Financial Accounting Series

Wayne Thomas
Steed School of Accounting
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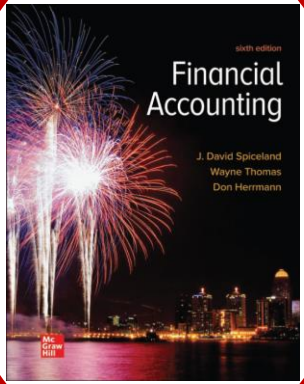
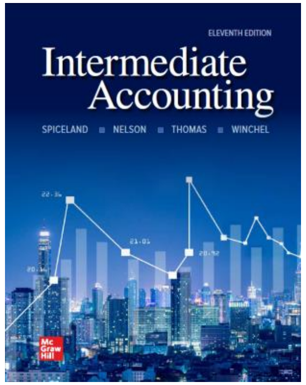
Financial Accounting



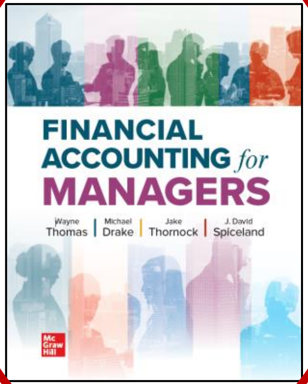
David Spiceland
Wayne Thomas
Don Herrmann

Intermediate Accounting



David Spiceland
Mark Nelson
Wayne Thomas
Jen Winchel

Financial Accounting for Managers



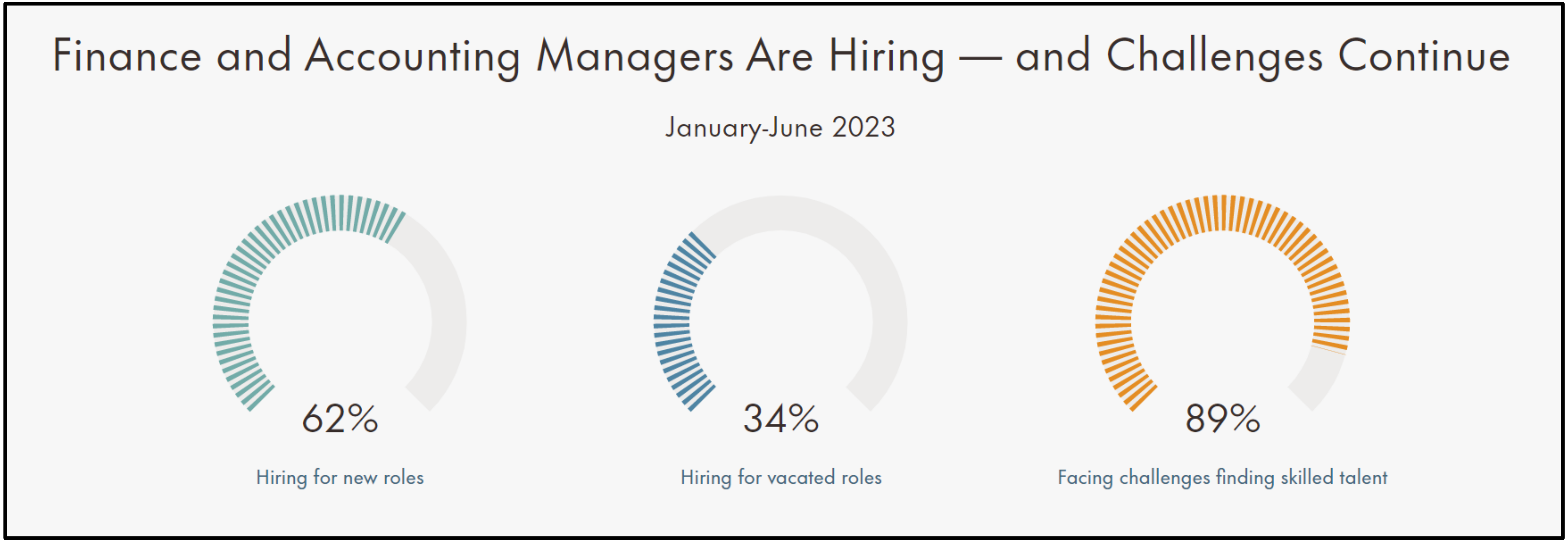
Wayne Thomas
Mike Drake
Jake Thornock
David Spiceland

Using Introductory Financial Accounting for Driving Students to the Major

- Past two years, 300,000 accountants left the profession.
- At the same time, fewer students majoring in accounting
- Mindset of today's students:
  - ➢ work should have meaning
  - ➢ work should never be uninspiring or uncool

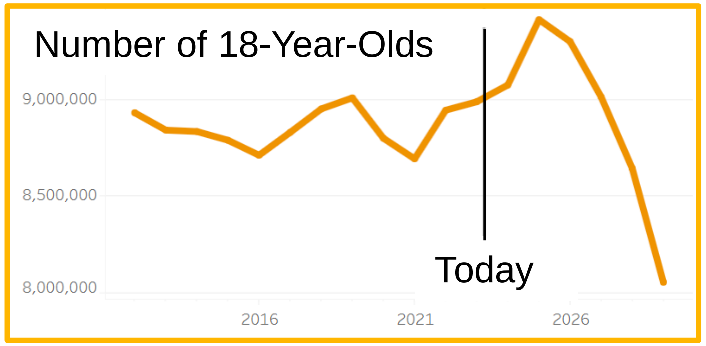
- The accounting profession must take steps to make itself seem more essential.
  - ➢ **Evolution (Rebranding)** → capture data analytics, ESG, decision making, risk analysis, tech skills, cloud computing, and more
- "A society that can't produce enough accountants to keep track of where the money went is a society whose days may be numbered."

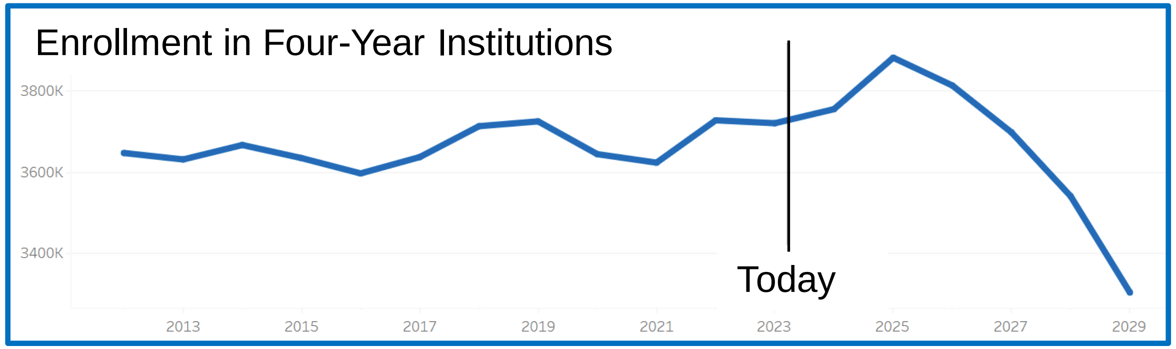
Shortage of Accountants



(Robert Half)

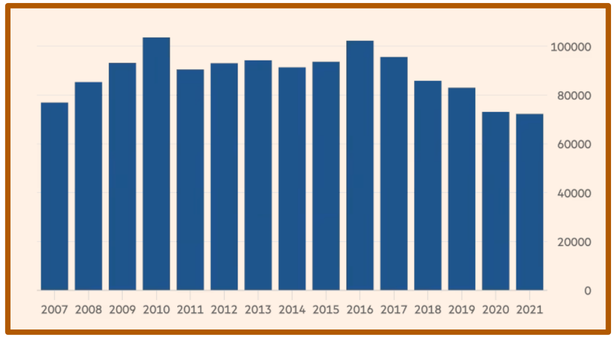
The Shortage is Expected to Widen





Polling Question #1

- Fewer college students (9.4% fewer since pandemic)
  - 2026 enrollment cliff (Great Recession of 2008)
- 10-year low for CPA exam candidates (AICPA) →



