Basic Knowledge

Ch1

Accounting Data

Internal user:

- Management (Do we need to borrow in the near future?)
  Managers rely on accounting data to form
  their business decisions such as
  investment, financing and pricing
  decisions.
- Human Resources (Can we afford to give our employees a pay raise?)
  Employees are interested in knowing how well a company is performing as it could have implications for their job security and income.
- Finance (Is cash sufficient to pay dividends to the stockholders?)
  Preparing and monitoring budgets effectively requires
  reliable accounting data relating to the various activities,
  processes, products, services, segments and departments
  of the business.
- Marketing (What price for our product will maximize net income?)

External user:

- IRS
- Investors (Did the company earn a statis factory income?)
  Investors use accounting information to
  determine whether an investment is a good fit for
  their portfolio and whether they should hold,
  increase or decrease their investment.
- Labor Unions
- Creditors (Will the company be able to pay its short-term debts?)
  use accounting information of borrowers to
  assess their credit worthiness, i.e. their ability to
  pay back any loan.
  Lenders offer loans and other credit facilities on
  terms that are based on the assessment of
  financial health of borrowers.
- SEC
- Customers

IFRS

International Financial Reporting Standards (IFRS)

International Accounting Standards Board (IASB) formulates IFRS

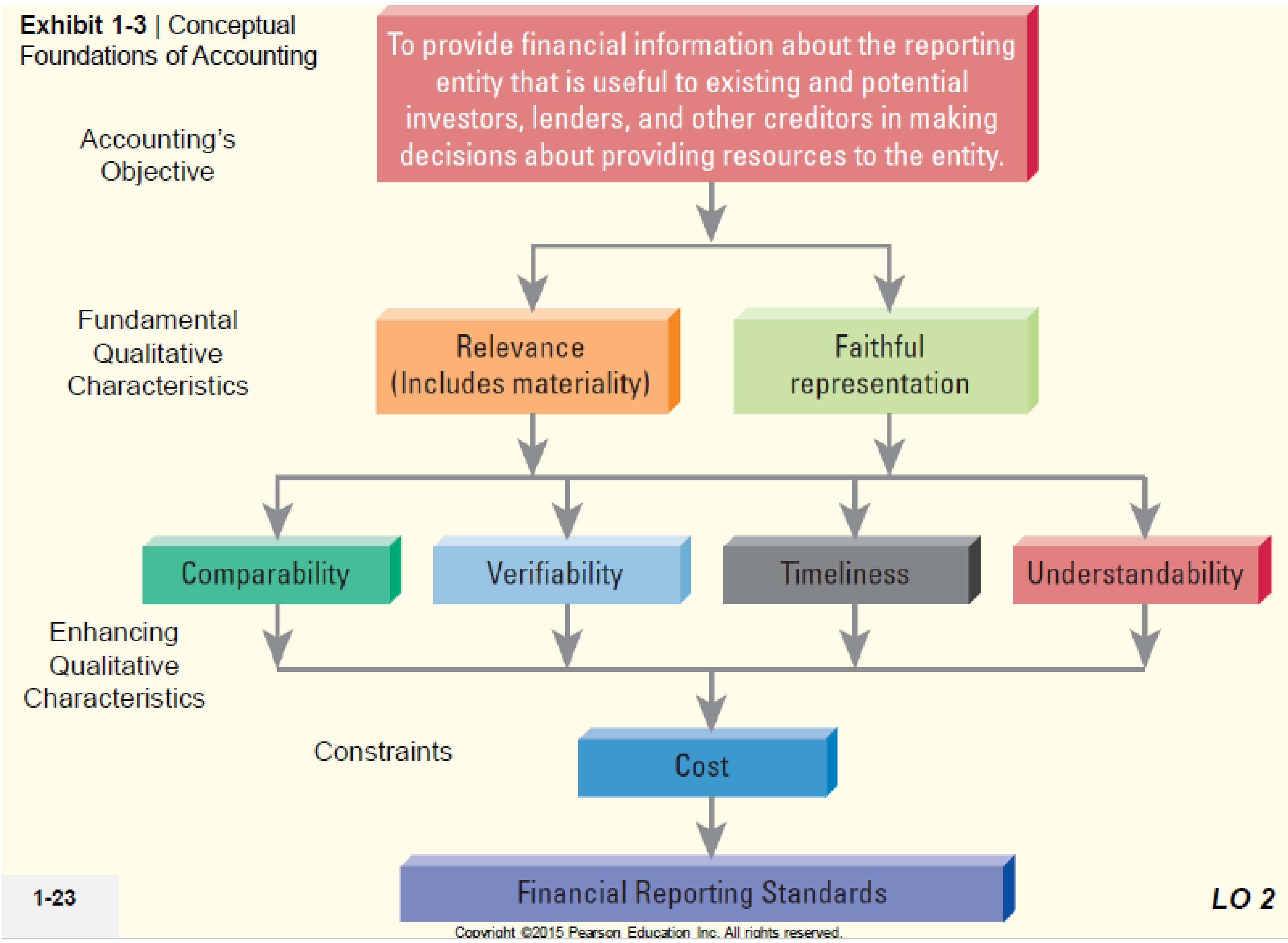
GAAP

generally accepted accounting principles (GAAP)

Financial Accounting Standards Board (FASB) formulates GAAP

4 Assumptions:	4 Principles:	4 Constraints:
•Business Entity · Strictly use by company	•Historical Cost · original cost are recorded	•Objectivity
•Going Concern · Bankrups future	•Revenue Recognition · obligation completion	• Materiality
•Monetary Unit · unique monetary unit	•Matching · record matches	•Comparability
•Time Period · a year	•Accrual · 权责发生制	•Prudence

Financial information



Ethic

Ethics involves making difficult choices under pressure, and should be kept in mind in making every decision, including those involving accounting

Ch2

type of account

The type of account determines how to record increases and decreases.

Debit account

- increase when debit entry to account
