

THE PENNSYLVANIA STATE UNIVERSITY  
Smeal College of Business Administration  
Department of Accounting

**ACCOUNTING 211.101**  
**Financial and Managerial Accounting for Decision Making**  
**Summer Semester 2002**

| INSTRUCTOR:   | OFFICE   | TELEPHONE/EMAIL  | OFFICE HOURS                       | CLASS                           |
|---------------|----------|--|------------------------------------|---------------------------------|
| Charles Smith | 211 Beam | 814-865-0374 (office)<br>814-237-2684 (home)<br>chs2@psu.edu | M 10:30-12:30 p<br>W 10:30-11:30 a | M-R 8:00-10:15 am<br>122 Thomas |

**E-MAIL POLICY:** I will be more than happy to address issues you deem necessary over e-mail. However, if I have provided the information in class, on the web site or in this syllabus, e-mails requesting this information will be disregarded. Include your section number on all correspondence.

**REQUIRED:**

**Text:** *Financial and Managerial Accounting*, Needles, Powers, Mills and Anderson, 5<sup>th</sup> Edition (1999).

**Calculator:** either the "Sharp EL-243SB" or the "Sharp EC-233" (either may be purchased in the bookstores for under \$5.00)

**STUDY GUIDE:** While not required, one is available in the bookstores and past experience suggests that students derive significant benefit from independent coverage of such study guides.

**WEB SITE:** <http://www.personal.psu.edu/chs2/>

**GRADING:**

|                       |      |
|-----------------------|------|
| Exam 1                | 20%  |
| Exam 2                | 20%  |
| Exam 3                | 20%  |
| Exam 4                | 20%  |
| Highest Exam Grade    | 5%   |
| Quizzes – Unannounced | 15%  |
| Total                 | 100% |

**GRADE DETERMINATION:**

Grades will be determined as indicated above. AExtra credit@ assignments (to improve a grade) are not available in this course. Individual exam scores are not Acurved.@ A Acurve@ decision will be made at the end of the semester.

**QUIZZES:**

Quizzes will be given during the six-week session, with the 10 highest quiz scores making up 15% of your grade. No make-up quizzes will be given.

## EXAMS:

The first two exams will consist of questions relating to financial accounting only. The last two exams will consist of managerial accounting almost exclusively, but recognize that financial accounting concepts and terms often filter through to managerial accounting. The final exam will be cumulative in the sense that you are responsible for all concepts taught in the course, but will concentrate almost exclusively on the last group of chapters.

SAMPLE EXAMS ARE AVAILABLE ON THE COURSE WEB PAGE.

Failure to show up for an exam will result in a grade of zero unless the instructor is presented with a legitimate excuse, documented in writing. Conflict and make-up exams will be given to those with official absences. You must give advance notice where possible. To be eligible for a make-up, you must present a written request which outlines the reason for your absence from the exam as well as your case for your absence being justified as an official (allowable) absence. The request must include your social security number, phone number and section number.

## Policy on Conflict and Make-Up Exams

The Smeal College of Business provides academic preparation and professional development to its students. Part of this professional development is learning to take adult responsibility for attendance at essential events and meeting deadlines. Professional people make mature decisions that enable them to get sufficient sleep and exercise, self-diagnose and treat routine health concerns such as colds, headaches, stomach aches and allergies while continuing to meet their responsibilities. We expect the same from you.

The University Health Center will provide documentation for students who are treated there for “prolonged illness,” such that attendance at class for one week or more is impossible. You are expected to self-diagnose minor maladies, take over-the-counter medication in a timely fashion, and continue to attend classes, take scheduled examinations, and submit assignments on time. You are expected to plan your exam preparation or assignment completion schedule so that routine illness can be managed without interfering with course requirements. Instructors are **not** required to provide you with make-up exams or due date extensions for these types of illnesses.

You will need to provide documentation of “prolonged illness,” family emergencies, and University approved absence due to religious observances, etc. You should be prepared to provide such information and appropriate phone numbers without hesitation, and in the case of University approved absences arrangements should be made well in advance of the exam date.

