

Chapter 8

ST investments- current asset, sold within a yr, they are trading/held to maturity/available for sale, after cash on balance sheet

LT investments- stocks and bonds, hold longer than a yr, after total current assets on balance sheet

Held to maturity- recorded at amortized cost, interest received semi-annually, price is quoted as percent of par

Market Rate > Face Value, discount
Market Rate < Face Value, premium

Journals

Purchase: debit LT invest, credit cash

Interest: debit cash (face value x full yr rate x (1/2)), credit interest rev

Amortize: debit LT invest, credit interest rev (cash paid-bond value)/terms of bond

**face value x interest=interest paid

**face value x issue price (%) = cash paid

Available for sale- recorded at market value

**changes in market value cause gains/loss

Realized are from sale

Fair value adjustment

Unreal gain: market value > carrying value

Debit, Add to original cost

Unreal loss: market value < carrying value

Credit, Sub from original cost

Journals

Purchase: Debit LT investment, credit cash

Div Received: Debit cash, credit div rev

Adjust to Fair: Debit allowance, credit un gain OR debit un loss, credit allowance

Income statement: div rev

Also other comp. income= unreal gain/loss

B.S: Total current assets

LT assets

Stockholder's equity

Common Stock

Other comp income= unreal gain/loss

Present value- any given date of a future payment/series of payments

Pv of \$1 is used for single payment

PV of annuity use for 2 or more

Future Value-the sum of money a current investment will be worth in the future

Same as Pv uses

**Need to know interest rate and number of periods to find number

Sum of problem x found number

Chapter 9

Current liabilities of a known amount- accounts payable, ST notes payable, sales tax payable, accrued liabilities, payroll, unearned rev, current portion of long term debt

Estimated liability- estimated warranty payable

*A contingent liability should be recorded in the accounts if the amount can be reasonably estimated and related future event will probably occur

*Failure to accrue interest expense results in an overstatement of net income and understatement of liabilities

*Unearned revenue is a liability account

*At end of period adjusting, debits to unearned revenue will create a revenue

Journals

Purchase Inventory: debit inventory, credit ST note payable\

Accrue Interest Expense: debit interest expense (face value x % x months/12), credit interest payable

Paid Note Payable: debit note payable, interest payable, interest expense credit cash

B.S: note payable, interest payable

L.S: interest expense (same as interest payable from paid note payable entry)

Serial Bond- matures in installments

Unsecured bond- is a debenture bond, back by good faith of borrower, risky, higher IR

Term bond- all bonds in issue mature at same time

Secured bond- mortgage, if borrower defaults, issuer takes specified assets house

Discount on Bonds Payable- normal debit balance, contra liability account to bonds payable, becomes additional expense over the life of the bond

*Carrying value of bonds payable= bonds payable – discount on bonds payable

*Straight line amortization= (face value-issue price)/number of interest payments (semiannual 2 per year or years)

Interest expense=issue price (or interest expense) + amortization

Issuing prices

Issued Value=Market Value, Par value

Issued Value > Market Value, Premium

Issued Value < Market Value, Discount

Journals

Issued at Par: debit cash, credit bonds payable

Issued at Discount: debit cash and discount on bonds payable, credit bonds payable

Accrual of interest: debit interest expense (face value x % x month/12), credit interest payable (premium credit)

Accrual of interest with discount: debit interest expense, credit discount on bonds payable and interest payable

Pay interest: debit interest payable, credit cash

Pay at discount: debit interest expense, credit discount and cash

Payment of payable: debit bonds payable, credit cash

Sale of bond: debit cash and discount, credit bonds payable

*Bond carrying value=bonds payable plus premium or minus discount

Balance sheet: current liabilities accts payable, ST notes payable, current portion of long term debt, interest payable

LT liabilities bonds payable, LT notes payable, Less discounts Add premiums

Bond retirement- pay early to relieve high interest and to borrow at a lower rate

Convertible bonds- exchanged for stock

Leases- rental agreement, rental payments for use of an asset

Operating- lessee has right to use the asset, lessor retains risks and rewards of owning, lessee records rent expense

Capital- lessee has right to use the asset, lessee assumes risk and rewards of ownership, lessee capitalizes the leased asset and records a long term liability

Pensions- most complicated, expense recorded while employee works

Underfunded plan assets < obligation

Overfunded plan assets > obligation

Chapter 10

Corporations- separate legal entity

Advantages: continuous life/transferability of ownership, limited liability of stockholders

Disadvantages: double taxation, government regulation

Most power in corp: Stockholders, chairperson of board (CEO), president (COO), chief financial officer (CFO)

*Issuing shares of stock increase assets and stockholder's equity

Par value- in an arbitrary amount that establishes that legal capital for each share

Authorized shares- the most shares a company can give to stockholders

Preferred stock-preference as to assets on liquidation, preference on dividends, the right to convert to common, least likely for extra liability for stockholders

Total Paid in capital= preferred + common + paid in capital in ex

SE= Total paid in capital + Retain Earn

*treasury bonds less SE, only in SE

Journals for acquiring assets for stocks

A: debit cash, credit common stock and paid in capital. Then debit assets, credit cash

B: debit assets, credit common stock and paid in capital

The account balances are the same.

SE on Balance sheet: common stock, paid in capital, retained earnings, other SE, Total SE

Journal for no par stock: debit cash, credit common stock (multiply shares by \$/share)

*Report treasury stock with no gain on income statement

*On B.S., SE reports treasury stock

*Buying Treasury stock decreases total assets and SE equal to cost of treasury

*Selling treasury stock increases total assets and SE equal to the sale price of the treasury stock sold (multiple bought shares by sold price)

*When treasury stock is sold for less than its cost, the entry should include a debit to retained earnings

Paid in capital= (sale price per share- cost per share) x number of shares sold

*creates credit to paid in capital treasury stock for selling stock

Journals for resale of Treasury

Buy: debit treasury, credit cash

Resell: debit cash, credit treasury and paid in capital from treasury

Increase/decrease? Sale-Resell, usually dec

Chapter 10 Cont.

