REVIEW FOR FINAL EXAM (SAC)
(ACCT - 2301)

CHAPTER 1

1. Accounting Equation.
   a. Assets = Liabilities + Owners Equity
   b. Assets are the resources available to an organization.
   c. Liabilities are the creditors claims on the assets of a company.
   d. Owners' Equity is the owners' investment in the company.
      (1) Common Stock (3) Expenses
      (2) Revenues (4) Dividends
   e. Affect of transactions on the accounting equation.

2. General Ledger Accounts.
   a. Real Accounts (Permanent or Balance Sheet Accounts)
   b. Nominal Accounts (Temporary or Income Statement Accounts)

3. Accounting Organizations.
   a. FASB (establishes generally accepted accounting principles)
   b. AICPA (American Institute of Certified Public Accountants)

4. Business Organizations.
   a. Proprietorship
   b. Partnership
   c. Corporation

5. Financial Statements.
   a. Income Statement
   b. Statement of Retained Earnings
   c. Balance Sheet
   d. Statement of Cash Flows

CHAPTER 2

1. Account Normal Balances & Increases/Decreases.

Account Classifications	Normal Balance	Increase	Decrease
Asset	Debit	Debit	Credit
Contra-Asset	Credit	Credit	Debit
Liability	Credit	Credit	Debit
Equity:			
Common Stock	Credit	Credit	Debit
Revenue	Credit	Credit	Debit
Expense	Debit	Debit	Credit
Dividends	Debit	Debit	Credit

2. Accounting Records.
   a. General *Journal* (book of original entry, where transactions are first recorded)
   b. General *Ledger* (collection of accounts and their balances, used by a business)

3. Affect of Transactions on Accounts.
   (Debit and Credit entries)

4. Steps In Accounting Cycle.
   a. *Analyzing* Transactions
   b. *Journalizing* (Initial recording of transactions in the accounting system - General Journal)
   c. *Posting* - transferring the transaction data from the General Journal to the General Ledger.

CHAPTER 3

1. Basis of Accounting.
   a. Cash (not consistent with generally accepted accounting principles)
   b. Accrual (accepted for external reporting because it is more useful in the decision process)

2. Adjusting Entries (End of Period).
   a. Accruals (not currently in the accounting system and needs to be recorded)
   b. Deferrals (recorded in the accounting system, but needs to be adjusted)
   c. Typical Adjusting Entries:
      (1) Unearned Revenue
      (2) Prepaid Insurance
      (3) Depreciation
      (4) Supplies Consumed
      (5) Accrued Compensation (Salaries/Wages)
   d. Always affects at least one Income Statement account and one Balance Sheet account.

3. Worksheet. (10-columns) (Optional)
   a. Helps identify and summarize adjusting entries.
   b. Facilitates preparation of financial statements
   c. Calculates and proves the accuracy of net income.
   d. Provides data for closing entries.

4. Closing Entries.
   a. Purposes of closing entries.
      (1) To transfer the net effect of revenues and expenses (income) to the Retained Earnings Account.
      (2) To bring temporary (nominal) accounts to zero at the end of the accounting period, including revenue, expense, and dividend accounts.

5. Classified Balance Sheet.
   a. Organizes assets and liabilities into important sub-groups.
   b. Equity section remains unchanged.

6. Completing the Accounting Cycle (Steps).
   a. Preparing the Trial Balance or Worksheet (Optional)
   b. Preparing the Financial Statements
   c. Adjusting Entries and Posting to the General Ledger
   d. Closing Entries (Temporary Accounts)
   e. Preparing the Post-Closing Trial Balance (Proves the equality of debits and credits and contains only permanent accounts - Assets, Liabilities, and Equity)

CHAPTER 4

1. Merchandise Inventory Systems.
   a. Perpetual (inventory quantity and cost is determined as items are received and sold (running balance maintained).
   b. Periodic (inventory on hand is determined periodically, at the end of the accounting period).

