ACC250: Intro to Financial Accounting

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

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Introduction

Purpose of exams:

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

Disclaimer:

- I have **high expectations** for you.
- You are expected to **master the Ch3, Ch4, Ch6 and Ch7 slide packets**.
- This study guide is designed to help you prepare for Exam 2.
- It is **not** a substitute for the course material.
- It does **not** cover all the material in the course.

My personal website:

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

Exam 2

- Time: **1 hour, starting at the beginning of class.** You may leave after the first 30 minutes.
- Venue: Classroom. Closed book; no on-line option.
- What to bring:
  1. A **dark pencil** and an **eraser**
  2. **Scratch paper**
  3. A **handheld calculator** — **required**; a phone calculator is **NOT** allowed.
- Being late is **NOT** excused, and it does not add time.

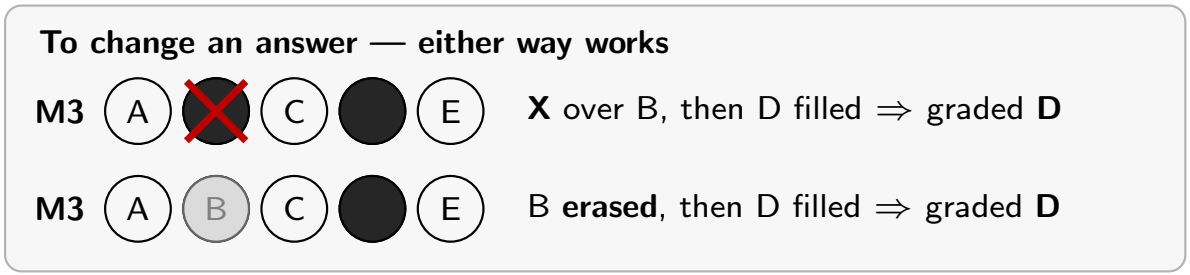
Exam 2: the questions

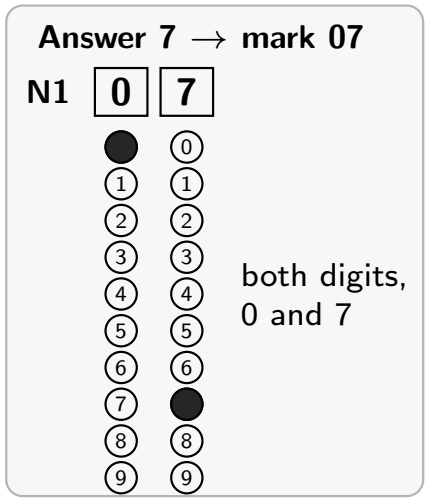
- Three parts, all questions **equally weighted** (**Example Exam 2 in BB**):
  A. **Multiple choice** — answers A–E.
  B. **Journal entries** — choose the correct account (A–J) for each blank; the accounts are listed under each set.
  C. **Numeric** — two-digit answers; the question prints the scale (e.g., $ __ ,000).
- More **application** & **numerical** questions than Exam 1. A **calculator** will be needed.

The answer card

- **Only the answer card is graded**; what you write on the exam paper is not.
- Fill in at the top:
  - **First name** and **last name**
  - **Global ID** — the first part of your CMU e-mail — in **CAPITAL letters**, one per box, from the left box; leave the boxes you do not need blank:

    Ex. | **Y** | **U** | **1** | **0** | **J** | | | | `yu10j@cmich.edu` → YU10J
  - **Section** — mark one: MW 12:30, 14:00, or 15:30
- To change an answer, either **erase it completely** with an eraser or draw an **X** over that bubble; then fill your new answer **clearly and darkly**.
- Numeric answers: **mark both digits** — if the answer is 7, mark **07**.





Before starting the exam:

- Put your phone away and **clear your desk** of any notes or books.
- On your desk: only the exam, the answer card, and what you brought (pencil, eraser, scratch paper, calculator).
- Hand in your answer card when you leave.
- **Any violation** of these rules will be considered cheating.

Important topics by chapter

- **Ch3**: revenues and expenses in the debit/credit framework; temporary vs. permanent accounts; accrual vs. cash basis; revenue recognition and matching.
- **Ch4**: OPEX vs. CAPEX; depreciation, accumulated depreciation and carrying value; deferral and accrual **adjusting entries**.
- **Ch6**: the inventory equation; periodic vs. **perpetual** (Ch6 uses perpetual); purchases, transportation costs, returns, and sales with Cost of Goods Sold; **2/10, n/30**; net sales and gross profit.
- **Ch7**: split goods available for sale into ending inventory and CGS under **specific identification**, **FIFO** and **LIFO** (periodic system).

