



2024 Release

Fundamental Financial Accounting Concepts

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FUNDAMENTAL FINANCIAL ACCOUNTING CONCEPTS, 2024 RELEASE

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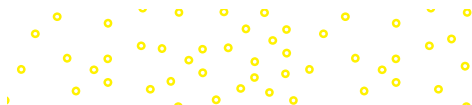
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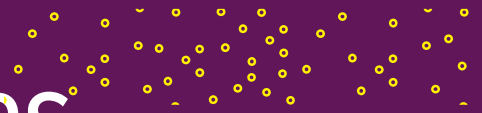
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**This book is dedicated to our students, whose questions have so frequently
caused us to reevaluate our method of presentation that they have,
in fact, become major contributors to the development of this text.**



NOTE FROM THE AUTHORS



The changing business environment is calling for accounting education to be dynamic, responsive, and forward-thinking. By incorporating relevant content, embracing technological advancements, adopting innovative teaching approaches, and emphasizing critical thinking and ethical considerations, accounting educators can effectively prepare students for the evolving demands of the accounting profession. The specific impacts on this text are discussed next.

● CAREER READINESS

Data Visualizations

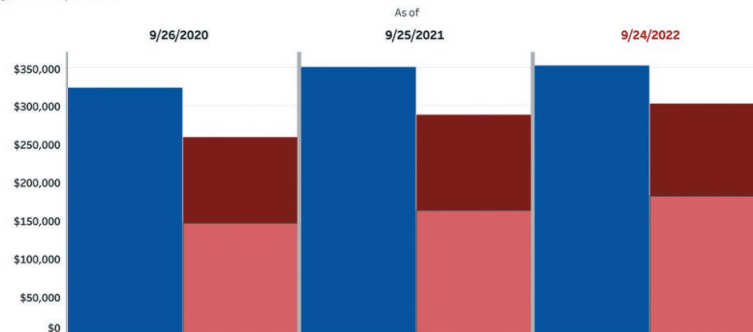
While there is general agreement that introductory accounting students need exposure to data analytics, agreement regarding the level and type of exposure is evolving. Do students need to know how to use the software or will the ability to interpret the output of the software be sufficient? We offer opportunities for you to expose your students to either or both options.

- For those who prefer to focus their students on understanding outputs rather than learning software, we have included short exercises called Tableau Dashboard Activities (TDAs). We have created TDAs for each chapter in the text that require students to interpret the data displayed in the dashboard and answer questions that relate to concepts covered in each chapter. The TDAs are displayed directly within *Connect* and accompanied by auto-gradable questions that students must answer based on the visualizations.
- Each chapter contains TDAs focusing on analyzing real-world companies that are discussed in ***The Curious Accountant*** section. The TDAs start simple and build in complexity, allowing students to start analyzing real-world financials as early as Chapter 1. Also included in each chapter is a TDA that incorporates the content from the chapter into a data visualization. Each of these visualizations presents accounting information in a unique way, giving students insight into the usefulness of visualization in the accounting context.

Balance Sheet for Apple

Legend: Assets | Liabilities

Select a Financial Statement
Balance Sheet



		9/24/2022	
		Amount	% Change
Assets	Cash	\$23,646	▼32.3%
	Other assets	\$329,109	▲4.1%
	Total	\$352,755	▲0.5%
Liabilities	Total debt	\$120,069	▼3.7%
	Other liabilities	\$182,014	▲11.5%
	Total	\$302,083	▲4.9%
Stockholders' Equity	Common stock	\$64,849	▲13.0%
	Retained earnings	(\$3,068)	▼155.2%
	Other equity	(\$11,109)	▼6915.3%
	Total	\$50,672	▼19.7%

Shown in millions. | Data Source: 10-K report filings.

Tableau Software

- For those looking to give their students a deeper dive into data analytics, we offer an in-depth project, *Applying Tableau*, where students get hands-on operational experience with the software to answer a variety of business-type questions. The answers to *Applying Tableau* are auto-gradable in *Connect*, saving you valuable time. *Applying Tableau* includes a tutorial video that walks students through the Tableau software and demonstrates the basic skills students need to get started using the software. A thorough description of this project is located in Appendix G at the end of the text.

Integrated Excel

We introduce students to Excel by incorporating a series of Integrated Excel problems tailored to the specific topics covered in each chapter. These problems are designed to help students gain proficiency in Excel's basic functionality while familiarizing them with a range of Excel functions commonly employed in the accounting profession. For each Integrated Excel problem, a step-by-step tutorial video, featuring a similar yet distinct problem, can be found in *Connect* to further support students' learning.

Critical Thinking Problems

Critical thinking problems are designed to give students an opportunity to work with real-world accounting information. These problems are often more in-depth than

traditional exercises and problems, often requiring students to search through published financial reports to answer a series of questions. The primary goal of this section is to encourage students to think critically about accounting concepts involving real-world companies. Most requirements in this section are auto-gradable but more in-depth writing assignments are also available.

● HIGHLIGHTING CAREER PROFILES

Career profiles are now available in Chapters 1, 3, 5, 7, 9, and 11. Each profile outlines a unique career that is possible with an accounting degree and spotlights careers in private equity, corporate accounting, Big 4 accounting, teaching, and even being an entrepreneur! Students will learn about the career paths and job requirements of these top accountants including educational background, salary range, work/life balance, travel opportunities, and even get some advice! We strongly encourage teachers to share these career experiences with their students to enhance their understanding of the diverse career opportunities available with an accounting degree.

● FOCUSING ON FINANCIAL STATEMENT IMPACTS


Technology has changed accounting practice. Gone are the days where accountants used pens, paper, and calculators to maintain records and prepare statements. Indeed, most companies use computer software that simplifies data entry, record keeping, and statement preparation. Today's accountants spend less time preparing financial information and more time consulting and advising clients. To remain relevant, accounting education must move beyond the traditional preparer approach.

