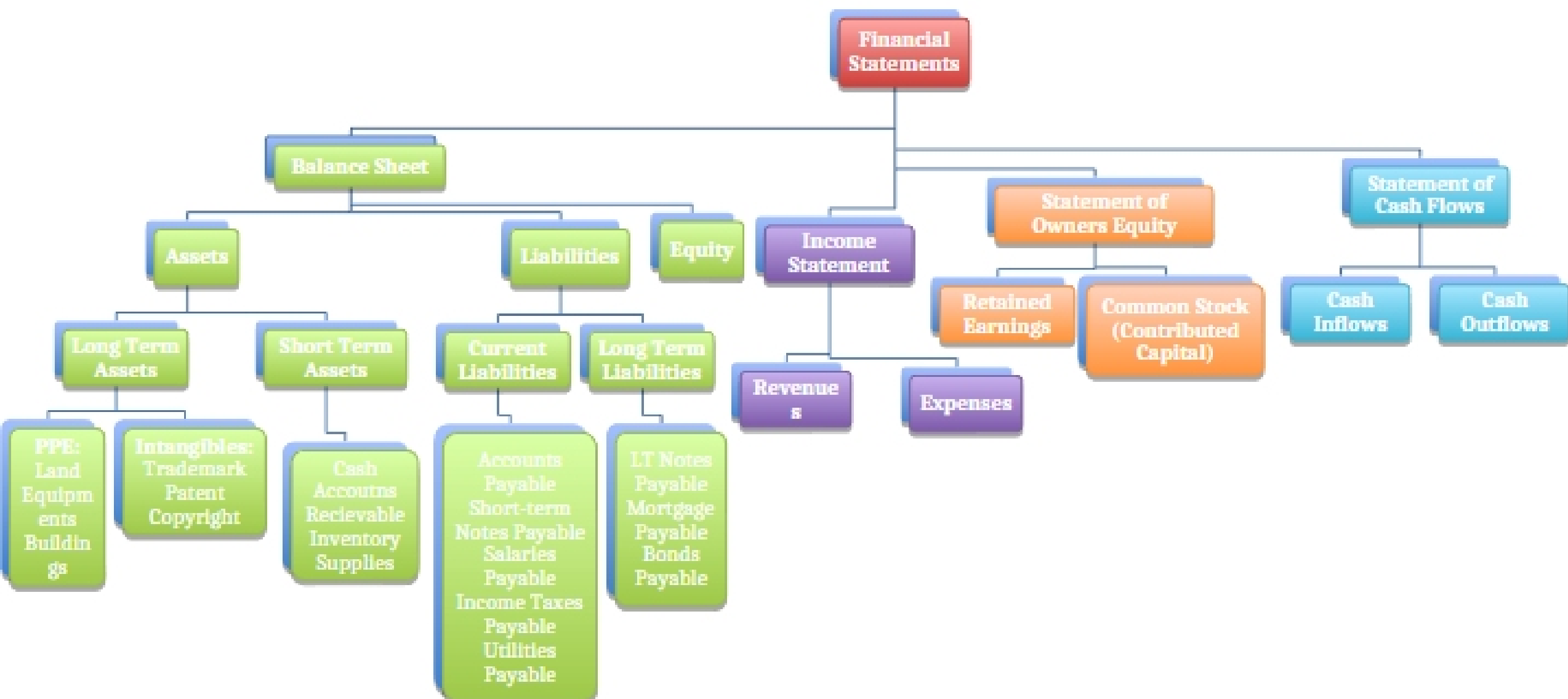


Accounting 2200 Midterm 1 Study Guide

INTRODUCTION

1. What are the 3 types of organizational options for businesses and what sets them apart?
2. What are the 2 financing options for business and what are their defining factors?
3. What is a definition of accounting?
4. What are the two types of accounting? What purposes do they serve? Who do they benefit?
5. What does GAAP stand for? What is it? What purpose does it serve? What are the 2 organizations from which GAAP comes from? What are their defining characteristics?
6. What is the purpose of financial audits? Who do they protect?
7. What must publicly traded companies provide to their shareholders annually? What are its 4 components?
8. What does IFRS stand for? Who developed it? What is its significance for the U.S.?

FINANCIAL STATEMENTS



Equations:

Fundamental Accounting Equation:

$$\begin{array}{r} \text{Equity} \\ + \text{Liabilities} \\ \hline \text{Assets} \end{array}$$

Income Statement: (Traditional)

$$\begin{array}{r} \text{Sales Revenue} \\ - \text{Cost of Goods Sold} \\ \hline \text{Gross Profit} \\ + \text{Other Revenues} \\ - \text{Other Expenses} \\ \hline \text{Net Income} \end{array}$$

Contributed Capital (Corporation):

$$\begin{array}{r} \text{Beginning Balance (Jan 1)} \\ + \text{Additional Sales of CS} \\ \hline \text{Ending Contributed Capital} \end{array}$$

Retained Earnings (Corporation):

$$\begin{array}{r} \text{Beginning Balance (Jan 1)} \\ + \text{Net Income} \\ - \text{Dividends} \\ \hline \text{Ending Retained Earnings (Dec 31)} \end{array}$$

Contributed Capital (Sole Proprietor):

$$\begin{array}{r} \text{Beginning Balance (Jan 1)} \\ + \text{Additional Investments by Owner} \\ + \text{Net Income} \\ - \text{Withdrawals by Owners} \\ \hline \text{Ending Balance (Dec 31)} \end{array}$$

COST BEHAVIOR

1. What are the 2 assumptions for cost behavior?
2. When is the High-Low Method needed?

Equations:

$$\begin{array}{r} \text{High-Low Method:} \\ \text{Change in Cost} \\ \text{Change in Activity Level} \end{array}$$

$$\begin{array}{r} \text{Contribution Ratio:} \\ \text{Contribution Margin} \\ \hline \text{Sales Revenue} \end{array}$$

Income Statement (Contribution):

$$\begin{array}{r} \text{Sales Revenue} \\ - \text{Variable Costs} \\ \hline \text{Contribution Margin} \\ - \text{Fixed Costs} \\ \hline \text{Net Income} \end{array}$$

COST VOLUME PROFIT ANALYSIS

1. What are the 4 elements of CVP?
2. What is the verbal interpretation of Margin of Safety?
3. What is the verbal interpretation of Operating Leverage?

Equations:

Variable Cost Ratio:

$$\frac{\text{Variable Cost}}{\text{Sales Revenue}} \quad \text{or} \quad \frac{\text{Variable Cost per unit}}{\text{Selling Price per unit}}$$

Margin of Safety:

$$\frac{\text{Actual Sales} - \text{Break Even Sales}}{\text{Margin of Safety}}$$

Operating Leverage:

$$\frac{\text{Contribution Margin}}{\text{Net Income}}$$

Sales Mix Calculations:

$$\Sigma (\text{Sales Mix} * \text{CM per unit}) = \text{Package CM per unit}$$

$$\frac{\text{Package CM per unit} * (\text{Package Units}) - \text{Fixed Costs}}{\text{Net Income}}$$

→ Solve for Package units then multiply by respective sales mix ratio to find units sold