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Remarks:

- These notes are primarily written after completing the pre-MBA Financial and Managerial Accounting course (ACCT 400) at GUST university (Gulf University for Science and Technology). I have incorporated information from other sources in some sections to help me better understand the material. These notes are based on my understanding and they are intended to be used as a summary for me to go back to from time to time. Anyone reading this document should not rely on my summary and should always revert to the original sources.
- Main source material (i.e., book name): Horngren's Accounting, 10th edition, by Nobles, Mattison, and Matsumura

Chapter 1: Accounting and the Business Environment

- Accounting: the information system that measures business activities, processes the information into reports, and communicates the results to decision makers.
- Types of accounting:
 - Financial
 - Managerial
- Accounting standards:
 - IASB → IFRS
 - FASB → GAPP
- Accounting equation:
 - $Assets = Liabilities + Equity$
- Financial statements (in order of preparation):
 - Income statement
 - Statement of owners' equity
 - Balance sheet
 - Statement of cash flows
- Note: each account type will appear on only one financial statement, except for the:
 - Capital account, which will appear on the:
 - Statement of owner's equity
 - Balance sheet
 - Cash account, which will appear on the:
 - Balance sheet
 - Statement of cash flows
- Return on assets:
 - $$\frac{net\ income}{(beginning\ total\ assets + ending\ total\ assets)/2}$$

Chapter 2: Recording Business Transactions

- Important terms;
 - Ledger
 - Double-entry system
 - T-account
 - Debit
 - Credit
 - Normal balance
 - Journal
 - Posting
 - Trial balance
- Asset accounts → page 89
- Liabilities accounts → page 89
- Equity accounts → page 90
- Journalizing and posting process:
 - Identify the accounts and the account type
 - Decide whether each account increases or decreases
 - Journalizing
 - Posting
 - Does credit == credit?!
- Debt ratio
 - $\frac{\text{total liabilities}}{\text{total assets}}$

Chapter 3: The Adjusting Process

- Important terms:
 - Adjusting entry
 - Depreciation
 - Straight-line method
 - Contra-account
 - Book value
 - Adjusted trial balance
- Types of accounting methods:
 - Cash basis
 - Accrual basis
- Accrual basis concepts:
 - Time period concept
 - Revenue recognition principle (related to revenue)
 - Matching principle (related to expenses)
- Types of adjusting entries → page 175
 - Prepays (cash before activity)
 - Prepaid expenses
 - Unearned revenue
 - Accruals (activity before cash)
 - Accrued expenses
 - Accrued revenues
- Straight-line depreciation method
 - $$\frac{\text{cost} - \text{residual value}}{\text{useful life}}$$
- Notes:
 - Adjusting entries never involve the cash account
 - Adjusting entries either:
 - Increase a revenue account
 - Increase an expense account
 - Impact of adjusting entries on financial statements → page 181

Chapter 4: Completing the Accounting Cycle

- Important terms:
 - Classified financial statement
 - Operating cycle
 - Plant assets
 - Closing process
 - Temporary / nominal account
 - Permanent / real account
 - Closing entry
 - Post-closing trial balance
 - Reversing entry
- Different forms of the balance sheet:
 - Account form
 - Report form
- Types of assets:
 - Current
 - Cash
 - Accounts receivable
 - Prepaid expenses ...
 - Long-term
 - Long-term investment
 - Plant assets
 - Intangible assets
- Types of liabilities:
 - Current
 - Accounts payable
 - Interest payable
 - Unearned revenue ...
 - Long-term
 - Usually notes payable
- Complete worksheet → page 238
- The accounting cycle → page 247
- The closing process → page 240
- Current ratio
 - $\frac{\text{current assets}}{\text{current liabilities}}$

Chapter 5: Merchandising Operations

- Important terms:
 - Merchandiser
 - Merchandise inventory
 - Wholesaler
 - Retailer
 - Vendor
 - COGS
 - Invoice
 - Credit terms
 - Purchase return
 - Purchase allowance
 - Inventory shrinkage
- Merchandise inventory systems:
 - Periodic
 - Perpetual
- Example of credit terms:
 - “3/15, n/30”
 - “3/15, net/EOM”
- Transportation terms:
 - FOB shipping point vs. FOB shipping destination
 - Freight in vs. Freight out
- Perpetual vs. periodic inventory systems:
 - Pages [333, 335]
 - Page 338 (point 7)
- Gross profit percentage
 - $\frac{\text{gross profit}}{\text{net sales revenue}}$
- Comprehensive example → page 338

