

Eighth Edition

Fundamental Financial Accounting Concepts

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FUNDAMENTAL FINANCIAL ACCOUNTING CONCEPTS

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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 conceptual approach to financial accounting is a great innovation. It gives students a “bird’s eye view” of the forest of accounting. By Chapter 3, the students are ready to journey into the trees of debits and credits and learn how transactions get reported on the financial statements.”

STEVE MULLER,
VALENCIA COMMUNITY
COLLEGE

“[I] also like the way that cash flow concepts are introduced early in the text, through the use of the model. While the Statement of Cash Flows is discussed at the end of the text, the concepts that are needed to understand that information were introduced in Chapter 1.”

DEBBIE BENSON,
KENNESAW STATE
UNIVERSITY

“The number one strength of the text is the financial statement model approach and delaying introducing debits and credits for several chapters.”

LEAH KRATZ,
EASTERN MENNONITE
UNIVERSITY

“Edmonds provides excellent perspective on IFRS and international accounting treatment that is appropriate in an introductory level class.”

LINDSEY BOYER,
CENTRAL PIEDMONT
COMMUNITY COLLEGE

Why should you adopt this textbook? Because it does a better job of teaching traditional introductory accounting concepts. Indeed, we view ourselves as innovative traditionalists. We don’t aim to radically transform accounting education, but instead to make it more effective. Consider the following features that distinguish this book from its competitors.

● THE LINK BETWEEN EVENTS AND STATEMENTS

We not only teach students how to journalize transactions but we also explain how the journal entries affect the financial statements. The text provides coverage of debits and credits, journal entries, T-accounts, and trial balances. Beyond these traditional topics, we employ a **financial statements model** to ensure that students learn how accounting events 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 below:

Assets	=	Liab.	+	Equity	Rev.	–	Exp.	=	Net Inc.	Cash Flow
--------	---	-------	---	--------	------	---	------	---	----------	-----------

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

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

Assets	=	Liab.	+	Equity	Rev.	–	Exp.	=	Net Inc.	Cash Flow
(8,400)		(8,400)		NA	NA		NA		NA	(8,400) OA

This approach provides a direct visual connection between journal entries and financial statements. It enables students to see how each individual accounting event affects decision making. Executives make few decisions without considering how those decisions affect “bottom line” financial performance measures. The statements model approach encourages students to develop real-world thinking patterns.

● A UNIQUE APPROACH TO THE STATEMENT OF CASH FLOWS

We not only cover the income statement, statement of stockholders’ equity, and the balance sheet, but we also provide comprehensive coverage of the statement of cash flows. Coverage of the statement of cash flows starts in Chapter 1 and is discussed throughout the text. While the statement of cash flows is critically important in the real world, coverage of the statement is often slighted and usually relegated to the last chapter in the text. The primary reason for this treatment is that teaching students to convert accrual accounting data into cash flow is complicated. We remove this complexity by introducing the statement through a highly simplified teaching approach.

We begin by teaching students to classify an individual cash transaction as a financing, investing, or operating activity. Students then compile the classified transactions into a formal statement of cash flows. Preparing the statement under this direct, transaction-by-transaction approach reduces the learning task to a simple classification

scheme. Later, in Chapter 12, we introduce the more complex task of converting accrual accounting data to a statement of cash flows.

● UNDERSTANDING FINANCIAL STATEMENT ANALYSIS

We not only show how to calculate financial ratios but also explain how those ratios are used to evaluate businesses. We provide unparalleled coverage of financial statement analysis. A separate section titled the “Financial Analyst” is included in each chapter of the text. Further, a summary of financial ratios is included in an appendix at the end of the text. Finally, a complete chapter covering financial statement analysis is available online. Providing coverage in multiple formats allows the instructor to establish the level of emphasis placed on this subject.

Is a gross margin percentage of 25% good or bad? Clearly, the answer depends on the type of company under consideration. While most textbooks show students how to calculate financial ratios, this text goes a step beyond by providing real-world industry data that facilitates an understanding of the ratios. Exercises, problems, and real-world cases that reference real-world data are included in each chapter. Further, the text includes two financial statement analysis projects. One pertains to Target’s 10-K report that is included in the text. The other is a open-ended project that allows the instructor to choose the company to be evaluated.

● IFRS AND OTHER INTERNATIONAL ACCOUNTING ISSUES

We not only provide comprehensive coverage of generally accepted accounting principles (GAAP) but also expose students to International Financial Reporting Standards (IFRS). Clearly, GAAP is the predominant practice in the United States. However, ever-increasing globalization requires awareness of international standards as well. The book contains textboxes titled “Focus on International Issues.” These boxes include content regarding IFRS and other interesting international topics. Specially marked exercises allow the instructor to reinforce the international content through homework assignments. The textbox approach allows flexibility in the level of emphasis instructors choose to place on this subject.

