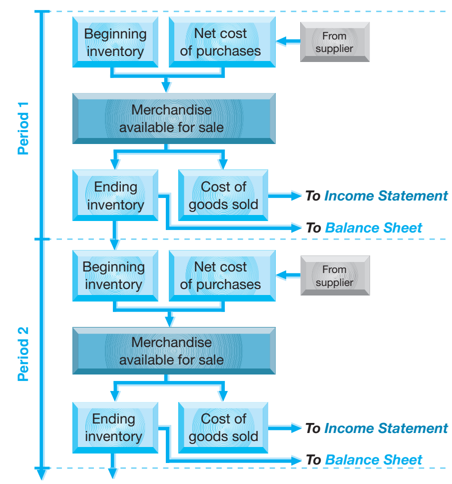
SELECTED TRANSACTIONS AND RELATIONS

① Merchandising Transactions Summary

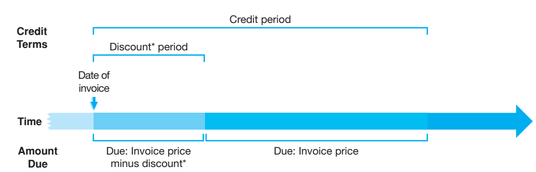
	Merchandising Transactions	Merchandising Entries	Dr.	Cr.
Purchases	Purchasing merchandise for resale.	• Merchandise Inventory	#	
		Cash or Accounts Payable		#
	Paying freight costs on purchases; FOB shipping point.	• Merchandise Inventory	#	
		Cash		#
	Paying within discount period.	• Accounts Payable	#	
		Merchandise Inventory		#
		Cash		#
	Recording purchase returns or allowances.	• Cash or Accounts Payable	#	
		Merchandise Inventory		#
Sales	Selling merchandise.	• Cash or Accounts Receivable	#	
		Sales		#
		• Cost of Goods Sold	#	
		Merchandise Inventory		#
	Receiving payment within discount period.	• Cash	#	
		Sales Discounts	#	
		Accounts Receivable		#
	Granting sales returns or allowances.	• Sales Returns and Allowances	#	
		Cash or Accounts Receivable		#
		• Merchandise Inventory	#	
		Cost of Goods Sold		#
	Paying freight costs on sales; FOB destination.	• Delivery Expense	#	
		Cash		#

	Merchandising Events	Adjusting and Closing Entries		
Adjusting	Adjusting due to shrinkage (occurs when recorded amount larger than physical inventory).	Cost of Goods Sold	#	
		Merchandise Inventory		#
Closing	Closing temporary accounts with credit balances.	Sales	#	
		Income Summary		#
	Closing temporary accounts with debit balances.	Income Summary	#	
		Sales Returns and Allowances		#
		Sales Discounts		#
		Cost of Goods Sold		#
		Delivery Expense		#
		"Other Expenses"		#

② Merchandising Cash Flows

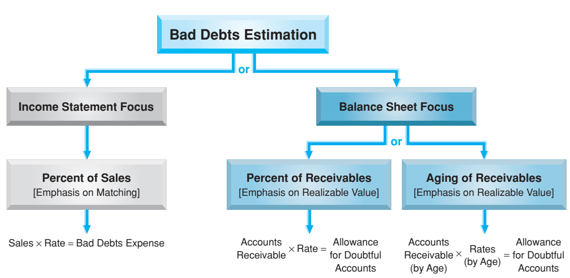


③ Credit Terms and Amounts

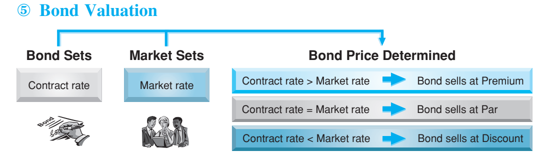


*Discount refers to a purchase discount for a buyer and a sales discount for a seller.

