

**ACC 120**  
**PRINCIPLES OF FINANCIAL ACCOUNTING**

**COURSE DESCRIPTION:**

Prerequisites ENG 090, and RED 090 or DRE 098; MAT 070 or DMA 010, 020, 030, 040, or satisfactory score on placement test

Corequisites: None

This course introduces business decision-making accounting information systems. Emphasis is on analyzing, summarizing, reporting, and interpreting financial information. Upon completion, students should be able to prepare financial statements, understand the role of financial information in decision-making and address ethical considerations. *This course has been approved to satisfy the Comprehensive Articulation Agreement for transferability as a pre-major and/or elective course requirement.* Course Hours Per Week: Class, 3. Lab, 2. Semester Hours Credit, 4.

**LEARNING OUTCOMES:**

Upon completion of this course, the student will be able to:

1. Function effectively on the job
  - a. Attend to accuracy and detail
  - b. Use current accounting terminology
2. Use quantitative and qualitative tools and methods
  - a. Obtain information for financial statement and/or ratio analysis and interpret and communicate the results
3. Classify accounts and record transactions
  - a. Analyze simple and complex business transactions
  - b. Convert items from cash basis to accrual basis
  - c. Know account titles, classifications, and normal balances
  - d. Record transactions in journals
  - e. Post transactions to ledgers
  - f. Analyze accounts receivable aging schedule
  - g. Account for bad debts
  - h. Account for inventories using either perpetual or periodic systems
  - i. Identify, compute and record current liabilities
  - j. Recognize long-term liabilities and account for bonds payable, mortgages, and long-term notes.
  - k. Account for fixed assets and calculate depreciation
4. Account for cash
  - a. Reconcile bank statements
  - b. Account for petty cash.
5. Complete the accounting cycle and use its outputs
  - a. Prepare a working trial balance
  - b. Journalize and post adjusting entries
  - c. Prepare an adjusted trial balance
  - d. Journalize and post closing entries
  - e. Prepare a post-closing trial balance
  - f. Prepare financial statements and necessary disclosures

- g. Review internal control procedures and suggest ways to strengthen weak controls
- 6. Account for specific industries and organizational structures
  - a. Account for corporate equity transactions
  - b. Understand corporation specific financial statements, statement of stockholder's equity, and corporate income statement

## **OUTLINE OF INSTRUCTION:**

- I. Introduction to financial statements
  - A. Forms of business organizations
  - B. Users and uses of financial information
    - 1) Internal users
    - 2) External users
    - 3) Ethics in financial reporting
  - C. Business activities
    - 1) Financing
    - 2) Investing
    - 3) Operating
  - D. Communicating with users
    - 1) Income statement
    - 2) Retained earnings statement
    - 3) Balance sheet
    - 4) Statement of cash flows
    - 5) Interrelationships of statements
    - 6) Management discussion and analysis
    - 7) Notes to the financial statements
    - 8) Auditor's report
- II. A further look at financial statements
  - A. Objectives of financial reporting
    - 1) Characteristics of useful information
    - 2) Assumptions
    - 3) Principles
    - 4) Constraints in accounting
  - B. The financial statements revisited
    - 1) Classified balance sheet
    - 2) Using the financial statements
      - a.) Profitability ratios
      - b.) Liquidity ratios
      - c.) Solvency ratios
- III. The accounting information system
  - A. Accounting transactions
  - B. Double-entry system
    - 1) Use of two or more accounts
    - 2) Debit and credit rules
  - C. The Chart of Accounts
  - D. Steps in the recording process

- 1) Entering transactions into the journal
- 2) Posting journal entries to the general ledger accounts
- 3) Preparing the trial balance
- 4) Limitations of trial balance

#### IV. Completing the accounting cycle

- A. Steps in the accounting cycle
- B. Timing issues
  - 1) Revenue recognition principle
  - 2) Matching principle
- C. Accrual vs. cash basis accounting
- D. Adjusting entries
  - 1) Why needed
  - 2) Types
    - a.) Prepayments
    - b.) Accruals
- E. Adjusted trial balance
- F. Closing entries
  - 1) Permanent accounts
  - 2) Temporary accounts
- G. Post closing trial balance