● DEMONSTRATING EVENT EFFECTS OVER MULTIPLE ACCOUNTING CYCLES

We not only show how an accounting event effects a single accounting period but also how that event affects multiple accounting cycles. The text uses a vertical statements model that shows financial statements from top to bottom on a single page. This model displays financial results for consecutive accounting cycles in adjacent columns, thereby enabling the instructor to show how related events are reported over multiple accounting cycles.

● CONCLUDING REMARKS

We appreciate your taking time to read this note. We encourage your questions or comments. Contact information for members of the author team are as follows:

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“I especially like the fact that, for most transactions, the authors give the type of transaction (asset source, etc.), followed by the journal entry and horizontal mode. It gives instructors lots of flexibility and continually reinforces concepts throughout.”

MARY MANKTELOW,
JAMES MADISON UNIVERSITY

“I like the coverage of certain critical Generally Accepted Accounting Principles, such as the Matching Concept) and the Conservatism Principle. . . . It helps the students to have perspective on how material of a given chapter fits into the larger picture of accrual basis accounting and GAAP.”

STACEY ADAMS,
ANTELOPE VALLEY CC

EXHIBIT 8.3 Financial Statements under Straight-Line Depreciation

DRYDEN ENTERPRISES					
Financial Statements					
	2013	2014	2015	2016	2017
Income Statements					
Rent revenue	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 0
Depreciation expense	(5,000)	(5,000)	(5,000)	(5,000)	0
Operating income	3,000	3,000	3,000	3,000	0
Gain on sale of van	0	0	0	0	500
Net income	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 500
Balance Sheets					
Assets					
Cash	\$ 9,000	\$17,000	\$25,000	\$33,000	\$37,500
Van	24,000	24,000	24,000	24,000	0
Accumulated depreciation	(5,000)	(10,000)	(15,000)	(20,000)	0
Total assets	\$28,000	\$31,000	\$34,000	\$37,000	\$37,500
Stockholders' equity					
Common stock	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Retained earnings	3,000	6,000	9,000	12,000	12,500
Total stockholders' equity	\$28,000	\$31,000	\$34,000	\$37,000	\$37,500
Statements of Cash Flows					
Operating Activities					
Inflow from customers	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 0
Investing Activities					
Outflow to purchase van	(24,000)				
Inflow from sale of van					4,500
Financing Activities					
Inflow from stock issue	25,000				
Net Change in Cash	9,000	8,000	8,000	8,000	4,500
Beginning cash balance	0	9,000	17,000	25,000	33,000
Ending cash balance	\$ 9,000	\$17,000	\$25,000	\$33,000	\$37,500

• ABOUT THE AUTHORS •



Thomas P. Edmonds

Thomas P. Edmonds, is the Friends and Alumni Professor of Accounting at the University of Alabama at Birmingham (UAB). Dr. Edmonds has taught in the introductory area throughout his career. He has coordinated the accounting principles courses at the University of Houston and UAB. He currently teaches introductory accounting in mass sections and in UAB's distance learning program. He is actively involved in the accounting education change movement. He has conducted more than 50 workshops related to teaching introductory accounting during the last decade. Dr. Edmonds has received numerous prestigious teaching awards including the Alabama Society of CPAs Outstanding Educator Award and the UAB President's Excellence in Teaching Award. Dr. Edmonds's current research is education based. He has written articles that appeared in many publications including, among others, the *Accounting Review*, *Issues in Accounting Education*, *Journal of Accounting Education*, and *Advances in Accounting Education*. Dr. Edmonds has been a successful entrepreneur. He has worked as a management accountant for a transportation company and as a commercial lending officer for the Federal Home Loan Bank. Dr. Edmonds began his academic training at Young Harris Community College. His PhD degree was awarded by Georgia State University. Dr. Edmonds's work experience and academic training has enabled him to bring a unique perspective to the classroom.



Frances M. McNair

Frances M. McNair holds the KPMG Peat Marwick Professorship in Accounting at Mississippi State University (MSU). She has been involved in teaching principles of accounting for the past 12 years and currently serves as the coordinator for the principles of accounting courses at MSU. She joined the MSU faculty in 1987 after receiving her PhD from the University of Mississippi. The author of various articles that have appeared in the *Journal of Accountancy*, *Management Accounting*, *Business and Professional Ethics Journal*, *The Practical Accountant*, *Taxes*, and other publications, she also coauthored the book *The Tax Practitioner* with Dr. Denzil Causey. Dr. McNair is currently serving on committees of the American Taxation Association, the American Accounting Association, and the Institute of Management Accountants as well as numerous School of Accountancy and MSU committees.