④ Bad Debts Estimation



⑤ Bond Valuation



⑥ Stock Transactions Summary

	Stock Transactions	Stock Entries	Dr.	Cr.
Issue Common Stock	Issue par value common stock at par (par stock recorded at par).	Cash	#	
		Common Stock		#
	Issue par value common stock at premium (par stock recorded at par).	Cash	#	
		Common Stock		#
		Paid-In Capital in Excess of Par Value, Common Stock		#
	Issue no-par value common stock (no-par stock recorded at amount received).	Cash	#	
		Common Stock		#
	Issue stated value common stock at stated value (stated stock recorded at stated value).	Cash	#	
		Common stock		#
	Issue stated value common stock at premium (stated stock recorded at stated value).	Cash	#	
		Common stock		#
		Paid-In Capital in Excess of Stated Value, Common Stock		#
Issue Preferred Stock	Issue par value preferred stock at par (par stock recorded at par).	Cash	#	
		Preferred Stock		#
	Issue par value preferred stock at premium (par stock recorded at par).	Cash	#	
		Preferred Stock		#
		Paid-In Capital in Excess of Par Value, Preferred Stock		#
Reacquire Common Stock	Reacquire its own common stock (treasury stock recorded at cost).	Treasury Stock, Common	#	
		Cash		#
Reissue Common Stock	Reissue its treasury stock at cost (treasury stock removed at cost).	Cash	#	
		Treasury Stock, Common		#
	Reissue its treasury stock above cost (treasury stock removed at cost).	Cash	#	
		Treasury Stock, Common		#
		Paid-In Capital, Treasury		#
	Reissue its treasury stock below cost (treasury stock removed at cost; if paid-in capital is insufficient to cover amount below cost, retained earnings is debited for remainder).	Cash	#	
		Paid-In Capital, Treasury	#	
		Treasury Stock, Common		#
		Retained Earnings (if necessary)	#	

⑦ Dividend Transactions

	Type of Dividend		
Account Affected	Cash Dividend	Stock Dividend	Stock Split
Cash	Decrease	—	—
Common Stock	—	Increase	—
Retained Earnings	Decrease	Decrease	—

⑧ A Rose by Any Other Name

The same financial statement sometimes receives different titles. Following are some of the more common aliases.*

Balance Sheet	Statement of Financial Position Statement of Financial Condition
Income Statement	Statement of Income Operating Statement Statement of Operations Statement of Operating Activity Earnings Statement Statement of Earnings Profit and Loss (P&L) Statement
Statement of Cash Flows	Statement of Cash Flow Cash Flows Statement Statement of Changes in Cash Position Statement of Changes in Financial Position
Statement of Owner's Equity	Statement of Changes in Owner's Equity Statement of Changes in Owner's Capital Statement of Shareholders' Equity† Statement of Changes in Shareholders' Equity† Statement of Stockholders' Equity and Comprehensive Income† Statement of Changes in Capital Accounts†

* The term **Consolidated** often precedes or follows these statement titles to reflect the combination of different entities, such as a parent company and its subsidiaries.
† Corporation only.

MANAGERIAL ANALYSES AND REPORTS

① Cost Types

Variable costs:	Total cost changes in proportion to volume of activity
Fixed costs:	Total cost does not change in proportion to volume of activity
Mixed costs:	Cost consists of both a variable and a fixed element

② Cost Sources

Direct materials:	Raw materials costs directly linked to finished product
Direct labor:	Employee costs directly linked to finished product
Overhead:	Costs indirectly linked to finished product

③ Costing Systems

Job order costing:	Costs assigned to each unique unit or batch of units
Process costing:	Costs assigned to similar products that are mass-produced in a continuous manner

④ Costing Ratios

Contribution margin ratio = (Net sales − Variable costs)/Net sales
Predetermined overhead rate = Estimated overhead costs/Estimated activity base
Break-even point in units = Total fixed costs/Contribution margin per unit