Chapter 21: Cost-Volume-Profit Analysis

- Important terms:
 - Relevant range
 - Contribution margin income statement
 - Breakeven point
 - Sensitivity analysis
 - Margin of safety
 - Cost structure
 - Operating leverage
 - Degree of operating leverage
 - Sales mix
- Types of cost:
 - Variable
 - Fixed
 - Mixed
- High-low method: used to separate mixed cost into its base components (i.e., variable and fixed)
 - Find the highest and lowest activities
 - $VCPU \rightarrow \text{variable cost per unit } (\$) = \frac{\Delta \text{ cost}}{\Delta \text{ volume}}$
 - $\text{variable cost} = \text{number of units} * VCPU$
 - $\text{fixed cost} = \text{mixed cost} - \text{variable cost}$
 - $\text{mixed cost} = \text{fixed cost} + \text{variable cost}$
- Contribution margin (\$)
 - $\text{net sales revenue} - \text{variable cost}$
- Contribution margin ratio
 - $\frac{\text{contribution margin}}{\text{net sales revenue}}$
- CVP analysis / target profit / target operating income:
 - Equation approach (\$)
 - $\text{target profit} = \text{revenue} - \text{cost}$
 - cost is both fixed and variable
 - Contribution margin approach (units)
 - $\text{sales (units)} = \frac{\text{fixed cost} + \text{target profit}}{\text{contribution margin (units)}}$
 - Contribution margin ratio approach (\$)
 - $\text{sales } (\$) = \frac{\text{fixed cost} + \text{target profit}}{\text{contribution ratio}}$
- CVP graph → page 1308
- Margin of safety:
 - $\text{in units} = \text{expected sales (units)} - \text{breakeven sales (units)}$
 - $\text{in } \$ = \text{margin of safety (units)} * \text{sales price per unit}$
 - $\text{ratio} = \frac{\text{margin of safety (units)}}{\text{expected sales (units)}}$
- Degree of operating leverage
 - $\frac{\text{contribution margin}}{\text{operating income}}$
- Sales mix → page 1315

- Differences between absorption costing and variable costing → page 1319
- How does operating income differ between variable costing and absorption costing?
 - Production == sales → absorption = variable
 - Production > sales → absorption > variable
 - Production < sales → absorption < variable

Chapter 22: Master Budgets

- You need to read the chapter and the summary, sorry

Chapter 25: Short-Term Business Decisions

- Important terms:
 - Sunk cost
 - Differential analysis
 - Price-taker
 - Price-setter
 - Target pricing
 - Target full product cost
 - Cost-plus pricing
 - Joint cost
- Questions you need to ask when setting regular prices:
 - What is the company's target profit?
 - What much will customers pay?
 - Is the company a price-taker or a price-setter?
- Questions you need to ask when accepting special prices:
 - Does the company has the excess capacity?
 - Will the reduced price cover the differential cost?
 - Will the special order affect regular prices?
- Questions you need to ask when dropping products and segments:
 - Does it provide a positive contribution margin?
 - Will fixed cost continue to exist?
 - Are there any direct fixed cost that can be avoided?
 - Will it affect other products / segments?
 - What would you do with the freed capacity?
- Questions you need to ask when considering outsourcing:
 - How do variable cost compare to outsourcing cost?
 - Are there any avoidable fixed costs?
 - What would you do with the freed capacity?
- Questions you need to ask when considering either selling or processing further:
 - How much revenue you will receive for selling as is?
 - How much revenue you will receive after processing further?
 - What is the extra processing cost?

Chapter 26: Capital Investment Decisions

- Important terms:
 - Capital asset
 - Capital investment
 - Capital budgeting
 - Capital rationing
 - Post-audit
 - Annuity
 - Simple interest
 - Compound interest
- Methods of analyzing potential capital investments:
 - Methods that take the time value of money into account
 - Payback
 - ARR
 - Methods that do not take the time value of money into account
 - NPV
 - IRR
- Payback
 - In case of equal cash flows $\rightarrow \frac{\text{amount invested}}{\text{expected annual net cash inflow}}$
 - In case of un-equal cash flows $\rightarrow \text{years}_{n-1} + \frac{\text{amount left to recover}}{\text{year}_n \text{ net cash inflow}}$
 - You can also use a calculator
- ARR \rightarrow page 1668
 - $\frac{\text{average annual operating income}}{\text{average amount invested}}$
- NPV
 - Use a calculator
 - $\text{profitability index} = \frac{\text{present value of net cash inflows}}{\text{initial investment}}$
- IRR
 - Use a calculator