Philip R. Olds

Philip R. Olds is associate professor of accounting at Virginia Commonwealth University (VCU). He serves as the coordinator of the introduction to accounting courses at VCU. Dr. Olds has also received the Distinguished Service Award and the Distinguished Teaching Award from VCU School of Business. Dr. Olds received his A.S. degree from Brunswick Junior College in Brunswick, Georgia (now Coastal Georgia Community College). He received a BBA in Accounting from Georgia Southern College (now Georgia Southern University) and his MPA and PhD degrees from Georgia State University. After graduating from Georgia Southern, he worked as an auditor with the U.S. Department of Labor in Atlanta, Georgia. Dr. Olds has published articles in various professional journals and presented papers at national and regional conferences. He also served as the faculty adviser to the VCU chapter of Beta Alpha Psi for five years. In 1989, he was recognized with an Outstanding Faculty Vice-President Award by the national Beta Alpha Psi organization.

● WHAT WE DID TO MAKE IT BETTER

This edition offers new opportunities for instructors to determine the scope and pace of coverage. You can now choose to introduce depreciation and interest computations in Chapter 2. Alternatively, you can delay coverage of these subjects thereby providing more time to introduce basic concepts in a simpler environment. In addition, Chapters 1 and 2 have been subdivided into parts that allow you to effectively control the pace of coverage. Also, the revision delivers enhanced coverage of financial statement analysis.

In preparation for the development of this edition we surveyed instructors who use the text to assess their experiences with the revisions made in the previous edition. Overall, we received positive feedback and strong support for the changes we implemented previously. One area where reviewers' comments were more varied related to the delay of coverage of depreciation and interest computations. Roughly 65 percent of the respondents ranked delaying coverage of depreciation as very or moderately effective, leaving 35 percent who classified the delay as not very effective. Similarly, 74 percent found delaying coverage of interest computations to be very or moderately effective, while 26 percent classified the delay as not very effective. Clearly, many of our adopters are happy to have coverage of these subjects delayed while others would prefer to have those topics covered in Chapters 2 and 3.

In response, we have created an appendix for Chapter 2 that covers depreciation and the computation of interest. Also, numerous exercises and problems covering these topics have been added to the end-of-chapter materials. These exercises and problems have been clearly labeled as being related to the "Appendix." Identifying them is easy and coverage is left to the discretion of the instructor. Coverage of these topics continues in an appendix to Chapter 3. Accordingly, individual instructors have the opportunity to decide the appropriate time to introduce these pivotal topics.

Virtually everyone is happy that the text addresses issues of substance immediately; there is very little fluff in Chapter 1. While the majority of respondents felt the pace of coverage was on target, some suggested it was overly challenging for their students. The proper pace is, of course, dependent on student aptitude. Since student aptitude varies widely across schools, the pace of coverage must also vary. In recognition of the need for flexibility, we divided Chapter 1 into two sections.

Chapter 1, Section 1 covers basic terminology, introduces the accounting equation, and demonstrates how business events are recorded under the equation. Section 2 introduces students to financial statements. The end-of-chapter exercises and problems are also segregated in separate sections. With this arrangement it is easy for instructors to treat the chapter as two separate chapters, thereby slowing the pace and allowing more time to cover key conceptual issues. Chapter 2 has also been divided into two sections: Chapter 2, Section 1 covers accruals, while Section 2 covers deferrals.

Breaking the chapters into sections offers an added benefit of promoting a stepwise learning environment. The primary concepts are isolated and introduced in a simple environment. More complex relationships and details are then added to the basic foundation. Stepwise learning is a hallmark of our teaching strategy.

The Target annual report project contained in Appendix D has been redesigned and includes many new features that promote ease of use. Specifically, Target's 2008, 2009, and 2010 financial statements have been loaded into an Excel spreadsheet that is available on the textbook's website. The income statement shown in the spreadsheet has been revised to better reflect the income statement format and wording used in the textbook. The revision moves credit card revenues (interest income) to the nonoperating section and enables the project solution for gross margin percentages to agree to those identified in the Management Discussion & Analysis section of the annual report. This Excel spreadsheet provides an excellent starting point for the vertical and horizontal analysis required in the project. Also, to simplify grading,

"I think Edmonds is the best financial accounting book on the market."

MARK CAMMA,
ATLANTIC CAPE
COMMUNITY COLLEGE

"I really like all of the recaps of financial statements after presenting a number of transactions. I always tell students that the financial statements are our ultimate outcome so it's good that they see them often."

EILEEN SHIFFLETT,
JAMES MADISON
UNIVERSITY

"As a result of using the horizontal model, students have a much better understanding of the accrual effect and the cash effect of a transaction. It is well-written with interesting examples and illustrations."

NANCY SNOW,
UNIVERSITY OF TOLEDO

"Good, easy-to-read book for students."

CAROLINE FALCONETTI,
NASSAU COMMUNITY
COLLEGE

we provide a multiple choice project quiz. This quiz is available in the instructor's manual, as well as in *Connect*®.

Specific revisions for each chapter are described below.

