



Readiness Review Series

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Tips for Accounting Success

Aim to truly understand the concepts behind the calculations.

Try to avoid having to memorize formulas and equations. Instead, think logically about what you are doing and why. To test your understanding of something, try to articulate or explain the concept or problem out loud, as if you are explaining it to someone. Having to explain something forces us to have to know it better.

Don't just study as exams approach.

Instead, study for the course regularly. Accounting is like a foreign language (it is often referred to as the “language of business”). It takes time and practice to become fluent.

For homework or other assignments that are repeatable, approach each attempt with the goal of testing yourself and seeing how you do.

From there, review your mistakes, learn from them, and then try again. Give each attempt your best effort.

Tips for Accounting Success

Ask for help.

Spend a little bit of time trying to resolve it yourself, but don't spin your wheels. If something doesn't make sense or you feel stuck on a problem or concept, reach out to the instructor or the TAs for guidance. Visiting your instructors regularly in office hours will help you to develop better communication channels and to master the content you do not understand.

If you work with a tutor, make sure you have done some legwork before the tutoring session.

Make sure you know where you could use the additional help so that your tutoring session is effective and efficient.

Work well in advance of deadlines.

Last-minute emergencies and conflicts can never be predicted. You don't want to miss out on earning points because of procrastination.

Be comfortable being uncomfortable.

Learning takes time, and until we have mastered something, we may often lack confidence in our abilities and our knowledge. The more time you spend studying something, the more comfortable you will become with the topic.

However, be patient with yourself as you are learning.

What will we cover?

VOCAB TO KNOW

FINANCIAL STATEMENT INFO

JOURNAL ENTRIES

T-ACCOUNTS

Vocabulary Review

Test your knowledge by matching vocabulary words to the correct definition.

- Assets
- Liabilities
- Equity
- Dividends
- Inventory
- Receivable
- Payable

Goods available for sale to customers

An obligation of the company that it is expected to pay

Property owned by a business

Payments of cash from a corporation to stockholders out of its earnings

Amounts owed to creditors in the form of debt

Owners claims on company assets

The right to receive money from another party

Financial Statements

The **Balance sheet is prepared at a POINT IN TIME** while all the other financial statements are “For the period ending...”

Income Statement:

Revenues (Gains)
– Expenses (Losses)
= **Net Income**

Statement of stockholders equity:

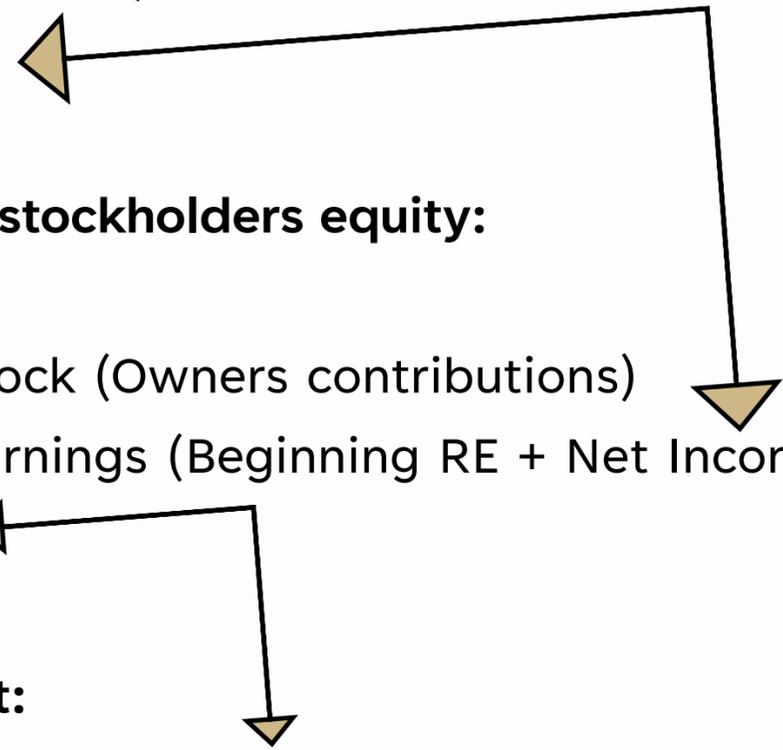
Begin Equity
+ Common Stock (Owners contributions)
+ Retained Earnings (Beginning RE + Net Income – Dividends)
= **End Equity**

Balance Sheet:

Assets = Liabilities + Equity

Statement of Cash flows:

CF from Operating Activities
+ CF from Investing Activities
+ CF from Financing Activities
= **Cash Flows**



Financial Statements

- **Income Statement**
 - Focuses on showing the firm's financial performance
 - Shows how successful a firm was during a period of time
- **Balance Sheet**
 - Shows a firm's financial position
 - Can tell investors how a firm's funding is made up (Debt vs Equity)
 - Shows what your business owns (Assets) and owes (Liabilities) at a point in time
- **Statement of Stockholders Equity**
 - Shows how stockholders' equity is made up and Retained Earnings
 - Retained Earnings shows income in present year, retained earnings (earnings the company has retained over time) and how much the company paid shareholders in the form of a dividend
 - Retained Earnings is essentially the company's accumulated Net Income-Dividends since incorporation
- **Statement of Cash Flows**
 - Shows where a business obtained cash during a period of time and how that cash was used
 - Statement of Cash flow is important to show a firm's liquidity
 - Cash is the most liquid item a company has. Being liquid means an asset can be converted to cash quickly.

