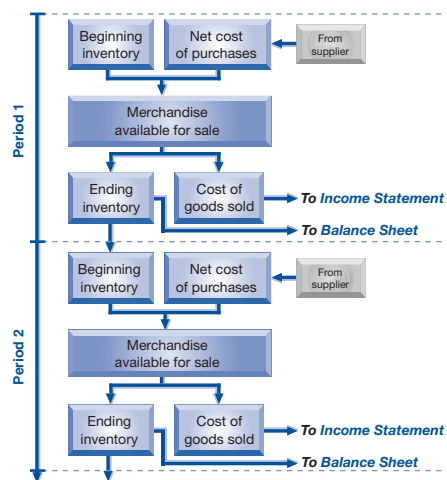


SELECTED TRANSACTIONS AND RELATIONS

① Merchandising Transactions Summary

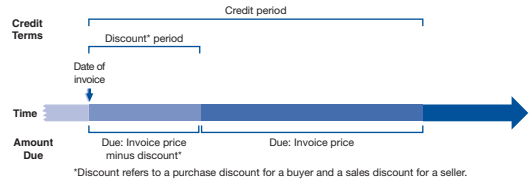
Merchandising Transactions		Merchandising Entries		Dr.	Cr.
Purchases	Purchasing merchandise for resale.	Merchandise Inventory	#		
	Paying freight costs on purchases; FOB shipping point.	Cash or Accounts Payable		#	#
	Paying within discount period.	Merchandise Inventory	#		
		Cash		#	#
Sales	Recording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

② Merchandising Cash Flows

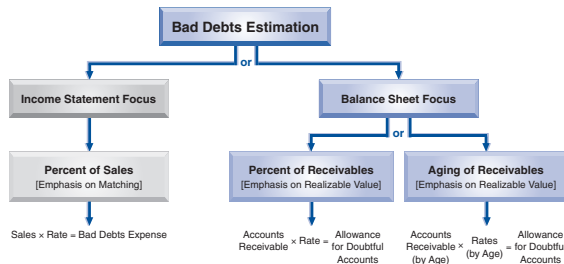


Merchandising Events		Adjusting and Closing Entries		Dr.	Cr.
Adjusting	Adjusting due to shrinkage (occurs when recorded amount larger than physical inventory).	Cost of Goods Sold	#		
		Merchandise Inventory		#	#
Closing	Closing temporary accounts with credit balances.	Sales	#		
		Income Summary		#	#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

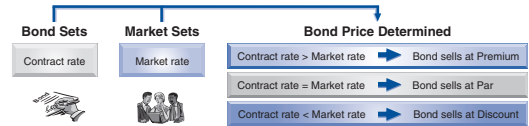
③ Credit Terms and Amounts



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).	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	#		
Issue stated value common stock at premium (stated stock recorded at stated value).	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 par value preferred stock at par (par stock recorded at par).	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	#		
Issue par value preferred stock at premium (par stock recorded at par).	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	#		
Reissue Common Stock	Reissue its treasury stock above cost (treasury stock removed at cost).	Cash	#		
		Treasury Stock, Common		#	#
	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

Account Affected	Type of Dividend		
	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 Stockholders' Equity	Statement of Shareholders' Equity Statement of Changes in Shareholders' Equity Statement of Stockholders' Equity and Comprehensive Income
	Statement of Changes in Owner's Equity Statement of Changes in Owner's Capital 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.

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 1. Compute internal rate of return (IRR in %)
 of return rule: 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

$$\text{Total materials variance} = \begin{matrix} \text{Materials} & \text{Materials} \\ \text{price} & + & \text{quantity} \\ \text{variance} & & \text{variance} \end{matrix}$$

$$\text{Total labor variance} = \begin{matrix} \text{Labor} & \text{Labor} \\ \text{(rate)} & + & \text{efficiency} \\ \text{variance} & & \text{(quantity)} \\ & & \text{variance} \end{matrix}$$

$$\text{Total overhead variance} = \begin{matrix} \text{Overhead} & \text{Fixed overhead} \\ \text{controllable} & + & \text{volume} \\ \text{variance} & & \text{variance} \end{matrix}$$

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 } = Total overhead variance

$$\text{Materials price variance} = [AQ \times AP] - [AQ \times SP]$$

$$\text{Materials quantity variance} = [AQ \times SP] - [SQ \times SP]$$

$$\text{Labor (rate) variance} = [AH \times AR] - [AH \times SR]$$

$$\text{Labor efficiency (quantity) variance} = [AH \times SR] - [SH \times SR]$$

$$\text{Variable overhead spending variance} = [AH \times AVR] - [AH \times SVR]$$

$$\text{Variable overhead efficiency variance} = [AH \times SVR] - [SH \times SVR]$$

$$\text{Fixed overhead spending variance} = \text{Actual fixed overhead} - \text{Budgeted fixed overhead}$$

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

$$\text{Sales price variance} = [AS \times AP] - [AS \times BP]$$

$$\text{Sales volume variance} = [AS \times BP] - [BS \times BP]$$

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

Manufacturing Statement For <u>period</u> Ended <u>date</u>		
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 <u>period</u> Ended <u>date</u>		
Net sales (revenues)	\$	#
Total variable costs		#
Contribution margin		#
Total fixed costs		#
Net income	\$	#

Flexible Budget For <u>period</u> Ended <u>date</u>			
	Flexible Budget		Flexible Budget for Unit Sales of
	Variable Amount per Unit	Fixed Cost	#
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 <u>period</u> Ended <u>date</u>			
	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, 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.

