What to Study for the Final Exam?

Users and Uses of Financial Statements – Chapter 1

Double Entry Accounting for Transactions involving Cash, Accounts Receivable and Accounts Payable - Chapter 3 Transactions

Adjust for Accruals and Prepaids/Unearned (deferrals) - Chapter 4 Adjusting Entries

Allowance for Bad Debts - Estimate at the end of the period using the % or aged accounts receivable method and adjust to that estimate by debiting Bad Debt Expense and crediting Allowance for Bad Debts. If the % of credit sales method is used for the estimate, then the % is the adjusting journal entry.
To write off a bad debt for specific customer - Debit Allowance for Bad Debts and credit Accounts Receivable.

Gross Sales to Net Sales to Gross Margin to Net Income - See Chapter 6 & 7 handout noting the interrelationships and be able to fill in any missing items that may appear.

Cost Flow Assumptions - FIFO uses the oldest purchases as Cost of Goods Sold and the most recent as Ending Inventory. LIFO uses the most recent purchases as Cost of Goods Sold and the oldest as Ending Inventory.

Periodic versus Perpetual - Periodic uses several accounts instead of Cost of Goods Sold. Purchases, Purchases Returns and Allowances, Purchase Discounts and Freight-In are converted into Cost of Goods Sold and adjusts the Inventory at the end of the period (see the chapter 6 & 7 Gross Sales to Gross Profit/Margin). Note how Cost of Goods Available to Sale is the center point of the periodic method.
Perpetual uses just the Inventory and Cost of Goods Sold accounts and adjusts them after every purchase and sale.

Property, Plant and Equipment (PP&E) - Besides the asset itself, what connected expenditures should be capitalized? How do you calculate straight-line depreciation when salvage value is estimated? How do you figure out book value? When does salvage value equal book value? For natural resources and intangibles we use the terms depletion and amortization instead of depreciation. Which intangibles are amortized and which aren’t? For sales of PP&E be sure to journal the asset and its contra asset off the books. Know how to create a mortgage amortization schedule (p. 464 – Exhibit 3) and make the monthly entries for each payment (p. 463).
Debt and Equity Financing - Debt securities are bonds and they generally require interest to be paid every six months at the stated rate and the face value has to be paid back at the maturity date. Since the market interest rate may be different than the stated rate, we have to use Table I and II (pages 484 & 485) the PV of a single payment and the PV of an annuity to calculate the issuance price of a bond.

Equity securities (stocks) do not pay interest and dividends are at the discretion of the board of directors. There is no “maturity date” and no expectation that the securities will be repurchased. Common and preferred stocks with par or stated values are recorded into two separate accounts when issued. Preferred stock must have a par value and a dividend rate stated. If dividends are voted, the preferred stock dividend is paid before common stock. Preferred stock in non voting and can be either cumulative or non-cumulative. Treasury stock is handle as a negative equity item and not as an investment asset. Any realized gains or losses from treasury stock transactions by-pass the income statement and remain in the equity section of the balance sheet.

Investments in Securities - See chapter 12 handout.

Cash Flow Statements - Know the three activities and which cash inflows and outflows are classified into each activity. The operating activity is the primary activity of any organization and is always presented first. The operating activity can be presented using the direct method or the indirect method. Know the difference.

Financial Statement Analysis - Know the debt ratio, current ratio, return on sales, asset turnover, return on equity and price-earnings ratio. What are common size income statements and balance sheets and how can they help us analyze our companies?