#### V. Accounting for a merchandising business

- A. Differences between a service enterprise and a merchandising business
- B. Recording merchandising transactions
  - 1) Perpetual inventory system
  - 2) Periodic inventory system
- C. Single-step vs. multiple-step income statement
- D. Determining cost of goods sold under periodic inventory system
- E. Evaluating profitability
  - 1) Gross profit rate
  - 2) Profit margin

#### VI. Reporting and analyzing inventory

- A. Classifying inventory
- B. Determining inventory quantities
  - 1) Taking a physical inventory
  - 2) Determining ownership of goods
- C. Inventory costing
  - 1) Specific identification
  - 2) Cost flow assumptions
    - a.) First-in, first out (FIFO)
    - b.) Last-in, last-out (LIFO)
    - c.) Average cost
- D. Financial statement and tax effects of cost flow methods
- E. Consistent use
- F. Lower of cost or market
- G. Analysis of inventory
  - 1) Inventory turnover ratio

2) LIFO reserve

VII. Internal control and cash

- A. Principles of internal control
- B. Limitations of internal control
- C. Applying internal control to cash receipts and cash disbursements
- D. Preparing a bank reconciliation
- E. Reporting cash
  - 1) Cash equivalents
  - 2) Restricted cash
- F. Managing and monitoring cash
  - 1) Basic principles
  - 2) Cash budgeting
- G. Petty cash
  - 1) Establishing fund
  - 2) Making payments
  - 3) Replenishing

VIII. Reporting and analyzing receivables

- A. Types of receivables
- B. Accounts receivable
  - 1) Recognizing
  - 2) Valuing
    - a.) Direct write-off of bad debts
    - b.) Allowance method
- C. Notes receivable
  - 1) Computing interest
  - 2) Recognition
  - 3) Valuation
  - 4) Disposal
- D. Financial statement presentation of receivables
- E. Managing receivables
  - 1) Receivables Turnover
  - 2) Accelerating Cash Receipts

IX. Reporting and analyzing long-lived assets

- A. Plant assets
  - 1) Determining cost
  - 2) Depreciation
    - a.) Straight-line
    - b.) Declining-balance
    - c.) Units-of-activity
    - d.) Revisions
  - 3) Expenditures during useful life
  - 4) Impairments
  - 5) Disposals
    - a.) Sale
    - b.) Retirement
  - 6. Analyzing plant assets

- a.) Return on assets ratio
    - b.) Asset turnover ratio
    - c.) Profit margin ratio
  - B. Intangible assets
    - 1) Basic issues related to reporting intangible assets
    - 2) Types
  - C. Financial statement presentation of long-lived assets
- X. Reporting and analyzing liabilities
- A. Current liability
    - 1) Definition
    - 2) Accounting for various types
      - a.) Notes payable
      - b.) Sales taxes payable
      - c.) Payroll and payroll taxes payable
      - d.) Unearned revenues
      - e.) Current maturities of long-term debt
  - B. Long-term liabilities
    - 1) Definition
    - 2) Bonds payable
      - a.) Types
      - b.) Issuing procedures
      - c.) Determining market value
      - d.) Journal entries for issuance and interest expense
      - e.) Journal entries for redemption
  - C. Financial statement presentation and analysis
    - 1) Debt to Total Assets
    - 2) Times Interest Earned
- XI. Reporting and analyzing stockholders' equity
- A. The corporate form of organization
    - 1) Characteristics
    - 2) Formation
    - 3) Stockholder rights
  - B. Stock issue consideration
    - 1) Authorized stock
    - 2) Issuance
    - 3) Par, no-par value, stated value
    - 4) Accounting for common stock issues
  - C. Accounting for purchase of treasury stock
  - D. Preferred stock
  - E. Accounting for Dividends
    - 1) Cash dividends
    - 2) Stock dividends
  - F. Stock splits
  - G. Retained earnings
  - H. Financial statement presentation of stockholders' equity
  - I. Measuring corporate performance
    - 1) Payout ratio

- 2) Return on common stockholders' equity ratio
- 3) Debt financing versus equity financing

**REQUIRED TEXTBOOK AND MATERIALS:**

To be selected by Instructor/Discipline Chair.