⑤ Planning and Control Metrics

Cost variance = Actual cost − Standard (budgeted) cost
Sales (revenue) variance = Actual sales − Standard (budgeted) sales

⑥ Capital Budgeting

Payback period = Time expected to recover investment cost
Accounting rate of return = Expected annual net income/Average annual investment
Net present value (NPV) = Present value of future cash flows − Investment cost

NPV rule:
1. Compute net present value (NPV in $)
2. If NPV ≥ 0, then accept project; If NPV < 0, then reject project

Internal rate of return rule:
1. Compute internal rate of return (IRR in %)
2. If IRR ≥ hurdle rate, accept project; If IRR < hurdle rate, reject project

⑦ Costing Terminology

Relevant range:	Organization's normal range of operating activity.
Direct cost:	Cost incurred for the benefit of one cost object.
Indirect cost:	Cost incurred for the benefit of more than one cost object.
Product cost:	Cost that is necessary and integral to finished products.
Period cost:	Cost identified more with a time period than with finished products.
Overhead cost:	Cost not separately or directly traceable to a cost object.
Relevant cost:	Cost that is pertinent to a decision.
Opportunity cost:	Benefit lost by choosing an action from two or more alternatives.
Sunk cost:	Cost already incurred that cannot be avoided or changed.
Standard cost:	Cost computed using standard price and standard quantity.
Budget:	Formal statement of an organization's future plans.
Break-even point:	Sales level at which an organization earns zero profit.
Incremental cost:	Cost incurred only if the organization undertakes a certain action.
Transfer price:	Price on transactions between divisions within a company.

⑧ Standard Cost Variances

Total materials variance = Materials price variance + Materials quantity variance

Total labor variance = Labor (rate) variance + Labor efficiency (quantity) variance

Total overhead variance = Overhead controllable variance + Fixed overhead volume variance

Overhead controllable variance = Actual total overhead − Applied total overhead from flexible budget

Fixed overhead volume variance = Budgeted fixed overhead − Applied fixed overhead

Variable overhead variance = Variable overhead spending variance + Variable overhead efficiency variance

Fixed overhead variance = Fixed overhead spending variance + Fixed overhead volume variance

(Variable overhead variance and Fixed overhead variance together) = Total overhead variance

Materials price variance = [AQ × AP] − [AQ × SP]

Materials quantity variance = [AQ × SP] − [SQ × SP]

Labor (rate) variance = [AH × AR] − [AH × SR]

Labor efficiency (quantity) variance = [AH × SR] − [SH × SR]

Variable overhead spending variance = [AH × AVR] − [AH × SVR]
Variable overhead efficiency variance = [AH × SVR] − [SH × SVR]
Fixed overhead spending variance = Actual fixed overhead − Budgeted fixed overhead

where AQ is actual quantity of materials; AP is actual price of materials; AH is actual hours of labor; AR is actual rate of wages; AVR is actual variable rate of overhead; SQ is standard quantity of materials; SP is standard price of materials; SH is standard hours of labor; SR is standard rate of wages; SVR is standard variable rate of overhead.

⑨ Sales Variances

Sales price variance = [AS × AP] − [AS × BP]

Sales volume variance = [AS × BP] − [BS × BP]

where AS = actual sales units; AP = actual sales price; BP = budgeted sales price; BS = budgeted sales units (fixed budget)

Manufacturing Statement
For _period_ Ended _date_

Direct materials		
Raw materials inventory, Beginning	$	#
Raw materials purchases		#
Raw materials available for use		#
Raw materials inventory, Ending		(#)
Direct materials used		#
Direct labor		#
Overhead costs		
Total overhead costs		#
Total manufacturing costs		#
Add goods in process inventory, Beginning		#
Total cost of goods in process		#
Deduct goods in process inventory, Ending		(#)
Cost of goods manufactured	$	#