The first step in learning how to advise clients is to understand how business professionals incorporate accounting in the decision-making process. Business professionals tend to think about bottom-line consequences. If I do this or that, how will it affect my company's net income, total assets, cash flow, and so on. To promote bottom-line thinking, we take the student one step beyond the recording process. Specifically, we employ a **financial statements model** to show them how the journal entries affect financial statements. The model arranges the balance sheet, income statement, and statement of cash flows horizontally across a single line of text as shown next.

Balance Sheet					Income Statement					Statement of Cash Flows	
Assets	=	Liab.	+	Stk. Equity	Rev.	–	Exp.	=	Net Inc.		

Typically, we show the statements model immediately after each journal entry. For example, the settlement of the liability for interest would be shown as follows.

Account Title	Debit	Credit
Interest payable	8,400	
Cash		8,400



This text includes **the most comprehensive set of instructional videos** on the market today. These instructional videos explain the content associated with every learning objective introduced throughout the text. Unlike many instructional videos included with other texts, **our videos have been developed by a member of the author team**. They have the touch and feel of a live lecture. This allows educators to deliver a similar level of quality in disseminating course content online as they would in a face-to-face environment. To ensure students are comprehending the material, **every lecture video in the text includes an assessment quiz (static or algorithmic) with feedback**.

Our video library has hundreds of videos including short Lecture Videos covering every learning objective in the text, Self-Study Review Videos for every chapter, and Guided Exercise Videos to assist students with end-of-chapter exercises. Videos allow students to pause for contemplation and note-taking. They permit students to repeat difficult concepts or fast-forward through content they have mastered. In other words, videos enable self-paced learning. A recent study found that the availability of pre-class lecture videos significantly improved student final exam performance (Robert O'Harver, *Advances in Accounting Education*, 2020). Many accounting educators have taught in professional exam prep courses that make extensive use of video lectures. Now you can bring that prep course learning approach to your everyday classroom. For comparison purposes, the following is a description of the key features of the lecture videos included in this text:

- **Our videos have been developed by members of the author team.** These videos have the feel of a live lecture. Delivering an effective lecture requires not only knowledge but also the proper tone, inflection, emphasis, attitude, and confidence. Scripted videos presented by a professional orator cannot compete with the spontaneous delivery of an experienced teacher.
- **We have assessment quizzes that accompany each lecture video.** After watching a video, a student is required to answer 5 to 10 multiple-choice questions. These questions are graded electronically, and students and instructors are able to obtain immediate feedback. Using this feedback, instructors can identify student weaknesses and focus class time on subjects where students are experiencing difficulty, thus more effectively helping students learn from their mistakes. The faster the feedback, the more effective the learning experience. Further, including assessment quiz scores as part of the course grade will motivate students to take video assignments seriously.
- **Our videos facilitate learning for students with disabilities.** Consistent with the Americans with Disabilities Act, all our videos are closed-captioned. This provides a learning tool for students who are visually and hearing impaired. Students with hearing impairment can see and read the video content, and those with visual impairment can listen to the lecture. Also, international students, who are less proficient in the English language, find videos with closed captions to be useful.
- **We use analytics to assess and improve the quality of our videos.** Based on this rationale, we have implemented a continuous quality improvement program for the videos that accompany our texts. Specifically, we analyze drop and finish rates to determine which videos are working and which ones are not. The report below shows that the video kept 96 percent of students tuned in at the halfway point and 85 percent of students completed the entire video. While there is always room for improvement, this video produced a high-quality result. We completed an extensive analysis of all videos and replaced select videos that had a finish rate of less than 80 percent. The results of this analysis led us to create new and/or improve our lecture video content.

4. Received \$85,000 cash from earning revenue.

5. Paid \$50,000 cash for expenses.

6. Paid \$4,000 of cash dividends to the owners.

7. The market value of the land was appraised at \$525,000 on December 31, Year 1.

Event	Balance Sheet						Income Statement		Statement of Cash Flows
	Assets		=	Liab.	+	Stockholders' Equity	Exp.	=	
	Cash	Land	=	N. Pay.	+	Com. Stk.	+	Ret. Earn.	
Beg.	0	0	=	0	+	0	+	0	
1.	110,000	+	=		+	110,000	+		110,000 FA
2.	100,000		=	4,000	+		+		400,000 FA
3.	(500,000)	500,000	=		+		+		(500,000) IA
4.	85,000		=		+	85,000	+	85,000	85,000 OA
5.	(50,000)		=		+	(50,000)	+		

Tableau Software

■ Comprehensive set of technological teaching tools

Technology has provided many teaching tools that improve the quality of education while reducing the tasks associated with course management. Some examples include algorithmic test banks and homework management systems. Video content is one component of a comprehensive set of technological teaching tools. Some of the other tools that accompany our text include:

- Connect
- SmartBook
- Test banks (via *Connect* or TestGen)
- Guided exercises
- Integrated Excel simulations
- Data Analytics Problems
- Active Learning Worksheets

These tools can be used independently or in conjunction with one another. A detailed description of each tool is included in the following sections of the front matter.

We appreciate your interest in our text and welcome comments, questions, and suggestions.

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ABOUT THE AUTHORS



Courtesy of Christopher T. Edmonds

Christopher T. Edmonds

Christopher T. Edmonds, PhD, is a professor in the Department of Accounting and Finance at the UAB Collat School of Business, where he is the course coordinator for the face-to-face and online principles of accounting courses. Dr. Edmonds is renowned for his innovative approach to teaching and developing engaging introductory accounting courses, both online and in person. He has been invited to speak at conferences and universities on best teaching practices and has delivered over 50 professional teaching workshops. Dr. Edmonds has received numerous awards for his dedication to teaching, including the UAB President's Outstanding Teaching Award, UAB Faculty Student Success Award, UAB Transformative Online Course Award, Collat School of Business Graduate Student Teaching Award, UAB Loudell Ellis Robinson Classroom Teaching Award, UAB Disability Support Recognition Award, and the Virginia Tech Favorite Faculty Award. He has also been nominated for the AAA/J Michael and Mary Anne Cook Award.