Accounting Equation

DEBIT BALANCE

CREDIT BALANCE

CREDIT BALANCE

$$\text{ASSETS} = \text{LIABILITIES} + \text{STOCKHOLDERS EQUITY}$$

- Cash
- PPE
- Supplies
- Accounts receivable
- Prepayments

- Any type of Payable
- Unearned revenue

COMMON STOCK

CREDIT BALANCE

Retained Earnings

REVENUE – Expenses - Dividends

CREDIT
BALANCE

DEBIT
BALANCE

DEBIT
BALANCE

- Debit balance means it increases with a debit (left) and decreases with a credit (right)
- With every journal entry the equation must balance

Journal Entries/Account Balances

- Debits are ALWAYS ON THE LEFT, CREDITS ON THE RIGHT

Debit x

 Credit x

- **Accounts that Increase with:**

- A Debit: Assets, Expenses (COGS) , Dividends (HAVE A DEBIT BALANCE)

- A Credit: Liabilities, Contra Assets, Revenues, Common Stock (Paid in Capital), Current Maturities on Long-term Debt (HAVE A CREDIT BALANCE)

- **Accounts that Decrease with:**

- A Debit: Liabilities, Contra Assets, Revenues, Common Stock (Paid in Capital), Current Maturities on Long-term Debt

- A Credit: Assets, Expenses (COGS), Dividends

Revenue & Expense Recognition Principle

- **We match our revenues with our expenses**
 - Ex:
 - COGS is recorded at the same time as a product is sold
 - Depreciation expense is recorded over time, not when we buy the PPE
 - We record a liability of unearned revenue until we complete the obligation
- Recognize Revenue when Performance obligation is satisfied.
 - When I have made the product and have given it to the person who paid me.
- Recognize Expenses in the same period they help produce revenue or when we accurately use them up
 - Ex: 12 months worth of rent is an asset to us but each month we use up some of that rent
 - Recognize Revenue and Expenses independent from when cash moves.
 - Recognizes too much Revenue or too little Expense leads to RE and NI being Overstated

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Accruals vs. Deferrals

ACCRUALS

Revenue or Expense is recognized **BEFORE** cash is moved

- When you debit accounts receivable
- When you credit a payable account

DEFERRALS

Revenue or Expense is recognized **AFTER** cash is paid or collected

- Unearned Revenue
- Prepayments

ABC Company purchases inventory for \$5,000 on Account

Which sides of the accounting equation are being affected?

Which account is decreasing, which is increasing?

What would the initial entry look like?

Does the Accounting Equation Balance?

ABC Company purchases inventory for \$5,000 on Account

Which sides of the accounting equation are being affected?

Assets and Liabilities, this transaction is “On Account” meaning the company has NOT paid yet but has an obligation to do so in the future

Which account is decreasing, which is increasing?

Both accounts increasing, Inventory is increasing, Accounts Payable is increasing

What would the initial entry look like?

Inventory \$5,000

Accounts Payable \$5,000

Does the Accounting Equation Balance?

YES, you’ve done it correctly!

Practice the Following Journal Entries

JAN 1ST) Apple purchased new equipment for \$2000, it will depreciate at \$50 per month

FEB 28TH) Apple receives \$10,000 in cash for services it performed

Apple hires 10 new employees and adds them to payroll

Apple paid \$250 in Dividends

Practice the Following Journal Entries

JAN 1ST) Apple purchased new equipment for \$2000, it will depreciate at \$50 per month

Equipment \$2000

Cash \$2000

FEB 28TH) Apple receives \$10,000 in cash for services it performed

Cash \$10,000

Sales Revenue \$10,000

Apple hires 10 new employees and adds them to payroll

NO ENTRY

Apple paid \$250 in Dividends

Dividend \$250

Cash \$250

Practice the Following Journal Entries

MAY 1ST) Apple paid \$2400 for 12 months worth of Insurance

October 31st) Apple sold \$5000 worth of iPhones on account

November 1st) Apple receives a \$500 cash advance from a customer

Dec 1st) Apple issues 5,000 shares of Common Stock in exchange for \$20,000

Practice the Following Journal Entries

MAY 1ST) Apple paid \$2400 for 12 months worth of Insurance

Prepaid Insurance \$2400

Cash \$2400

October 31st) Apple sold \$5000 worth of iPhones on account

Accounts Receivable \$5000

Sales Revenue \$5000

November 1st) Apple receives a \$500 cash advance from a customer

Cash \$500

Unearned Revenue \$500

Dec 1st) Apple issues 5,000 shares of Common Stock in exchange for \$20,000

Cash \$20,000

Common Stock \$20,000

T-Accounts

T- Accounts show the balance in an account in a point in time. Entries into the T-account are made once entries have been journalized

CASH	
200	100
300	
500	
100	
	700
300	

The amount below the line is the amount at the end of the year

Tell us how we're doing!

The QR code below will take you to a survey about the Readiness Review Series.

We're always interested in improving, so we're asking for your feedback.

What was your experience like? Is there anything we should add, change, or remove?

Do you have ideas for how this program should be expanded in the future?

Scan the code and fill out the short survey to let us know!

