ACC250: Intro to Financial Accounting

Study Guide: Chapters 3, 4, 6, and 7

Jaeyoon Yu, Ph.D.
Central Michigan University

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- To assess your understanding of the course material.
- **To make sure you are ready for the next chapter.**

Introduction

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My personal website:

- Dynamic Accounting Reference System
- Inventory-Costing Exercise (Ch7)
- Journal Entries Practice App

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- Being late is **NOT** excused, and it does not add time.

Exam 2: the questions

- Three parts, all questions **equally weighted** (**Example Exam 2 in BB**):
  A. **Multiple choice** — answers A–E.
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- More **application** & **numerical** questions than Exam 1. A **calculator** will be needed.

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    Ex.

Y	U	1	0	J			

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To change an answer — either way works



X over B, then D filled ⇒ graded **D**

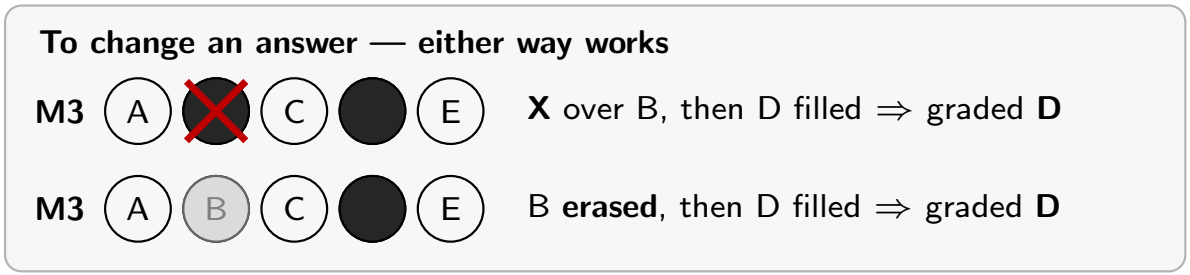


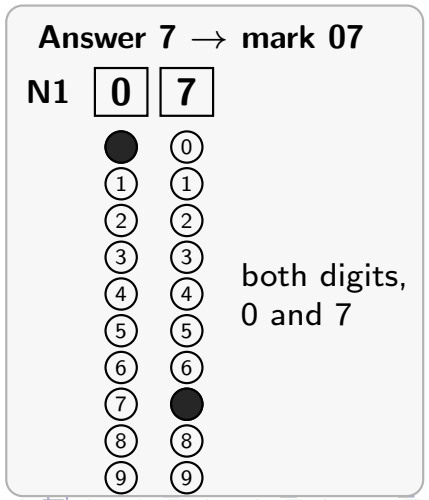
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- Numeric answers: **mark both digits** — if the answer is 7, mark **07**.





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- **Any violation** of these rules will be considered cheating.

Important topics by chapter

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- **Ch7**: split goods available for sale into ending inventory and CGS under **specific identification**, **FIFO** and **LIFO** (periodic system).

Important Equations

Balance Sheet Equation

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

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Income Statement Equation

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Inventory Equation

End. Inventory = Beg. Inventory + Purchases - Cost of Goods Sold

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Capital Expenditure (CAPEX)

Expenditure that is used to acquire long-term assets.

Important concepts

Adjustments

- Adjustment journal entries (AJEs) are needed at the end of each reporting period to ensure that all of the accounts (A,L, SHE, R, and E) have the correct balance.
- Adjustments are required because of mismatch between the timing of the recognition of revenues or expenses and the timing of the payment of cash.
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Carrying Value or Book Value

The value of an asset reported on the balance sheet.

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The amount of the tangible asset's cost that is allocated to the current accounting period.

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Contra Asset (xA)

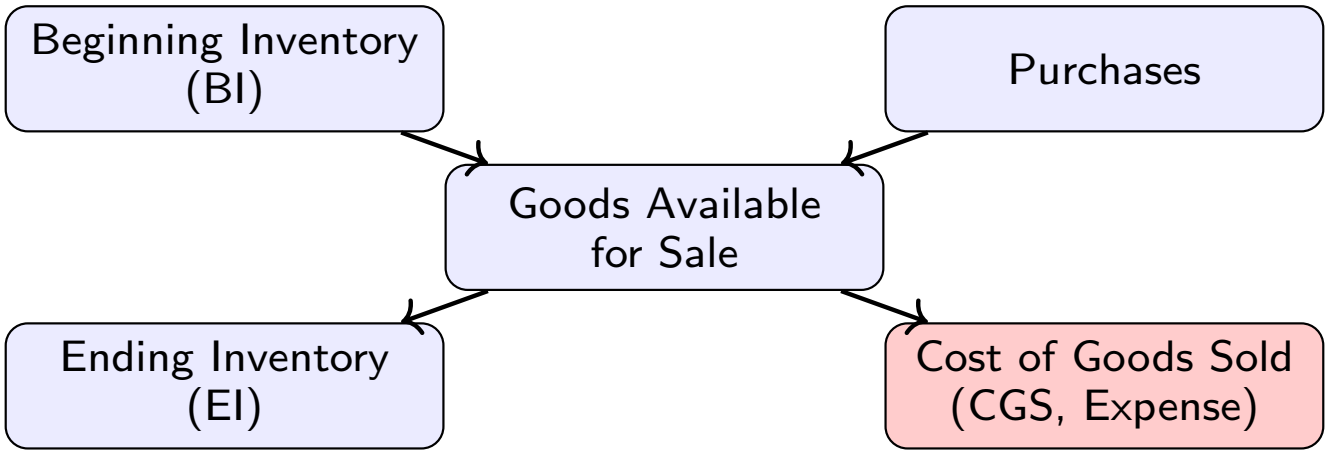
- An account that is used to reduce the value of an asset.
- It is recorded on the balance sheet as a contra asset account (xA).

Inventory Equation

End. Inventory = Beg. Inventory + Purchases - Cost of Goods Sold

Inventory is

- increased when purchased;
- decreased when sold.



Inventory Systems (Ch6):

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Inventory Costing Methods (Ch7):

1. Specific Identification
2. FIFO
3. LIFO

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Relationship between Financial Statements

Lemonade Stand, Inc.
Income Statement
For the Year Ended December 31, 2025

Revenues	$500
Salaries Expense	$200
Supplies Expense	$100
Net Income	**$200**

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Statement of Retained Earnings
For the Year Ended December 31, 2025

Beg. Retained Earnings	$0
+) **Net Income**	**$200**
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Balance Sheet
As of December 31, 2025

Assets	
Cash	$300
Equipment	$300
Total Assets	$600
Liabilities	
Accounts Payable	$100
Salaries Payable	$0
Shareholders' Equity	
Contributed Capital	$400
Retained Earnings	**$100**
Total Liabilities & Equity	$600

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