

MOS Midterm Review points

Lecture 1--- Basic Accounting

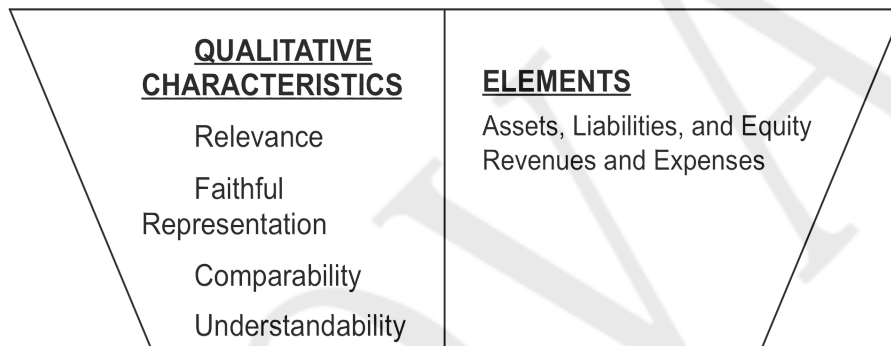
1. Why we are learning accounting
2. What do accounting do
3. Two groups of users of accounting, who are primary?
4. **Forms of organizations, 3, private? Public?**
5. Types of business, main difference, inventory
6. **Business activities, three types. What does each one includes?**
Finance--- two ways of obtaining money.
7. Four financial statements, purpose in total and each one? Overlap and accounts included.
Statement of financial position--- Balance sheet.
Three parts, assets? Liabilities? Equities (two parts)?
All three in a period of time, balance sheet is a point of time
Income statement---Retained earnings—balance sheet---cash flow.
8. Basic elements in financial statements. A/L/E/RE/EX
9. Double entry system, what will each business activity influence. What accounts have debt normal balance? What have credit normal balance, what is debit or credit?
10. **Accounting equation, Economic resources= claims to economic resources**
Assets are economic resources and Liabilities are claims for it. Claims to economic resources are equity.
11. Retained earnings equation and components.
12. The flow of accounting information, Decisions-transaction occur-report
13. **A transaction is an event that both affects the financial position of the business entity and can be reliably recorded.**
14. Assets—current, fixed, intangible
15. Liabilities—current, long term
16. **Shareholders' (owners') equity is the owners' claims to the assets of a corporation.**
17. Cash flows-- Reconcile the change in cash to the beginning and ending cash balances, should be categorized into three groups.
18. **Publicly traded companies must give their shareholders an annual report each year.**
The annual report contains financial and nonfinancial information about the company
19. Accounting Designations--- CA, CGA, CMA

Lecture 2---Financial Statements – Framework, Presentation and Usage

1. Need for a conceptual framework.
 - To develop a coherent set of standards and principles.
 - To solve new and emerging practical problems
2. Guide choices about--- what to present, alternative ways to present, appropriate way of communicating
3. **Qualitative Characteristics---** **Relevance/ Faithful representation (Reliability) Comparability /Understandability**
4. Relevance/ Information are relevant if it makes a difference in a decision. It is said to have predictive value, feedback value, and timeliness
5. Faithful representation (Reliability)/Information should reflect economic reality. It must be verifiable, neutral, and complete /Substance over form
6. Comparability/ Accounting information can be compared when companies with similar circumstances use the same accounting standards consistently from year to year
7. Understandability/ Average user is assumed to understand the accounting information
8. **Recognition and Measurement Criteria decide when and where an item is included in the financial statements.**
9. **Assumptions:**
 - Monetary unit/Only those things that can be expressed in terms of money should be included in the accounting records/ important presumption is that the monetary unit remains stable over time and the effects of inflation are nominal
 - Economic entity/ every economic entity can be separately identified and accounted for/ Personal items relating to shareholders are not accounted for by the business
 - Time period/ The economic life of a business can be divided into artificial time periods: **Quarter, annual**
 - Going concern/ The business will continue operating in the foreseeable future
10. **Principles (GAAP):**
 - Cost/ Assets should be recorded at cost at the time of acquisition, the price. FAIR VALUE IS MORE USEFUL, AND THEREFORE INCREASING USAGE
 - Full disclosure/ Circumstances and events that make a difference to financial statement users should be disclosed. (1) **Financial Statements.** (2)**Notes to the Financial Statements.** (3)**Supplementary information**
 - Revenue recognition/ (1) when realized or realizable and (2) when earned./During Production./At End of Production/Upon Receipt of Cash (these are exceptions)
 - Matching/ efforts (expenses) should be matched with accomplishment (revenues) whenever it is reasonable and practicable to do so. "Let the expense follow the revenues." FOR EXAMPLE—SALARIES, ADMINISTRATION EXPENSE
11. Cash(NON-GAAP) vs. Accrual Accounting(GAAP) PART OF COST PRINCIPLE
12. Accrual Accounting Records cash transaction + noncash transactions
13. **Constraints:**

Materiality/ An item is material if it is likely to influence the decision of a user
 Cost-benefit/ Ensures that the value of the information is greater than the cost of providing it

14. First level: Why.	Second Level: Bridge.	Third Level: How
<u>ASSUMPTIONS</u>	<u>PRINCIPLES</u>	<u>CONSTRAINTS</u>
1. Economic entity	1. Cost	1. Cost-benefit
2. Going concern	2. Revenue recognition	2. Materiality
3. Monetary unit	3. Matching	
4. Time Period	4. Full disclosure	



- OBJECTIVES**
1. Useful in investment and credit decisions
 2. Useful in assessing future cash flows
 3. About enterprise resources, claims to resources, and changes in them

First level - Why

15. Classified Balance Sheet. Asset: Current assets, long-term investments, equipments and land, intangible assets
16. **Assets expected to be converted to cash or used in the business within the year are called CURRENT ASSETS**
17. **Noncurrent assets that do not have physical substance and represent a privilege or a right are called INTANGIBLE ASSETS**
18. **The cost of long-lived assets with indefinite lives (e.g., land) is not depreciated**
19. The difference between the cost of the asset and its accumulated depreciation is referred to as the **carrying amount** of the asset

20. Obligations that are supposed to be paid within the coming year is called current liability
(Interest payable!)
21. bonds payable, mortgage payable, notes payable, lease liabilities are long-term liabilities
22. **Financial Statement Analysis:** analyse the data in financial statements to provide them with better information about such key factors for decision making and ultimate business survival.
- 23.

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