Final Exam Review – Part 2

1. the accounting process and steps
2. Transactions occur
3. Journalize them
4. Prepare a trial balance
5. Perform adjusting entries
6. Create post-adjusting trial balance
7. Create post-adjustment financial statements
8. Close accounts
9. Prepare post-closing trial balance
10. Prepare financial statements
11. the cost principle

* Assets should be listed at the price at which they were bought

1. the going concern assumption

* A business will continue to perform for the foreseeable future

1. definition of assets, liabilities

* Assets are items of the business that have future economic value
* Liabilities are items are financial debts that arise from the business’ operations

1. A/R – recognize and value

* Accounts receivable are accounts that represent customers who owe the business due to sales on credit
* A/R are stated at their net realizable value, which is A/R – Allowance for Doubtful Accounts (allowance method)
* or A/R – Actual uncollectibles (Direct write-off method)

1. bad debts expense

* An expense account that represents the amount of uncollectibles

1. percentage of sales and percentage of receivables basis

* Methods to value the allowance for doubtful accounts, percentage of sales emphasizes income statement relationships while percentage of receivables emphasizes balance sheet accounts

1. difference between A/R and N/R

N/R is long term, contract, A/R is short term

1. definition of amortization

Expensing a portion of the assets to better adhere to the matching and revenue recognition principles

1. differences between tangible and intangible assets

tangible assets are those with physical substance, while intangible assets do not have physical substance

1. how to handle a loss on sale of capital assets

DR Cash

DR Accumulated amortization

DR Loss on Asset Disposal

CR Asset

1. dominant form of business – corporations

* Corporations are the most popular

1. advantages and disadvantages of corporations

* Advantages:
  + Limited liability
  + Ability to raise capital
  + Transferable ownership rights
* Disadvantages:
  + Potentially higher income taxes
  + Increased expenses
  + Complexity of government relations

1. organization costs

* Incorporation costs
* Legal fees
* Underwriter costs
* Marketing costs

1. preferences of preferred shareholders

* Greater claim to assets and dividends
* Dividends are paid to these shareholders before common shareholders

1. retained earnings account and statement of retained earnings

* The total profits and expenses of the business since its inception

1. dividends and dividends in arrears

* cash amounts to give to shareholders, dividends in arrears are values that

1. cash dividend vs. stock dividend

* cash amounts or stock amounts to distribute to shareholders

1. declaration date, date of record, payment date

* declaration date,
* DR Retained Earnings
  + CR Dividends Payable
* Record date
  + Nothing
* Payment date
* DR Dividends Payable
  + CR Cash

1. stock split vs. stock consolidation

* convert 1 stock to n stocks or n stocks to 1 stock
* doesn’t affect retained earnings, values of common shares, book value of share

1. redeemable shares vs. convertible shares

* redeemable shares are those that cannot be converted to common shares, convertible shares can be converted to common shares

1. use and calculation of EPS

* A measure of the company’s profitability,

1. revenue recognition principle

* revenue is recognized as soon as it is earned

1. adjusting entries – allowance for doubtful accounts, amortization

* Amortization entries
* DR ADA
  + CR A/R

1. sale and purchase of land
2. common shares – authorized shares, issued shares, book value
3. preferred and common shares – entries for dividends
4. Inventory turnover: COGS / average inventory
5. Debt to total assets: (total debt / total assets) \* 100
6. Receivables turnover: net credit sales / average accounts receivable
7. Return on assets: net income / average total assets
8. What are the steps of the accounting process? What is not a step in the accounting process?
9. Which of the following is not a characteristic of the cost principle?
10. What is the going concern assumption?
11. What is the common characteristic possessed by all assets?
12. Which one of the following is not a primary problem associated with accounts receivable?
13. What is the percentage of sales basis of estimating expected uncollectibles?
14. Is a reasonable amount of uncollectible accounts ok?
15. What are the two bases for estimating uncollectible accounts?
16. How does a note receivable differ from an account receivable?
17. What is the definition of amortization?
18. In order to pay a cash dividend, what are the 3 items a corporation must have?
19. Which assets cannot be sold individually in the market place?
20. What is the dominant form of business organization in Canada in terms of dollar sales volume, earnings, and employees?
21. Which one of the following would not be considered an advantage of the corporate form of organization?
22. Which of the following is not an example of organization costs?
23. What is the definition of retained earnings?
24. What is the feature that enables the preferred shareholders to exchange their preferred shares for common shares?
25. What is the definition of dividends?
26. Which of the following is not a significant date with respect to dividends?
27. How is EPS calculated and reported?

**Formulas:**

To be provided on the exam paper.

EPS: (net income after taxes – preferred shares dividends) / # of common shares outstanding

Inventory turnover: COGS / average inventory

Debt to total assets: (total debt / total assets) \* 100

Receivables turnover: net credit sales / average accounts receivable

Return on assets: net income / average total assets

Goodwill = Purchase Price – Net Assets

Straight line amortization = (Original Cost – Residual Value) / Useful Life in Years

Proceeds of Sale of Asset > NBV = GAIN (CR)

Proceeds of Sale of Asset < NBV = LOSS (DR)

NBV: Original Cost – Accumulated Amortization

NRV for A/R = A/R – Allowance for Doubtful Accounts

**Total MC Questions: 40**