8/2001

## Additional Requirements, Guidelines and Comments

1. Programmable/scientific/business calculators are prohibited for examination purposes. Your calculator must be one of those listed on the requirements list. All calculators are subject to inspection.
2. Cheating on exams, in any form, is prohibited. However, feel free to work in groups or to consult with others for help with the homework problems assigned. Cheaters will be dealt with swiftly. The disciplinary process and your rights are outlined in Section 49-20 of Policies and Rules for Students 2000-2001 (see other *Penn State University Policy Statements* below).
3. Attendance in class is required, but not mandatory. Also, this class is student-driven in the sense that participation will play an important part in your mastery of the material. You are encouraged to ask and answer questions to the best of your ability.
4. You should prepare for lectures by reading the textbook material prior to class, and by doing the problem assignments prior to class.
5. Additional problems beyond those assigned can be done at your leisure. I have solution manuals to which you can refer during office hours.

# **Penn State University Policy Statements**

## **Concerning Students taking Courses**

07/2001

**Academic Integrity:** According to the Penn State Principles and University Code of Conduct:

*Academic integrity is a basic guiding principle for all academic activity at Penn State University, allowing the pursuit of scholarly activity in an open, honest, and responsible manner. In accordance with the University's Code of Conduct, you must not engage in or tolerate academic dishonesty. This includes, but is not limited to cheating, plagiarism, fabrication of information or citations, facilitating acts of academic dishonesty by others, unauthorized possession of examinations, submitting work of another person, or work previously used without informing the instructor, or tampering with the academic work of other students.*

Any violation of academic integrity will be investigated, and where warranted, punitive action will be taken. For every incident when a penalty of any kind is assessed, a report must be filed, using the *pdf* form at this URL:

[www.smeal.psu.edu/uprog/integrity/](http://www.smeal.psu.edu/uprog/integrity/). All penalties and procedures must be reported to the Associate Dean for Undergraduate Programs (Dave.Christy@psu.edu).

**Affirmative Action & Sexual Harassment:** The Pennsylvania State University is committed to a policy that all persons shall have equal access to programs, facilities, admission, and employment without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by Commonwealth or Federal authorities. Penn State does not discriminate against any person because of age, ancestry, color, disability or handicap, national origin, race, religious creed, sex, sexual orientation, or veteran status. Direct all inquiries to the Affirmative Action Office, 211 Willard Building.

**Americans with Disabilities Act:** The Smeal College of Business Administration welcomes persons with disabilities to all of its classes, programs, and events. If you need accommodations, or have questions about access to buildings where Smeal College activities are held, please contact us in advance of your participation or visit. If you need assistance during a class, program, or event, please contact the member of our staff or faculty in charge. Access to Accounting courses should be arranged by contacting the Department of Accounting Office: (814) 865-1809.

**An Invitation to Students with Learning Disabilities:** It is Penn State's policy to not discriminate against qualified students with documented disabilities in its educational programs. If you have a disability-related need for modifications in your testing or learning situation, your instructor should be notified during the first week of classes so that your needs can be accommodated. You will be asked to present documentation from the Office of Disability Services (located in 116 Boucke Building, 863-1807) that describes the nature of your disability and the recommended remedy. You may refer to the Nondiscrimination Policy in the *Student Guide to University Policies and Rules*.

**Registration:** The student registration process at Penn State is a two-step process. First students register for courses. Second, students complete their registration by payment of applicable tuition and fees. Students who have not completed their registration are clearly indicated on all forms of the class list, by the message "*Registration Not Complete*." Faculty are not obligated to provide instruction or administer assessment to these students. If you are in this status you should contact the Registrar's office immediately.

**From "The Penn State Principles" July 2001**

*I will practice academic integrity.*

Academic integrity is a basic guiding principle for all academic activity at Penn State University, allowing the pursuit of scholarly activity in an open, honest, and responsible manner. In accordance with the University's Code of Conduct, I will practice integrity in regard to all academic assignments. I will not engage in or tolerate acts of falsification, misrepresentation or deception because such acts of dishonesty violate the fundamental ethical principles of the University community and compromise the worth of work completed by others.

## **OBJECTIVE OF THE COURSE:**

The objective of this course is to introduce you to the discipline of accounting through an introduction to two of accounting's sub-disciplines, financial and managerial accounting. The more specific purpose is to provide you a basic understanding of the role of financial and managerial accounting information in the decisions of capital market participants external to a business enterprise (e.g., stockholders, banks, financial analysts, prospective stockholders), and in the decisions of those who manage business enterprises. Accounting information has an important role in the resource allocation process in our socio-economic system as a whole, as well as in each individual business enterprise. It is therefore useful to have an understanding of (1) the nature of the accounting function, and (2) how the information in accounting reports are used by various decision makers in their resource allocation decisions.