● SPECIFIC CHAPTER CHANGES

Chapter 1 An Introduction to Accounting

- Divided chapter into two sections, thereby providing more flexibility to set the pace of instruction.
- Added new *Curious Accountant* featuring new high-profile companies and products.
- Updated *Focus on International Issues* textbox that includes IFRS coverage.
- Added new *Reality Bytes*.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 2 Accounting for Accruals and Deferrals

- Divided chapter into two sections, thereby providing more flexibility to set the pace of instruction.
- Added an appendix and related end-of-chapter materials covering the introduction of depreciation and the computation of interest.
- Revised learning objectives.
- Added new *Curious Accountant* featuring new high-profile companies and products.
- Added new *Reality Bytes*.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 3 The Double-Entry Accounting System

- Added an appendix and related end-of-chapter materials that provide continuing coverage of depreciation and the computation of interest.
- Added new *Curious Accountant* featuring new high-profile companies and products.
- Added new *Focus on International Issues* textbox that includes IFRS coverage.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 4 Accounting for Merchandising Businesses

- Added new *Curious Accountant* featuring new high-profile companies and products.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 5 Accounting for Inventories

- Added new *Curious Accountant* featuring new high-profile companies and products.
- Updated *Focus on International Issues* textbox that includes IFRS coverage.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 6 Internal Control and Accounting for Cash

- Added coverage of the framework for internal controls and enterprise risk management developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- Updated *Curious Accountant*.
- Updated exercises, problems, and cases.

Chapter 7 Accounting for Receivables

- Added new *Curious Accountant* featuring new high-profile companies and products.
- Updated *Reality Bytes*.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 8 Accounting for Long-Term Operational Assets

- Added new *Curious Accountant* featuring new high-profile companies and products.
- Updated *Focus on International Issues* textbox that includes IFRS coverage.
- Added new *Reality Bytes*.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 9 Accounting for Current Liabilities and Payroll

- Updated *Reality Bytes*.
- Updated *Focus on International Issues* textbox that includes IFRS coverage.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 10 Accounting for Long-Term Debt

- Added new *Curious Accountant* featuring new high-profile companies and products.
- Added new *Reality Bytes*.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 11 Proprietorships, Partnerships, and Corporations

- Added new *Curious Accountant* featuring new high-profile companies and products.
- Added new *Reality Bytes*.
- Updated *Focus on International Issues* textbox that includes IFRS coverage.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 12 Statement of Cash Flows

- Added new *Curious Accountant* featuring new high-profile companies and products.
- Updated *Reality Bytes*.
- Updated *The Financial Analyst* content.
- Updated exercises, problems, and cases.

Chapter 13 Financial Statement Analysis (Available online only at www.mhhe.com/edmonds8e)

- Updated *Curious Accountant*.
- Updated exercises, problems, and cases.

● HOW DOES THE BOOK MOTIVATE

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 Coca-Cola, Enron, General Motors, and Amazon.com. 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.

Focus on International Issues

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

The Financial Analyst

Financial statement analysis 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.

The Curious Accountant

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

Richard responded, "If there is such a big profit margin on cars, why did so many of the car manufacturers get into financial trouble?" Jeff told him that he was confusing the maker of the car with the dealer. Jeff argued that although the manufacturers may not have high profit margins, the dealers do, and told him again that he 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 guys is correct? For example, if you pay \$20,000 for



Answers to The Curious Accountant

As data from the income statement for AutoNation show, automobile

dealers do not have big markups on the cars they sell. The new vehicles the company sold for \$6,669.1 million in 2010 cost the company \$6,217.9 to purchase, resulting in a gross margin of \$451.2, or 6.8%. In other words, if you bought an "average" car from AutoNation for \$20,000, the company's gross profit on it was only \$1,360 ($\$20,000 \times .068$), meaning it paid Ford \$18,640 ($\$20,000 - \$1,360$). Furthermore, the company still had other expenses to pay besides its cost of goods sold. In 2010, only 1.8% of each dollar of AutoNation's sales was net profit ($\$226.6 \div \$12,461.0$). Remember, the amount shown for sales on AutoNation's income statement is based on what customers

FOCUS ON INTERNATIONAL ISSUES

HOW DO 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 permit more exceptions to historical cost than do GAAP. Some of these differences will be discussed in later chapters.

Some of the differences affect how financial statements are presented in annual reports. IFRS require 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



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THE FINANCIAL ANALYST

CORPORATE GOVERNANCE

Corporate governance is the set of relationships between the board of directors, management, shareholders, auditors, and other stakeholders that determine how a company is operated. Clearly, financial analysts are keenly interested in these relationships. This section discusses the key components of corporate governance.

Importance of Ethics

The accountant's role in society requires trust and credibility. Accounting information is worthless if the accountant is not trustworthy. Similarly, tax and consulting advice is useless if it comes from an incompetent person. The high ethical standards required by the profession state

LO 9

Discuss the primary components of corporate governance.

