

Intermediate Readiness Exam Study Guide

The textbook that you used in Principles of Accounting I & II (excluding the managerial accounting chapters), regardless of where you took those courses, is your best study source. You may be tested on any of the following concepts at the same level of depth/difficulty that the concept is covered in your principles textbook.

Accounting and the Business Environment

- Use of accounting vocabulary
- Apply accounting concepts and principles
- Use the accounting equation
- Analyze business transactions
- Prepare the financial statements
- Evaluate business performance

Recording Business Transactions

- Use accounting terms
- Apply the rules of debit and credit
- Record transactions in the journal
- Post from the journal to the ledger
- Prepare and use a trial balance
- Analyze transactions without a journal

The Adjusting Process

- Distinguish accrual accounting from cash-basis accounting
- Apply the revenue and matching principles
- Make adjusting entries
- Prepare an adjusted trial balance
- Prepare the financial statements from the adjusted trial balance

Completing the Accounting Cycle

- Prepare an accounting work sheet
- Use the work sheet to complete the accounting cycle
- Close the revenue, expense, and withdrawal accounts
- Classify assets and liabilities as current or long-term
- Use the current ratio and the debt ratio to evaluate a company

Merchandising Options

- Account for the purchase of inventory
- Account for the sale of inventory
- Use sales and gross profit to evaluate a company
- Adjust and close the accounts of a merchandising business
- Prepare a merchandiser's financial statements
- Use gross profit percentage and inventory turnover to evaluate a business

Merchandise Inventory

- Compute perpetual inventory amounts under FIFO, LIFO, and average cost
- Record perpetual inventory transactions
- Compare the effects of FIFO, LIFO and average cost
- Compute periodic inventory amounts under FIFO, LIFO, and average cost
- Apply the lower-of-cost-or-market rule to inventory
- Measure the effects of inventory errors
- Estimate ending inventory by the gross profit method

Accounting Information Systems

- Describe an effective accounting information system
- Understand both computerized and manual accounting systems
- Understand how spreadsheets are used in accounting
- Use the sales journal, the cash receipts journal, and the accounts receivable ledger
- Use the purchases journal, the cash payments journal, and the accounts payable ledger

Internal Control and Cash

- Define internal control
- Tell how to achieve good internal control
- Prepare a bank reconciliation and the related journal entries
- Apply internal controls to cash receipts
- Apply internal controls to cash payments
- Make ethical business judgments

Receivables

- Design internal controls for receivables
- Use the allowance method to account for uncollectibles by the percent-of-sales and aging-of-accounts methods
- Use the direct write-off method to account for uncollectibles
- Account for notes receivable
- Report receivables on the balance sheet
- Use the acid-test ratio and days' sales in receivables to evaluate a company

Plant Assets and Intangibles

- Measure the cost of a plant asset
- Account for depreciation
- Select the best depreciation method for tax purposes
- Account for the disposal of a plant asset
- Account for natural resources
- Account for intangible assets

Current Liabilities and Payroll

- Account for current liabilities of known amount
- Account for current liabilities that must be estimated
- Compute payroll amounts
- Record basic payroll transactions
- Use a payroll system
- Report current liabilities on the balance sheet

Partnerships

- Identify the characteristics of a partnership
- Account for the partners' investments in a partnership
- Allocate profits and losses to the partners
- Account for the admission of a new partner
- Account for a partner's withdrawal from the firm
- Account for the liquidation of a partnership
- Prepare partnership financial statements

Corporations: Paid-in Capital and the Balance Sheet

- Identify the characteristics of a corporation
- Record the issuance of stock
- Prepare the stockholders' equity section of a corporation balance sheet
- Account for cash dividends
- Use different stock values in decision making
- Evaluate return on assets and return on stockholders' equity
- Account for the income tax of a corporation

Retained Earnings, Treasury Stock, and the Income Statement

- Account for stock dividends
- Distinguish stock splits from stock dividends
- Account for treasury stock
- Report restrictions on retained earnings
- Analyze a complex income statement
- Prepare a statement of stockholders' equity

Long-term Liabilities

- Account for bonds payable transactions
- Measure interest expense by the effective-interest method
- Account for retirement and conversion of bonds payable
- Report liabilities on the balance sheet
- Show the advantages and disadvantages of borrowing

Investments and International Operations

- Account for trading investments
- Account for available-for-sale investments
- Use the equity method for investments
- Understand consolidated financial statements
- Account for long-term investments in bonds
- Account for transactions stated in a foreign currency

The Statement of Cash Flows

- Identify the purposes of the statement of cash flows
- Distinguish among operating, investing, and financing cash flows
- Prepare a statement of cash flows by the indirect method
- Prepare a statement of cash flows by the direct method

Financial Statement Analysis

- Perform a horizontal analysis of comparative financial statements
- Perform a vertical analysis of financial statements
- Prepare and use common-size financial statements
- Compute the standard financial ratios
- Measure economic value added