The work of an accountant involves three activity dimensions: the collection, recording and reporting of information to decision makers for (mainly) their investment decisions. In this course you will develop an understanding of (a) the three activity dimensions of accounting, (b) the issues surrounding the three activity dimensions, (c) the environment in which accounting is practiced, and (d) what information is used in a number of specific decision situations, and how such information is used in such decision situations. The decision making orientation of this course includes a study of the procedural (mechanical or processing) aspects of the recording activity dimension. The recording dimension is only one activity dimension. However, it is an important means to the end (where the end is the reports produced by the recording/processing part of accounting), and needs an appropriate amount of attention in even an introductory course. Your understanding of the recording activity dimension will contribute to your understanding of (a) the nature and quality (strengths and weaknesses) of accounting information, (b) how to proceed in analyzing and interpreting accounting information, and (c) numerous other aspects of financial and managerial accounting.

While this course is required of all business majors and is an important background course for BA 301-304, it is an introductory accounting course for students from a variety of backgrounds. In many ways it is an introduction to business course that could help you with your decision about a major.

While the above purpose has been stated in relation to accounting subject matter, the course will be approached in such a way as to focus on the accomplishment of educational goals beyond mere knowledge acquisition. Our hope is to cover the material in such a way as to contribute to the development of higher level cognitive skills such as comprehension, application, analysis, synthesis and evaluation.

## **Textbook Coverage:**

The textbook is very comprehensive in terms of its coverage of financial and managerial accounting. Clearly excessive for a 4-hour introductory course. The coverage guidelines that follow have been developed with due consideration given to (1) the course's emphasis on decision making, and (2) the needs (constraints) of a 4-hour course.

Your study of the textbook material should not be limited to the pages outlined below. The textbook includes some very useful end-of-chapter material, e.g. Chapter Review, Review of Concepts and Terminology, and Review Problems sections. You should study and review these sections for each chapter covered, i.e., in addition to your study of the pages outlined below.

## Daily Class Schedule

| Date   |   | Reading Assignment  |
|--------|---|---|
| M 5/13 | Chapter 1   | 1-26 (top), 27  |
| T 5/14 | Chapter 2   | 85-107  |
| W 5/15 | Chapter 3   | 127-147 (top); omit 136-138 (top)   |
| R 5/16 | Chapter 4   | 171 (bottom)-173 (top); 179-187 (top)   |
| M 5/20 | Chapter 4<br>Review for Exam 1                            |   |
| T 5/21 | <b>EXAM 1</b> (in class), Chapters 1-4                    |   |
| W 5/22 | Review of Exam 1<br>Chapters 5, 6, 8                      | 237-241 (top), 242 (bottom)-244 (top), 273-287 (top) [ignore perpetual inventory], (omit sales terms 282-283), 293 (bottom)-296 [ignore journal entries], 359-361 (top), 363 (bottom)-368 (top), 371-378 (top), 379 (bottom). Page 364: Omit in transit and consignment. Page 371: Omit perpetual in Exhibit 1. |
| R 5/23 | Chapters 10, 5  | 443-448, 451-456 (top), 230 (bottom)-233  |
| M 5/27 | Memorial Day, <b>No Class</b>                             |   |
| T 5/28 | Chapter 12  | 525-538 (top), 540-545 (top)  |
| W 5/29 | Chapter 13<br>Review for Exam 2                           | 579 (bottom)-587  |
| R 5/30 | <b>EXAM 2</b> (in class), Chapters 5, 6, 8, 10, 12, 13    |   |
| M 6/3  | Review of Exam 2<br>GAAP, Chapter 14                      | 26 (bottom)-30 (top), 53 (bottom)-54, 223-229 (top)<br>611-615, 635-639, 625-629 (top)  |
| T 6/4  | Chapters 27, 14   | 1139-1146, 1153-1158, 244 (bottom)-250 (top), 361 (bottom)-363 (top), 616-619 (top)   |
| W 6/5  | Chapter 15<br>Chapter 16                                  | 681(bottom)-685 (top)<br>707-721 (middle), 731 (bottom)-732   |
| R 6/6  | Chapter 16<br>Review for Exam 3                           |   |
| M 6/10 | <b>EXAM 3</b> (in class) GAAP and Chapters 14, 27, 15, 16 |   |
| T 6/11 | Review of Exam 3<br>Chapter 20                            | The whole chapter. Omit scatter gram on p. 873.   |
| W 6/12 | Chapter 23  | The whole chapter   |
| R 6/13 | Chapter 24  | The whole chapter plus Appendix D: 1257-1263 (top)  |
| M 6/17 |   |   |
| T 6/18 | Chapter 25  | 1063-1079 (top)   |
| W 6/19 | Review for Exam 4   |   |
| R 6/20 | <b>EXAM 4</b> (in class) Chapters 20, 23, 24, 25          |   |