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.

STUDENTS? ●

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-size 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.



Appendix B

Portion of the Form 10-K for Target Corporation

This appendix contains a portion of the Form 10-K for the Target Corporation that was filed with the Securities and Exchange Commission on March 11, 2011. The document included in this appendix is Target's annual report, which was included as a part of its complete Form 10-K for the company's fiscal year ended January 29, 2011. Throughout this text this is referred to as the company's 2010 fiscal year.

This document is included for illustrative purposes, and it is intended to be used for educational purposes only. It should not be used for making investment decisions. Target Corporation's complete Form 10-K may be obtained from the SEC's EDGAR website, using the procedures explained in Appendix A. The Form 10-K may also be found on the company's website at www.target.com.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Check One)
☒ ANNUAL REPORT PURSUANT TO SECTION 13(a) OF THE SECURITIES ACT OF 1934
For the fiscal year ended January 29, 2011

☐ TRANSITION REPORT PURSUANT TO SECTION 13(a) OF THE SECURITIES ACT OF 1934
For the transition period from _____ to _____

TARGET CORPORATION
1000 Nicollet Mall, Minneapolis, Minnesota 55402
Principal Executive Office

Securities Registered Pursuant to Section 12(b) of the Act:
Title of Each Class
Common Stock, par value \$0.01 per share

Name and Type of Company Used as Main Chapter Example

Chapter Title	Company Used as Main Chapter Example	Company Logo	Type of Company
1. An Introduction to Accounting	Rustic Camp Sites		Rents land
2. Accounting for Accruals and Deferrals	Cato Consultants		Provides training services
3. The Double-Entry Accounting System	Collins Brokerage Services, Inc.		Investment consulting firm
4. Accounting for Merchandising Businesses	June's Plant Shop		Sells gardening supplies
5. Accounting for Inventories	The Mountain Bike Company		Sells bicycles
6. Internal Control and Accounting for Cash	Green Shades Resorts, Inc.		Rents resort facilities
7. Accounting for Receivables	Allen's Tutoring Services		Provides tutoring services
8. Accounting for Long-Term Operational Assets	Dryden Enterprises		Van rental company
9. Accounting for Current Liabilities and Payroll	Hemera Supply Company		Supply company
10. Accounting for Long-Term Debt	Mason Company		Leases land
11. Proprietorships, Partnerships, and Corporations	Nelson Incorporated		Software development company
12. Statement of Cash Flows	New South Corporation		Retail gift shop

A Look Back <<

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). The products sold by 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 6 you will learn how to deal with inventory items that are purchased at differing prices. Other chapters will discuss a variety of specific practices that are widely used by real-world companies.

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.

Annual Reports

The 2010 annual report for Target Corporation is 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.

Chapter Focus Company

Each chapter introduces important managerial accounting topics within the context of a realistic company. Students see the impact of managerial accounting decisions on the company as they work through the chapter. When the Focus Company is presented in the chapter, its logo is shown so the students see its application to the text topics.

A Look Back/A Look Forward

Students need a roadmap to make sense of where the chapter topics fit into the "whole" picture. A Look Back reviews the chapter materials and a look forward introduces students to what is to come.

● 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 includes a prodigious supply of practice materials and exercises and problems.

Self-Study Review Problem

These example problems include a detailed, worked-out solution and provide support for students before they work problems on their own. These review problems are included in an animated audio presentation, on the text website.

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.

• Excel


Many problems can be solved using the Excel™ templates contained on the text's Online Learning Center. A logo appears in the margins next to these problems.


"The self study problems and supplements on the web are very useful for students."

BARRY BUCHOFF,
TOWSON UNIVERSITY

"Exercises and problems are great and provide a variety as well as multiple examples for students to practice."

PATRICIA BANCROFT, BRIDGEWATER
STATE UNIVERSITY

**SELF-STUDY REVIEW PROBLEM**


**A step-by-step audio-narrated series of slides is provided on the text website at www.mhhe.com/edmonds8e.**

Academy Sales Company (ASC) started the 2013 accounting period with the balances given in the financial statements model shown below. During 2013 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.

PROBLEMS—SERIES A

All applicable Problems in Series A are available with McGraw-Hill's Connect Accounting.

**LO 1, 2**

Problem 7-17A *Accounting for uncollectible accounts—two cycles using the percent of revenue allowance method*

The following transactions apply to Expert Consulting for 2013, the first year of operation:

1. Recognized \$70,000 of service revenue earned on account.
2. Collected \$62,000 from accounts receivable.
3. Adjusted accounts to recognize uncollectible accounts expense. Expert uses the allowance method of accounting for uncollectible accounts and estimates that uncollectible accounts expense will be 2 percent of sales on account.

