

**Principles of Accounting 1 Fall 2013
Study Guide for Midterm 1**

Test Format:

- Multiple choice questions (50 @ 5.70 points each). Total possible points are 285.
- Maximum grade is 275! The extra points are to compensate for any weakness in the main test instrument and misunderstanding in the question wording.
- Students need to bring their own scantron. Do not mark your scantron until you have selected your FINAL answer. Eraser marks confuse the scantron grading machine. All adverse consequences of eraser marks and mismarks are the student's responsibility. Bring extra scantrons.
- You are permitted to use a simple four-function calculator (cell phones are NOT simple four-function calculators). Instructors/exam proctors will check each student's calculator while distributing the exams.
- This is a closed book, closed note, and closed neighbor exam. You are NOT permitted to have scratch paper. You are NOT to look around during the exam. You are to keep your scantron sheet covered to the extent possible. Questions regarding the exam cannot be asked during the exam period.
- You must turn in your exam and scantron with your name and the version letter of the exam on both. You will be asked to show a picture id when you turn in your exam and scantron.
- You will have 120 minutes to complete the exam.
- The exam covers Chapters 1 – 4.

Skills needed:

Chapter 1:

- Identify and understand the characteristics of the basic forms of business organization structures (i.e. sole proprietorship, partnership, and corporation).
- Identify and define the basic types of businesses (i.e. merchandising, manufacturing and service).
- Understand the following elements of accounting: assets, liabilities, owners' equity, revenue, and expense.
- Know the accounting equation and definition of accrual basis of accounting.
- Calculate accrual basis net income (loss).
- Given a scenario, identify the specific accounting concept in use (i.e. business entity, going concern, monetary unit, and periodicity).
- Identify internal and external stakeholders.
- Identify on which financial statement an item(s) would be found.
- Identify the purpose and relationship among the four financial statements (Exhibit 1.4).
- Understand and be able to calculate the current ratio and the return on sales ratio.
- Identify the objective of financial reporting. (Concepts Statement No. 1)

Chapter 2:

- Identify the three phases of the management cycle.
- Identify activities as operating, investing or financing.
- Given an example, identify which of the four perspectives of the balanced scorecard the activity would be categorized.
- Define an internal control system.
- Given a scenario, identify which of the five basic controls would be involved. (i.e. proper authorization, separation of duties, maintaining adequate documentation, physically controlling assets and information, and providing independent checks on performance).
- Prepare a bank reconciliation.
- Identify controls over cash receipts and cash disbursements.
- Calculate or interpret the return on owners' equity ratio and accounts receivable turnover.

Chapter 3:

- Identify activities and decisions made in the revenue, expenditure and conversion processes (Exhibit 3.3, 3.5, and 3.7).
- Understand the shipping terms of FOB destination and FOB shipping point.
- Calculate purchase discounts.
- Understand cost and revenue behavior including activity drivers, relevant range, fixed costs and revenues, variable costs and revenues, and mixed costs and revenues.
- Calculate total costs.
- Use the high/low method to estimate costs or revenues.
- Identify the advantages of using linear regression analysis.

Chapter 4:

- Solve cost-volume-profit problems.
- Define sensitivity analysis and solve given a scenario.
- Identify manufacturing product costs (direct materials, direct labor, and manufacturing overhead).
- Identify costs as unit-related, batch-related, product-sustaining, or facility-sustaining.
- Define or analyze sunk costs or opportunity costs.
- Solve a special order (accept or reject) problem.
- Solve an outsourcing (make or buy) problem.
- Solve a product mix (keep or drop) problem.