- has debit balance

credit account

- increase when credit entry to account
- has credit balance (eg: Accounts Payable had a normal beginning balance of $1,700 means $1,700 in credit)

Assets

Natural of asset: an economic resource that’s expected to benefit future operations

- Cash
- Accounts Receivable
- Notes Receivable
- Inventory
- Prepaid Expenses
- Land
- Building
- Equipment Furniture and Fixtures

Liabilities

- Accounts Payable
- Notes Payable
- Accrued Liabilities (应付费用)

Stockholders' Equity

- Common Stock
- Retained Earnings
    - Dividends
    - Revenues
    - Expenses

Sequence for recording transactions and preparing financial statements:

1. Journal
2. Ledger
3. Trail balance
4. Financial statements

Ch3

Accrual Accounting vs Cash-Basis Accounting

Categories of Adjustments

1. Deferrals(延迟款项)
   - Prepaid expense
   - Unearned revenue
2. Accruals(应计项目)
   - Accrued expanse
   - Accrued revenue
3. Depreciation(折旧)

Summary of Adjusting Entries

	Type of Account	
Category of Adjustment	**Debit**	**Credit**
Prepaid expense	Expense	Asset
Depreciation	Expense	Contra asset
Accrued expense	Expense	Liability
Accrued revenue	Asset	Revenue
Unearned revenue	Liability	Revenue

Closing the book

- Done after financial statements are prepared
- Set temporary accounts to zero
- Transfers balances to retained earnings account
- Journalizes activity in Statement of Retained Earnings

Temporary and Permanent Accounts

Temporary	Permanent
Revenues, Expenses and Dividends	Asset, liability and equity accounts
Closed	Not closed
Balances represent a period of time	Ending balance of one period carries over to following period

Ch6 Inventory & Cost of goods sold

Account for inventory

Inventory classified in the financial statements as an **asset**

As **cost of goods** on the **income statement**

Which accounts that Merchandisers have and service entities don’t?

cost of goods sold and inventory

Perpetual System

- Record revenue and asset received
- Record cost of goods sold and reduction of inventory

Inventory cost methods

Specific unit

Used for businesses with unique inventory items

Average

weighted-average

Inventory

Beg bal	(10 units @ $10)	100		
Purchases:			Cost of goods sold	
No. 1	(25 units @ $14)	350	(40 units @ ?) ← $15	600 ?
No. 2	(25 units @ $18)	450		
End bal	(20 units @ ?) $15	300?		