The following transactions apply to Expert Consulting for 2014:

1. Recognized \$84,000 of service revenue on account.
2. Collected \$70,000 from accounts receivable.
3. Determined that \$1,100 of the accounts receivable were uncollectible and wrote them off.
4. Collected \$200 of an account that had been previously written off.
5. Paid \$51,200 cash for operating expenses.
6. Adjusted accounts to recognize uncollectible accounts expense for 2014. Expert estimates that uncollectible accounts expense will be 1 percent of sales on account.

Required
Complete all the following requirements for 2013 and 2014. Complete all requirements for 2013 prior to beginning the requirements for 2014.

- a. Identify the type of each transaction (asset source, asset use, asset exchange, or claims exchange).
- b. Show the effect of each transaction on the elements of the financial statements, using a horizontal statements model like the one shown here. Use + for increase, – for decrease, and NA for not affected. Also, in the Cash Flow column, indicate whether the item is an operating activity (OA), investing activity (IA), or financing activity (FA). The first transaction is entered as an example. (Hint: Closing entries do not affect the statements model.)

Event No.	Assets	=	Liab.	+	Equity	Rev.	–	Exp.	=	Net Inc.	Cash Flow
1	+		NA	+		+		NA	+		NA

c. Record the transactions in general journal form, and post them to T-accounts (begin 2014 with the ending T-account balances from 2013).

REINFORCED?

Analyze, Think, Communicate (ATC)

Each chapter includes an innovative section entitled Analyze, Think, Communicate (ATC). This section offers Business Applications Cases, Group Assignments, Real World Cases, Writing Assignments, Ethical Dilemma Problems, Research Assignments, and Spreadsheet Assignments.

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

• **Target Corp.** 

• **Group Work**  • **Ethics** 

• **Real World Company** 

• **Research**  • **Writing** 

• **Excel** 

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

The Excel applications are used to make students comfortable with this analytical tool and to show its use in accounting.

“Lots of good exercises and problems at the end of each chapter with A and B choices.”

CAROL SHAVER,
LOUISIANA TECH UNIVERSITY

“I love the spreadsheet assignments and the comprehensive problems at the end of each chapter. I love the check figures that are available on some of the problems.”

JANE GARVIN,
IVY TECH COMMUNITY COLLEGE

ANALYZE, THINK, COMMUNICATE

ATC 2-1 Business Applications Case Understanding real-world annual reports

Required

Use the **Target Corporation** annual report in Appendix B to answer the following questions.

- Which accounts on Target's balance sheet are accrual type accounts?
- Which accounts on Target's balance sheet are deferral type accounts?
- Compare Target's *net income* to its *cash provided by operating activities* for the fiscal-year ended January 29, 2011 (2010). Which is larger?
- First, compare Target's 2009 net income to its 2010 net income. Next, compare Target's 2009 cash provided by operating activities to its 2010 cash provided by operating activities. Which changed the most from 2009 to 2010, net income or cash provided by operating activities?

ATC 2-2 Group Assignment Missing information

Verizon Communications, Inc., is one of the world's largest providers of communication services. The following information, taken from the company's annual reports, is available for the years 2010, 2009, and 2008.



COMPREHENSIVE PROBLEM

The following information is available for Pacilio Security Services Inc. for 2011, its first year of operations. Pacilio provides security services for local sporting events.
The following summary transactions occurred during 2011.

- Acquired \$6,000 from the issue of common stock.
- Borrowed \$5,000 from the Small Business Government Agency. The loan is interest free.
- Performed security services at local sporting events during the year for \$9,000 cash.
- Paid salaries expense of \$3,000 for the year.
- Purchased land for \$4,000.
- Paid other operating expenses of \$2,000 for the year.
- Paid a cash dividend to the shareholders of \$2,500.
- The market value of the land was determined to be \$4,500 at December 31, 2011.

Required

- Record the above transactions in an accounting equation. Provide the appropriate account titles for the amounts shown in the Retained Earnings column.
- Prepare an income statement, statement of changes in stockholders' equity, balance sheet, and statement of cash flows for 2011.

ATC 3-10 Spreadsheet Assignment Mastery of Excel

At the end of the accounting period, Adams Company's general ledger contained the following adjusted balances.

● HOW CAN TECHNOLOGY HELP STUDENT



● McGRAW-HILL *CONNECT*® ACCOUNTING

McGraw-Hill *Connect*® Accounting is an online assignment and assessment solution that connects you with the tools and resources necessary to achieve success through faster learning, more efficient studying, and higher retention of knowledge.

Requirement 1: Record the debit and the credit for the 2011 adjustment for Accounts Payable. (Round your final answer to the nearest dollar amount. If amounts are zero, enter 0.)