### End-of-Chapter Problem Assignments

| Chapter Number | Questions                | Short Exercises                          | Exercises  | Problem Sets   |
|----------------|--------------------------|--|--|--|
| 1              | 3,5,12,15,18,22          | 2,4,7,9                                  | 6,7,10,12  |  |
| 2              | 11,12,14,17,19           | 4,5,6,9                                  | 1,3,7,9  | 1,6  |
| 3              | 6,8,10,15,19             | 1,2,3,5,6,9,10                           | 3,10,12  | 7 (Omit entry c)   |
| 4              | 10,11,12,15              | 5,6,7                                    | 1,2,6  | 2  |
| 5              | 4,13,14,15,16            | 2,4                                      | 3,5  | 3  |
| 6              | 7,16                     | 3  | 3,5  |  |
| 8              | 1,2,4,5,7,9,12,18        | 3,4,5,6,11                               | 5,9,10,13  |  |
| 10             | 1,2,3,4,8,10,11,14,16,18 | 2,4,5,6,7,9                              | 3,5,6,7,<br>8 (Requirements 1-3 only)                              |  |
| 12             | 2,3,9,10,14              | 5,6,<br>9 (Oct 1 & 17 transactions only) | 2,3,8,9,10   |  |
| 13             | 14,16                    | 6 (Omit requirement #4),<br>9,10         | 8 (Omit requirement "b")   |  |
| 14             | 3,5,6,11                 | 1,6,9                                    | 1,7,11,12  | 1,7<br>(Use the direct method for both problems)                       |
| 27             | 2,4,5,9,12,13            | 7<br>including<br>Ch. 14 #2              | 8 (Omit the interest coverage ratio), 10<br>including<br>Ch. 14 #2 | 2 (Omit transactions C,D,I,L,M.)<br>4,5 (Omit transactions A.,G,H,K,M) |
| 16             | 3,6,9,13,20              | 2,4,6                                    | 5  | 1  |
| 20             | 5,6,7,8,19,20            | 4,5,6,8                                  | 5,7  | 4,5  |
| 23             | 6,10,11,16,17            | 3,4,7                                    | 3,4,5,6,7  | 3<br>(Student self-work. See Web for answers)                          |
| 24             | 6,13,14                  | 2,4,6                                    | 4,5,8,<br>6 (omit requirement #6)                                  | 4,5,7  |
| 25             | 5,11                     | 3  | 4,5,6,7  |  |

SOLUTIONS TO SOME OF THE ABOVE ASSIGNMENTS ARE AVAILABLE ON THE COURSE WEB PAGE.

## LEARNING OBJECTIVES

### Chapter 1

1. See the Learning Objectives, 1-6, on page 1.
2. Obtain as meaningful an introduction to accounting and financial accounting as is possible through an introductory chapter such as chapter 1.
3. Define accounting.
4. Define and differentiate financial and management accounting.
5. Understand financial accounting's financial statements-purpose of each, component parts of each.
6. Differentiate a transaction from an event that is not a transaction.
7. Understand the accounting equation and how transactions affect components of the equation, and thereby various components of the financial statements.

### Chapter 2

1. See the Learning Objectives, 1-7, on page 85.  
*As you work on accomplishing the above learning objectives, pay particular attention to the following:*
2. The transaction concept, including the importance of recognition.
3. The transition from recording transactions on the accounting equation to recording transactions in debit and credit form in the "books of account" (the journal and ledger).
4. The definitions and functions of the journal and ledger.
5. The normal balances for type of ledger (T) account.