Dr. Edmonds has published four textbooks and has written numerous articles that have appeared in top-tier academic journals. He serves on several editorial boards and is highly respected in his field. Before entering academia, Dr. Edmonds worked as a software developer, creating solutions to put newspapers online. He obtained an MBA from UAB and a PhD in accounting from Virginia Polytechnic Institute and State University. Dr. Edmonds's passion for helping students learn inspired him to create hundreds of short videos teaching the fundamental concepts of accounting, which led to the publication of the first interactive video textbook for introductory accounting.

With his extensive experience in accounting education and his innovative teaching methods, Dr. Edmonds continues to inspire and empower students to achieve their academic and professional goals.



Mark A. Edmonds

Mark A. Edmonds

Mark A. Edmonds, PhD, CPA, is an associate professor in the Department of Accounting and Finance at the University of Alabama at Birmingham (UAB). He has taught principles and advanced accounting classes in face-to-face, flipped, and online formats.

Dr. Edmonds is currently spearheading the effort within the Collat School of Business to integrate data analytics into the accounting curriculum. He has developed business analytics teaching tools at both the graduate and undergraduate level. Several contributions have been made to this text, revolving around the data analytics concepts Dr. Edmonds incorporates into his classes. He is the recipient of the Loudell Ellis Robinson excellence in teaching award.

Dr. Edmonds began his career providing assurance services for the internationally recognized accounting firm Ernst & Young. He utilizes this professional experience to bring a practical approach to the concepts covered in this text. At the conclusion of his professional service, he obtained his PhD from Southern Illinois University Carbondale. He serves as the education adviser on the board of the Institute of Internal Auditors Birmingham Chapter. Dr. Edmonds's research focuses on alternative learning strategies in accounting. He frequently publishes in prominent journals such as *Issues in Accounting Education* and *Journal of Accounting Education*.

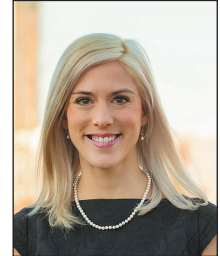
Jennifer E. Edmonds

Jennifer Echols Edmonds, PhD, is an associate professor at the University of Alabama at Birmingham (UAB) Collat School of Business. Her primary teaching areas are financial and managerial accounting. She has experience teaching in the undergraduate, MAC, and MBA programs.

Dr. Edmonds is passionate about increasing engagement and creating a community for all students. She has spoken at numerous conferences, such as the AAA Annual Meeting, AAA Conference on Teaching and Learning in Accounting, AAA Teaching, Learning & Curriculum section, Teachers of Accounting at Two-Year Colleges, and Annual Accounting Educators' Symposium. She has received the UAB Loudell Ellis Robinson Classroom Teaching Award and Provost's Transformative Online Course Award as well as teaching grants from Deloitte, UAB, and Virginia Tech. She created teaching resources for incorporating International Financial Reporting Standards into intermediate accounting. The teaching resources were published online at the American Accounting Association.

Also active in the research community, Dr. Edmonds serves on the editorial board for *Advances in Accounting* and *Journal of International Accounting, Auditing, and Taxation*. She has published articles in prominent journals such as *Journal of Accounting and Public Policy*, *Advances in Accounting*, *Research in Accounting Regulation*, and *The CPA Journal*.

Dr. Edmonds received a bachelor's degree in accounting from Birmingham-Southern College and completed her master's and PhD degrees in accounting at Virginia Polytechnic Institute and State University.



Courtesy of Jennifer Edmonds

WHAT WE DID TO MAKE IT BETTER

Specific chapter changes:

Chapter 1 An Introduction to Accounting

- New *Career Profile* section highlights a possible career path in accounting
- Updated *The Curious Accountant* 1 & 2 content focusing on **Apple**
- Revised *Reality Bytes* feature focusing on **Roblox**
- Updated *Focus on International Issues* text box that includes IFRS coverage
- Updated Exhibit 1.1 to make concepts more clear to students
- Updated Exhibit 1.2 to make the exhibit more appealing to students
- Updated Exhibit 1.8 with new real-world data analyzing **Tesla**'s financials
- New algorithmic self-study review problem with an author-created walkthrough video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Apple**'s real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 2 Accounting for Accruals and Deferrals

- Revised *The Curious Accountant* focusing on **Airbnb**
- Revised *Reality Bytes* feature focuses on **FTX** scandal
- New Learning Objective focuses on ESG reporting
- New Lecture Video focuses on ESG reporting
- New algorithmic self-study review problem with an author-created walkthrough video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Airbnb**'s real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 3 The Double-Entry Accounting System

- New *Career Profile* section highlights a possible career path in accounting
- Updated *The Curious Accountant* focusing on retailers
- Updated Exhibit 3.10 with new real-world data
- Updated Exhibit 3.12 with new real-world data
- New algorithmic self-study review problem with an author-created walkthrough video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Airbnb**'s real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 4 Accounting for Merchandising Businesses

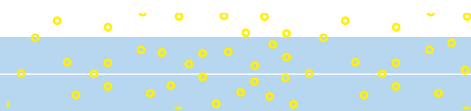
- Updated *The Curious Accountant* focusing on **Ford** and **AutoNation**
- Updated *Realty Bytes* feature with new real-world data
- Updated Exhibit 4.1 with new real-world data
- Updated Exhibit 4.6 with new real-world data
- Updated Exhibit 4.10 with new real-world data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Ford's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 5 Accounting for Inventories