Contribution Margin Income Statement
For _period_ Ended _date_

Net sales (revenues)	$	#
Total variable costs		#
Contribution margin		#
Total fixed costs		#
Net income	$	#

Flexible Budget
For _period_ Ended _date_

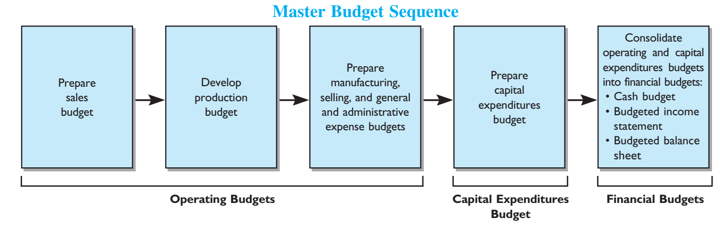
	Flexible Budget: Variable Amount per Unit	Flexible Budget: Fixed Cost	Flexible Budget for Unit Sales of #
Sales (revenues)	$ #		$ #
Variable costs			
Examples: Direct materials, Direct labor,			
Other variable costs	#		#
Total variable costs	#		#
Contribution margin	$ #		#
Fixed costs			
Examples: Depreciation, Manager		$ #	#
salaries, Administrative salaries		#	#
Total fixed costs		$ #	#
Income from operations			$ #

Fixed Budget Performance Report
For _period_ Ended _date_

	Fixed Budget	Actual Performance	Variances[†]
Sales: In units	#	#	
In dollars	$ #	$ #	$ # *F or U*
Cost of sales			
Direct costs	#	#	# *F or U*
Indirect costs	#	#	# *F or U*
Selling expenses			
Examples: Commissions,	#	#	# *F or U*
Shipping expenses	#	#	# *F or U*
General and administrative expenses			
Examples: Administrative salaries	#	#	# *F or U*
Total expenses	$ #	$ #	$ # *F or U*
Income from operations	$ #	$ #	$ # *F or U*

[†] *F = Favorable variance; U = Unfavorable variance.*

Master Budget Sequence



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Back endsheets
Color: Black and PMS 287
Pages: 8, 5

FUNDAMENTALS

① Accounting Equation

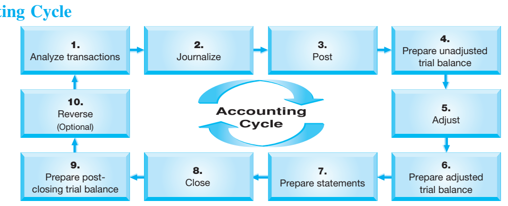
Assets		=	Liabilities		+	Equity	
↑ Debit for increases	↓ Credit for decreases		↓ Debit for decreases	↑ Credit for increases		↓ Debit for decreases	↑ Credit for increases

Owner's Capital*		−	Owner's Withdrawals*		+	Revenues		−	Expenses	
↓ Dr. for decreases	↑ Cr. for increases		↑ Dr. for increases	↓ Cr. for decreases		↓ Dr. for decreases	↑ Cr. for increases		↑ Dr. for increases	↓ Cr. for decreases

Indicates normal balance.

*Comparable corporate accounts are Common Stock (Paid-In Capital) and Dividends.

② Accounting Cycle



③ Adjustments and Entries

Type	Adjusting Entry	
Prepaid Expenses	Dr. Expense	Cr. Asset*
Unearned Revenues	Dr. Liability	Cr. Revenue
Accrued Expenses	Dr. Expense	Cr. Liability
Accrued Revenues	Dr. Asset	Cr. Revenue

*For depreciation, credit Accumulated Depreciation (contra asset).

④ 4-Step Closing Process

1. Transfer revenue and gain account balances to Income Summary.
2. Transfer expense and loss account balances to Income Summary.
3. Transfer Income Summary balance to Owner's Capital.
4. Transfer Withdrawals balance to Owner's Capital.