Goods Available		Number of Units	Total Cost
Goods available	=	10 + 25 + 25 = 60 units	$100 + $350 + $450 = $900
Cost of goods sold	=	40 units	? 600
Ending inventory	=	20 units	? 300

FIFO

FIFO Cost

40 units sold
20 units on hand

Inventory (at FIFO cost)

Beg bal	(10 units @ $10)	100	(10 units @ $10)	100
Purchases:				
No. 1	(25 units @ $14)	350	(25 units @ $14)	350
No. 2	(25 units @ $18)	450	(5 units @ $18)	90
End bal	(20 units @ $18)	360		

Cost of Good Sold

(10 units @ $10)	100		
(25 units @ $14)	350		
(5 units @ $18)	90		
End bal (40 units)	540		

LIFO

LIFO Cost

40 units sold
20 units on hand

Inventory (at LIFO cost)

Beg bal	(10 units @ $10)	100		
Purchases:				
No. 1	(25 units @ $14)	350	(15 units @ $14)	210
No. 2	(25 units @ $18)	450	(25 units @ $18)	450
End bal	(10 units @ $10) (10 units @ $14)	240		

Cost of Good Sold

(25 units @ $18)	450		
(15 units @ $14)	210		
End bal (40 units)	660		

Ch7 Plant Assets, Natural Resources and Intangibles

PPE: property, plant, and equipment

Depreciation is a process of allocating the cost of a PPE over its useful life.

Capital expenditures

Capital expenditures **increase the asset's capacity or extend its useful life**

Capitalized, means the cost is added to an asset account and not expensed immediately

Depreciation Methods

Straight-line

Year	Depreciable Cost	x	Rate	=	Annual Expense	Accumulated Depreciation	Book Value
2014	$ 12,000		20%		$2,400	$2,400	$10,600
2015	12,000		20%		$2,400	$4,800	$8,200
2016	12,000		20%		$2,400	$7,200	$5,800
2017	12,000		20%		$2,400	$9,600	$3,400
2018	12,000		20%		$2,400	$12,000	$1,000

Units-of-Production

Year	Miles Driven	x	Rate per Mile	=	Annual Expense	Accumulated Depreciation	Book Value
2014	15,000		$0.12		$1,800	$1,800	$11,200
2015	30,000		$0.12		$3,600	$5,400	$7,600
2016	20,000		$0.12		$2,400	$7,800	$5,200
2017	25,000		$0.12		$3,000	$10,800	$2,200
2018	10,000		$0.12		$1,200	$12,000	$1,000

Double-declining-balance

Bgn booking val = $13,000

Year	Beginning Book value	x	Declining Balance Rate	=	Annual Expense	Accumulated Depreciation	Book Value
2014	$13,000		40%		$5,200	$5,200	$7,800
2015	$7,800		40%		$3,120	$8,320	$4,680
2016	$4,680		40%		$1,872	$10,192	$2,808
2017	$2,808		40%		$1,123	$11,315	$1,685
2018	$1,685		40%		$685	$12,000	$1,000

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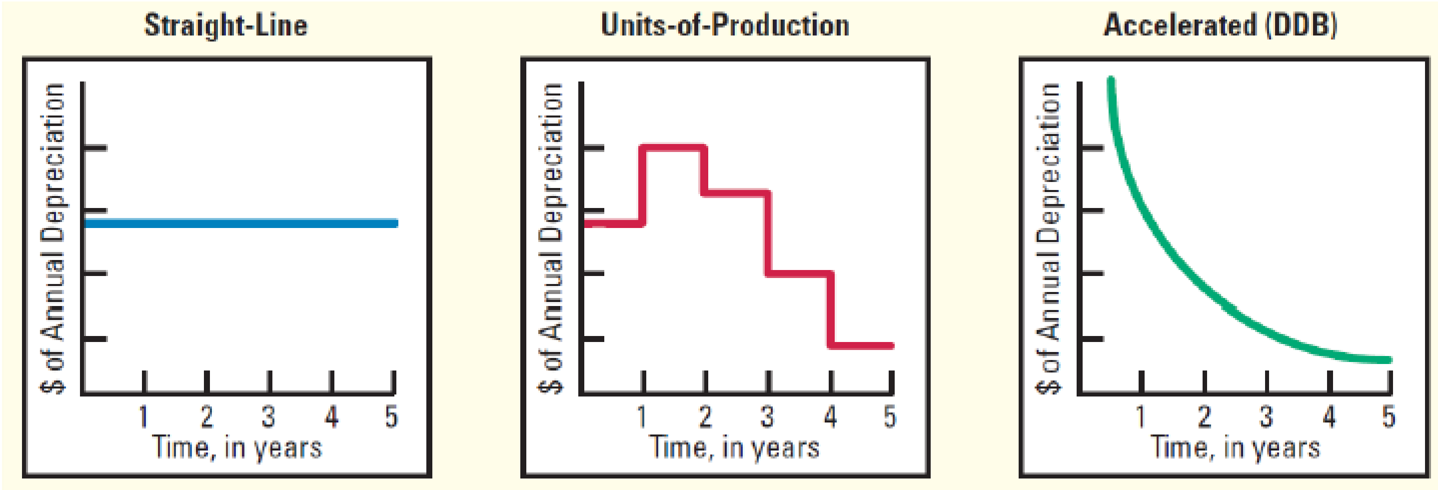
5 years ⇒ 20% per year

×2 = 40% per year



Ch9 liabilities

A liability is a probable **future payment** of assets or services that a company is **presently obligated** to make as a result of a **past transaction or event**.