- New *Career Profile* section highlights a possible career path in accounting
- Updated *The Curious Accountant* section focusing on **Albertsons**
- Updated *Realty Bytes* feature with new real-world data
- Updated the *Focus on International Issues* feature
- Updated Exhibit 5.1 with new real-world data
- Updated Exhibit 5.6 with new real-world data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Ford's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 6 Internal Control and Accounting for Cash

- Revised *The Curious Accountant* feature focusing on **Luckin Coffee**
- Updated Exhibit 6.1 with new real-world data
- Added Learning Objective 6-6: Identify the role of ethics in the accounting profession (moved from Chapter 2)
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Apple's** real-world financials
- New Integrated Excel problems with an author-created walk-through video





Chapter 7 Accounting for Receivables

- New *Career Profile* section highlights a possible career path in accounting
- Updated *The Curious Accountant* focusing on **General Dynamics**
- Updated *Reality Bytes* focusing on **Harley-Davidson**
- Updated Exhibit 7.7 with new real-world data
- Updated Exhibit 7.8 with new real-world data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Ford's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 8 Accounting for Long-Term Operational Assets

- Updated *The Curious Accountant* focusing on **Freeport-McMoRan**
- Revised *Reality Bytes* focusing on Elon Musk's purchase of **Twitter**
- Updated Exhibit 8.2 with new real-world data
- Updated Exhibit 8.8 with new real-world data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Freeport-McMoRan's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 9 Accounting for Current Liabilities and Payroll

- New *Career Profile* section highlights a possible career path in accounting
- Updated *The Curious Accountant* focusing on **Boeing**
- Updated Social Security and Medicare tax rates in LO 9-5
- Updated Exhibit 9.6 with new real-world data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Airbnb's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 10 Accounting for Long-Term Debt

- Revised *The Curious Accountant* focusing on **Twitter**
- Updated *Reality Bytes* focusing on the COVID-19 pandemic and debt covenants
- Updated Exhibit 10.13 with new real-world data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective

- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Ford's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 11 Proprietorships, Partnerships, and Corporations

- New *Career Profile* section highlights a possible career path in accounting
- Updated *The Curious Accountant* section
- Updated two *Reality Bytes* features with new real-world data
- Updated *Focus on International Issues*
- Updated Exhibit 11.3 with new real-world data
- Updated the new real-world data in *The Financial Analyst*
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Ford's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 12 Statement of Cash Flows

- Updated *The Curious Accountant* focusing on **Peloton Interactive**
- Updated *Reality Bytes* focusing on **Amazon**
- Updated *Focus on International Issues*
- Revised Exhibit 12.4 with new real-world data
- Revised Exhibit 12.6 with new real-world data
- Revised Exhibit 12.16 with new real-world data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Airbnb's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

Chapter 13 Financial Statement Analysis

- Revised *The Curious Accountant* focusing on **Alberstons**
- Updated all real-world ratio data
- New algorithmic self-study review problem with an author-created walk-through video
- New *Brief Exercises* for every learning objective
- New *Career Readiness* section focuses on Excel, Data Analytics, and Critical Thinking Problems using real-world data that are auto-gradable in *Connect*
- New *Tableau Dashboard Activity* focusing on analyzing **Apple's** real-world financials
- New Integrated Excel problems with an author-created walk-through video

“The beauty is in the details. The authors cover all the steps in buying goods, dealing with freight and discounts, and they cover the sales issues.”

DON LUCY, INDIAN
RIVER STATE COLLEGE
CENTRAL

HOW DOES THE BOOK

The Curious Accountant

Cindy recently purchased a new **Ford** automobile from a dealer near her home. When she told her friend, Tiffany, that she was able to purchase the car for \$1,000 less than the sticker price, Tiffany told Cindy she had gotten a lousy deal. "Everybody knows there is a huge markup on cars," Tiffany said. "You could have gotten a much lower price if you'd shopped around."

Cindy responded, "If there is such a big profit margin on cars, why did so many of the car manufacturers get into financial trouble?" Tiffany told her that she was confusing the maker of the car with the dealer. Tiffany argued that although the manufacturers may not have high profit margins, the dealers do, and told her again that she had paid too much.

Exhibit 4.1 presents the income statements for **AutoNation, Inc.** and **Ford Motor Company**. Based on these statements, do you think either of these women is correct? For example, if you pay \$20,000 for a vehicle from a dealership operated by AutoNation, the largest auto retailer in the United States, how much did the car cost the company? Also, how much did the car cost the Ford Motor Company to manufacture?

(See Answers to The Curious Accountant.)



Jim West/Alamy Stock Photo

Answers to The Curious Accountant

Data from **AutoNation** and **Ford** show that the markups automakers charge greatly depend on market conditions. Supply shortages, caused by the COVID-19 pandemic, created pent-up demand for cars in 2021, allowing auto dealers and manufacturers to charge top dollar for their inventory.

Looking at the AutoNation income statement, the new vehicles the company sold for \$12,081.7 million in 2021 cost the company \$10,880.1 to purchase, resulting in a gross margin of \$1,201.6, or 9.9 percent. In other words, if you bought an "average" car from AutoNation for \$20,000, the company's gross profit on it was \$1,980 (\$20,000 \times .099), meaning it paid **Ford** \$18,020 (\$20,000 $-$ \$1,980). The company still had other expenses to pay besides its cost of goods sold. In 2021, 5.3 percent of each dollar of AutoNation's sales was net profit (\$1,373.0 \div \$25,844.0). Remember, the amount shown for sales on AutoNation's income statement is based on what customers actually paid for the cars the company sold, not the "sticker price."