Account	Debit	Credit
Accounts Payable		
Accounts Receivable		

Requirement 2: Record the debit and the credit for the 2011 adjustment for Prepaid Insurance. (Round your final answer to the nearest dollar amount. If amounts are zero, enter 0.)

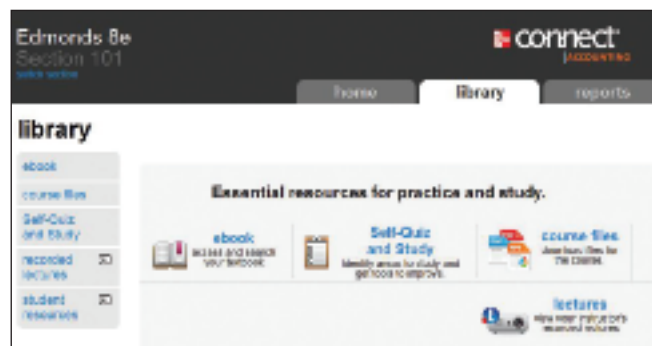
Account	Debit	Credit
Prepaid Insurance		
Insurance Expense		

Online Assignments

McGraw-Hill *Connect Accounting* helps students learn more efficiently by providing feedback and practice material when and where they need it. *Connect Accounting* grades homework automatically and gives immediate feedback on any questions students may have missed.

Student Library

The *Connect Accounting* Student Library gives students access to additional resources such as recorded lectures, Self-Quiz and Study practice materials, an eBook, and more.



Resource	Questions	Readings	Study	Practice
Chapter 1: An Introduction to Accounting	20			
What's Accounting to You?	2	1-11	Study	Practice
Elements of Financial Statements	4	11-13	Study	Practice
Accounting: The Language of Business	4	13-17	Study	Practice
Accounting: The Language of Business	3	17-18	Study	Practice
Preparing Financial Statements	8	19-22	Study	Practice
The Horizontal Financial Statement Model	4	23-24	Study	Practice

Self-Quiz and Study

Self-Quiz and Study connects students to the learning resources they need to succeed in the course. For each chapter, students can take a practice quiz and immediately see how well they performed. A study plan then recommends specific readings from the text, supplemental study material, and practice exercises that will improve students' understanding and mastery of each learning objective.

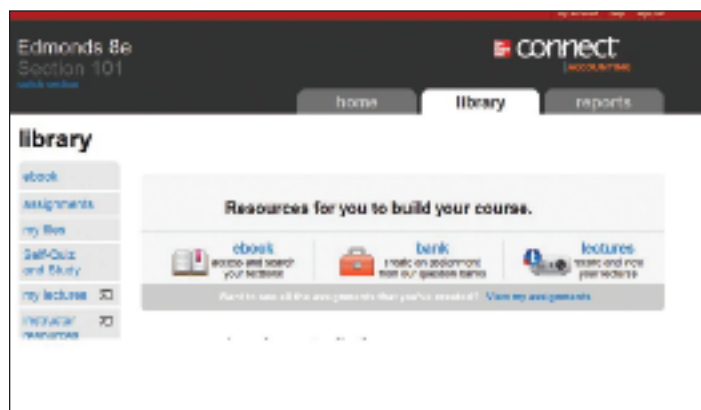
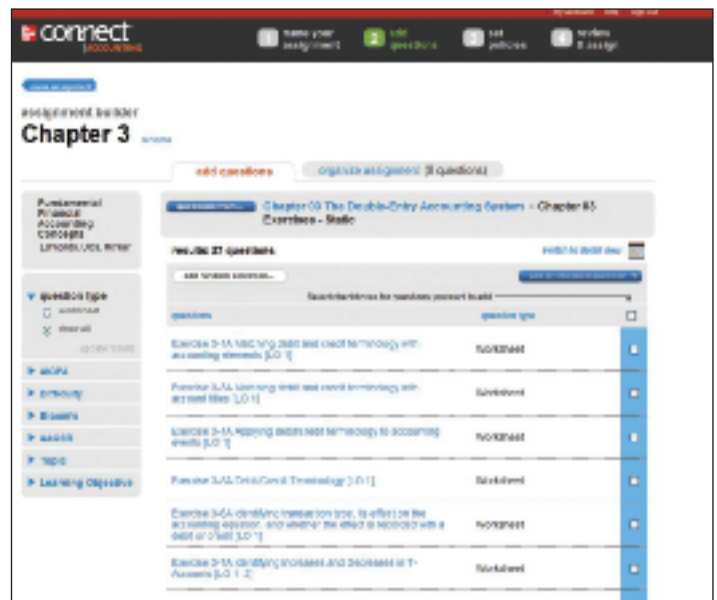
SUCCESS? ●

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- Reinforce classroom concepts with practice tests and instant quizzes.