- Current Liabilities: Expected to be paid within one year
  - Estimated liability: Current liabilities of unknown Amounts
- Long-Term Liabilities: Expected not to be paid within a year.
- Contingent Liability: may only occur depending on the **outcome of an uncertain future event**. Example is a lawsuit

Current Ratio

A ratio under 1 indicates that the company's debts due in a year or less are greater than its assets (cash or other short-term assets expected to be converted to cash within a year or less).

On the other hand, in theory, the higher the current ratio, the more capable a company is of paying its obligations because it has a larger proportion of short-term asset value relative to the value of its short-term liabilities

while a high ratio, say over 3, could indicate the company can cover its current liabilities three times, it may indicate that it's not using its current assets efficiently, is not securing financing very well, or is not managing its working capital.

Interest Payable

James Burrows borrowed $8,000 on Dec. 16, 2009, by signing a 12%, 60-day note payable.

On December 16, 2019, James Burrows would make the following entry:

		Dr	Cr
Dec 16	Cash	8,000	
	Notes Payable		8,000
	borrow from bank		

On December 31, 2019, the adjustment is:

		Dr	Cr
Dec 31	Interest Expense	40	
	Interest Payable		40

On February 14, 2020, James Burrows would make the following entry.

		Dr	Cr
Feb 14	Notes Payable	8,000	
	Interest Payable	40	
	Interest expenses	120	
	Cash		8,160
	To record payable of note		

Sales Taxes Payable

On May 15, 2019, Max Hardware sold building materials for $7,500 that are subject to a 6% sales tax.

		Dr	Cr
May 15	Cash	7,950	
	Sales		7,500
	Sales Tax Payable		450

Unearned Revenues

On May 1, 2019, A-1 Catering received $3,000 in advance for catering a wedding party to take place on July 12, 2019.

		Dr	Cr
May 1	Cash	3,000	
	Unearned Revenue		3,000
	To record advance payment		
July 12	Unearned Revenue	3,000	
	Revenue - Catering		3,000
	To recognize revenue received in advance		

Ch10 Shareholders' Equity

Shareholders' Equity represents the owners' claims against the assets of a corporation after deducting all liabilities.

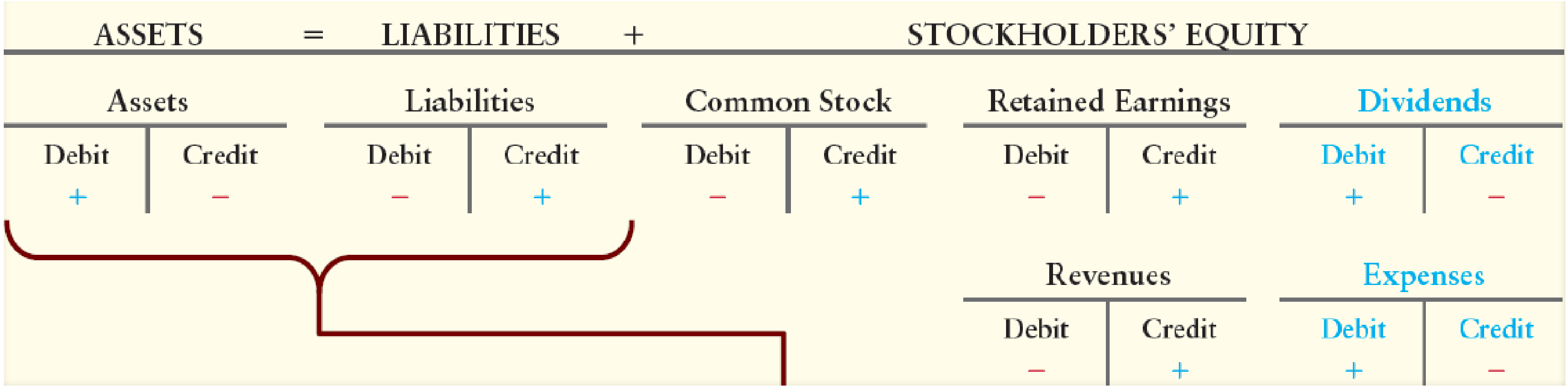
Cash dividend become a legal liability on date of declaration and approval.

