Financial Accounting

Tools for Business Decision Making

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Ninth Edition

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From the Authors

Dear Student,

WHY THIS COURSE? Remember your biology course in high school? Did you have one of those "invisible man" models (or maybe something more high-tech than that) that gave you the opportunity to look "inside" the human body? This accounting course offers something similar. To understand a business, you have to understand the financial insides of a business organization. A financial accounting course will help you understand the essential financial components of businesses. Whether you are looking at a large multinational company like **Apple** or **Starbucks** or a single-owner software consulting business or coffee shop, knowing the fundamentals of financial accounting will help you understand what is happening. As an employee, a manager, an investor, a business owner, or a director of your own personal finances—any of which roles you will have at some point in your life—you will make better decisions for having taken this course.

"Whether you are looking at a large multinational company like **Apple** or **Starbucks** or a single-owner software consulting business or coffee shop, knowing the fundamentals of financial accounting will help you understand what is happening."

WHY THIS TEXT? Your instructor has chosen this text for you because of the authors' trusted reputation. The authors have worked hard to write a text that is engaging, timely, and accurate.

HOW TO SUCCEED? We've asked many students and many instructors whether there is a secret for success in this course. The nearly unanimous answer turns out to be not much of a secret: "Do the homework." This is one course where doing is learning. The more time you spend on the homework assignments—using the various tools that this text provides—the more likely you are to learn the essential concepts, techniques, and methods of accounting. Besides the text itself, WileyPLUS also offers various support resources.

Good luck in this course. We hope you enjoy the experience and that you put to good use throughout a lifetime of success the knowledge you obtain in this course. We are sure you will not be disappointed.

Jerry J. Weygandt
Paul D. Kimmel
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Author Commitment



Jerry Weygandt

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Don Kieso

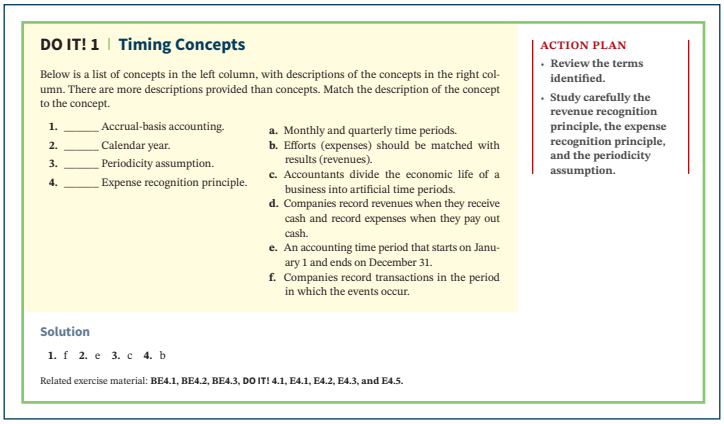
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Hallmark Features

Financial Accounting, Ninth Edition, provides a simple and practical introduction to financial accounting. It explains the concepts you need to know, while also emphasizing the importance of decision-making. **In this new edition, all content has been carefully reviewed and revised to ensure maximum student understanding.** For example, the authors have updated illustrations to show cash flow, balance sheet, and income statement effects of transactions in Chapter 3. At the same time, the time-tested features that have proven to be of most help to students have been retained, such as the following.

DO IT! Exercises

DO IT! Exercises in the body of the text prompt students to stop and review key concepts. They outline the Action Plan necessary to complete the exercise as well as show a detailed solution.



DO IT! 1 | Timing Concepts

Below is a list of concepts in the left column, with descriptions of the concepts in the right column. There are more descriptions provided than concepts. Match the description of the concept to the concept.

1. _____ Accrual-basis accounting.
2. _____ Calendar year.
3. _____ Periodicity assumption.
4. _____ Expense recognition principle.

a. Monthly and quarterly time periods.
b. Efforts (expenses) should be matched with results (revenues).
c. Accountants divide the economic life of a business into artificial time periods.
d. Companies record revenues when they receive cash and record expenses when they pay out cash.
e. An accounting time period that starts on January 1 and ends on December 31.
f. Companies record transactions in the period in which the events occur.