Meanwhile, if Ford sold the car to AutoNation for \$18,020, it earned a 9.1 percent gross margin on the sale, or \$1,640 [$\$11,499 \div \$126,150 = 9.1\%$; $(\$126,150 - \$114,651 = \$11,499)$] [$\$18,020 \times .091 = \$1,640$]. Like AutoNation, Ford still had other expenses to pay besides the cost of goods sold. In 2021, Ford earned 13.2 percent of net profit on

(\$136.34%)

REAL-WORLD EXAMPLES

The text provides a variety of real-world examples of financial accounting as an essential part of the management process. There are descriptions of accounting practices from real organizations such as **Apple**, **Airbnb**, **Twitter**, **Peloton**, **Amazon**, **Ford**, and many more. These companies are highlighted in blue in the text.

THE CURIOUS ACCOUNTANT

Each chapter opens with a short vignette. These pose a question about a real-world accounting issue related to the topic of the chapter. The answer to the question appears in a separate sidebar a few pages further into the chapter. Problems analyzing the financials of some of these companies are available in **Connect**.

CAREER PROFILES

Each profile outlines a unique career that is possible with an accounting degree and spotlights careers in private equity, corporate accounting, Big 4 accounting, teaching, and even being an entrepreneur! Students will learn about the career paths and job requirements of these top accountants, including educational background, salary range, work/life balance, travel opportunities, and even get some advice!

FOCUS ON INTERNATIONAL ISSUES

These boxed inserts expose students to IFRS and other international issues in accounting.

THE FINANCIAL ANALYST

Financial statement analysis with real-world examples is highlighted in each chapter under this heading.

CHECK YOURSELF

These short question/answer features occur at the end of each main topic and ask students to stop and think about the material just covered. The answer follows to provide immediate feedback before students go on to a new topic.

FOCUS ON INTERNATIONAL ISSUES

HOW DOES IFRS DIFFER FROM U.S. GAAP?

Chapter 1 discussed the progression toward a single global GAAP in the form of International Financial Reporting Standards (IFRS). That discussion noted that the United States does not currently allow domestic companies to use IFRS; they must follow GAAP. Let's briefly consider just how U.S. GAAP differs from IFRS.

The differences can be summarized in a few broad categories. First, some differences are relatively minor. Consider the case of bank overdrafts. Under IFRS, some bank overdrafts are included as a cash inflow and reported on the statement of cash flows. U.S. GAAP does not permit this. Conversely, some differences relate to very significant issues. Both IFRS and GAAP use historical cost as their primary method for reporting information on financial statements, but both allow exceptions in some circumstances. However, IFRS permits more exceptions to historical cost than GAAP does. Some of these differences will be discussed in later chapters.

Some of the differences affect how financial statements are presented in annual reports. IFRS requires companies to report all financial statements for the current year and the prior year—two years of comparative data. Rules of the Securities and Exchange Commission require U.S. companies to report two years of balance sheets, the current and prior year, and three years of all other statements. See the financial statements of **Target Corporation** in Appendix B as an example. Of course, companies can show additional years if they wish.

As you would expect in the first differences between IFRS and GAAP covered. Examples of such items include one company buys another and the company has subsidiaries that operate in general, they have more similar transactions. A person who has a 401(k) account can be paid a 401(k) account.



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The Financial Analyst

LO 6-5

Describe the auditor's role in financial reporting.

Companies communicate information to analysts and other users through a document called the **annual report**. These reports are usually printed in color on high-quality paper and contain lots of photographs. However, in an effort to reduce cost, some companies issue their annual reports in black and white on low-grade paper or in electronic form. A company's annual report contains much more than the financial statements. Annual reports often have 40 or more pages. The financial statements require only four to six pages. What is printed on

CHECK YOURSELF 3.1

What are the three sources of assets? Which accounts are debited and credited when a business acquires an asset?

Answer The three sources of assets are creditors, investors, and earnings. When a company acquires an asset, the asset account is debited and the source account is credited. For example, if a company earns revenue on account, the Receivables account is debited and the Revenue account is credited.

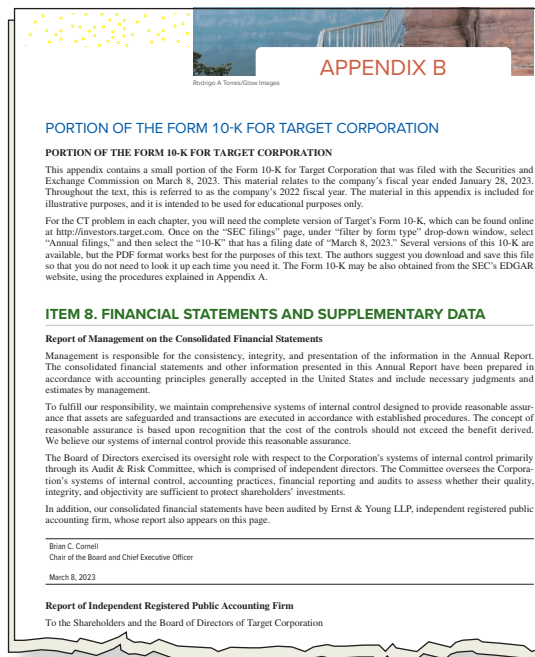
MOTIVATE STUDENTS?

● REALITY BYTES

This feature expands on the topics by showing how companies use the concepts discussed in the chapter to make real-world business decisions.

● CAREER READINESS

Each chapter includes an innovative section titled Career Readiness. This section offers Tableau Dashboard Activities (TDA), Integrated Excel problems, Business Applications Cases, Real-World Cases, Writing Assignments, Ethical Dilemmas, and Research Assignments.



● END OF CHAPTER STUDY GUIDE

Each chapter includes a study guide to make it easier for students to identify the most important points in a chapter. The study guide is broken into two sections: *A Look Back* and *A Look Forward*. *A Look Back* provides a summary of the content covered in each chapter presented in bulleted form. *A Look Forward* provides students a road map for what to expect from future chapters. Both of these resources combine to assist students in understanding how the content covered in each chapter fits into the big picture.

