# REVIEW FOR EXAM NO. 1, ACCT 2301 (SAC)
**(Chapters 1-3)**

A. **Chapter 1 (Accounting in Business)**.

1. Main Specialized Fields of Accounting. (Page 4)

    a. Financial Accounting (external reporting of economic data and activities of a business)

    b. Managerial Accounting (internal reporting of financial and estimated data for day-to-day operations and future planning)

2. Financial Accounting Standards Board (FASB) (Page 7)
   Statements issued by the FASB, in the form of accounting standards, are expression of Generally Accepted Accounting Principles (GAAP).

3. Principles & Assumptions of Accounting. (Pages 7-8)

    a. Business Entity Assumption - applies to economic units and each unit is separate and distinct from all other units. Data is recorded, analyzed, and reported for the business unit.

    b. Cost (measurement) Principle - monetary records of purchases and expenditures are maintained at actual cost (price paid).

    c. Revenue Recognition Principle - Requires revenue to be recognized (recorded) in the accounting records when it is earned, regardless of when cash is collected. Tells a company when it must recognize revenue.

    d. Matching Principle- Requires an organization to record expenses in the period incurred to generate revenues reported in the same period.

4. Types of Businesses.
    a. Service
    b. Merchandising
    c. Manufacturing

5. Forms of Business Organizations. (Page 8)
    a. Sole Proprietorship............ (single owner)
    b. Partnership........................ (two or more owners)
    c. Corporation....................... (many shareholders)

6. Accounting Equation. (Page 10)
    a. **Assets = Liabilities + Equity**
    b. Also can be expressed as: **Assets - Liabilities = Equity**
    c. Know the affects of business transactions on the accounting equation.
    d. Assets are the resources available to an organization.
    e. Liabilities are the creditors claims on the assets of a company.
    f. Equity is the owners' investment in the business (stockholders).
    g. Dividends are payments to stockholders.

7. Basic Financial Statements. (Pages 15-17)

   a. Income Statement:
      (1) Revenues and Expenses (net income/loss)
      (2) Reflects operations for a specific period of time (i.e., month, quarter, or year)

   b. Statement of Retained Earnings:
      (1) Reflects activity (changes in corporation's equity) for a specific period.
      (2) Includes (Beginning Retained Earnings + Net Income - Dividends = Ending Retained Earnings).

   c. Balance Sheet:
      (1) Assets, Liabilities, and Equity
      (2) General Ledger Account balances as of a specific date

   d. Statement of Cash Flows:
      (1) Cash flows from Operating Activities
      (2) Cash flows from Investing Activities
      (3) Cash flows from Financing Activities

B. **Chapter 2 (Business Transactions)**.

1. Account. (Page 45)

   a. Individual record of increases and decreases to specific items (asset, liability, equity, revenue, or expense) appearing in the financial statements of a business.

   b. T-Account is the basic form (left side - **Debits** and right side - **Credits**).

2. Ledger. (Page 48)

   a. A collection of all accounts and their balances for a business entity (General Ledger).

   b. Contains records (accounts and balances) for all asset, liability, and owner equity accounts.

   c. Chart of Accounts - List of accounts, their numbers, and locations in the General Ledger. Usually lists accounts in financial statement order.

3. Double-Entry Accounting System. (Page 49)

   a. Each transaction must affect (be entered in) at least two different accounts.

   b. Debits must equal credits at all times.

4. Debits/Credits to Accounts. (Account Characteristics) (Page 50)

| **Category** | **Normal Balance** | **Increase** | **Decrease** |
|---|---|---|---|
| Balance Sheet Accounts: | | | |
| Asset | Debit | Debit | Credit |
| Liability | Credit | Credit | Debit |
| Equity: | | | |
| Common Stock | Credit | Credit | Debit |
| Dividends | Debit | Debit | Credit |
| Income Statement Accounts: | | | |
| Revenues | Credit | Credit | Debit |
| Expenses | Debit | Debit | Credit |

5. General Journal Entries. (Pages 52-56)

   a. Original book of entry.
   b. Provides a chronological record of accounting transactions.
   c. Simple entry (two accounts affected).
   d. Compound Entry (more that two accounts are affected and required to record the transaction).
   e. The advance payment of expenses (rent, insurance, supplies, etc.) is classified as *Prepaid Expenses*.
   f. Receipt of cash in advance of delivery of service or product is classified as Unearned Revenue (a liability).
   g. Review chapter pages for the illustrated problems in recording and posting various journal entries.

6. Trial Balance. (Page58)

   a. Taken at the end of the accounting period, after all postings to accounts are complete.
   b. Only proves the mathematical equality of debits and credits.
   c. Does not insure that all entries or accounts are correct.

C. **Chapter 3 (Adjusting Process)**.

1. Methods of Accounting. (Page 86)

   a. Cash.
      (1) Revenues are recognized when cash is received.
      (2) Expenses are recorded when paid in cash.

b. Accrual.
   (1) Revenues are recorded/recognized when earned, regardless of when collected.
   (2) Expenses are recorded when incurred, without regard to when paid.
   (3) Generally accepted for external reporting since it is more useful for most business decisions.

2. Matching Principle. (Page 86)

   a. Accounting principle requiring the matching of expenses with the revenues they generate, to determine net income or net loss.
   b. Expenses are recorded when incurred, without regard as to when they are paid.
   c. Requires analysis and updating of some accounts at the end of the accounting period.