⑤ Accounting Concepts

Characteristics	Assumptions	Principles	Constraints
Relevance	Business entity	Historical cost	Cost-benefit
Reliability	Going concern	Revenue recognition	Materiality
Comparability	Monetary unit	Expense recognition	Industry practice
Consistency	Periodicity	Full disclosure	Conservatism

⑥ Ownership of Inventory

	Ownership Transfers When Goods Passed To	Transportation Costs Paid By
FOB Shipping Point	Carrier	Buyer
FOB Destination	Buyer	Seller

⑦ Inventory Costing Methods

- Specific Identification
- First-In, First-Out (FIFO)
- Weighted-Average
- Last-In, First-Out (LIFO)

⑧ Depreciation and Depletion

Straight-Line: $\dfrac{\text{Cost} - \text{Salvage value}}{\text{Useful life in periods}} \times \text{Periods expired}$

Units-of-Production: $\dfrac{\text{Cost} - \text{Salvage value}}{\text{Useful life in units}} \times \text{Units produced}$

Declining-Balance: Rate* × Beginning-of-period book value

*Rate is often double the straight-line rate, or 2 × (1/Useful life)

Depletion: $\dfrac{\text{Cost} - \text{Salvage value}}{\text{Total capacity in units}} \times \text{Units extracted}$

⑨ Interest Computation

Interest = Principal (face) × Rate × Time

⑩ Accounting for Investment Securities

Classification*	Accounting
Short-Term Investment in Securities	
Held-to-maturity (debt) securities	**Cost** (without any discount or premium amortization)
Trading (debt and equity) securities	**Fair value** (with fair value adjustment to income)
Available-for-sale (debt and equity) securities	**Fair value** (with fair value adjustment to equity)
Long-Term Investment in Securities	
Held-to-maturity (debt) securities	**Cost** (with any discount or premium amortization)
Available-for-sale (debt and equity) securities	**Fair value** (with fair value adjustment to equity)
Equity securities with significant influence	Equity method
Equity securities with controlling influence	Equity method (with consolidation)

*A *fair value option* allows companies to report HTM and AFS securities much like trading securities.

ANALYSES

① Liquidity and Efficiency

Current ratio $= \dfrac{\text{Current assets}}{\text{Current liabilities}}$ p. 148

Working capital = Current assets − Current liabilities p. 697

Acid-test ratio $= \dfrac{\text{Cash} + \text{Short-term investments} + \text{Current receivables}}{\text{Current liabilities}}$ p. 196

Accounts receivable turnover $= \dfrac{\text{Net sales}}{\text{Average accounts receivable, net}}$ p. 375

Credit risk ratio $= \dfrac{\text{Allowance for doubtful accounts}}{\text{Accounts receivable, net}}$ p. 375

Inventory turnover $= \dfrac{\text{Cost of goods sold}}{\text{Average inventory}}$ p. 241

Days' sales uncollected $= \dfrac{\text{Accounts receivable, net}}{\text{Net sales}} \times 365^*$ p. 335

Days' sales in inventory $= \dfrac{\text{Ending inventory}}{\text{Cost of goods sold}} \times 365^*$ p. 241

Total asset turnover $= \dfrac{\text{Net sales}}{\text{Average total assets}}$ p. 413

Plant asset useful life $= \dfrac{\text{Plant asset cost}}{\text{Depreciation expense}}$ p. 413

Plant asset age $= \dfrac{\text{Accumulated depreciation}}{\text{Depreciation expense}}$ p. 413

Days' cash expense coverage $= \dfrac{\text{Cash and cash equivalents}}{\text{Average daily cash expenses}}$ p. 322

*360 days is also commonly used.