REALITY BYTES

Do all accounting systems require using debits and credits? The answer is a definite no. Many small businesses use a single-entry system. A checkbook constitutes a sufficient accounting system for many business owners. Deposits represent revenues, and payments constitute expenses. Many excellent automated accounting systems do not require data entry through a debit/credit recording scheme. **QuickBooks** is a good example of this type of system. Data are entered into the QuickBooks software program through a user-friendly computer interface that does not require knowledge of debit/credit terminology. Even so, the QuickBooks program produces traditional financial reports such as an income statement, balance sheet, and statement of cash flows. How is this possible? Before you become too ingrained in the debit/credit system, recall that throughout the first two chapters of this text, we illustrated accounting records without using debits and credits. Financial reports can be produced in many ways without using a double-entry system. Having recognized this point, we also note that the vast majority of medium- to large-sized companies use the double-entry system. Indeed, debit/credit terminology is a part of common culture. Most people have an understanding of what is happening when a business tells them that their account is being debited or credited. It is important for you to embrace the double-entry system as well as other financial reporting systems.



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CAREER READINESS

Data Analytics

We introduce students to data analytics through a series of Tableau Dashboard Activities (TDAs). These activities require students to think critically when interpreting accounting data and are available in *Connect*.

TDA 4.1—Using bar charts to exhibit common size metrics and showing how pie charts can be used to visualize expenses.

TDA 4.2—Analyze a simplified version of **Ford's** real-world financial statements through a visualization that emphasizes inventory and a multistep income statement.

Excel Resources

We introduce students to Excel by incorporating a series of Integrated Excel problems tailored to the specific topics covered in each chapter. These problems are designed to help students gain proficiency in Excel's basic functionality while familiarizing them with a range of Excel functions commonly employed in the accounting profession. For each Integrated Excel problem, a step-by-step tutorial video, featuring a similar yet distinct problem, can be found in *Connect* to further support students' learning.

AIE 4.1—Preparing a multistep income statement.

AIE 4.2—Preparing a common size income statement.

Note: Select exercises and Excel simulations also available with *Intelliprep*.

● ANNUAL REPORTS

Excerpts from the 2022 annual report for **Target Corporation** are shown in Appendix B.

Business Application Problems related to the annual report are included at the end of each chapter.

A financial statement analysis project for the annual report is located in Appendix D. Also, a general-purpose annual report project is included for instructors to assign for any company.



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END OF CHAPTER STUDY GUIDE

<< A Look Back

This chapter introduced *merchandising companies*. Merchandising companies earn profits by selling inventory at prices that are higher than the cost paid for the goods. Merchandising companies include *retail companies* (companies that sell goods to the final consumer) and *wholesale companies* (companies that sell to other merchandising companies).

A Look Forward >>

To this point, the text has explained the basic accounting cycle for service and merchandising businesses. Future chapters more closely address specific accounting issues. For example, in Chapter 5 you will learn how to deal with inventory items that are purchased at differing prices. Other chapters will discuss a variety of specific practices widely used by real-world companies.

“Strong chapter introduction for students who may understand what a cash flow statement is and for those who may not.”

PAUL GOODCHILD,
UNIVERSITY OF CENTRAL MISSOURI

HOW ARE CHAPTER CONCEPTS

Regardless of the instructional approach, there is no shortcut to learning accounting. Students must practice to master basic accounting concepts. The text and *Connect* include a prodigious supply of practice materials and exercises and problems.

In Edmonds, *Fundamental Financial Accounting Concepts*, we use the following icons to help students identify the type of question being asked:



• Writing assignments



• Internet assignments



• Group exercises



• Real company examples



• Ethics cases



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SELF-STUDY REVIEW PROBLEM

Academy Sales Company (ASC) started the Year 2 accounting period with the balances given in the financial statements model shown as follows. During Year 2, ASC experienced the following business events:

1. Purchased \$16,000 of merchandise inventory on account, terms 2/10, n/30.
2. The goods that were purchased in Event 1 were delivered FOB shipping point. Freight costs of \$600 were paid in cash by the responsible party.
3. Returned \$500 of goods purchased in Event 1.
- 4a. Recorded the cash discount on the goods purchased in Event 1.
- 4b. Paid the balance due on the account payable within the discount period.
- 5a. Recognized \$21,000 of cash revenue from the sale of merchandise.
- 5b. Recognized \$15,000 of cost of goods sold.
6. The merchandise in Event 5a was sold to customers FOB destination. Freight costs of \$950 were paid in cash by the responsible party.
7. Paid cash of \$4,000 for selling and administrative expenses.
8. Sold the land for \$5,600 cash.

Required

- a. Record the preceding transactions in a financial statements model like the following one.

	Balance Sheet										Income Statement			Statement of Cash Flows			
	Assets					=	Liabilities + Stockholders' Equity										
Event	Cash	+	Inventory	+	Land	=	Accts. Pay.	+	Com. Stk.	+	Ret. Earn.	Rev./ Gain	-	Exp.	=	Net Inc.	
Bal.	25,000	+	3,000	+	5,000	=	0	+	18,000	+	15,000	NA	-	NA	=	NA	NA

PROBLEMS—SERIES A



connect

All applicable Problems in Series A are available in Connect.

LO 4-4

Problem 4-23A Identifying freight costs

Required

For each of the following events, determine the amount of freight paid by The Box Company. Also indicate whether the freight cost would be classified as a product or period (selling and administrative) cost.

- a. Purchased merchandise with freight costs of \$650. The merchandise was shipped FOB shipping point.
- b. Shipped merchandise to customers, freight terms FOB shipping point. The freight costs were \$310.
- c. Purchased inventory with freight costs of \$1,500. The goods were shipped FOB destination.
- d. Sold merchandise to a customer. Freight costs were \$520. The goods were shipped FOB destination.