- *When does cash div become liability, on date of declaration
- *Dividends never increase SE, have no effect
- *stockholders eligible for dividend if own stock on day of record
- *a 10% div would have SE be same, paid in capital increases, market value is needed to record dividend, and RE decrease PAR VALUE DOESN'T DECREASE
- *with div, debit to retained earnings is equal to market value of shares being issued
- *Stock split causes market price to decrease, par value reduced, doubles/triples/whatever shares, RE remains the same

Journals for Dividends

Declaration: debit retained earnings, credit dividend payable

Use: common=shares outstanding x div per share, preferred= par value x div %

Payment: debit dividends payable, credit cash

Increase/decrease? Net income – div declared, if not negative=increase

Effects of Stuff

Declaration of cash dividend: increases liabilities, decreases SE, assets NA

Payment of div: Decrease assets, decrease liabilities, NA SE

Stock div: NA assets, liabilities, SE

Stock split: NA assets, liabilities, SE

Chapter 11

*Quality of earnings= income from continuing operations is better than income from other transactions

Revenue recognition when earned

Gross Margin Ratio: Cogs should be decreasing as a percent of sales while gross profit percent should be increasing

Operating expenses biggest are salaries/utilities/supplies, efficient management means lower cost relative to sales

Income statement: net sales revenue, COGs, gross profit, operating expenses, operating income, other gains (losses don't forget parenthesis), income from continuing operations before income tax, income tax expense, income from continuing operations, (loss on discounted operations), income before extraordinary item, extraordinary gain, net income

Earnings per share= (net income-preferred dividend)/common stock outstanding

*common stock outstanding sometimes subtract treasury stock if there, preferred dividends if not given are \$ x %

*EPS is not reported for comprehensive income

EPS on income statement: income from continuing operations, (loss on discontinued operations)* no pref div, income before extraordinary income, extraordinary gain* no pref div, net income

*an auditor's report by independent accountants gives investors assurance that the company complies with GAAP

*management is in charge of financial statements for a company

Use GAAP principles to prepare statements.

Management maintains internal controls. Standards for conducting audits given by public company accounting oversight board

Usually, see financial statements as presented fairly in all respects

Correcting retained earnings: prior period adjustments, revenue or expense recorded incorrectly and correction of error adjusts beginning balance of RE, can either increase/decrease RE

Chapter 12

Statement of cash flows- helps investors and creditors predict future cash flows by reporting past cash receipts and payments while also evaluating management decisions by reporting how managers got and used cash to run the business

Cash flow categories- operating, investing, financing

Operating- create revenue, expenses, gains/losses (current assets and liabilities) most important of all three

Cash Flow Template: Operating

+Net income

Adjustments to reconcile:

+ Depreciation

+loss on sale of LT asset

-gain on sale of LT asset

-increases in current asset other than cash

+decreases in current assets other than

+increases in current liabilities

-decreases in current liabilities

+accrual of expenses

-decrease in accrual of expenses

=net cash provided by operating

Investing- relate to LT assets

Cash Flow Template: Investing

+ Sales of LT assets

-Purchases of LT assets

+ Collections of notes receivable

-Loans to others

=Net cash provided by and used for invest

Financing- obtain cash from investors and creditors to start and sustain a company (LT liabilities, owner's equity)

Cash Flow Template: Financing

+Issuance of stock

-Purchase of treasury stock

+Sale of treasury stock

+Borrowing

-Payment of notes and bonds payable (LT debt)

-Payment of dividends

=Net Cash provided by and used in finance

*Non cash investing and financing activities: acquisition of building by

issuing common stock, acquisition of land by issuing note payable, payment of LT

debt by issuing stock, bonds converted to stock, stock div's distributed

Chapter 13

Horizontal analysis- highlights changes in F.S. balances from period to period

*Compute dollar amount of change, divide dollar amount of change by base period amount

Trend percentages- form of horizontal analysis, base year selected and set equal to 100%, any year/base year (base year is earliest year)

Vertical analysis- compares F.S. items in the current period with other items in current period

*each income statement item/total revenue

For balance sheet, total assets is base

Common size statement- compares companies of different sizes, based on percentages not dollar amount

Benchmarking- compares companies to a standard set by others, often a key competitor, facilitated by common size

Working capital=current assets-current lia

Current ratio=current ass/curr liab

Quick ratio=(cash+ST invest+net

rec)/current liabilities

Inven Turn=Cogs/average inventory

DIO=365/Inventory turnover

Accts Rec turnover=net sale/average act re

Day's sales in receivables

1) average daily sales= net sale/365 days

2)DSO=average net accts rec/daily sales

Accts pay turn=COGS/average accts pay

DPO=365/accts pay turnover

Cash conversion= DIO+DSO-DPO

Debt ratio= total liab/total asset

Times interest earned= income from

operations/interest expense

Gross margins %= gross margin/net sales

Operating income %= operating income/net sales

ROS= net income/net sales

Asset turnover= net sales/average total assets

ROA= ROS x asset turnover

Leverage ratio= average total assets/average common SE

ROE= net income- preferred div/average common SE

Price earnings ratio= market price per share of C stock/EPS

Dividend yield= dividend per share of common stock/market price per share

Book value= total SE-preferred equity/weight average number of common shares outstanding