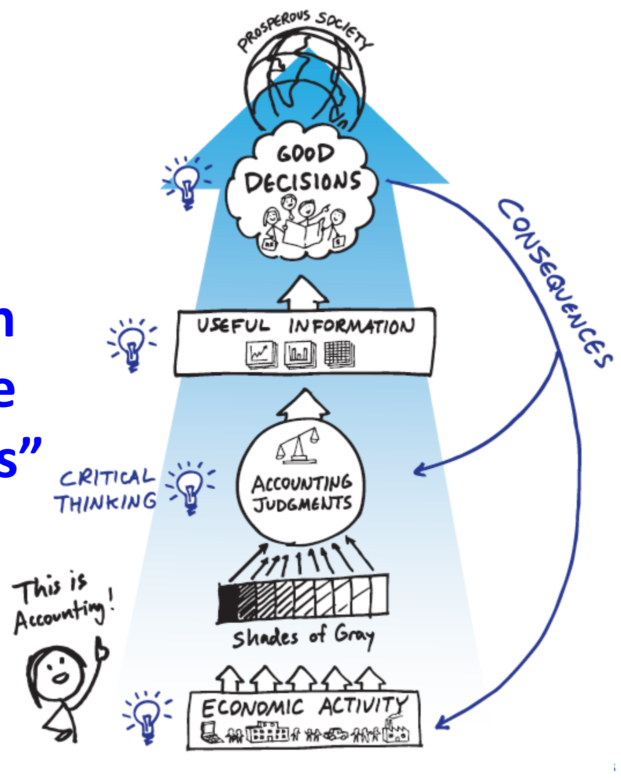
- Great Resignation (labor force participation rate ↓, remote work appeal ↑)
- Retirement of CPAs (Baby Boomers, 1946-1964)
  - 75% of today's accountants will retire in the next 15 years (AICPA)

Using Introductory Financial Accounting for Driving Students to the Major

- There's good news!
- Accounting IS cool, inspiring, and meaningful
- We just need to get the word out

- We're lucky
  - ➢ Accounting is a profession
  - ➢ Accounting is a dynamic social science
  - ➢ Accounting matters to our market-based economy

"To engage and retain the strongest possible community of students"



(Pathways Commission)

- We have so much more to tell them than just…
  - ➢ 12 chapters + 2 Appendices with 99 Learning Objectives

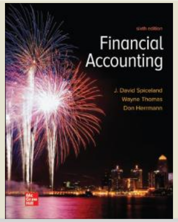
Using Introductory Financial Accounting for Driving Students to the Major

- **Framework**: Organize their perception of accounting
- **Decision making**: Focus on accounting as a business tool
- **Real-world**: Make the course relevant
- **Career readiness**: Help build skills they'll need

Learning Platform = Text + Assignments + Supplements

- What learning platform do you need to drive the best students to the accounting major?

Framework for Financial Accounting



Approach

- Build a framework
- Reinforce the framework
- Enrich the framework

Assignments (auto-graded)

- Brief Exercises
- Exercises
- Problems
- General Ledger Software
- Chapter Framework questions
  - Data Visualizations
  - Dashboard Activities
  - Financial Analysis Cases
  - EDGAR Cases
  - Ethics Cases
  - Earnings Management Cases
  - Integrated Excel
  - SmartBook

Investors, creditors, managers, etc.

*Make **Decisions** About*

Companies

*Activities **Measured** by*

Financial Accountants

*Information **Communicated** to*

Income Statement
(Illustration 1–5, p. 10)

Revenues
− **Expenses**
= Net income

Statement of Stockholders' Equity
(Illustration 1–6, p. 11)

Common Stock	+ Retained Earnings	= Stockholders' Equity
Beginning balance + New issuances	Beginning balance + Net income − **Dividends**	Beginning total + New issuances + Net income − Dividends
Ending balance	+ Ending balance	= Ending total

Balance Sheet
(Illustration 1–7, p. 13)

Assets (including Cash) = **Liabilities** + **Stockholders' Equity**

Statement of Cash Flows
(Illustration 1–8, p. 15)

Cash flows from operating activities
+ Cash flows from investing activities
+ Cash flows from financing activities
= Change in Cash

Polling Question #2

Accounts Used to Measure Activities

1. **Assets** – Resources of a company
2. **Liabilities** – Amounts owed by the company
3. **Stockholders' Equity** – Owners' claims
4. **Dividends** – Distributions to owners
5. **Revenues** – Sales of products or services
6. **Expenses** – Costs of providing sales

Effect of Debit and Credit on Account Balances

Assets Dividends Expenses	Liabilities Stockholders' Equity Revenues
Debit = ↑ Credit = ↓	Credit = ↑ Debit = ↓

Recording Business Transactions

Date	Debit	Credit
Account Title	Amount	
Account Title		Amount
(Description of transaction)		

Journal Entry with Financial Statement Effects (measurement/communication)

Purchase inventory on account

Income Statement

R	−	E	=	NI
No effect				

Balance Sheet

A	=	L	+	SE
+2,700 Inventory		+2,700 Accts. Pay.		

April 25	Debit	Credit
Inventory	**2,700**	
Accounts Payable		**2,700**
(Purchase inventory on account)		

Sell inventory on account

Income Statement

R	−	E	=	NI
+4,500 Sales Rev.		+2,500 COGS		+2,000

Balance Sheet

A	=	L	+	SE
+4,500 Accts. Rec.				+2,000
−2,500 Inventory				

July 17	Debit	Credit
Accounts Receivable	**4,500**	
Sales Revenue		**4,500**
(Sell inventory on account)		
($4,500 = 300 units × $15)		
Cost of Goods Sold	**2,500**	
Inventory		**2,500**
(Record cost of inventory sold)		
($2,500 = [100 units × $7] + [200 units × $9])		

Brief Exercises with Financial Statement Effects

- Assign **Brief Exercises** for recording journal entries and their related **Brief Exercise** for financial statement effects.

BE6–10 Shankar Company uses a perpetual system to record inventory transactions. The company purchases inventory on account on February 2 for $40,000 and then sells this inventory on account on March 17 for $60,000. **Record transactions** for (a) the purchase of inventory on account and (b) the sale of inventory on account.

BE6–24 Refer to the information in BE6–10. **Determine the financial statement effects** for (a) the purchase of inventory on account and (b) the sale of inventory on account.

Brief Exercises with Financial Statement Effects

BE6–10
Record transactions

Journal entry worksheet

< 1 2 3 >

Record the purchase of inventory on account for $40,000.

Note: Enter debits before credits.

Date	General Journal	Debit	Credit
February 02	Inventory	40,000	
	Accounts Payable		40,000

Record entry | Clear entry | View general journal

Brief Exercises with Financial Statement Effects

BE6–24
Determine the financial statement effects

Shankar Company uses a perpetual system to record inventory transactions. The company purchases inventory on account on February 2 for $40,000 and then sells this inventory on account on March 17 for $60,000.

Required:

(a) Determine the **financial statement effects** for the purchase of inventory on account.

Income Statement						
Revenues		−	Expenses		=	Net Income
Balance Sheet						
Assets		=	Liabilities		+	Stockholders' Equity
40,000	Inventory		40,000	Accounts Payable		

Brief Exercises with Financial Statement Effects

BE6–24
Determine the financial statement effects

Shankar Company uses a perpetual system to record inventory transactions. The company purchases inventory on account on February 2 for $40,000 and then sells this inventory on account on March 17 for $60,000.

Required:

(b) Determine the **financial statement effects** for the sale of inventory on account.

Income Statement						
Revenues		−	Expenses		=	Net Income
60,000	Sales Revenue		40,000	Cost of Goods Sold		20,000
Balance Sheet						
Assets		=	Liabilities		+	Stockholders' Equity
60,000	Accounts Receivable					20,000
(40,000)	Inventory					

End chapter with Analysis Section (Decision Making)

ANALYSIS

INVENTORY ANALYSIS

Best Buy vs. Tiffany

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

$$\text{Average days in inventory} = \frac{365}{\text{Inventory turnover ratio}}$$

	Inventory Turnover Ratio	Average Days in Inventory
Best Buy	\$33,590 ÷ \$5,291.5 = 6.3 times	$\frac{365}{6.3}$ = 58 days
Tiffany	\$1,662 ÷ \$2,446.0 = 0.7 times	$\frac{365}{0.7}$ = 521 days

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}}$$

	Gross Profit/Net Sales	=	Gross Profit Ratio
Best Buy	\$10,048/\$43,638	=	23%
Tiffany	\$2,762/\$4,424	=	62%

Chapter Framework

- Every chapter
- One-page illustration
- Summarize for major topics:

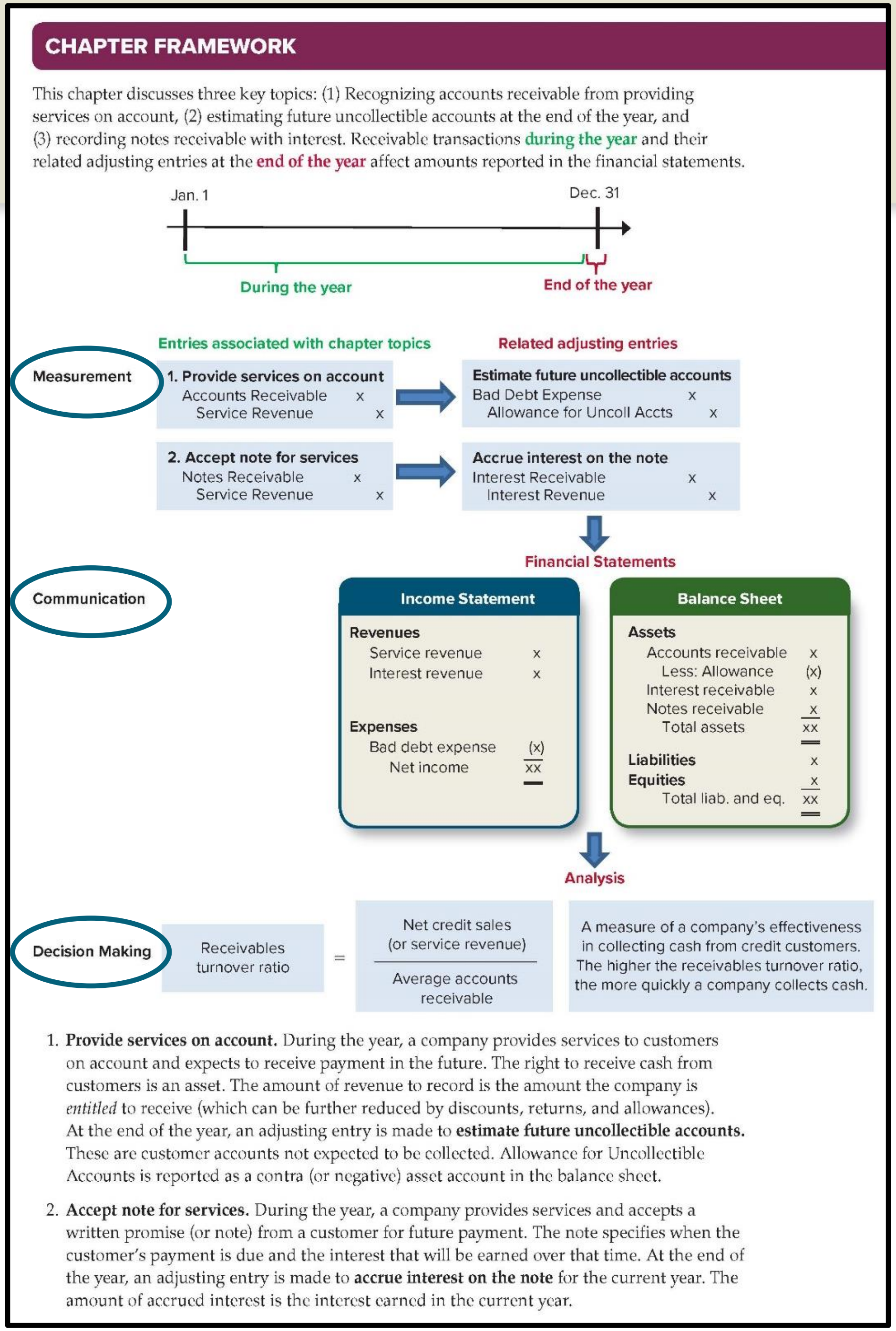
  Measurement (during vs. end)

  Communication (IS & BS)

  Decision Making (Ratios & interp.)

Also:

- Video walk-through (2-4 min.)
- 10 Questions in Connect
- Pre-class assignment, post-class assignment, or review

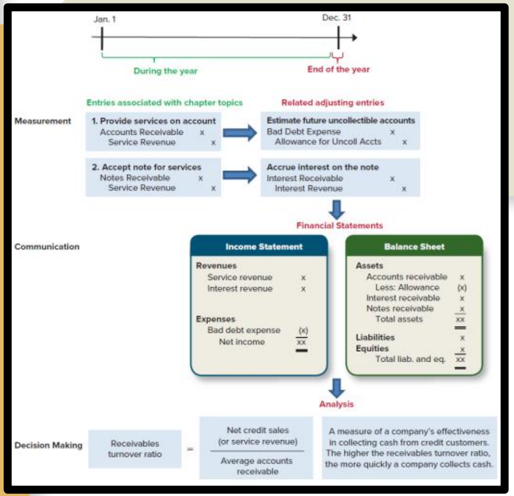


CHAPTER FRAMEWORK

This chapter discusses three key topics: (1) Recognizing accounts receivable from providing services on account, (2) estimating future uncollectible accounts at the end of the year, and (3) recording notes receivable with interest. Receivable transactions during the year and their related adjusting entries at the end of the year affect amounts reported in the financial statements.

1. **Provide services on account.** During the year, a company provides services to customers on account and expects to receive payment in the future. The right to receive cash from customers is an asset. The amount of revenue to record is the amount the company is *entitled* to receive (which can be further reduced by discounts, returns, and allowances). At the end of the year, an adjusting entry is made to **estimate future uncollectible accounts.** These are customer accounts not expected to be collected. Allowance for Uncollectible Accounts is reported as a contra (or negative) asset account in the balance sheet.
2. **Accept note for services.** During the year, a company provides services and accepts a written promise (or note) from a customer for future payment. The note specifies when the customer's payment is due and the interest that will be earned over that time. At the end of the year, an adjusting entry is made to **accrue interest on the note** for the current year. The amount of accrued interest is the interest earned in the current year.

Chapter Framework



These 5 questions + 5 more

<u>Purposeful order:</u>

Measurement (during the year)

↓

Measurement (end of the year)

↓

Communication (income statement)

↓

Communication (balance sheet)

↓

Decision Making (ratio analysis)

Chapter Framework Questions

1. **Measurement (during the year):** During the year, a company provides services to customers on account and expects to receive cash in the future. The company records these services on account to which of the following accounts?
   a. Cash.
   b. Accounts Receivable.
   c. Allowance for Uncollectible Accounts.
   d. Services on account are not recorded until the cash is collected.
2. **Measurement (end of the year):** At the end of the year, an adjusting entry is recorded to estimate future uncollectible accounts. The adjusting entry involves:
   a. Debit Bad Debt Expense; credit Allowance for Uncollectible Accounts.
   b. Debit Bad Debt Expense; credit Accounts Receivable.
   c. Debit Service Revenue; credit Accounts Receivable.
   d. Debit Allowance for Uncollectible Accounts; credit Accounts Receivable.
3. **Communication (income statement):** The balance of Bad Debt Expense from estimating *future* uncollectible accounts has what effect on the income statement in the *current* year?
   a Increases net income.
   b. Decreases net income.
   c. No effect.
4. **Communication (balance sheet):** Which of the following is reported in the balance sheet as a contra (or negative) asset account equal to the amount of estimated future uncollectible accounts?
   a. Bad Debt Expense.
   b. Accounts Receivable.
   c. Allowance for Uncollectible Accounts.
   d. Service Revenue.
5. **Decision Making (ratio analysis):** A company that provides credit sales or services to customers and then more effectively collects cash from those credit customers would report a ________ receivables turnover ratio.
   a. Higher.
   b. Lower.

General Ledger Assignments

Measurement → **Communication** → **Decision Making**

Requirement	General Journal	General Ledger	Trial Balance	Income Statement	Balance Sheet	Analysis

Prepare the journal entries for transactions. If no entry is required for a particular transaction/event, select "No journal entry required" in the first account field.

No	Date	Account Title	Debit	Credit
1	Jan 02	Prepaid Rent	9,600	
		Cash		9,600
2	Jan 09	Supplies	4,700	
		Accounts Payable		4,700
3	Jan 13	Accounts Receivable	26,700	
		Service Revenue		26,700
4	Jan 17	Cash	4,900	
		Deferred Revenue		4,900
5	Jan 20	Salaries Expense	12,700	
		Cash		12,700
6	Jan 22	Cash	25,300	
		Accounts Receivable		25,300
7	Jan 29	Accounts Payable	5,200	
		Cash		5,200

General Ledger Assignments

Dynamite Fireworks		
Income Statement		
For the year ended January 31, 2021		
Revenues:		
Service Revenue	$ 30,800	
Total Revenue		30,800
Expenses:		
Salaries Expense	17,660	
Rent Expense	800	
Supplies Expense	5,000	
Total Expenses		23,460
Net Income		$ 7,340

Income Statement

Account balances auto-fill once student enters account

Balance Sheet

Dynamite Fireworks			
Balance Sheet			
January 31, 2021			
ssets		Liabilities	
Current Assets:		Current Liabilities:	
Cash	$ 27,700	Accounts Payable	$ 3,900
Accounts Receivable	7,800	Deferred Revenue	800
Supplies	4,000	Salaries Payable	4,960
Prepaid Rent	8,800		
		Total Current Liabilities	9,660
Total Current Assets	48,300	Total Liabilities	9,660
Long-term Assets:		Stockholders' Equity	
Land	62,000	Common Stock	77,000
		Retained Earnings	23,640
			0
		Total Stockholders' Equity	100,640
Total Assets	$ 110,300	Total Liabilities & Stockholders' Equity	$ 110,300

