

Reflection Summary Assignment

Name

ACC 291 / Principles of Accounting II

Date

Instructor Name

Apply ratio, vertical, and horizontal analyses to financial statements

Ratio analyses are used by companies to gather information in a company's financial statement. Ratios and numbers from a company's current year are compared to previous years and sometimes even the economy to judge the company's performance. There are several ratios such as profitability ratios, liquidity ratios, activity ratios, leverage ratios and market ratios that can be used to calculate financial information. In vertical analyses, each entry of the assets, liabilities and equities in a balance sheet is represented as a proportion of the total account of the financial statement. In horizontal analysis a company's ratios are compared in the financial statements over a period of time. Horizontal analysis can be used from revenues to earnings per share.

Prepare a statement of cash flows using both direct and indirect methods.

When preparing a statement of cash flows, there are two different methods that can be used; there is the direct method, and there is also the indirect method. The direct method shows operating cash receipts and payments, making it more consistent with the objective of a statement of cash flow, while the indirect method adjusts net income for items that do not affect cash. The FASB allows both methods to be used because in the end the results of the total amount for net cash provided by operating activities arrive in the same way. Companies use numerous adjustments when preparing such statements so following a proper guide such as the direct method or indirect method will help to ensure that everything is properly in order the way it should be.

Prepare journal entries associated with the issuance of preferred and common stocks and the declaration and payment of dividends

The issuance of common stock affects only paid-in-capital accounts. Always record common stock at its par or stated value. Debit **Cash** and credit **Common Stock**. Preferred stock has preference over common stock. However, preferred stockholders do not have voting rights. The entry is debit to **Cash** and credit to **Preferred Stock**. For a corporation to issue cash dividends there must be: **retained earnings, adequate cash, and a declaration of dividends**. A company does not pay dividends unless its board of directors decides to do so, then it is deemed declared. When it is declared then it becomes a liability. Three important dates are observed with dividends: declaration date, record date, and the payment date. Declaration commits a corporation to legal obligations. On the declaration date debit **Cash Dividends** and credit **Dividends Payable**.