### Chapter 3

1. See the Learning Objectives, 1-6, on page 127. Learning Objective 7 will be covered in chapter 14.  
*Pay particular attention to the following:*
2. Define, understand and apply the accrual concept as the basis for the determination of net income.  
Differentiate the accrual and cash approaches to the determination of net income.
3. Understand the reasons why adjusting entries are necessary and prepare adjusting entries.
4. Understand the impact of errors in the recording process on the various components of the financial statements.

### Chapter 4

1. See the Learning Objectives, 2,6, and 7, on page 169. Item 7 is somewhat important. The other objectives are not covered in this course.
2. Understand the need for closing entries and prepare closing entries.
3. Prepare financial statements (income statement and balance sheet).

### Chapter 5

1. See the Learning Objectives, 1,5, and 6 on page 223.
2. Learning Objectives 3 and 4 will be covered with GAAP.
3. Learning Objective 7 will be covered with chapter 27.

### Chapter 6

1. See the Learning Objectives 1,2 and 4 on page 273 (ignore the perpetual inventory system).

## **Chapter 8**

1. See the Learning Objectives, 1-3 and 5-7 [(b) only], on page 359. Learning objectives 4 and 7 (a) are not covered in this course.
2. In chapter 8, Learning Objectives 1-3 and 5 are particularly important. You need to understand the importance and purpose of inventory costing (pricing) and valuation in the determination of net income, and why it is that we have an inventory costing and valuation problem.

## **Chapter 10**

See the Learning Objectives, 1-8, on page 433. Learning Objectives 6 and 9 are not required in this course.

Note: Deciding to Acquire Long-term Assets and Financing Long-term Assets will be covered in Chapter 24.

## **Chapters 12 and 13**

1. See the Learning Objectives, 1-7 on page 525. Learning Objective 8 is not required in this course.
2. See the Learning Objectives, 6,7, and 8 on page 567. Learning Objectives 1-4 are not required in this course. Learning Objective 5 will be covered in chapter 27.
3. A number of the topics in chapters 12 and 13 are not required in this course. See the page numbers listed in the reading assignment above under Topical Outline.
4. Calculating BV per share. For preferred shares, we assume that the call value is equal to the par value, and add only the complexity that the cumulative dividend is in arrears.

## **Chapter 14**

1. Ignore the Learning Objectives on page 611.
2. Understand the importance of the cash flow statement, and how it is used in decision making. This includes a need to understand the purpose of the income statement and its cash flow deficiencies.
3. Differentiate cash flows from financial accounting flows (items reported on the income statement).
4. Understand the format of a cash flow statement and be able to draft a cash flow statement under the direct method. Our concern is only with the three sections on the cash flow statement, i.e., not with the information reported at the bottom of the cash flow statement.
5. Derive cash flow information from sets of incomplete information.

## **Chapter 27** (Supplemental information on ratios is also available in Chapters 5, 8 and 14.)

1. Ignore the Learning Objectives on page 1139.
2. Apply ratio analysis to financial statements in a comprehensive evaluation of a firm's financial situation.
3. Calculate ratios from financial statement information. The ratios of interest are: current, inventory turnover, gross margin, profit margin, return on assets, return on equity, debt to equity, earnings per share, price/earnings and dividend yield in Chapter 27, and the four cash flow ratios in Chapter 14 (also provided in Chapter 27).
4. Understand the meaning of each ratio. What does it measure? What does it tell us? Of what characteristic is it an indicator.
5. Understand which user's point of view underlies a particular ratio, and whether the ratio is a cash-flow type ratio.
6. Understand how one goes about the business of analyzing and evaluating a firm's financial situation when using ratios.
7. Understand how a firm goes about improving a particular ratio (and thereby its financial situation).
8. Understand how transactions affect various ratios.

## **Generally Accepted Accounting Principles (GAAP)**

1. See Learning Objective 1-3 on page 223.
2. Understand the meaning of GAAP.
3. Understand who is responsible for promulgating GAAP.
4. Understand the nature of the independent audit function, and the meaning and contents of the independent auditor's report.
5. Understand the relationship of GAAP to the independent audit function.