② Solvency

Debt ratio $= \dfrac{\text{Total liabilities}}{\text{Total assets}}$ Equity ratio $= \dfrac{\text{Total equity}}{\text{Total assets}}$ pp. 69 & 701

Debt-to-equity $= \dfrac{\text{Total liabilities}}{\text{Total equity}}$ p. 567

Times interest earned $= \dfrac{\text{Income before interest expense and income taxes}}{\text{Interest expense}}$ p. 450

Cash coverage of growth $= \dfrac{\text{Cash flow from operations}}{\text{Cash outflow for plant assets}}$ p. 651

Cash coverage of debt $= \dfrac{\text{Cash flow from operations}}{\text{Total noncurrent liabilities}}$ p. 646

③ Profitability

Profit margin ratio $= \dfrac{\text{Net income}}{\text{Net sales}}$ p. 109

Gross margin ratio $= \dfrac{\text{Net sales} - \text{Cost of goods sold}}{\text{Net sales}}$ p. 196

Return on total assets $= \dfrac{\text{Net income}}{\text{Average total assets}}$ p. 22

= Profit margin ratio × Total asset turnover p. 703

Return on common stockholders' equity $= \dfrac{\text{Net income} - \text{Preferred dividends}}{\text{Average common stockholders' equity}}$ p. 703

Book value per common share $= \dfrac{\text{Stockholders' equity applicable to common shares}}{\text{Number of common shares outstanding}}$ p. 528

Basic earnings per share $= \dfrac{\text{Net income} - \text{Preferred dividends}}{\text{Weighted-average common shares outstanding}}$ p. 527

Cash flow on total assets $= \dfrac{\text{Cash flow from operations}}{\text{Average total assets}}$ p. 650

Payout ratio $= \dfrac{\text{Cash dividends declared on common stock}}{\text{Net income}}$ p. 528

④ Market

Price-earnings ratio $= \dfrac{\text{Market value (price) per share}}{\text{Earnings per share}}$ p. 527

Dividend yield $= \dfrac{\text{Annual cash dividends per share}}{\text{Market price per share}}$ p. 528

Residual income = Net income − Target net income

FINANCIAL REPORTS

Income Statement*
For _period_ Ended _date_

Net sales (revenues)			$	#
Cost of goods sold (cost of sales)				#
Gross margin (gross profit)				#
Operating expenses				
Examples: Depreciation, salaries,	$	#		
wages, rent, utilities, interest,		#		
amortization, advertising, taxes		#		
Total operating expenses				#
Nonoperating gains and losses				#
Net income (net profit or earnings)			$	#

* A typical chart of accounts is at the end of the book and classifies all accounts by financial statement categories.

Balance Sheet
Date

ASSETS

Current assets				
Examples: Cash, Cash equivalents, Short-term investments,				
Accounts receivable, Current portion of notes	$	#		
receivable, Inventory, Prepaid expenses		#		
Total current assets			$	#
Long-term investments				
Examples: Investment in stock, Investment in bonds,		#		
Land for expansion		#		
Total long-term investments				#
Plant assets				
Examples: Equipment, Machinery, Buildings, Land		#		
Total plant assets, net of depreciation				#
Intangible assets				
Examples: Patent, Trademark, Copyright, License, Goodwill		#		
Total intangible assets, net of amortization				#
Total assets			$	#

LIABILITIES AND EQUITY

Current liabilities				
Examples: Accounts payable, Wages payable, Salaries	$	#		
payable, Current notes payable, Taxes payable,		#		
Interest payable, Unearned revenues		#		
Total current liabilities			$	#
Long-term liabilities				
Examples: Notes payable, Bonds payable, Lease liability		#		
Total long-term liabilities				#
Total liabilities				#
Equity*				
Owner, Capital				#
Total liabilities and equity			$	#

* A corporation's equity consists of: Paid-In Capital and Retained Earnings (less any treasury stock).