2. Merchandising Business.
   a. Merchandise Inventory (products a company owns and intends to sell)
   b. Cost of Goods Sold (COGS)
   c. Gross Profit (Sales - COGS)
   d. Operating Expenses
   e. Journal entries

3. Shipping Points.
   a. FOB Origin (Shipping Point) - Buyer pays transportation cost
   b. FOB Destination (Delivery Point) - Seller pays transportation cost

4. Journal Entries.
   a. Purchases
   b. Purchases Discounts
   c. Purchases Returns and Allowances
   d. Sales (cash, on account, credit cards)
   e. Sales Discounts
   f. Sales Returns and Allowances
   g. Payment of Purchase (with discount)

CHAPTER 5

1. Inventories and Cost of Goods Sold.
   a. Inventory Valuation Methods:
      (1) First-In, First-Out (FIFO)
      (2) Last-In, First-Out (LIFO)
      (3) Weighted Average
      (4) Specific Identification

2. Applying Methods.
   a. Inventory valuation
   b. Cost of goods sold

CHAPTER 6

1. Bank Statement Reconciliation.
   Purpose of the reconciliation is to prove the accuracy of the depositor's and bank's records. Also, it produces the data for adjusting entries.

2. Petty Cash Fund Transactions.
   a. Used to pay for relatively small expenditures
   b. Establishment and Replenishment

3. Cash Short and Over.
    a. No normal balance
    b. Debit Balance - Miscellaneous Expense on Income Statement
    c. Credit Balance - Other Revenue on Income Statement

4. Voucher System.
    a. Establishes procedures for verifying, approving, and recording obligations.
    b. Special form for recording relevant data about a liability and details of its' payment.

CHAPTER 7

1. Valuation of Receivables.
    a. Bad Debts Expense /Allowance for Bad Debts Accounts
    b. Allowance Method:
        (1) Percent-of-Sales
        (2) Percent-of-Receivables
        (3) Aging-of-Receivables

    c. Direct Write-off Method
    d. Journal Entries

2. Notes Receivable.
    a. Characteristics
        (1) Promissory note – written promise to pay.
        (2) Specific amount of money (face value or principal).
        (3) Payable at a definite time.
    b. Life of a Note (days, months)
    c. Interest computation ($P \times i \times t = I$)
    d. Maturity Date (date payment due)
    e. Maturity Value (Principal + Interest) ($MV = P + I$)
    f. Dishonored Note (failure of maker to pay on the maturity date)
    g. Journal entries

CHAPTER 8

1. Plant Assets.
    a. Characteristics:
        (1) Tangible assets
        (2) Long-lived (life greater than one year)
        (3) Used for business purposes
    b. Acquisition Cost: All costs required to prepare the asset for its intended use.

2. Depreciation.
    a. Method for systematically allocating the cost of an asset, to expense, over it's useful life.
    b. Methods Used:
        (1) Straight-Line
        (2) Double-Declining Balance
        (3) Units-of-Production

3. Book Value (Acquisition Cost - Accumulated Depreciation)

4. Disposal, Sale, or Exchange of Plant Assets.
   a. Accounting rules for treating gains and losses on exchanging plant assets.
   b. Three ways for recording disposal of assets:
      (1) Discard
      (2) Sale
      (3) Exchange (trade-in) for like item

5. Natural Resources.
   a. Recording purchase of natural resource.
   b. Depletion (recording use of natural resource- Units of Production Method).

6. Intangible Assets.
   a. Patents
   b. Copyrights
   c. Goodwill
   d. Trademarks
   e. Amortization (allocation of intangible asset cost to expense, over it's useful life)

CHAPTER 10

1. Characteristics of Bonds Payable.
   a. Bond Indenture - Contract with bond purchasers.
   b. Denominations - Normally issued in denominations of $1,000 or multiples of $1,000.
   c. Interest - Bond interest is usually paid semi-annually.

2. Bond Issuance.
   a. Issuance Price (the present value of both the principal and the semi-annual interest payments is used to determine the selling price of a bond issue.
   b. Issued at Par (Principal amount)
   c. Issued at a discount (increases interest expense of bond issue).
   d. Issued at a premium (decreases interest expense over the life of the bond issue).