**Chapter 16**

See the Learning Objectives, 1-4,6, and 9, on page 707.

**Chapter 20**

1. See the Learning Objectives, 1-8, on page 865.
2. Understand the calculation of Contribution Margin and Contribution Margin ratio.

**Chapter 23**

See the Learning Objectives, 1,3, and 4 on page 995.

**Chapter 24**

See the Learning Objectives, 1-6, on page 1033.

**Chapter 25**

See the Learning Objectives, 1-5, on page 1063.

## CONCEPTS, TERMS, DEFINITIONS

Accounting is, in many respects, part of the language of business. You need to give its concepts, terms and definitions very careful attention - especially in the early chapters. You will not be required to know and understand all the concepts, terms and definitions mentioned/covered in each of the chapters. Also, despite coverage of certain concepts, terms and definitions in particular chapters, your instructor might defer coverage of some of them for a latter point in time.

### Chapter 1

*After our coverage of chapter 1, you need to have a reasonably good understanding of the following:*

|                      |                                       |                                |
|----------------------|---------------------------------------|--------------------------------|
| Accounting           | Expense                               | Net loss Owners= equity        |
| Accounting equation  | Financial accounting                  | Retained earnings              |
| Balance sheet        | Financial position                    | Revenues                       |
| Bookkeeping          | Financial statements Income Statement | Separate entity                |
| Business transaction | Managerial (management) accounting    | Statement of retained earnings |
| Corporation          | Money measure                         | Stockholders= equity           |
| Dividend             | Net assets                            |                                |

### Chapter 2

*After our coverage of chapter 2, you need to have a reasonably good understanding of the following additional concepts, etc. (additional to the ones covered in chapter 1):*

Accounts (chapter 1, page 33)

|                               |                        |                   |
|-------------------------------|------------------------|-------------------|
| Accounts (chapter 1, page 33) | Double-entry system    | Normal balance    |
| Balance                       | Footings               | Posting           |
| Chart of Accounts             | General journal        | Recognition       |
| Classification                | General ledger Journal | Recognition point |
| Compound entry                | Journal entry          | T account         |
| Credit                        | Journalizing           | Trial balance     |
| Debit                         | Ledger account form    |                   |

### Chapters 3 and 4

*After our coverage of chapter 4, you need to have a good (not perfect!) Understanding of most of the concepts, terms and definitions covered in chapters 1-4. Review the ones listed above for chapters 1 and 2, and add the following to your list of required concepts, terms and definitions:*

|                              |                        |                              |
|------------------------------|------------------------|------------------------------|
| Accounting cycle (chapter 4) | Accrued expenses       | Cash basis of accounting     |
| Accounting period issue      | Accrued revenues       | Closing entries (chapter 4)  |
| Accrual                      | Adjusted trial balance | Continuity issue (continued) |
| Accrual accounting           | Adjusting entries      |                              |

|                            |  |                     |
|----------------------------|--|---------------------|
| Deferral                   | Net assets                             | Prepaid expenses    |
| Expenses                   | Net Income                             | Profit              |
| Going concern              | Net loss                               | Revenue recognition |
| Income summary (chapter 4) | Periodicity                            | Revenues            |
| Matching rule              | Post-closing trial balance (chapter 4) | Unearned revenues   |

*(Those not identified as from chapter 4 are from chapter 3.)*

## Chapter 5

*You need to understand the following:*

1. See pages 253-255.

|                                 |                            |                                |
|---------------------------------|----------------------------|--------------------------------|
| Classified financial statements | Gross sales                | Operating expenses             |
| Cost of goods sold              | Long-term liabilities      | Property, plant, and equipment |
| Current assets                  | Multistep income statement | Single step income statement   |
| Current liabilities             | Net income                 | Working capital                |
| Gross margin                    | Net sales                  |                                |

## Chapter 6

*You need to understand the following:*

1. See pages 298 and 299.

|                          |                           |                                  |
|--------------------------|---------------------------|----------------------------------|
| Freight in               | Merchandising business    | Purchases                        |
| Freight out expense      | Net purchases             | Purchases discounts              |
| Goods available for sale | Periodic inventory system | Purchases returns and allowances |
| Merchandise inventory    | Physical inventory        | Sales discount                   |
|                          |                           | Sales returns and allowances     |

## Chapter 8

1. See pages 381 and 382. Omit average days= inventory on hand, consignment, inventory turnover, LIFO liquidation and retail method.