Important Equations

Balance Sheet Equation

Assets = Liabilities + Shareholders' Equity

Income Statement Equation

Net Income = Revenues - Expenses

Retained Earnings Equation

End. RE = Beg. RE + Net Income - Dividends

Inventory Equation

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

Basic Principles

Revenue Recognition Principle

Revenue is recognized when products & services are delivered, regardless of when cash is received.

Matching Principle

- Expenses should be recognized **in the same period as the revenues** they help to generate, regardless of when cash is paid. In other words,
- Expenses should be recognized when the resources are **used up** to generate the revenues.

Cost Principle

Assets are initially recorded at their **acquisition cost**, which includes all costs necessary to acquire the asset and prepare it for its intended use.

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.
- Adjustments should be carefully checked at the end of each reporting period.

Carrying Value or Book Value

The value of an asset reported on the balance sheet.

Important concepts

Depreciation Expense (DepExp, Expense)

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

Accumulated Depreciation (AccDep, Contra Asset, xA)

The total amount of depreciation expense that has been recorded against the asset since it was acquired.

Contra Asset (xA)

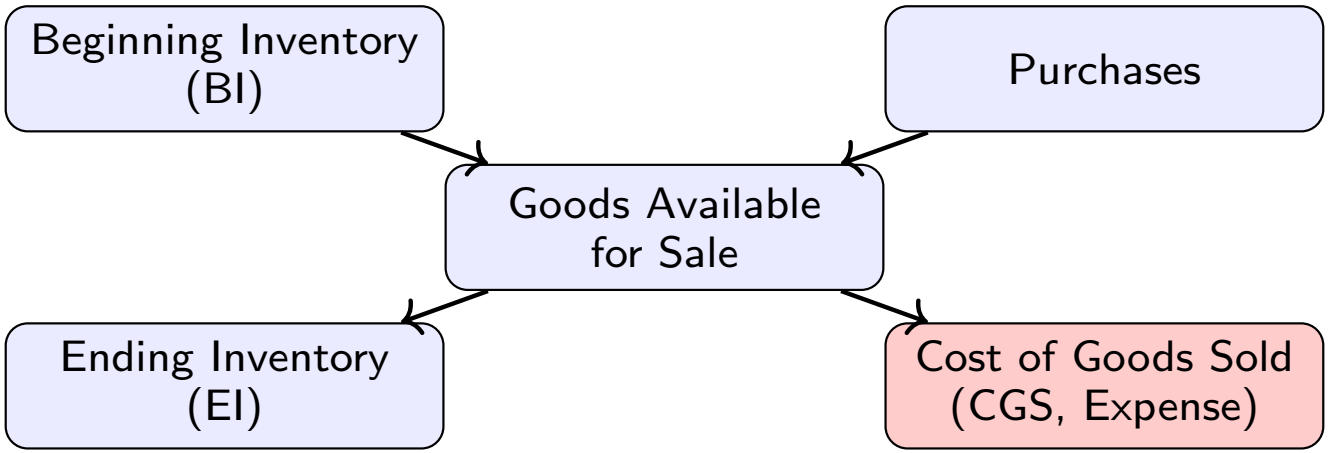
- An account that is used to reduce the value of an asset.
- It is recorded on the balance sheet as a contra asset account (xA).

Inventory Equation

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

Inventory is

- increased when purchased;
- decreased when sold.



Inventory Systems (Ch6):

1. Periodic Inventory System - Inventory is counted only at the end of the period.
2. Perpetual Inventory System - Inventory is counted every time inventory is bought, sold, or returned.

Inventory Costing Methods (Ch7):

1. Specific Identification
2. FIFO
3. LIFO

Accounting Cycle

1. Analyzing transactions (Ch2)
2. Recording journal entries (Ch2)
3. Posting to T-accounts (Ch2)
4. Unadjusted trial balance (Ch3)
5. Adjustments (accruals and deferrals) (Ch4)
6. Adjusted trial balance (Ch4)
7. Income statement
8. Statement of retained earnings
9. Balance sheet
10. Closing process (Ch4)
11. Post-closing trial balances (Ch4)

*Ch.No. refers to the chapter where the topic is first introduced.

Relationship between Financial Statements

Cash Balance from Cash Flows Statement

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

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

Lemonade Stand, Inc.
Statement of Retained Earnings
For the Year Ended December 31, 2025

Beg. Retained Earnings	$0
+) **Net Income**	**$200**
-) Dividends	($100)
End. Retained Earnings	**$100**

Lemonade Stand, Inc.
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

I have high expectations for you! Study hard!

You may feel that Exam 2 is more difficult than Exam 1.

Good luck!