3. Adjusting Entries. (Page 87)

   a. Made at the end of the accounting period, since some accounts may not show the proper amounts, and affect more than one accounting period. Also made to properly match revenues and expenses.

   b. Deferrals. Expenses and revenues paid in advance (prepayments) must be recognized as incurred or earned in the proper accounting period. Items already recorded, but need adjusting.
      (1) Deferred Expenses (Prepaids)
      (2) Deferred Revenues (Unearned)

   c. Accruals. Unrecorded items that must be recorded at the end of the accounting period.
      (1) Accrued Expenses
      (2) Accrued Revenues

   d. Always affects a balance sheet account (asset or liability) and an income statement account (expense or revenue).

   e. Review Types of Adjustment Transactions. (Pages 87-97)
      (1) Supplies Expense (amount consumed)
      (2) Insurance Expense (time period elapsed)
      (3) Unearned Revenue (Liability) - Adjusted for work performed.
      (4) Salaries/Wages Payable
      (5) Earned/Unbilled Services or Fees
      (6) Depreciation

4. Plant Assets. (Pages 89-90)

   a. Tangible assets used in business and have a permanent or long life.
   b. Depreciation.
      (1) Systematic method of allocating the cost of fixed/plant assets to expense over their useful lives.
      (2) Book Value = Acquisition Cost minus (-) Accumulated Depreciation
      (3) Accumulated Depreciation is a contra-asset account (subtracts from its related fixed/plant asset account on the face of the Balance Sheet).
      (4) All plant assets are depreciated, **except** land.

5. Adjusted Trial Balance. (Page 98)
   Proves the equality of debits and credits after all adjusting entries are recorded in the Journal and are posted to the General Ledger.

6. Purposes of Closing Entries. (Page 100)

   a. To transfer the net effect of revenues and expenses (income) and dividends to the Retained Earnings Account.

   b. To bring temporary (nominal) accounts to zero at the end of the accounting period, including revenue, expense, and dividend accounts. Insures Income Statement includes revenues and expenses for only one accounting period.

   c. The Income Summary Account is a temporary account, used to summarize operations for the current accounting period, to determine net income.

   d. Permanent (Real) - asset, liability, and equity accounts are not closed.

7. Typical Closing Entries. (Four Journal Entries) (Pages 101-102)

   a. Close all revenue accounts to the Income Summary Account.

   b. Close all expense accounts to the Income Summary Account.

   c. Close the Income Summary Account to the Retained Earnings Account.

   d. Close the Dividend Account to the Retained Earnings Account.

8. Post-Closing Trial Balance. (Pag 104)

   a. Provides basis for determining that all temporary (nominal) accounts are closed and have a zero balance.

   b. Proves the mathematical equality of the ledger debits and credits after recording the closing closing entries.

   c. Only contains permanent accounts with balances.

9. Accounting Cycle. (Pages 104-105)

   a. Journalize accounting period transactions
   b. Post transactions to the General Ledger
   c. Prepare Unadjusted Trial Balance
   d. Journalize Adjusting Entries and post to General Ledger
   e. Prepare Adjusted Trial Balance
   f. Prepare Financial Statements
   g. Journalize Closing Entries and post to General Ledger
   h. Prepare Post-Closing Trial Balance

10. Classified Balance Sheet. (Pages 105-106)

   a. Assets.

      (1) Current Assets - (cash, accounts receivable, inventory, etc.). Assets expected to be converted to cash, sold, or expensed during the next year.
      (2) Investments (investments in stocks, bonds, and land held for expansion).
      (3) Fixed (Plant) Assets - (land, buildings, equipment, etc.). Assets that have lives that exceed the normal accounting cycle or one year.
      (4) Intangible Assets - (patents, copyrights, trademarks, goodwill, etc.).

   b. Liabilities.

      (1) Current Liabilities - (accounts payable, salaries payable, unearned revenue, etc.). Debts to be paid within a year or within the business accounting cycle.
      (2) Long-Term Liabilities (mortgages payable, bonds payable, etc.). Debts that extend beyond the next year or 12-month period.

   c. Equity. Stockholders investment in a business.

11. Preparation of Worksheet. (Page 113)

   a. Is an optional accounting tool.
   b. Assists in preparing the financial statements.
   c. Provides information to summarize adjusting and closing entries.
   d. Provides ability to produce interim financial statements, usually monthly or quarterly, between annual statements.

## JOURNAL ENTRIES (DEBITS & CREDITS)

A. **Accounts**:

(1) Cash
(2) Accounts Receivable
(3) Office Supplies
(4) Office Equipment
(5) Accumulated Depreciation-Equip.
(6) Office Supplies Expense
(7) Salary Expense
(8) Advertising Expense
(9) Dividends
(10) Accounts Payable
(11) Salaries Payable
(12) Notes Payable
(13) Common Stock
(14) Service Fees
(15) Unearned Revenue
(16) Depreciation Expense
(17) Rent Expense

B. **Transactions**:

| Transaction | Dr | Cr |
|---|---|---|
| (1) Purchased office supplies on account | ___ | ___ |
| (2) Collected commission for sale of property | ___ | ___ |
| (3) Purchased office equipment for cash | ___ | ___ |
| (4) Paid cash for advertising in local paper | ___ | ___ |
| (5) Paid office secretary's salary | ___ | ___ |
| (6) Made adjusting entry for office supplies used | ___ | ___ |
| (7) Made adjusting entry to record depreciation for office equipment | ___ | ___ |
| (8) Made adjusting entry to record salaries accrued but not paid | ___ | ___ |
| (9) Paid dividends to stockholders | ___ | ___ |
| (10) Recognized that a portion of fees paid in advance is now earned | ___ | ___ |
| (11) Completed appraisal for client on credit | ___ | ___ |
| (12) Paid rent for office space | ___ | ___ |
| (13) Collected for fees previously performed on credit | ___ | ___ |
| (14) Returned damaged office supplies purchased on credit from a supplier | ___ | ___ |
| (15) Sold stock to investors | ___ | ___ |