Form

T-Account

Record of increases and decreases in a specific asset, liability, equity, revenue, or expense element

- Debit - 'Left' (cash increase)
- Credit - 'Right' (cash decrease)



Journal

	A	B		
1	**Date**	**Accounts and Explanations**	**Debit**	**Credit**
2	**Apr 1**	**Cash**	**50,000**	
3		**Common Stock**		**50,000**
4		*Issued common stock.*		

Ledger

Assets = Liabilities + Stockholders' Equity

Cash

(1)	50,000	(2)	40,000
(4)	7,000	(6)	2,700
(9)	1,000	(7)	1,900
(10)	22,000	(11)	2,100
Bal	33,300		

Accounts Receivable

(5)	3,000	(9)	1,000
Bal	2,000		

Supplies

(3)	3,700		
Bal	3,700		

Land

(2)	40,000	(10)	22,000
Bal	18,000		

Accounts Payable

(7)	1,900	(3)	3,700
		Bal	1,800

Common Stock

		(1)	50,000
		Bal	50,000

Dividends

(11)	2,100		
Bal	2,100		

Revenue

Service Revenue

		(4)	7,000
		(5)	3,000
		Bal	10,000

Expenses

Rent Expense

(6)	1,100		
Bal	1,100		

Salary Expense

(6)	1,200		
Bal	1,200		

Utilities Expense

(6)	400		
Bal	400		

Trial Balance

The list of all accounts with their balances

The following accounts are taken from the ledger of Riley Company at December 31, Year 1.

200	Notes Payable	$ 30,000	101	Cash	$ 11,000
301	Owner's Capital	35,000	126	Supplies	11,000
157	Equipment	92,000	729	Rent Expense	6,000
306	Owner's Drawings	13,000	212	Salaries and Wages Payable	13,000
726	Salaries and Wages Expense	43,000	201	Accounts Payable	18,000
400	Service Revenue	93,000	112	Accounts Receivable	13,000

RILEY COMPANY
Trial Balance
December 31, Year 1

	Debit	Credit
Cash	$ 11,000	
Accounts Receivable	13,000	
Supplies	11,000	
Equipment	92,000	
Notes Payable		$ 30,000
Accounts Payable		18,000
Salaries and Wages Payable		13,000
Owner's Capital		35,000
Owner's Drawings	13,000	
Service Revenue		93,000
Rent Expense	6,000	
Salaries and Wages Expenses	43,000	
	$ 189,000	$ 189,000

Income statement

Example Corporation
Income Statement
For the year ended December 31, 2019

Sales (all on credit)		$500,000
Cost of goods sold		380,000
Gross profit	GP	120,000
Operating expenses		
Selling expenses		35,000
Administrative expenses		45,000
Total operating expenses	OE	80,000
Operating income	OI = GP-OE	40,000
Interest expense	interest of borrowing money from the bank	12,000
Income before taxes		28,000
Income tax expense		5,000
Net income after taxes		$ 23,000

Balance Sheet

Example Company
Balance Sheet
December 31, 2019 B/S

ASSETS

Current assets		
Cash	存款	$ 2,100
Petty cash	现金	100
Temporary investments		10,000
Accounts receivable - net	白条	40,500
Inventory		31,000
Supplies		3,800
Prepaid insurance		1,500
Total current assets		89,000
Investments		36,000
Property, plant & equipment	fixed assets PPE (Lands. Buildings. Equip)	
Land		5,500
Land improvements		6,500
Buildings		180,000
Equipment		201,000
Less: accum depreciation		(56,000)
Prop, plant & equip - net		337,000
Intangible assets		
Goodwill		105,000
Trade names		200,000
Total intangible assets		305,000
Other assets		3,000
Total assets Σ		$ 770,000

LIABILITIES

Current liabilities		
Notes payable		$ 5,000
Accounts payable		35,900
Wages payable		8,500
Interest payable		2,900
Taxes payable		6,100
Warranty liability		1,100
Unearned revenues		1,500
Total current liabilities		61,000
Long-term liabilities		
Notes payable		20,000
Bonds payable	债券	400,000
Total long-term liabilities		420,000
Total liabilities		481,000

STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	229,000
Less: Treasury stock	(50,000)
Total stockholders' equity	289,000
Total liabilities & stockholders' equity	$ 770,000

Equation / Formula

*Equations are written in $\LaTeX$

Basic

Accounting equation

$$Assets = Liabilities + Owner's Equity$$

$$Owner's Equity = Paid\text{-}in\ Capital + Retained\ Earnings$$

Paid-in capital: amount stockholders have invested in the corporation

Retained earnings: amount earned and kept for use in the business

$$Retained\ Earnings = Revenues - Expanses - Dividends$$

Revenues: inflows to resources that increase retained earnings by delivering goods or services to customers

Expanses: resource outflows that decrease retained earning due to operations

Dividends: distributions to stockholders generated by net income

$$Ending\ Balance\ of\ Retained\ Earnings = Begining\ Balance + Net\ Income - Dividends$$

Carrying amount

$$Carrying\ anoumt\ of\ the\ equipent = Equipment - Accumulated\ depreciation$$

Inventory

$$Gross\ profit = revenue - cost\ of\ good\ sold$$

$$Goods\ available = Cost\ of\ goods\ sold + Ending\ Inventory$$

$$Ending\ Inventory = units\ of\ inventory\ on\ hand * cost\ per\ unit$$

$$Cost\ of\ goods\ sold = units\ of\ inventory\ sold * cost\ per\ unit$$

$$Cost\ of\ goods\ sold = Begining\ Inventory + Purchase\ in\ current\ period - Ending\ Inventory$$

$$Purchase\ in\ current\ period = purchase - purchase\ returns\ and\ allowances + freight\text{-}in$$

Gross profit percentage

$$Gross\ profit\ percentage = \frac{Gross\ profit}{Net\ sales\ revenue}$$

Inventory Turnover Ratio

$$\frac{Cost\ of\ goods\ sold}{Average\ inventory^*}$$

$$*Average\ inventory = \frac{beginning\ balance + ending\ balance}{2}$$

Depreciation

$$Book\ value = cost\ of\ PPE - accumulated\ depreciation$$

$$Depreciable\ Cost = Asset's\ cost - Estimated\ residual\ value$$

$$Depreciation\ expense\ per\ year = \frac{Cost - Residual\ value}{Usefullife, in\ year}$$

$$Depreciation\ per\ unit\ of\ output = \frac{Cost - Residual\ value}{Usefullife, in\ unit}$$

$$DDB\ depreciation\ rate\ per\ year = \frac{1}{Usefullife, in\ year} * 2$$

Liabilities

Current Ratio

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$

Interest Payment

$$Interest\ Payment = Bond\ Par\ Value \times Stated\ Interest\ Rate * Time$$

Quizzes & Questions

Question 12

1 / 1 pts

Which financial statement covers a period of time?

- Balance Sheet
- Income Statement
- Statement of cash flows
- Both b and c

Question 12

1 / 1 pts

The error of posting $300 as $30 can be detected by

- dividing the out-of-balance amount by 9.
- dividing the out-of-balance amount by 2.
- totaling each account's balance in the ledger.
- examining the chart of accounts.

Question 5

1 / 1 pts

Interest earned on a note receivable at December 31 equals $400. What adjusting entry is required to accrue this interest?

- Interest Receivable 400
  Interest Revenue 400
- Interest Expense 400
  Cash 400
- Interest Expense 400
  Interest payable 400
- Interest Payable 400
  Interest Expense 400

Question 7 1 / 1 pts

All of the following statements are true except one. Which statement is false?

- Accrual-basis accounting produces better information than cash-basis accounting.
- Adjusting entries are required for a business that uses the cash-basis accounting.
- The matching concept directs accountants to identify and measure all expenses incurred and deduct them from revenues earned during the same period.
- A fiscal year is not always the same as a calendar year.

Begining inv. $70,000
Net purchase total. $365,000
Net Sales $500,000
Normal gross profit ratio 40%
Determine End. Inv. ?

$40\% = \frac{\text{Gross Profit}}{\text{Sales}} \Rightarrow \text{Gross Profit} = 40\% \times \$500,000 = \$200,000$

COGS = Net Sales - Gross Profit = $300,000

10 [illegible] 2[illegible] 4[illegible] 8[illegible]

Beg. Inv + Purchases - End. Inv = COGS

$70,000 + $365,000 - End. Inv = $300,000

End. Inv. = $135,000