Instructor Library

The *Connect Accounting* 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 Accounting* Instructor Library includes access to:

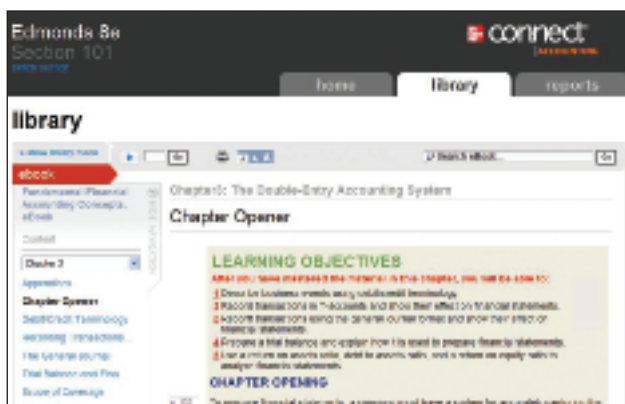
- Solutions Manual
- Instructor's Manual
- Test Bank
- Instructor PowerPoint® slides
- The eBook version of the text



Student Reports

McGraw-Hill's *Connect Accounting* keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The reports tab enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
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- Collect data and generate reports required by many accreditation organizations, such as AACSB and AICPA.



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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 8e* 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, AICPA and AACSB skill area. You can use our Test Bank software, *EZ Test Online*, or *Connect 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 similar fashion, making the collection and presentation of Assurance of Learning data simple and easy.

AACSB Statement

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Online Learning Center (www.mhhe.com/edmonds8e)

The password protected instructor side of the book's Online Learning Center (OLC) houses all the instructor resources you need to administer your course, including:

- Solutions Manual
- Instructor's Manual
- Test Bank



- Instructor PowerPoints
- Excel Templates and Solutions

If you choose to use *Connect Accounting* with Edmonds, you will have access to these same resources via the Instructor Library.

Instructor's Manual

This comprehensive manual includes step-by-step, explicit instructions on how the text can be used to implement alternative teaching methods. It also provides guidance for instructors who use the traditional lecture method. The guide includes lesson plans and demonstration problems with student work papers, as well as solutions.

Solutions Manual

Prepared by the authors, the manual contains complete solutions to all the text's end-of-chapter exercises, problems, and cases.

PowerPoint Presentation

These audio-narrated slides can serve as interactive class discussions.

Test Bank

This test bank in Word™ format contains multiple-choice questions, essay questions, and short problems. Each test item is coded for level of difficulty learning objective AACSB, AICPA and Bloom's.

EZ Test Online

Available through the Online Learning Center, *Connect* Instructor Library, and at www.eztestonline, McGraw-Hill's EZ Test Online allows you to quickly create customized exams. This user-friendly program allows instructors to sort questions by format; edit existing questions or add new ones. It also can scramble questions for multiple versions of the same test.

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Online Learning Center

www.mhhe.com/edmonds8e

The Online Learning Center (OLC) follows Edmonds 8e chapter by chapter, offering all kinds of supplementary

help for you as you read. The OLC includes the following resources to help you study more efficiently:

- Online Quizzes
- Student PowerPoint slides
- Narrated PowerPoint lectures
- Self-Study Review slides
- Excel Templates
- Video Library
- Appendices
- Links to Accounting Resources

If your instructor chooses to use *Connect Accounting* in this course, you will have access to these same resources via the Student Library.

Study Guide

ISBN-10: 0077433874 ISBN-13: 9780077433871

This proactive guide incorporates many of the accounting skills essential to student success. Each chapter contains a review and explanation of the chapter's learning objectives, as well as multiple-choice problems and short exercises. Unique to this Study Guide is a series of articulation problems that require students to indicate how accounting events affect the elements of financial statements.

Working Papers

ISBN-10: 0077433882 ISBN-13: 9780077433888

This study aid contains forms that help students organize their solutions to homework exercises and problems and is also available through McGraw-Hill *Create*.



Excel Templates

These templates allow students to develop spreadsheet skills to solve selected assignments identified by an icon in the end-of-chapter material.

● ACKNOWLEDGMENTS ●

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

Special thanks to the talented people who prepared the supplements. These take a great deal of time and effort to write and we appreciate their efforts. Molly Brown of James Madison University prepared the Test Bank and accuracy checked the Instructor's Manual and PowerPoints. Anna Lusher of Slippery Rock University wrote the Instructors Manual. Jack Terry developed the Excel Templates. LuAnn Bean of Florida Institute of Technology prepared the online quizzes and PowerPoints. Loretta Manktelow of James Madison University accuracy checked the Test Bank and quizzes. We also thank our accuracy checkers Ilene Persoff of CW Post Campus/Long Island University and LuAnn Bean of Florida Institute of Technology. A special thanks to Linda Bell of William Jewell College for her contribution to the Financial Statement Analysis material that appears in Appendix D.

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• **Thomas P. Edmonds** • **Frances M. McNair** • **Philip R. Olds**

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