- Not just the accounting cycle chapters
- All chapters
- Reinforce the more advanced topics

Polling Question #3

Enrich the Class:
Real-World Perspective Cases

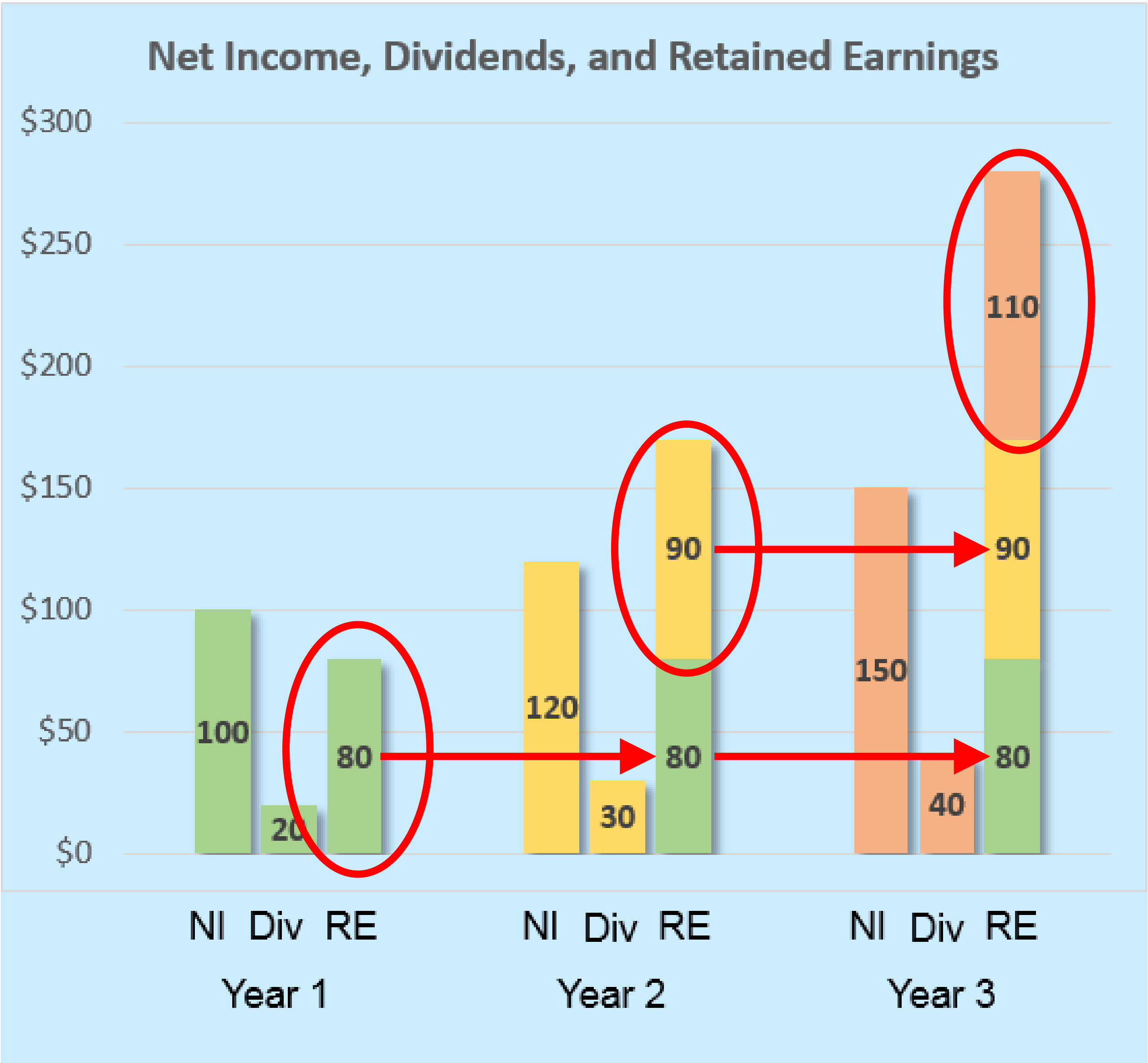
- **Data Analytics & Excel**
- **EDGAR** (unique for each chapter, visit SEC website)
- **Financial Analysis – American Eagle Outfitters** (all chapters, Appendix A)
- **Financial Analysis – Buckle** (all chapters, Appendix B)
- **Comparative Analysis – American Eagle vs. Buckle** (all chapters)
- **Sustainability** (unique company for each chapter)
- **Ethics** (algorithmic)
- **Earnings Management** (algorithmic)
- **Great Adventures** (Continuing problem in all chapters, Start-up comnpany)

Auto-graded!

Data Analytics & Excel
(Auto-Graded)

1. **Data Visualizations** (Turn accounting concepts into visuals)
2. **Dashboards** (Student must “interact” with the visual to extract answer)
3. **Applying Tableau** (video and step-by-step instruction)
4. **Integrated Excel** (work in Excel within Connect)
5. **Applying Excel** (video and demonstration of the power of Excel)

Data Visualizations
(Auto-Graded)



Data Visualizations
(Auto-Graded)

1. What is the amount of Retained Earnings at the end of Year 1? **$80**

2a. At the end of Year 2, the company reports Net Income of $120. This amount includes:

Revenues minus expenses in Year 2 only

2b. What amount of Dividends did the company declare in Year 2? **$30**

2c. What is the ending balance of Retained Earnings in Year 2? **$170**

2d. The ending balance of Retained Earnings in Year 2 includes:

Net Income minus dividends from Year 1 and Year 2

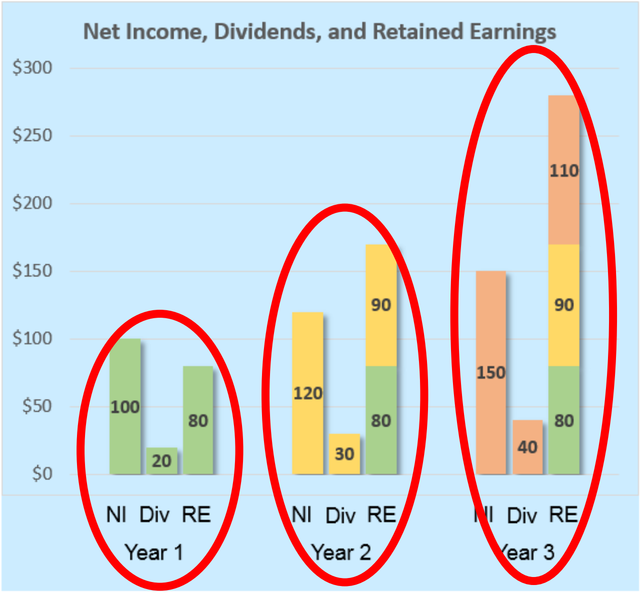
3a. What amount of Net Income did the company report in Year 3? **$150**

3b. What amount of Dividends did the company declare in Year 3? **$40**

3c. What is the ending balance of Retained Earnings in Year 3? **$280**

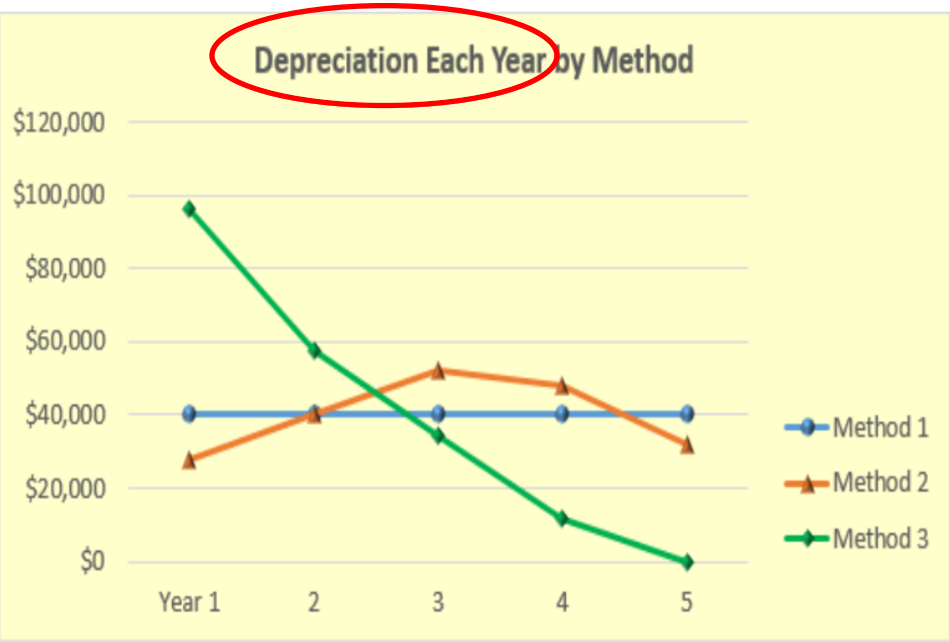
3d. The ending balance of Retained Earnings in Year 3 includes:

