

# ACC 120 Principles of Financial Accounting

## COURSE DESCRIPTION:

Prerequisites: ENG 090 and RED 090 or DRE 098; or satisfactory score on placement test

Corequisites: None

This course introduces business decision-making accounting information systems. Emphasis is on analyzing financial statements.

- d. Journalize and post closing entries
  - e. Prepare a postclosing trial balance
  - f. Prepare financial statements and necessary disclosures
  - g. Review internal control procedures and suggest ways to strengthen weak controls
6. Account for specific industries and organizational structures
- a. Account for corporate equity transactions
  - b. Understand corporation-specific financial statements, statement of stockholder's equity, and corporate income statement

## OUTLINE OF INSTRUCTION:

- I. Introduction to financial statements
  - A. Forms of business organizations
  - B. Users and uses of financial information
    - 1. Internal users
    - 2. External users
    - 3. Ethics in financial reporting
  - C. Business activities
    - 1. Financing
    - 2. Investing
    - 3. Operating
  - D. Communicating with users
    - 1. Income statement
    - 2. Retained earnings statement
    - 3. Balance sheet
    - 4. Statement of cash flows
    - 5. Interrelationships of statements
    - 6. Management discussion and analysis
    - 7. Notes to the financial statements
    - 8. Auditor's report
  - E. Assumptions and principles of financial reporting
- II. A further look at financial statements
  - A. Objectives of financial reporting
    - 1. Characteristics of useful information
      - a. Relevance
      - b. Reliability
      - c. Comparability
      - d. Consistency
    - 2. Constraints in accounting
      - a. Materiality
      - b. Conservatism
  - B. The financial statements revisited
    - 1. Classified balance sheet
    - 2. Using the financial statements
      - a. Profitability ratios

- b. Liquidity ratios
    - c. Solvency ratios
- III. The accounting information system
  - A. Accounting transactions
  - B. Doubleentry system
    - 1. Use of two or more accounts
    - 2. Debit and credit rules
  - C. Steps in the recording process
    - 1. Entering transactions into the journal
    - 2. The chart of accounts
    - 3. Posting journal entries to the general ledger accounts
    - 4. Preparing the trial balance
    - 5. Limitations of trial balance
- IV. Completing the accounting cycle
  - A. Steps in the accounting cycle
  - B. Timing issues
    - 1. Revenue recognition principle
    - 2. Matching principle
  - C. Accrual vs. cash basis accounting
  - D. Adjusting entries
    - 1. Why needed
    - 2. Types
      - a. Prepayments
      - b. Accruals
  - E. Adjusted trial balance
  - F. Closing entries
    - 1. Permanent accounts
    - 2. Temporary accounts
  - G. Post closing trial balance
- V. Accounting for a merchandising business
  - A. Differences between a service enterprise and a merchandising business
  - B. Recording merchandising transactions
    - 1. Perpetual inventory system
    - 2. Periodic inventory system
  - C. Singlestep vs. multiplestep income statement
  - D. Determining cost of goods sold under periodic inventory system
  - E. Evaluating profitability
    - 1. Gross profit rate
    - 2. Profit margin
- VI. Reporting and analyzing inventory
  - A. Classifying inventory
  - B. Determining inventory quantities
    - 1. Taking a physical inventory
    - 2. Determining ownership of goods
  - C. Inventory costing
    - 1. Specific identification

- 2. Cost flow assumptions
    - a. First in, first out (FIFO)
    - b. Last in, first-out (LIFO)
    - c. Average cost
  - D. Financial statement and tax effects of cost flow methods
  - E. Consistent use
  - F. Lower of cost or market
  - G. Analysis of inventory
    - 1. Inventory turnover ratio
    - 2. LIFO reserve
- VII. Internal control and cash
- A. Principles of internal control
  - B. Limitations of internal control
  - C. Applying internal control to cash receipts and cash disbursements
  - D. Preparing a bank reconciliation
  - E. Reporting cash
    - 1. Cash equivalents
    - 2. Restricted cash
  - F. Managing and monitoring cash
    - 1. Basic principles
    - 2. Cash budgeting
  - G. Petty cash
    - 1. Establishing fund
    - 2. Making payments
    - 3. Replenishing
    - 4. Reporting

- 3. Expenditures during useful life
- 4. Impairments
- 5. Disposals
  - a. Sale
  - b. Retirement
- 6. Analyzing plant assets
  - a. Return on assets ratio
  - b. Asset turnover ratio
  - c. Profit margin ratio
- B. Intangible assets
  - 1. Basic issues related to reporting intangible assets
  - 2. Types
- C. Financial statement presentation of long-term assets
- IX Reporting and analyzing liabilities
  - A. Current liability
    - 1. Definition
    - 2. Accounting for various types
      - a. Notes payable
      - b. Sales taxes payable

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