

# Accounting 2

| Exam Information                                                                                                                                                                                               | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Exam number</b><br><b>212</b><br><br><b>Items</b><br><b>56</b><br><br><b>National Career Cluster</b><br><b>Business Management &amp; Administration</b><br><br><b>Certification available</b><br><b>Yes</b> | <p>Candidates will develop advanced skills that build upon those acquired in Accounting 1. Candidates continue applying concepts of double-entry accounting systems related to a merchandising corporation. Additional accounting skills will be developed, including preparing and journalizing payroll roll records, cds, calculating and recording adjusting entries, and interpreting financial information. Exposure to automated accounting procedures is strongly encouraged.</p> |

## Exam Blueprint and Performance Skills

| Standard                                                           | Percentage of exam score |
|--------------------------------------------------------------------|--------------------------|
| 1. GAAP and Basic Business Structures in Merchandising Corporation | 4%                       |
| 2. Payroll                                                         | 19%                      |
| 3. Sales Transactions                                              | 12%                      |
| 4. Purchase And Payment Transactions                               | 16%                      |
| 5. Common Adjusting Entries                                        | 12%                      |
| 6. Financial Statements For Merchandising Corporation              | 14%                      |
| 7. Closing                                                         | 9%                       |
| 8. Depreciation                                                    | 7%                       |
| 9. Write-Off Methods/Allowance Method                              | 7%                       |

|                                        |    |
|----------------------------------------|----|
| 10. Careers And Accounting Professions | 0% |
|----------------------------------------|----|

\*Includes performance skill evaluation

## **Standard 1 - GAAP And Basic Business Structures In Merchandising Corporation**

Candidates will define generally accepted accounting principles and basic business structures and each step of the basic accounting cycle as related to a merchandising corporation.

### **Objective 1** Identify and define the three forms of business structures

1. Sole Proprietorship: A business owned by one person. The owner is entitled to all profits and is responsible for all the business's debts, losses, and liabilities.
2. Partnership: a business owned by two or more people who share its profits, and are responsible for its debts, losses and liabilities.
3. Corporation: a separate legal entity whose owners are stockholders. The losses and liabilities are limited to their investment.

### **Objective 2** Identify each step of the accounting cycle for a merchandising corporation.

1. Step 1 – Analyze business transactions to determine debit(s) and credit(s)
2. Step 2 - Journalize transactions in a general journal
3. Step 3 - Post debit(s) and credit(s) from the general journal to ledger
4. Step 4 - Prepare a trial balance to prove that debits equal credits
5. Step 5 - Journalize and post adjusting entries
6. Step 6 - Prepare the following financial statements:
  - a. Income statement
  - b. Statement of retained earnings
  - c. Balance sheet
10. Step 7 - Journalize and post-closing entries
11. Step 8 - Prepare post-closing trial balance

## Standard 2 - Payroll

Candidates will explain and identify calculations, reports, and journal entries related to payroll.

**Objective 1** Explain and identify calculations and reports related to payroll activities.

1. Explain the formulas for gross earnings based on an hourly rate, salary, commission, and salary plus commission
2. Identify and explain employee deductions including taxes FICA (social security and medicare), federal, state and other voluntary deductions used to calculate net pay.
3. Identify and explain employers' payroll taxes (social security, Medicare, federal unemployment, and state unemployment) and employee benefits paid by the employer

Discuss and interpret forms and reports related to payroll:

1. Forms
  - a. W-4
  - b. W-2
  - c. I-9
2. Reports
  - a. Payroll Register
  - b. Employees' Earnings Record

**Objective 2** Journalize entries for employee payroll, employer payroll taxes, and payments of payroll tax liabilities.

### Performance Skills

1. Calculate, journalize, and post employee payroll
2. Calculate, journalize, and post employer payroll taxes, and payroll tax liabilities

**Optional: Standard performance evaluations on the final page of this document.**

## Standard 3 - Sales Transactions

Candidates will identify and describe source documents and journal entries related to sales and cash receipt transactions.

**Objective 1** Identify and evaluate source documents related to sales and cash receipt transactions.

1. Sales invoices

2. Cash register tapes
3. Receipts

**Objective 2** Journalize and post transactions related to sales and cash receipts transactions.

1. Sales of merchandise
2. Sales tax
3. Sales returns and allowances (contra sales account)
4. Contra Account: an account that reduces the value of a related account
5. Sales discounts (contra sales account)
6. Accounts receivable subsidiary ledger

### **Performance Skills**

1. Calculate, journalize, and post transactions for sale of merchandise with and without sales tax, sales returns and allowances, and sales discounts

**Optional: Standard performance evaluations on the final page of this document.**

## **Standard 4 - Purchase and Payment Transactions**

Candidates will identify source documents and journalize entries related to purchases and cash payment transactions.