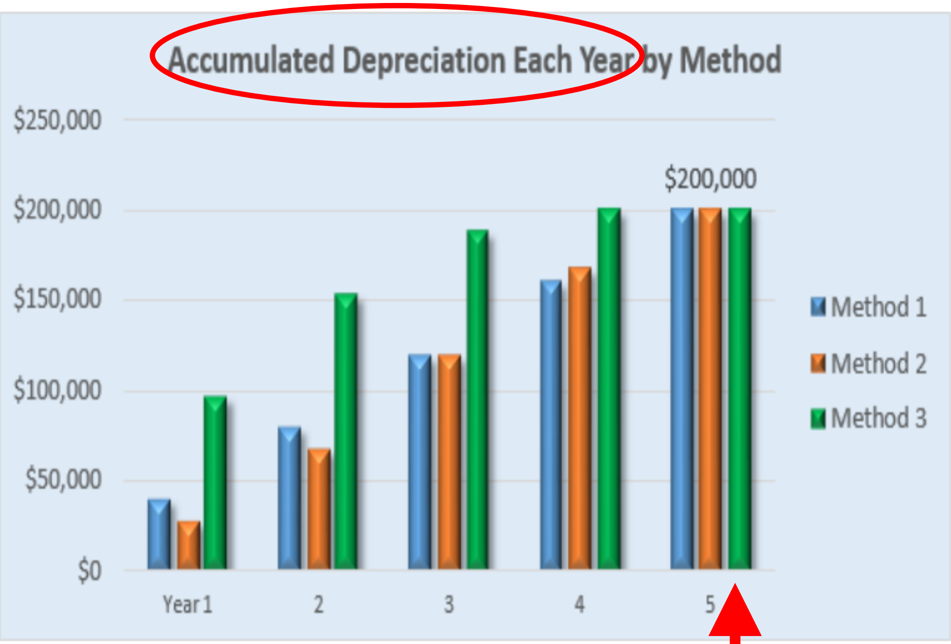
Net Income minus dividends from Year 1, Year 2, and Year 3



Data Visualizations
(Auto-Graded)

Delivery Service Express (DSE) specializes in the delivery of refrigerated foods. The warehouse manager **purchased a delivery truck for $240,000.** Part of the job of the Chief Financial Officer (CFO) is to depreciate the delivery truck over its estimated useful life. The CFO is **considering three depreciation methods**: activity-based, straight-line, and double-declining-balance. The truck has an **estimated five-year useful life**.

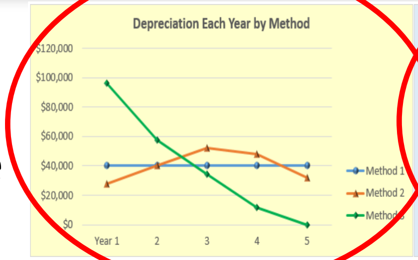


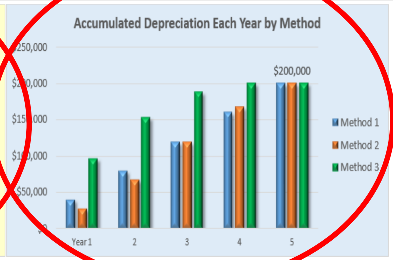


Different amounts each year

But equal over all years

Data Visualizations
(Auto-Graded)





1. Which method is depicted by each option? **SL, DDB, Activity**

2A. Which depreciation method results in the most depreciation in the first year of the truck's five-year useful life? **Double-declining-balance**

2B. Which depreciation method results in the same amount of depreciation each year? **Straight-line**

3. Which depreciation method results in the most accumulated depreciation by the end of the truck's five-year useful life? **Same**

4. What is the truck's estimated residual value (Hint: Recall the purchase cost of the truck is $240,000)? **$40,000**

5A. By the end of Year 2, Accumulated Depreciation under Method 1 is $80,000. What would be the reported book value of the truck at that time? **$160,000**

5B. If the CFO instead uses Method 3, Accumulated Depreciation by the end of Year 2 would be $153,600. What would be the reported book value of the truck at the end of Year 2 using Method 3? **$86,400**

Tableau Dashboard Activities
(Auto-Graded)

Polling Question #4

- Form of Data Visualization
- Created using software, such as Tableau
- Allows users to interact with data
- Pop-ups, filters, sorts, etc.
- No knowledge of software required by student (or instructor)
- Supplement current assignments/concepts
- Some concepts perhaps easier to demonstrate
- Ask new questions

More than busy work?

Tableau Dashboard Activities
(Auto-Graded)

Look at the comparison between **Nike** and **Under Armour** and answer the following questions:

1a. Which company has the greater increase in stock price over the period?

1b. Which company shows a more favorable profitability over the period?

1c. What could explain Under Armour's net income in 2020?

Look at the comparison between **Domino's Pizza** and **Papa John's Pizza** and answer the following questions (You can un-select Nike and Under Armour and then select Domino's and Papa John's):

2a. Which company has the greater increase in stock price over the period?

2b. Which company's sales of products and services to customers shows a more favorable trend over the period?

2c. What is the total amount of sales of products and services of Domino's in 2020?

Look at the comparison between **Microsoft** and **IBM**.

3a. Which company has the greater increase in stock price over the period?

3b. Which company's total resources have increased by the greater dollar amount over the period?

3c. Which company reports greater stockholders' equity in 2020?

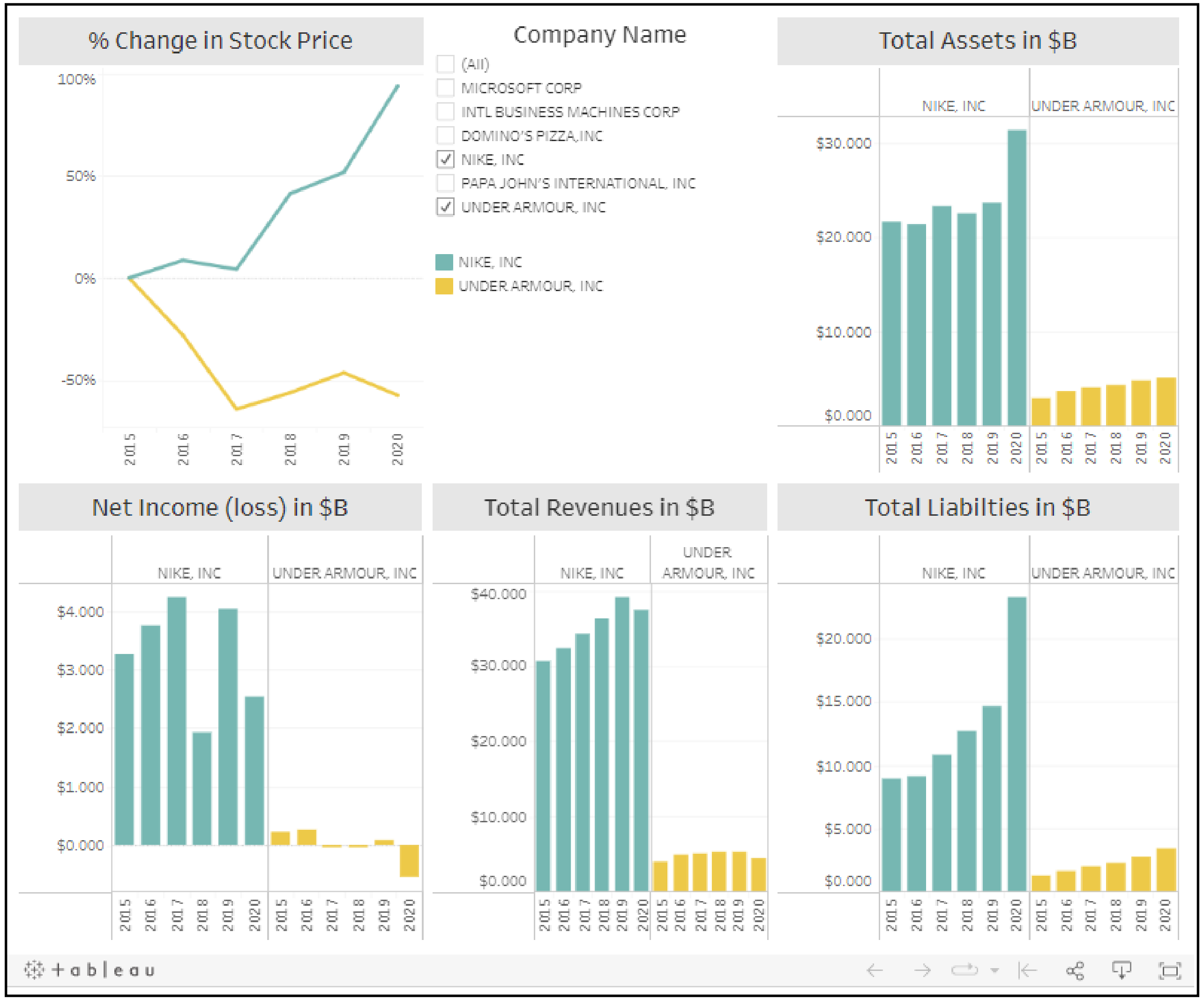


Tableau Dashboard Activities
(Auto-Graded)