3. Bond Issue Pricing.
   a. Sold at Par (Face Amount) - (Market Rate = Contract Rate)
   b. Sold at a Discount - (Market Rate > Contract Rate)
   c. Sold at a Premium - (Market Rate < Contract Rate)

4. Bond Interest Rates.
   a. Market (Effective) Rate (determines bond selling price through Present Value application)
   b. Contract (Stated) Rate (used to determine periodic interest payments to bond holders)

5. Bond Redemption.
   a. Callable Bonds (option of the corporation to retire bonds early)
   b. Convertible Bonds (option of the bondholder to convert bonds to common stock)

6. Amortization of Premium/Discount.
   a. Straight-Line Method (interest expense = cash interest payment + discount amortization amount)
      or (interest expense = cash interest payment - premium amortization amount)
   b. Effective Interest Method (beginning of period carrying amount x market rate / 2)

CHAPTER 11

1. Corporate Organization:
   a. Application for incorporation.
   b. State grants Charter or Articles of Incorporation.
   c. By-laws: rules and procedures of the corporation.
   d. Organization costs - expenses of forming a corporation.

2. Minimum Legal Capital.
   a. Par or stated value of the shares issued.
   b. Amount that must be left invested in a corporation to protect it's creditors.

3. Classes of Stock.
   a. Common (basic corporate stock - required)
   b. Preferred (preference as to dividends)

4. Retained Earnings.
   a. Net operating results (net income and loses), less dividends, since inception.

5. Cash Dividends.
   a. Dependent on availability of cash and Retained Earnings, and requires official Board action.
   b. Dividends are paid only on outstanding shares (issued shares less treasury shares).

6. Stock Dividends.
   a. Distribution of a corporation's stock to its shareholders, without receipt of payment.
   b. No assets are transferred from the corporation to the shareholders.
   c. No affect on total stockholders equity.

7. Treasury Stock.
   a. Acquisition (recorded at cost)
   b. Not considered outstanding stock
   c. Contra-Equity account
   d. Not eligible for dividends

CHAPTER 12

1. Statement of Cash Flows.

   a. Presents cash inflows and outflows in categories.

	Cash Inflows	Cash Outflows
(1) Operating Activities	Sales/Revenues	Merchandise Purchases
	Interest Income	Salaries & Other Expenses
	Dividend Income	Tax Payments

(2)	Investing Activities	Sale of Plant Assets and Investments Sale of Marketable Securities Collection of Loans	Purchase of Plant Assets Investments Purchase of Securities Making Loans
(3)	Financing Activities	Sale of Stock Sale of Bonds Borrowing from Financial Institutions	Purchase of Treasury Stock Repayment of debt Payment of Cash Dividends

b. Non-Cash Investing and Financing Activities.

a. Reported on a separate schedule.
b. Example – Acquisition of land and a building in exchange of common stock.

2. Methods for Preparation - Operating Activities Section.
   a. Indirect Method. Starts with net income and is adjusted for non-cash items.
   b. Direct Method. Accounts are analyzed and adjusted to a cash basis.

CHAPTER 13

1. Common Tools of Financial Analysis.
   a. Horizontal analysis
   b. Vertical analysis
   c. Ratio analysis

2. Horizontal Analysis.

   a. Comparative Statements.
   Involves side-by-side presentations of two or more accounting periods, where changes in amounts are commonly shown as dollar amounts and percentages.

   b. Trend Analysis.
   (1) A form of horizontal analysis.
   (2) Reveals patterns across successive time periods.
   (3) Analysis periods are expressed as a percentage of a selected base year.

3. Vertical Analysis.
   a. Percentage analysis showing relationship of each item to a total within the statement.
   b. Common-Size Statements.
   (1) Income Statement Items -- expressed as a percent of net sales.
   (2) Balance Sheet Items -- expressed as a percent of total Assets.

4. Ratio Analysis
   a. Liquidity and Efficiency Ratios
   b. Solvency Ratios
   c. Profitability Ratios
   d. .Market Prospects Ratios