**Objective 1** Identify and evaluate source documents related to purchases and cash payment journal entries

1. Checks
2. Purchases invoices

## **Standard 5 - Common Adjusting Entries**

Candidates will explain and describe the purpose and procedures for common adjusting entries and how they affect the relationship between the trial balance and adjusted trial balance.

**Objective 1** Explain the purpose of adjusting entries and how they relate to the matching principle.

1. Matching Principle: Matching expenses to the period which they were incurred to the revenue earned in the same period.

**Objective 2** Describe the procedures to calculate, journalize, and post the following adjusting entries:

1. Inventory changes
2. Supplies used
3. Prepaid Insurance expired
4. Corporate federal income tax adjustment

**Objective 3** Identify the difference between the trial balance and the adjusted trial balance.

1. Adjusted trial balance: A trial balance prepared after the adjusting entries are posted

### **Performance Skills**

1. Identify and calculate adjustments, journalize adjusting entries, post to general ledger accounts, and prepare an adjusted trial balance.

**Optional: Standard performance evaluations on the final page of this document.**

## **Standard 6 - Financial Statements For Merchandising Corporation**

Candidates will evaluate changes to the income statement, balance sheet, and stockholders' equity for a merchandising corporation.

**Objective 1** Compare and contrast the income statement between a service sole-proprietorship and a merchandising corporation.

1. Cost of merchandise sold: Beginning inventory + Net Purchases - Ending Inventory
2. Gross profit - Cost of Merchandise sold
3. Depreciation expense: Portion of an assets value that has been used up during that period
4. Bad debt expense: Accounts receivable that cannot be collected
5. Operating income: Gross profit - operating expenses
6. Corporate income tax: tax assessed by the federal government on business profit.

**Objective 2** Compare and contrast the balance sheet between a service sole-proprietorship and a merchandising corporation.

1. Inventory: The amount of merchandise on hand
2. Accumulated depreciation: Total amount of depreciation expense that has been recorded since the purchase of a plant asset
3. Allowance for uncollectible accounts: The percentage of accounts receivable expected to be uncollected
4. Formula: Total sales on account x Percentage determined to be uncollectible

5. Current assets: Cash and other assets that can be converted into cash or consumed within a year
6. Plant assets: Assets that are used for a number of years
7. Long-term liabilities: Liabilities owed for more than a year
8. Stockholders' equity: The assets remaining in a business once all liabilities are paid.  $\text{Assets} - \text{liabilities} = \text{Stockholders' Equity}$
9. Capital stock: Total shares of ownership in corporation
10. Retained earnings: amount earned by a corporation that is not yet distributed to the stockholders

**Objective 3** Define and identify the two permanent accounts in the stockholders' equity and how they change during the accounting period.

1. Define and identify elements that change retained earnings
  - a. Net income (net loss): The difference between total revenue and total expenses
  - b. Dividends: earnings distributed to stockholders

**Objective 4** Calculate and interpret common financial ratios and their uses to stakeholders.

1. Gross profit margin ( $\text{Gross profit}/\text{Sales}$ )
2. Return on sales ( $\text{Net income}/\text{Sales}$ )
3. Quick ratio ( $\text{Cash} + \text{Accounts receivable}/\text{Current liabilities}$ )
4. Debt-to-equity ( $\text{Total liabilities}/\text{Total stockholders' equity}$ )
5. Return on equity ( $\text{Net income}/\text{Total stockholders' equity}$ )

### Performance Skills

1. Prepare a balance sheet and income statement for a merchandising corporation and calculate financial ratios.

**Optional: Standard performance evaluations on the final page of this document.**

## Standard 7- Closing

Candidates will be able to calculate, journalize, and post closing entries and prepare a post-closing trial balance.

**Objective 1** Explain the purpose of closing journal entries as they apply to a merchandising corporation.

**Objective 2** Identify the difference between a trial balance and a post-closing trial balance for a merchandising corporation.

## Performance Skills

1. Journalize and post closing entries and create a post-closing trial balance.

**Optional: Standard performance evaluations on the final page of this document**

## Standard 8 - Depreciation

Candidates will define depreciation and explain the process for calculating, journalizing, and depreciation.