1. Estimate the amount of uncollectible receivables.
2. Record the adjusting entry for uncollectible accounts. Assume the balance of Allowance for Uncollectible Accounts prior to the adjusting entry is $2,173 (credit).
3. Calculate net accounts receivable reported in the balance sheet.
4. What amount of bad debt expense is reported in the income statement.
5. For accounts over 60 days past due, what customer owes the most and how much is owed by that customer?

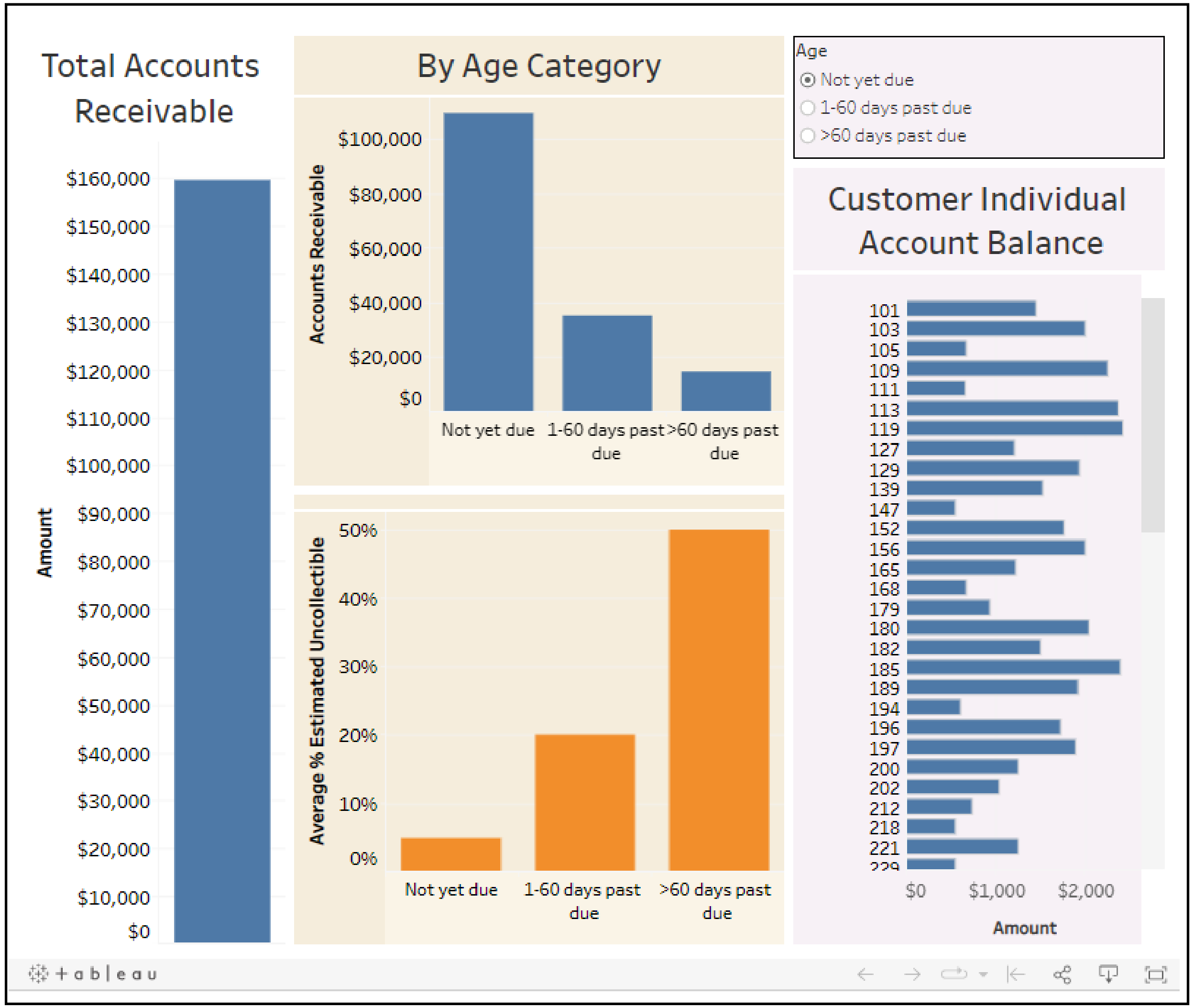
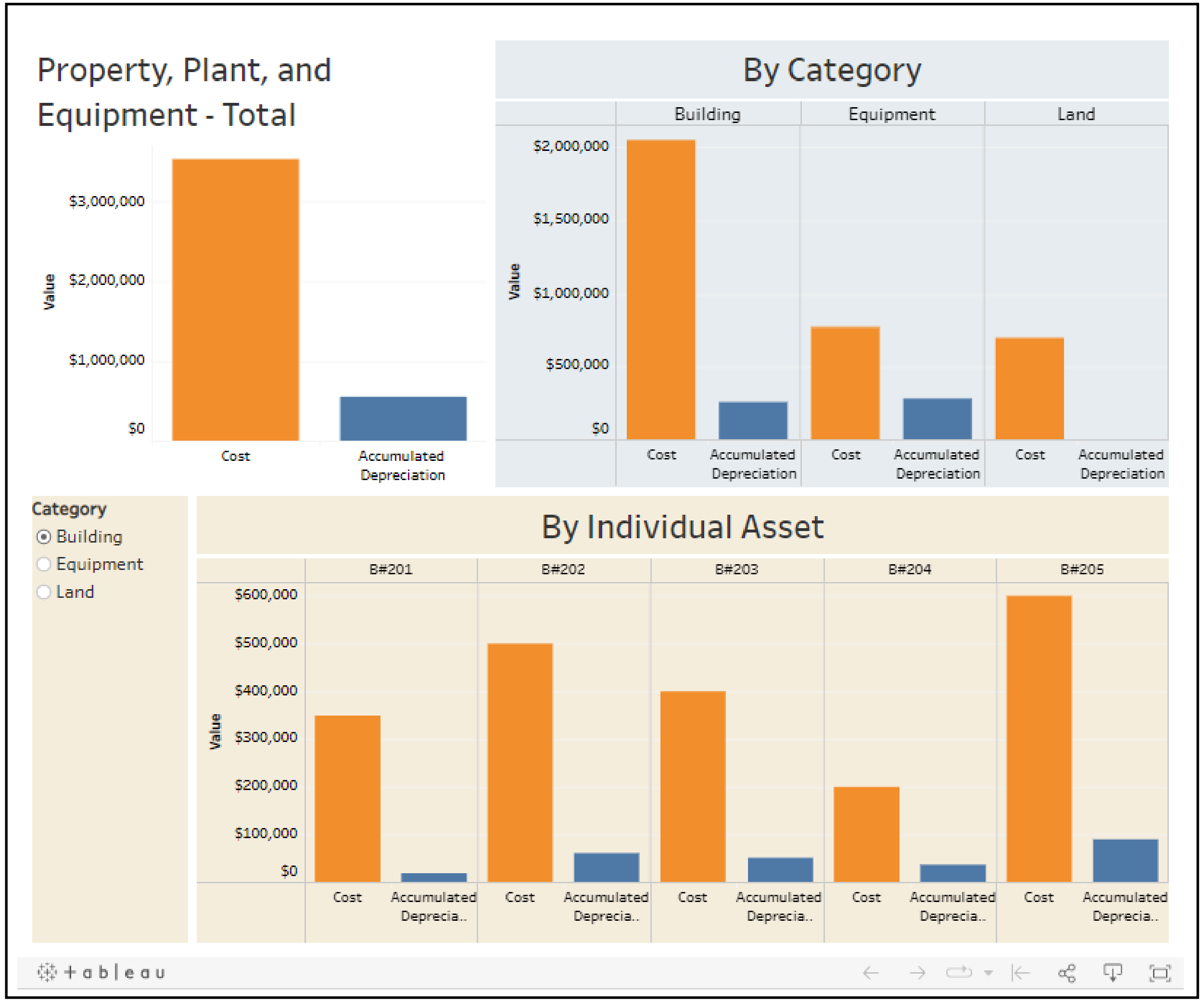


Tableau Dashboard Activities
(Auto-Graded)

1. What is the net amount of property, plant, and equipment reported in the balance sheet?
2. What is the net amount reported separately for buildings, equipment, and land?
3. Suppose the company decides to sell Building #203 for $425,000. What is the gain or loss on the sale reported in the income statement?
4. What is the gain or loss on the sale if the company sells Equipment #303 for $30,000?
5. Which piece of equipment is most likely to need replaced because it's nearest the end of its service life?