LO 4-1

Problem 4-24A Identifying product and period costs

SELF-STUDY REVIEW PROBLEM

This section offers a problem and solution of major chapter concepts. An author-created video walking students through this problem and solution is available in *Connect*. *Connect* also has algorithmic versions of this problem that you can assign to your students.

EXERCISE SERIES A & B AND PROBLEM SERIES A & B

There are two sets of problems and exercises: Series A and B. Instructors can assign one set for homework and another set for classwork.

• Check Figures

The figures provide key answers for selected problems.

• In-Class Worksheets for Set B Exercises and Problems

To facilitate students that only purchase *Connect* (i.e., eBook only), in-class worksheets

REINFORCED?

are available for all series B exercises and problems. These Word documents include each exercise and problem followed by a worksheet to assist students in organizing the solution. The B series in-class worksheets are available in *Connect* under Instructor Resources.

● COMPREHENSIVE PROBLEM

Beginning in Chapter 1, a comprehensive problem builds in each successive chapter, with the ending account balances in one chapter becoming the beginning account balances in the next chapter.

● MASTERING EXCEL AND USING EXCEL

We introduce students to Excel by incorporating a series of Integrated Excel problems tailored to the specific topics covered in each chapter. These problems are designed to help students gain proficiency in Excel's basic functionality while familiarizing them with a range of Excel functions commonly employed in the accounting profession. For each Integrated Excel problem, a step-by-step tutorial video, featuring a similar yet distinct problem, can be found in *Connect* to further support students' learning.

We use icons to help students identify the type of question being asked.

COMPREHENSIVE PROBLEM

The trial balance of Pacilio Security Services, Inc. as of January 1, Year 4, had the following normal balances.

Cash	\$12,500
Accounts receivable	3,500
Supplies	120
Prepaid rent	1,000
Land	4,000
Unearned revenue	900
Salaries payable	1,000
Common stock	8,000
Retained earnings	11,220

In Year 4, Pacilio Security Services decided to expand its business to sell security systems and offer 24-hour alarm monitoring services. It plans to phase out its current service of providing security personnel at various events. The following summary transactions occurred during Year 4:

1. Paid the salaries payable from Year 3.
2. Acquired an additional \$42,000 cash from the issue of common stock.
3. Rented a larger building on May 1; paid \$6,000 for 12 months' rent in advance.
4. Paid \$800 cash for supplies to be used over the next several months by the business.
5. Purchased alarm systems for resale at a cost of \$12,000. The alarm systems were purchased on account with the terms 2/10, n/30.
6. Returned alarm systems that had a cost of \$240.
7. Installed alarm systems during the year for a total sales amount of \$20,000. The cost of these systems amounted to \$9,440. Sales of \$15,000 were on account, while \$5,000 were cash sales.
8. Paid the installers and other employees a total of \$9,500 in salaries.

McGraw Hill Excel Question - Saved

File Home Insert Draw Formulas Data Review View Help

Calibri (Body) 11

Search for tools, help, and more (Alt + Q)

Editing View Comments

C21

	A	B	C	D	E	F	G	H	I	J	K
1											
2	As of December 31, Year 1, Moss Company had total cash of \$195,000, notes payable					\$195,000					
3	of \$90,500, and common stock of \$84,500.					\$90,500	\$84,500				
4											
5	During Year 2, Moss earned \$42,000 of cash revenue, paid \$24,000 for cash expenses,					\$42,000	\$24,000				
6	and paid a \$3,000 cash dividend to the stockholders.					\$3,000					
7											
8	(Use cell references from the given information to complete this question.)										
9											
10	Required										
11	a. Determine the amount of retained earnings as of December 31, Year 1.										
12											
13	b. & c. Create an accounting equation and record the beginning account balances, revenue, expense, and dividend events under the appropriate elements of the accounting										
14	(Enter any decreases to account balances with a minus sign.)										
15											
16											
17											
18											
19											
20											
21	Beginning balances										
22	1. Earned revenue										
23	2. Paid expenses										
24	3. Paid dividend										
25	Ending balance										
26											
27	d. Complete the equality of the accounting equation as of December 31, Year 2.										
28											
29											
30											
31											
32											
33											
34	Students: The scratchpad area is for you to do any additional work you need to solve this question or can be used to show your work.										
35	Nothing in this area will be graded, but it will be submitted with your assignment.										
36											
37											
38											
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41											

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Check Answers

Check My Work

Legend

Graded cell: Leave blank if no answer is needed.

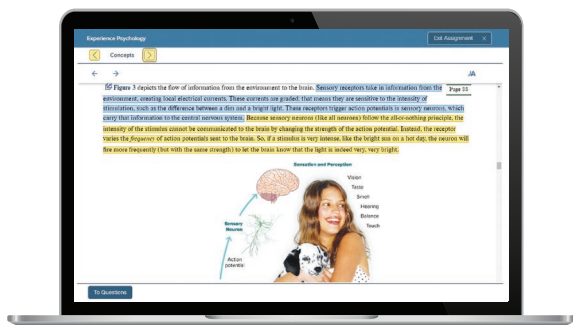
Scratchpad: Use as a non-graded workspace

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***"I really liked this app—
it made it easy to study
when you don't have your
textbook in front of you."***

Jordan Cunningham, a student at
Eastern Washington University

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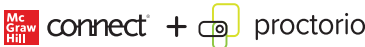
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HOW CAN TECHNOLOGY HELP

• Online Assignments

Connect helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. *Connect* grades homework automatically and gives immediate feedback on any questions students may have missed. Our assignable, gradable end-of-chapter content includes a general journal application that looks and feels like what you would find in a general ledger software package. Also, select questions have been redesigned to test students' knowledge more fully. They now include tables for students to work through rather than requiring that all calculations be done offline.

