Financial Accounting Recitation: Finals

Dian Jiao

Columbia Business School

Dec 6, 2024

Housekeeping

- 12:30 - 14:00: Review session
  - A quick *high-level* and *non-exhaustive* review of the key issues in the course (20 min)
  - Sample finals Questions 2-6 (70 min)

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- Materials used in this session are available on Canvas under folder "*09 Review Sessions*"

Table on Contents

Basics

- Financial statements: Balance sheet, income statement (reconciles retained earnings across years in B/S), cash flow statement (explains the change in cash in B/S)

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- Accounting equation: Assets $=$ Liabilities $+$ Equity ($+$ Revenue - Expense)
- Double-entry accounting: the recording of an economic event affects at least two accounts
  - Identify the accounts -> identify the effects -> balance the accounting equation

Balance Sheet

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  - More examples...

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- Two sides of the same coin: (wage payable, wage prepaid), (unearned revenue, advances from customers), (deferred tax assets, deferred tax liabilities)...

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- Accrual-basis accounting: Revenue recognition, matching principle

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- Financing activities
    - Adjust for issuance of common stock/bonds, payment of dividends, stock repurchases, etc.

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- See slides for the recitation on Nov 1 for a graphic illustration...

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- If we work with the I/S approach, *usually*...
    - BB is inherited from (the EB of) the last period
    - Write-offs are known
    - BDE is determined from the credit sales (increase in A/R) based on the recognition rules
    - EB will be determined by BB, write-offs, and BDE

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- What the market demands: Market yield, interest expense
- What the firm pays: Coupon rate, coupon payment

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  - Amortization = Int Exp - Coupon (>0: amortize discount; <0: amortize premium)

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- Might be useful to think of ABC as a way to "weigh" different inputs into the product/project...

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  - Straight-line
  - Accelerated: sum-of-the-years'-digits, declining balance, Accelerated Cost Recovery System
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- Assume PP&E is depreciated w/ straight-line, then remaining life $= \frac{\text{net BV - salvage value}}{\text{dep per year}}$

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  - For each economic activity, the difference decays to zero in the long run

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- Net income = pretax income - tax expense; ETR = tax expense / pretax income
- Tax payable (what the company needs to pay the IRS) does not always equal the tax paid (cash payments to the IRS)

Tips

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When taking the exam...

- Avoid exporting fractured pages if you work with Excel $\rightarrow$ Making screenshots and putting them together in a Word doc is a good idea if you struggle with formatting
- Clearly number the questions to avoid losing points
- Skip the question if you are stuck to avoid rushing through the simpler ones
- Make attempts! We do reward efforts

More Examples

- Ending A/R = Beginning A/R + Credit Sales - Collections
- Ending A/P = Beginning A/P + Credit Purchases - Cash Payments
- Ending Inventory = Beginning Inventory + Purchases of Inventory - COGS
- Ending W/P = Beginning W/P + Wage Expense - Cash Payments
- Ending T/P = Beginning T/P + Tax Expense - Cash Payment
- Ending Dep = Beginning Dep + Dep Expense - Realized Dep in Sale of PP&E
- And more... back