ACCT 2301: Principles of Financial Accounting

Credit for Prior Learning Review Guide

- Financial reporting & financial statements
  - Review the content of each financial statement
  - The sequence 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?
o Be able to calculate DDB (accelerated) depreciation. How does the impact on the income statement change over the years?

o 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?

o What is the difference between routine expensing and “capitalized” expenses after the initial purchase of an asset?

o Asset reporting: market or cost?

o Calculation of asset book value (original – contra)

o Calculation of losses or gains on asset disposal

o Analysis: Return on Assets

• Liabilities

  o Be able to distinguish between current and long term debt?

  o 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.

  o Payroll. Which employee deductions are required by law? How are they recorded on the employer’s records?

  o How 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?

  o What is meant by current portion of long-term debt? How is it reported on balance sheet?

  o What is meant by liquidity? Why is it important?

  o How is borrowing through the bond market different from borrowing from a bank loan?

  o How is the selling price of a bond calculated? (present value calculation)

  o 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

  o What does par value of stock mean? How is this different from market value?

  o Be able to record stock transaction involving par.

  o What is treasury stock? Often referred to as stock repurchases. New contra account!

  o Issued vs. outstanding stocks. Be able to calculate #.

  o Dividends. Definition. Why do some companies not pay dividends?

  o Dividend preference...preferred stockholders paid first with remainder going to common. Be able to determine 

  o What is a stock dividend? How does it impact the balance sheet?

  o What is a stock split? What is its purpose?

  o Be able to calculate total Stockholders’ Equity.

  o Analysis: Return on Equity, Earnings per Share

• Cash Flows

  o 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.