EDGAR, Analysis, and Sustainability Cases
(Auto-Graded)

1. EDGAR

- Unique for each chapter
- Visit SEC website (www.sec.gov)
- Search for 10-K
- Financial statements and disclosures

Polling Question #5

2. Financial Analysis – American Eagle Outfitters (all chapters, Appendix A)

3. Financial Analysis – Buckle (all chapters, Appendix B)

4. Comparative Analysis – American Eagle vs. Buckle (all chapters)

5. Sustainability (unique company for each chapter)

Ethics Cases
Example: Uncollectible Accounts

- What do we typically teach? How can we enhance the dynamic nature?

GAAP:
Estimate amount of future uncollectible accounts

Aging:
Old accounts less collectible
$180,000

Net income is too low…Let's change that estimate to $135,000

Ethics Case

Compare estimate to current balance of Allowance
$20,000 (credit)

Recording:

Bad Debt Exp	160,000	
Allowance		160,000

Reporting effects:
I/S – Decrease net income
B/S – Decrease total assets

Ethics Cases
(Auto-Graded)

You have recently been hired as the assistant controller for Stanton Industries. Your immediate superior is the controller who, in turn, reports to the vice president of finance.

The controller has assigned you the task of preparing the year-end adjusting entries. For receivables, you have prepared an **aging of accounts receivable** and have applied historical percentages to the balances of each of the age categories. The analysis indicates that an appropriate balance for **Allowance for Uncollectible Accounts is $180,000**. The existing balance in the allowance account prior to any adjustment is a $20,000 credit balance.

After showing your analysis to the controller, **he tells you to change the aging category of a large account** from over 120 days to current status and to prepare a new invoice to the customer with a revised date that agrees with the new aging category. This will change the required allowance for uncollectible accounts **from $180,000 to $135,000**. Tactfully, you ask the controller for an explanation for the change and he tells you, **"We need the extra income; the bottom line is too low."**

Ethics Cases
(Auto-Graded)

1. Understand the reporting effect:

What is the effect on income before taxes of lowering the allowance estimate from $180,000 to $135,000, as requested by the controller?

2. Specify the options:

If you do not make the change, how would the additional $45,000 of Allowance for Uncollectible Accounts affect total assets?

3. Identify the impact:

Are investors and creditors potentially harmed by the controller's suggestion?

4. Make a decision:

Should you follow the controller's suggestion?

Earnings Management Cases
(Auto-Graded)

- How well do students full understand that assumptions, estimates, and judgements are embedded in accrual accounting?
- For example:

- Standard Problem

Equipment purchased= 4,200,000

Estimated service life= 12 years

Estimated residual = $600,000

Straight-line
Depreciation = $300,000

- What if a manager wanted to **lower** net income?

Option 1: 12 yrs to 6 yrs

Option 2: Residual $600K to $0

Option 3: Both

Straight-line
Depreciation = ?

Earnings Management Cases
(Auto-Graded)

Edward L. Vincent is CFO of Energy Resources, Inc. The company specializes in the exploration and development of natural gas. It's near year-end, and Edward is feeling terrific. Natural gas prices have risen throughout the year, and Energy Resources is set to report record-breaking performance that will greatly exceed analysts' expectations. However, during an executive meeting this morning, **management agreed to "tone down" profits due to concerns that reporting excess profits could encourage additional government regulations** in the industry, hindering future profitability.

At the beginning of the current year, the company **purchased equipment for $4,200,000**. The company's standard practice for equipment like this is to use straight-line **depreciation over 12 years** using an estimated **residual value of $600,000**. To address the issue discussed in the meeting, Edward is considering three options. **Option 1:** Adjust the estimated service life of the equipment from 12 years to 6 years. **Option 2:** Adjust estimated residual values on the equipment from $600,000 to $0. **Option 3:** Make both adjustments.

Earnings Management Cases
(Auto-Graded)

1. Calculate annual depreciation using the company's standard practice.

   $300,000

2. Calculate annual depreciation for each of the three options and state whether the option would increase or decrease net income.

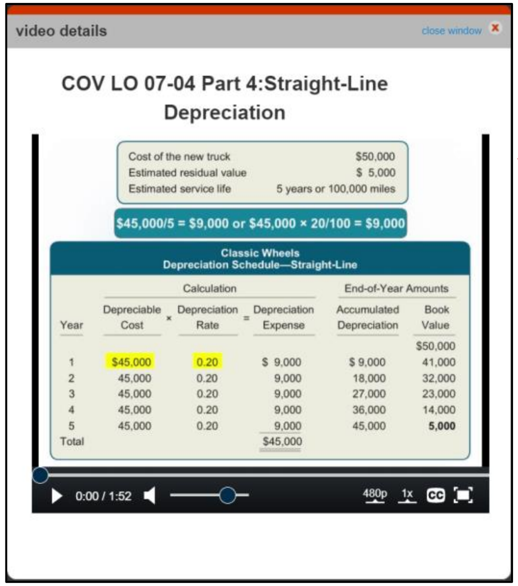
   Option 1: **$600,000 Decrease net income**
   Option 2: **$350,000 Decrease net income**
   Option 3: **$700,000 Decrease net income**

3. Which option has the biggest effect on net income?

   Option 3

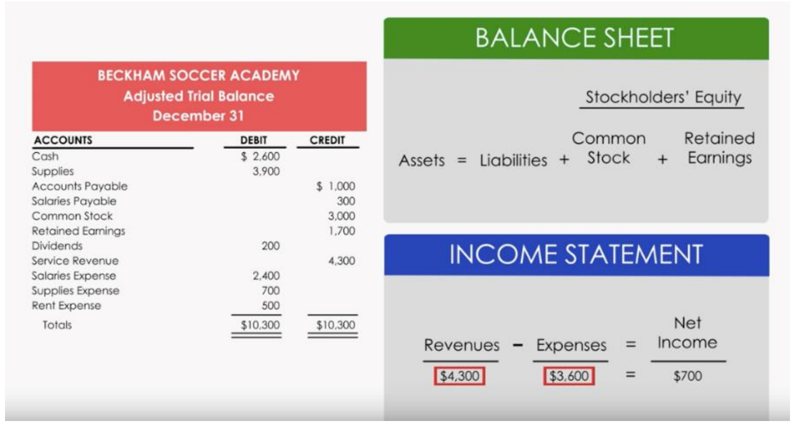
Polling Question #6

Video Resources



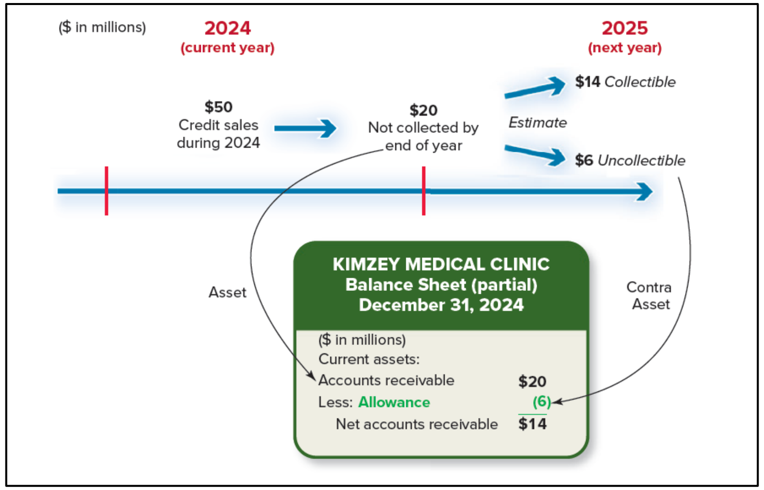
Concept Overview Videos

- Concisely written scripts
- ***Every major topic (286)***
- Assignable knowledge checks



