

COMM 217 Midterm Review

Financial Accounting (Concordia University)



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COMM 217 MIDTERM REVIEW

Chapter 1

- -Managers are often called internal decision-makers= make sure the company is running properly (run the company)
- -Shareholders and creditors often called external decision-makers=make sure they get their money back with dividends (evaluate the company)
- -Accounting system= collects and processes financial info about an organization's business activities and reports that information to decision-makers.
- -Financing activities: borrowing or paying back money to lenders and getting more money
- -Investing activities: buying or selling items such as building and equipment
- -Operating activites: day-today process of purchasing raw materials and building product and selling to customers
- -Accounting entity: The organization for which financial data are to be collected and reported.

STATEMENT OF FINANCIAL POSITION (or Balance Sheet):

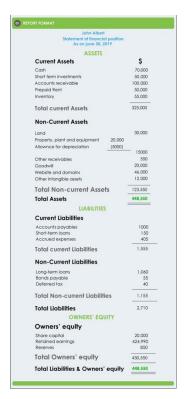
- Reports at a specific date the financial position of an entity:
- 1.Assets
- 2.Liabilities
- 3. Shareholders' equity
- 2.STATEMENT OF EARNINGS (or Statement of Income):
- Reports for the accounting period
- 1.Revenues
- 2.Expenses

- 1.STATEMENT OF CHANGES IN EQUITY:
- Reports for a specific period
- 1. Share issuances and/or buybacks
- 2.Net earnings
- 3.Dividends
- 2.STATEMENT OF CASH FLOWS:
- Reports for a specific period
- 1.Cash inflows and outflows

FOUR FINANCIAL STATEMENTS:

1.Statement of financial positions(balance sheet): report the financial position of an accounting entity at a particular point in time. Gives info if the company can pay liabilities

FORMAT:



2. Statements of Earning: reports the accountant's primary measure of performance of a business, revenues ess expenses during the accounting period. Used to see revenue trends for future investments

Revenues-Expenses=Net Earnings



3.Statements of changes in equity: reports all changes to shareholder' equity during the accounting period. Provides info about increases or decreases in owners equity, good for understanding if you should invest

	Fo		WIZEDEMY nent of Changes i ar ended Decemb (in USD)			
		Conti	ibuted Capital	Retained Earnings		Total
At January 1, 2019		S	600,000.00	S	134,000.00	200,000.00
Prior periord error correction					5,000.00	5,000.00
Add:	Issuance of Shares		200,000.00			200,000.00
	Net Income				21,000.00	21,000.00
Less:	Dividends Declared				(9,000.00)	(9,000.00
At December 31, 2019		\$	800,000.00	S	151,000.00 \$	951,000.00

- -Contributed capital only goes up based on the issuance of shares
- -Retained earnings goes up based on net earnings and down based on dividends

Relationship among the three financial statements

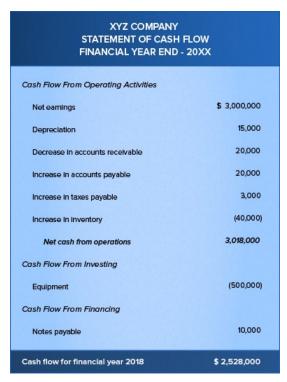
The statements are all related to eachother:

- -Net earnings from the statement of earnings results in an increase in ending retained earnings on the statement of changes in equity
- -Ending retained earnings from the statement of changes in equity is one of the components of the shareholders' equity on the statement of earning
- -we can see the Statement of earnings as explaining, through the statement of changes in equity, how the operations of the company changed its financing position during the year.
- -The statement of cash flows explains how the operating, investing and financing activities of the company affected the cash balance on the statement of financial position during the year.



- 4. The statement of cash flows: Measures a company's cash inflow and cash outflow during a specific time period (ONLY CASH transactions), divides cash flows into three categories: operating, investing and financing
- -Revenues do not equal cash collected cuz of credit and expenses may not equal cash cuz they can paid in another period

-So, statement of cash flows shows it based only on cash



Notes to Financial statements

There three basic types of notes:

- -First type provides descriptions of the accounting rules applied in the company statements.
- -Second presents additional detail about a line on the financial statements.
- -Third type of note presents additional financial disclosures about items not listed on the statements themselves.

Responsibilities for the accounting communication process

- -A decision maker should never attempt to use accounting information without first understanding the measurement rules that were used to develop the information in the financial statements.
- -Measurement rules are based on International Financial Reporting Standards (IFRS)
- -In Canada, the Accounting Standards Board (AcSB) is the private-sector body given primary responsibility to set the detailed rules that become accepted accounting standards.
- -IFRS globally accepted standards produced by the International Accounting Standards Board (IASB)

- -These standards provide guidance to companies in selecting the accounting methods that best reflect the results of their operations and financial situation
- -They also help prevent managers from deliberately manipulating and reporting them in an understandable manner

Chapter 2

Continuity assumption: is the assumption that a company will continue to operate for the foreseeable future and is not expected to go out of business or liquidate its assets in the near term.

Historical cost principle: accounting states that assets should be recorded and reported on the balance sheet at their original purchase cost, rather than their current market value.

The dual effects mean that every financial transaction impacts at least two accounts in a company's accounting records.

Separate entity assumption holds that a business is treated as distinct and separate from its owners or any other entities.

Stable monetary unit assumption: accounting presumes that the currency used to record transactions remains stable in value over time, ignoring inflation or deflation.

Qualitative Characteristics

Relevance: Information is relevant if it can influence users' decisions by helping them evaluate past, present, or future events.

Timeliness: Timely information is provided soon enough to be useful in decision-making, allowing stakeholders to act based on current or recent data.

Predictive Value: Information has predictive value if it can help users make predictions about future outcomes, enhancing their ability to forecast financial performance.

Confirmatory Value: Information possesses confirmatory value if it can help users confirm or correct prior expectations, providing feedback on past decisions.

Verifiability: Verifiable information is reliable and objective, meaning different knowledgeable and independent observers can agree on its accuracy.

Faithful Representation: Information is a faithful representation if it accurately depicts the financial situation, being complete, neutral, and free from error.

Neutrality: Neutral information is unbiased, presented without favoring any particular outcome, so users can trust it to reflect reality fairly.

Comparability: Information is comparable when it allows users to identify similarities and differences between two sets of financial data, such as between companies or periods.

Consistency: Consistency means using the same accounting methods over time, making it easier for users to compare financial statements across periods