## Chapter 10

See cost and cost principle on page 109 of chapter 2. See also pages 461-462 of chapter 10. On pages 461-462 omit full-costing, group depreciation, modified accelerated, etc. and successful efforts accounting. You need only be aware of the many intangibles listed on page 453. A full understanding of the meaning of each and the financial accounting implications of each is not required in this course.

## Chapters 12 and 13

1. For chapter 12's coverage (see concepts, etc. on pages 549 and 550), omit callable preferred stock, convertible preferred stock, double taxation, liquidating dividend and stock option plan. Some of the remaining concepts, etc. are for your general business education only.
2. For chapter 13's coverage (see concepts, etc. on pages 588 and 589), you need to understand only book value, book value/share, retained earnings, statement of stockholders= equity, stock dividend and stock split.

## Chapter 14

See pages 641 and 642. The ratios are covered with Chapter 27 (see below).

## Chapter 27 (and Chapters 5, 8 and 14)

See pages 1159-1160. See also pages 361(bottom) - 363 (top) and 616-619 (top) for additional, required coverage of some of these ratios. Omit horizontal and vertical analysis [pages 1147-1153 (top)]. You should also have a good understanding of the concepts covered on pages 223-229 (top) and 244 (bottom)-251 (including return on equity).

## Generally Accepted Accounting Principles (GAAP)

- |    |                           |     |            |          |              |
|----|---------------------------|-----|------------|----------|--------------|
| 1. | Chapter 1 (pages 32-35)   | SEC | Audit FASB | CPA GAAP | Independence |
| 2. | Chapter 5 (pages 253-255) |     |            |          |              |

|                             |                   |
|-----------------------------|-------------------|
| Comparability               | Relevance         |
| Conservatism                | Reliability       |
| Consistency                 | Understandability |
| Full disclosure Materiality | Usefulness        |

## Chapter 16

See the concepts listed on pages 734-735.

## Chapter 20

See page 887. Omit scatter diagram.

## Chapter 25

See page 1083.

## Chapter 23

See page 1016-1017.

## Chapter 24

See page 1048.

## Contrast Between Conventional and Contribution Margin Income Statements

### A. Income Statement-Conventional Basis Month of June

|                                    |            |                        |
|------------------------------------|------------|------------------------|
| Revenue                            |            | \$7,000                |
| Expenses                           |            |                        |
| Salaries and wages                 | \$3,300    |                        |
| Supplies                           | 1,800      |                        |
| Heat, light, and power             | 400        |                        |
| Advertising                        | 200        |                        |
| Rent                               | 700        |                        |
| Depreciation on equipment          | 800        |                        |
| Other (telephone, insurance, etc.) | <u>300</u> |                        |
| Total expense                      |            | <u>7,500</u>           |
| Net Loss                           |            | <u><u>\$ (500)</u></u> |

### B. Income Statement-Contribution Margin Basis Month of June

|                                    | <u>Laundry</u> | <u>Dry Cleaning</u>    |
|------------------------------------|----------------|------------------------|
| Revenue                            | \$5,400        | \$1,600                |
| Variable Expenses                  |                |                        |
| Wages                              | \$1,300        | \$700                  |
| Supplies                           | 1,500          | 300                    |
| Power                              | <u>250</u>     | <u>50</u>              |
| Total variable expenses            | <u>3,050</u>   | <u>1,050</u>           |
| Contribution margin                | \$2,350        | 550                    |
| Direct fixed expenses              |                |                        |
| Depreciation on equipment          | <u>600</u>     | <u>200</u>             |
| Contribution to allocated expenses | \$1,750        | \$ 350                 |
| Total contribution                 |                | \$2,100                |
| Allocated fixed expenses           |                |                        |
| Salaries                           | \$1,300        |                        |
| Heat and light                     | 100            |                        |
| Advertising                        | 200            |                        |
| Rent                               | 700            |                        |
| Other                              | <u>300</u>     |                        |
| Total allocated fixed expenses     |                | <u>2,600</u>           |
| Net Loss                           |                | <u><u>\$ (500)</u></u> |