they recorded on the employer's records? What are the types of employer payroll costs (in addition to basic salary/wage)? Which are required by law? What is meant by FICA "matching"? How is this recorded on the company records?
    - What is meant by current portion of long-term debt? How is it reported on balance sheet?
    - What is meant by liquidity? Why is it important?
    - How is borrowing through the bond market different from borrowing from a bank loan?
    - How is the selling price of a bond calculated? (present value calculation)
    - Describe the impact on bond selling price by the interaction of the bond interest rate and market interest rate. When does a bond sell for more or less?
        - Bond discount: calculate and record at issuance, calculate interest expense vs. interest cash payment and bond carrying value.
        - Bond premium: calculate and record at issuance, calculate interest expense vs. interest cash payment and bond carrying value.
        - Explain the impact to the company's total borrowing cost of bond discounts and bond premiums.
- Be able to complete an installment note (car loans, mortgage loans, etc.) amortization schedule. The basic purpose is to break a payment down into the interest and principal portions for recording.
- Analysis: current ratio; acid-test ratio; Debt to Assets, Debt to Equity
- How can you determine if the use of borrowed funds has helped or hurt a company? If Return on Equity>Return On Assets…positive leverage. Interpretation = use of borrowed money to purchase assets has not hurt the profitability to stockholders.
- Stockholders' Equity
    - What does par value of stock mean? How is this different from market value?
    - Be able to record stock transaction involving par.
    - What is treasury stock? Often referred to as stock repurchases. New contra account!
    - Issued vs. outstanding stocks. Be able to calculate #.
    - Dividends. Definition. Why do some companies not pay dividends?
    - Dividend preference…preferred stockholders paid first with remainder going to common. Be able to determine $.
    - What is a stock dividend? How does it impact the balance sheet?
    - What is a stock split? What is its purpose?
    - Be able to calculate total Stockholders' Equity.
    - Analysis: Return on Equity, Earnings per Share
- Cash Flows
    - Be able to identify the 3 sections of the cash flow statement.

- Be able to calculate net cash flows from each of the three sections: operating, investing and financing. Must be able to determine in which section an item belongs…then is it an inflow or outflow.