**Objective 1** Explain how depreciation expense relates to GAAP and the matching principle.

**Objective 2** Explain and define the procedure for calculating depreciation using the straight-line method.

1. Straight-line Depreciation:  $(\text{cost of the asset} - \text{estimated salvage value}) \div \text{estimated useful life of an asset}$
2. Identify original cost, salvage value, and useful life of the asset
3. Calculate partial-year depreciation:  $(\text{cost of the asset} - \text{estimated salvage value}) \div \text{estimated useful life of an asset} \times \text{number of months asset was used} / 12$

**Objective 3** Calculate, journalize, and post adjusting journal entry for depreciation.

## Performance Skills

1. Calculate depreciation using the straight-line method, journalize, and post the adjusting entry for depreciation.

**Optional: Standard performance evaluations on the final page of this document**

## Standard 9 - Write-Off Methods/Allowance Method

Candidates will identify and explain different write-off methods and procedures to record write-offs using the allowance method.

**Objective 1** Identify what “writing off” an accounts receivable means, why it is necessary, and two common write-off methods.

1. Write-off: Canceling the balance of a customer account because the customer does not pay
2. Direct write-off method: Recording uncollectible accounts expense only when an amount is actually known to be uncollectible
3. Allowance method: Crediting the estimated value of uncollectible accounts to a contra account

**Objective 2** Explain and define the procedure for calculating depreciation using the straight-line method.

1. Record the adjusting journal entry using the allowance method.
2. Calculate the adjustment amount using the net sales method.
3. Calculate the adjustment amount using the aging method.
4. Write-off to close an uncollectible account.
5. Reopen a previously written-off account.
6. Record payment for reopened account.

**Objective 3** Explain concept of Book Value of Accounts Receivable and how to calculate it (Accounts Receivable - Allowance for Uncollectible Accounts).

### Performance Skills

1. Calculate, journalize, and post journal entries using the allowance method for uncollectible accounts receivable.

**Optional: Standard performance evaluations on the final page of this document**

## Standard 10 - Careers and Accounting Professions

Candidates will explore different accounting career options and how ethics and technology affect the accounting profession.

**Objective 1** Explore examples of ethics in the accounting profession.

**Objective 2** Identify and explore the use of automated accounting software, such as:

1. Spreadsheets
2. QuickBooks
3. Industry-standard accounting and tax software

**Objective 3** Explore internet sites and mobile apps for accounting purposes (e.g. AICPA, start here go places, IRS, Intuit, Accounting today, Journal of Accountancy, Securities and Exchange Commission, Xero, Sage)

**Objective 4** Explore careers in the field of accounting (e.g. accountant, accounting clerk, CPA).

# Performance Skills Evaluation

Exam name: Accounting 2

Candidate Name: \_\_\_\_\_

Performance assessments may be completed and evaluated any time before the certification is issued. The following performance skills can be used in connection with the associated standards and exam. The evaluator will function as the subject matter expert to determine if the candidate meets the skills requirements with a Yes/No for passing.

|                                                                                                                                                                                                                                                  |       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <b>Standard 1 – Payroll</b> <ul style="list-style-type: none"> <li>Calculate, journalize, and post employee payroll, employer payroll taxes, and payroll tax liabilities.</li> </ul>                                                             | Pass: |
| <b>Standard 3 – Sales Transactions</b> <ul style="list-style-type: none"> <li>Journalize and post transactions for the sale of merchandise with and without sales tax, sales returns, and sales discounts.</li> </ul>                            | Pass: |
| <b>Standard 4 – Purchases and Payment Transactions</b> <ul style="list-style-type: none"> <li>Prepare a balance sheet and multi-step income statement for a merchandising corporation and calculate financial ratios.</li> </ul>                 | Pass: |
| <b>Standard 5 – Common Adjusting Entries</b> <ul style="list-style-type: none"> <li>Identify and calculate adjustments, journalize adjusting entries, post to general ledger accounts, and prepare an adjusted trial balance.</li> </ul>         | Pass: |
| <b>Standard 6 – Financial Statements for Merchandising Corporation</b> <ul style="list-style-type: none"> <li>Prepare a balance sheet and multi-step income statement for a merchandising corporation and calculate financial ratios.</li> </ul> | Pass: |
| <b>Standard 7 – Closing</b> <ul style="list-style-type: none"> <li>Journalize and post-closing entries and create a post-closing trial balances</li> </ul>                                                                                       |       |
| <b>Standard 8 – Write-Off Methods/Allowance Method</b> <ul style="list-style-type: none"> <li>Journalize and post journal entries using the allowance method for uncollectible accounts receivable.</li> </ul>                                   |       |
| <b>Standard 9 – Depreciation</b> <ul style="list-style-type: none"> <li>Calculate depreciation using the straight-line method, journalize, and post the adjusting entry for depreciation.</li> </ul>                                             |       |

Evaluator Name: \_\_\_\_\_

Date: \_\_\_\_\_