Statement of Cash Flows
For _period_ Ended _date_

Cash flows from operating activities		
[Prepared using the indirect (see below)† or direct method]		
Net cash provided (used) by operating activities	$	#
Cash flows from investing activities		
[List of individual investing inflows and outflows]		
Net cash provided (used) by investing activities		#
Cash flows from financing activities		
[List of individual financing inflows and outflows]		
Net cash provided (used) by financing activities		#
Net increase (decrease) in cash	$	#
Cash (and equivalents) balance at beginning of period		#
Cash (and equivalents) balance at end of period	$	#

Attach separate schedule or note disclosure of "Noncash investing and financing transactions."

†Indirect Method: Cash Flows from Operating Activities

Cash flows from operating activities				
Net income			$	#
Add: Decreases in noncash current assets	$	#		
Increases in current liabilities		#		
Expenses with no cash outflows (examples: depreciation, and amortization of both intangibles and bond discounts)		#		
Nonoperating losses (examples: losses from asset sales and from debt retirements)		#		#
Less: Increases in noncash current assets		#		
Decreases in current liabilities		#		
Revenues with no cash inflows (examples: amortization of bond premiums)		#		
Nonoperating gains (examples: gains from asset sales and from debt retirements)		#		#
Net cash provided (used) by operating activities			$	#

Statement of Owner's Equity*
For _period_ Ended _date_

Owner, Capital, beginning			$	#
Add: Investments by owner	$	#		
Net income		#		#
				#
Less: Withdrawals by owner				#
Owner, Capital, ending			$	#

* For a corporation, statement of owner's equity becomes statement of retained earnings with these changes: "owner, capital" is retained earnings; "investments by owner" is deleted; and "withdrawals by owner" is dividends.

Premium Bond Amortization (Straight-Line) Table†

Semiannual Period-End	Unamortized Bond Premium*	Bond Carrying Value**
Bond life-start	$ #	$ #
⋮	⋮	⋮
Bond life-end	0	par

† Bond carrying value is adjusted to par and its amortized premium to zero over the bond life (note: carrying value less unamortized bond premium equals par).
* Equals total bond premium less its accumulated amortization.
** Equals bond par value <u>plus</u> its unamortized bond premium.

Discount Bond Amortization (Straight-Line) Table†

Semiannual Period-End	Unamortized Bond Discount*	Bond Carrying Value**
Bond life-start	$ #	$ #
⋮	⋮	⋮
Bond life-end	0	par

† Bond carrying value is adjusted to par and its amortized discount to zero over the bond life (note: unamortized bond discount plus carrying value equals par).
* Equals total bond discount less its accumulated amortization.
** Equals bond par value <u>less</u> its unamortized bond discount.

Effective Interest Amortization Table for Bonds with Semiannual Interest Payment

Semiannual Interest Period-End	Cash Interest Paid[A]	Bond Interest Expense[B]	Discount or Premium Amortization[C]	Unamortized Discount or Premium[D]	Carrying Value[E]
#	#	#	#	#	#
⋮	⋮	⋮	⋮	⋮	⋮

[A]Par value multiplied by the semiannual contract rate.
[B]Prior period's carrying value multiplied by the semiannual market rate.
[C]The difference between interest paid and bond interest expense.
[D]Prior period's unamortized discount or premium less the current period's discount or premium amortization.
[E]Par value less unamortized discount or plus unamortized premium.

Installment Notes Payment Table

		Payments					
Period Ending Date	Beginning Balance	*Debit* Interest Expense	+	*Debit* Notes Payable	=	*Credit* Cash	Ending Balance
#	#	#		#		#	#
⋮	⋮	⋮		⋮		⋮	⋮

Bank Reconciliation
Date

Bank statement balance	$#	Book balance	$#
Add: Unrecorded deposits	#	Add: Unrecorded bank credit memoranda	#
Bank errors understating the balance	#	Book errors understating the balance	#
	#		#
Less: Outstanding checks	#	Less: Unrecorded bank debit memoranda	#
Bank errors overstating the balance	#	Book errors overstating the balance	#
Adjusted bank balance	$#	**Adjusted book balance**	$#

Balances are equal (reconciled)

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