Interactive Illustration Videos

- In-chapter illustrations
- ***Animated*** to draw attention



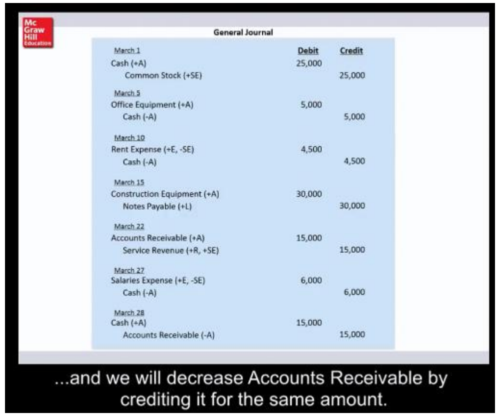
Let's Review Videos

- In-chapter demo problems
- Additional example of a key topic
- Walk students through ***each step***

Video Resources

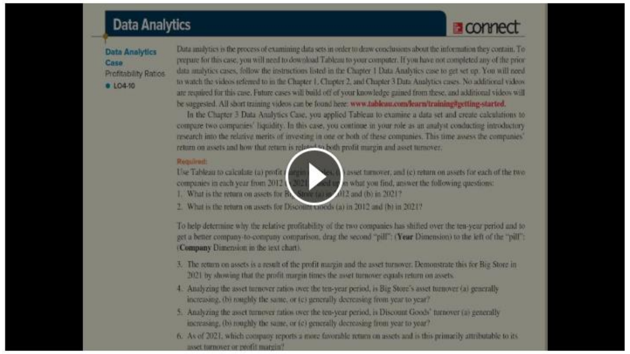
Guided Examples

- ***Nearly all*** Exercises
- Appear as hints to students
- Instructor preference



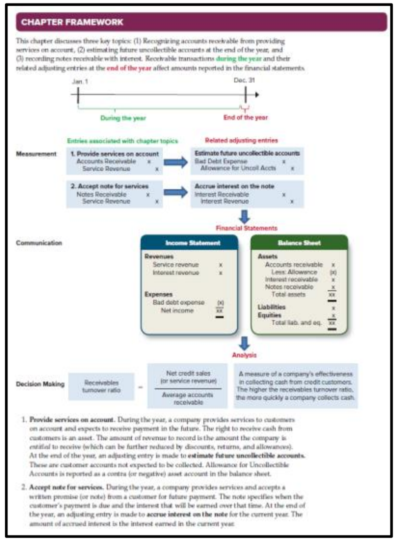
Applying Tableau

- Free version
- Step-by-step



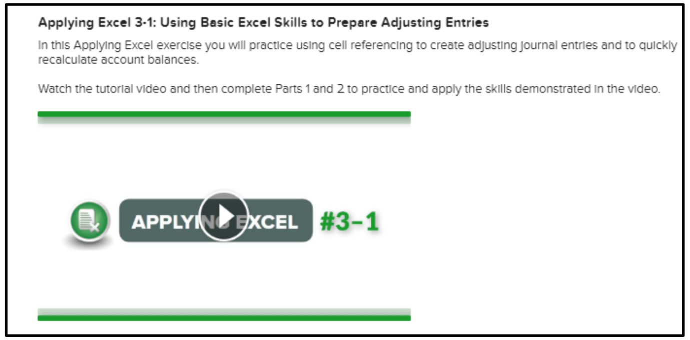
Chapter Framework

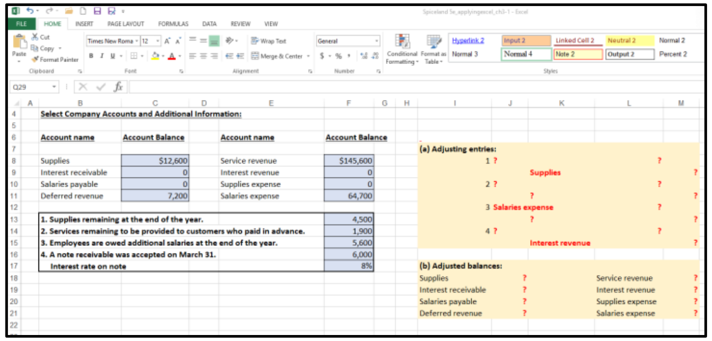
- Chapter summary illustrations



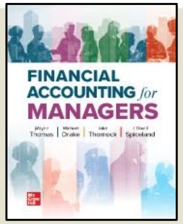
Applying Excel

- Using Excel to solve problems



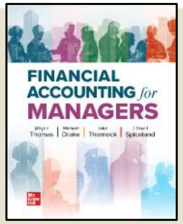


Financial Accounting for Managers



- Many **undergraduate students** want to manage other parts of the company (non-majors)
- Many **graduate students** (MBAs) are coming back to school to be business managers
- Managers need to know:
  - What information is required to be reported
  - How that information is used by external capital providers
  - How does this information reflect a company's operations
  - How can managers *themselves* use this information to better operate the company

Debits and Credits?



- Emphasis on **financial statements effects**
- **Optional** use of debits/credits
- For example, sell inventory on account for $4,500 (cost of $2,500).

Balance Sheet

Assets	=	Liabilities	+	Stockholders' Equity: Common Stock	+	Stockholders' Equity: Retained Earnings
+4,500 Accounts Receivable −2,500 Inventory						+2,000

Income Statement

Revenues	−	Expenses	=	Net Income
+4,500 Sales Revenue		+2,500 Cost of Goods Sold		+2,000

DEBITS & CREDITS

Mario's would record the sale of inventory on account on July 17 as follows:

	Debit	Credit
Accounts Receivable	**4,500**	
Sales Revenue		**4,500**

Mario's also would record the cost of the inventory sold:

	Debit	Credit
Cost of Goods Sold	**2,500**	
Inventory		**2,500**

Accounts Receivable	
4,500	

Sales Revenue	
	4,500

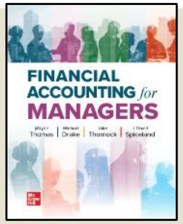
Cost of Goods Sold	
2,500	

Inventory	
	2,500

Skip?

Instructors NOT covering debits and credits can skip these call-out boxes.

Debits and Credits?



- All assignments are available for both approaches.

(1) Identify the financial statement effects

Polling Questions #7 & #8

BRIEF EXERCISES

BE6–10 Shankar Company uses a perpetual system to record inventory transactions. The company purchases inventory on account on February 2 for $40,000 and then sells this inventory on account on March 17 for $60,000. **Determine the financial statement effects of the purchase of inventory on account and sale of inventory on account.**

Using a perpetual inventory system (LO6–5) *See JBE6–1 for journal entries.*

(2) Record the transactions

Corresponding assignments are cross referenced.

JOURNAL ENTRIES

Journal Entries–Brief Exercises

JBE6–1 Shankar Company uses a perpetual system to record inventory transactions. The company purchases inventory on account on February 2 for $40,000 and then sells this inventory on account on March 17 for $60,000. **Record the transactions for the purchase and sale of inventory.**

Record inventory transactions (LO6–5) *See BE6–10 for financial statement effects.*

Financial Accounting Series

Thank you!

Please feel free to contact me for more questions or discussion

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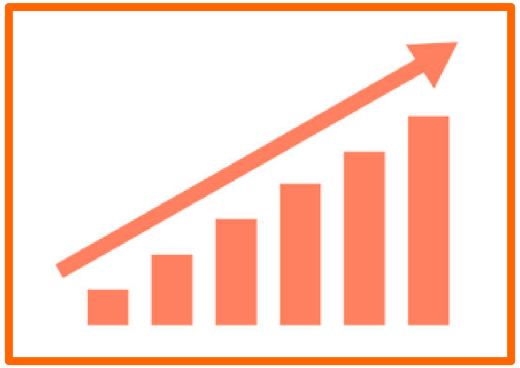
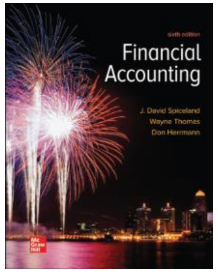
The Goal:
Your Enrollment



Financial Accounting



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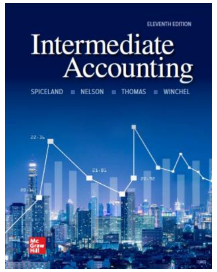
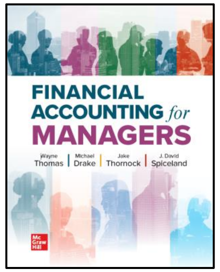
Don Herrmann

Intermediate Accounting



David Spiceland
Mark Nelson
Wayne Thomas
Jen Winchel

Financial Accounting for Managers



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