

## ACG2071 Exam 1 Study Guide

### Chapter 1: 3 Questions (all conceptual)

- Differences between financial and managerial accounting
- Sustainability

### Chapter 2: 18 Questions (7 conceptual)

- Flow of costs through the balance sheet (inventory accounts) to the income statement
- Identification and calculation of product costs, period costs, prime costs, and conversion costs
- Cost behavior (fixed costs versus variable costs)

### Chapter 3: 7 Questions (1 conceptual)

- Calculation of product costs using a predetermined MOH rate to allocate MOH
- Calculation of over/underallocation MOH
- Disposal of over/underallocated MOH

### Chapter 4: 7 Questions (3 conceptual)

- Calculation of product costs using departmental rates to allocate MOH
- Calculation of product costs using activity-based costing to allocation MOH
- Cost of quality

**\*\* I still suggest you look over Holly's notes and do the practice problems!!! This is a study guide to help you decide what you should focus on more and what is/isn't important. Good luck to everyone! Feel free to email me if you guys have any questions!! \*\***

## Chapter 1

### Financial Accounting vs Managerial Accounting

| Characteristic       | Financial Accounting               | Managerial Accounting                 |
|----------------------|------------------------------------|---------------------------------------|
| Primary Product      | Financial Statements               | Variety of useful internal reports    |
| Users of information | External users                     | Internal users                        |
| Purpose of           | Help external users make investing | Help managers plan, direct, & control |

|                               |                        |  |
|-------------------------------|------------------------|--|
| information                   | & lending decision     | operations & make decisions                                    |
| Reporting format              | GAAP                   | Whatever is useful   |
| Focus (basis) of information  | Historical focus       | Future focus   |
| Characteristic of information | Reliable & objective   | Relevant   |
| Reporting unit                | Company as a whole     | Segments/divisions   |
| Reporting frequency           | Annually and quarterly | As needed  |
| Requirement of information    | Required by SEC        | Not required   |
| Verifitcation of information  | CPAs audit the data    | No formal audit. The company's internal audit team may review. |

### Sustainability

- as defined by the UN, is the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs

### The Three Pillars of Sustainability

1. Social
2. Environmental
3. Economic
  - o The triple bottom line recognizes that a company's performance should be viewed in terms of the following:
    - Profits (economic)
    - People (social)
    - Planet (environmental)

### Chapter 2

#### Product costs – (COGS) – production/purchases

- The costs are treated as an asset (part of inventory) on the Balance Sheet until it is sold
  - o Product Costs for Manufacturing:
    - Direct Materials (DM) – the primary materials that become a physical part of the finished product
    - Direct Labor (DL) – compensation for employees who physically convert raw materials into a finished product
    - Manufacturing Overhead (MOH) – all manufacturing costs other than direct materials and direct labor
      - Prime Costs = DM + DL
      - Conversion Costs = DL + MOH

Period costs – (operating expenses) – Research & Development; Design; Marketing; Distribution; Customer Service

- The costs are expensed in the period incurred. Period costs are comprised of the “operating expenses” or “selling & administrative expenses” incurred by a company

#### Service Company

- No product costs
- Income Statement:
  - Revenues
  - Operating Expenses
  - Operating income

#### Merchandising

- Merchandising company have only one category of inventory on the Balance Sheet
- Income Statement:
  - Sales Revenue
  - Costs of Goods Sold
  - Gross Profit (Gross Margin)
  - Operating Expenses
  - Operating Income
- Cost of Goods Sold:
  - Beginning Inventory
  - + Purchases
  - Available for Sale
  - Ending Inventory
  - Sold
    - o Sometimes you have to find product cost and multiply by amount sold if Cost of Goods Sold is for amount rather than the dollar value
- Inventoriable Product Cost
  - o Cost of Merchandise + Freight in + Customs/duties + Cost of getting product ready for sale

#### Manufacturing

- Three types of inventory:
  - o Raw Materials Inventory
  - o Work in Process Inventory
  - o Finished goods inventory
- Income Statement:
  - Sales Revenue
  - Costs of Goods Sold
  - Gross Profit (Gross Margin)
  - Operating Expenses
  - Operating Income
- Cost of Goods Sold:
  - o Step 1: Raw Materials Inventory (Calculate DM used)
    - Beginning Raw Materials Inventory