• Remote Proctoring and Browser-Locking Capabilities

 New remote proctoring and browser-locking capabilities, hosted by Proctorio within *Connect*, provide control of the assessment environment by enabling security options and verifying the identity of the student.

Seamlessly integrated within *Connect*, these services allow instructors to control the assessment experience by verifying identification, restricting browser activity, and monitoring student actions.

Instant and detailed reporting gives instructors an at-a-glance view of potential academic integrity concerns, thereby avoiding personal bias and supporting evidence-based claims.

• NEW! Tableau Dashboard Activities

Tableau Dashboard Activities allow students to explore live Tableau dashboards directly integrated into *Connect*, and include auto-graded questions focused on both calculations and analysis. Students can check their understanding and apply what they are learning within the framework of analytics and critical thinking.

• Lecture Videos

Lecture videos are available for every learning objective introduced throughout the text. The videos have been developed by a member of the author team and have the touch and feel of a live lecture. The videos are accompanied by a set of self-assessment quizzes. Students can watch the videos and then test themselves to determine if they understand the material presented in the video. Students can repeat the process, switching back and forth between the video and self-assessment quizzes, until they are satisfied that they understand the material.

• Integrated Excel

We introduce students to Excel by incorporating a series of Integrated Excel problems tailored to the specific topics covered in each chapter. These problems are designed to help students gain proficiency in Excel's basic functionality while familiarizing them with a range of Excel functions commonly employed in the accounting profession. For each Integrated Excel problem, a step-by-step tutorial video, featuring a similar yet distinct problem, can be found in *Connect* to further support students' learning.

• Guided Examples

The Guided Examples in *Connect* provide a video-based, step-by-step walk-through of select exercises similar to those assigned. These short videos can be made available to students as hints by instructors and provide reinforcement when students need it most.

• Instructor Library

The **Connect Instructor Library** is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect* Instructor Library includes access to:

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- Instructor's Manual

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• Evergreen

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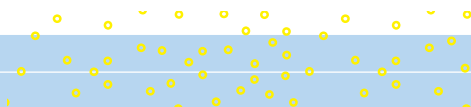
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SUPPLEMENTS FOR INSTRUCTORS

Assurance of Learning Ready

Many educational institutions today are focused on the notion of *assurance of learning*, an important element of many accreditation standards. *Fundamental Financial Accounting Concepts* is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution.

Each chapter in the book begins with a list of numbered learning objectives, which appear throughout the chapter, as well as in the end-of-chapter assignments. Every Test Bank question for *Fundamental Financial Accounting Concepts* maps to a specific chapter learning objective in the textbook. Each Test Bank question also identifies topic area, level of difficulty, Bloom's Taxonomy level, and AICPA and AACSB skill area. You can use our Test Bank software, *EZ Test Online*, or *Connect Plus Accounting* to easily search for learning objectives that directly relate to the learning objectives for your course. You can then use the reporting features of *EZ Test* to aggregate student results in a similar fashion, making the collection and presentation of Assurance of Learning data simple and easy.


AACSB Statement

McGraw Hill Education is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Fundamental Financial Accounting Concepts* recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the Test Bank to the general knowledge and skill guidelines in the revised AACSB standards.

The statements contained in *Fundamental Financial Accounting Concepts* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty.

While *Fundamental Financial Accounting Concepts* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within the text and Test Bank, labeled selected questions according to the eight general knowledge and skill areas.

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 *Connect* offers a number of powerful tools and features to make managing your classroom easier. *Connect* with Edmonds offers enhanced features and technology to help both you and your students make the most of your time inside and outside the classroom.

Test Builder in Connect

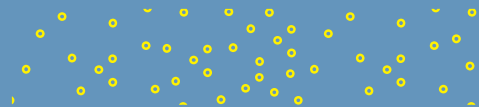
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- easily pinpoint the most relevant content through robust filtering options.
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- choose the layout and spacing.
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Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.

ACKNOWLEDGMENTS



Our grateful appreciation is extended to those who reviewed previous editions:

Special thanks to the talented people who prepare the supplements and review the content. These take a great deal of time and effort and we appreciate our contributors' efforts. Thank you to Beth Kobylarz, Helen Roybark, Nancy Snow, Mark Sears, Jean Bissell, and Laurie Merz for their work on the new release of FFAC.

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• Christopher T. Edmonds • Mark A. Edmonds • Jennifer E. Edmonds

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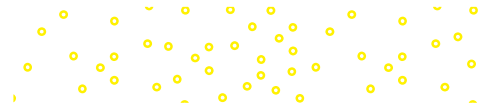
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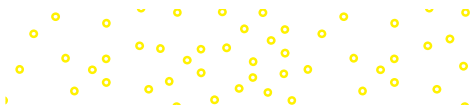


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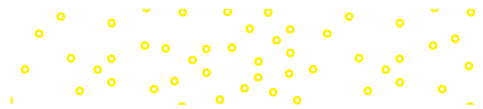
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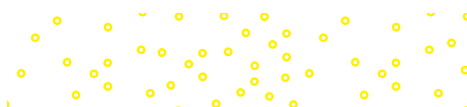
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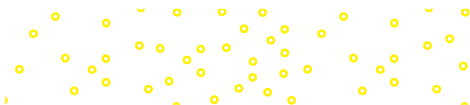


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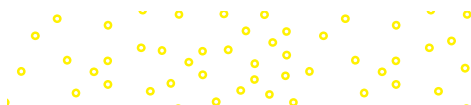
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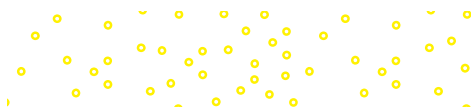
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