ACTION PLAN

- **Review the terms identified.**
- **Study carefully the revenue recognition principle, the expense recognition principle, and the periodicity assumption.**

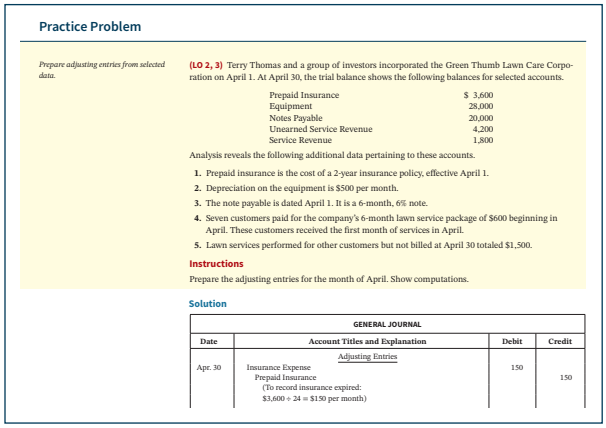
Solution

1. f **2.** e **3.** c **4.** b

Related exercise material: **BE4.1, BE4.2, BE4.3, DO IT! 4.1, E4.1, E4.2, E4.3, and E4.5.**

Review and Practice

Each chapter concludes with a Review and Practice section which includes a review of learning objectives, Decision Tools review, key terms glossary, practice multiple-choice questions with annotated solutions, practice brief exercises with solutions, practice exercises with solutions, and a practice problem with a solution.



Practice Problem

Prepare adjusting entries from selected data.

(LO 2, 3) Terry Thomas and a group of investors incorporated the Green Thumb Lawn Care Corporation on April 1. At April 30, the trial balance shows the following balances for selected accounts.

Prepaid Insurance	$ 3,600
Equipment	28,000
Notes Payable	20,000
Unearned Service Revenue	4,200
Service Revenue	1,800

Analysis reveals the following additional data pertaining to these accounts.

1. Prepaid insurance is the cost of a 2-year insurance policy, effective April 1.
2. Depreciation on the equipment is $500 per month.
3. The note payable is dated April 1. It is a 6-month, 6% note.
4. Seven customers paid for the company's 6-month lawn service package of $600 beginning in April. These customers received the first month of services in April.
5. Lawn services performed for other customers but not billed at April 30 totaled $1,500.

Instructions

Prepare the adjusting entries for the month of April. Show computations.

Solution

GENERAL JOURNAL			
Date	**Account Titles and Explanation**	**Debit**	**Credit**
	Adjusting Entries		
Apr. 30	Insurance Expense	150	
	Prepaid Insurance		150
	(To record insurance expired: $3,600 ÷ 24 = $150 per month)		

Infographic Learning

Over half of the text is visual, providing students alternative ways of learning about accounting.

Basic Analysis: The asset Cash is increased $1,200; the liability Unearned Service Revenue is increased $1,200 because the service has not been performed yet. That is, when an advance payment is received, unearned revenue (a liability) should be recorded in order to recognize the obligation that exists.

CASH FLOW	BALANCE SHEET												INCOME STATEMENT
	Assets			= Liabilities		+ Stockholders' Equity							
							Retained Earnings						
	Cash	+ Equip-ment	=	Notes Pay.	+ Unearned Serv. Rev.	+ Common Stock	+ Rev.	–	Exp.	–	Div.		
	$10,000	+ $5,000	=	$5,000		+ $10,000							
↑ $1,200	(4) +1,200				+$1,200								No effect
	$11,200	+ $5,000	=	$5,000	+ $1,200	+ $10,000							
	$16,200			$16,200									

Real-World Decision-Making

Real-world examples that illustrate interesting situations in companies and how managers make decisions using accounting information are integrated throughout the text, such as in the opening Feature Story as well as the Insight boxes.

Investor Insight Apple Inc.



PhotoAlto/James Hardy/ Getty Images, Inc.

Reporting Revenue Accurately

Until recently, electronics manufacturer **Apple** was required to spread the revenues from iPhone sales over the two-year period following the sale of the phone. Accounting standards required this because Apple was obligated to provide software updates after the phone was sold. Since Apple had service obligations after the initial date of sale, it was forced to spread the revenue over a two-year period.

As a result, the rapid growth of iPhone sales was not fully reflected in the revenue amounts reported in Apple's income statement. A new accounting standard now enables Apple to report much more of its iPhone revenue at the point of sale. It was estimated that under the new rule revenues would have been about 17% higher and earnings per share almost 50% higher.

In the past, why was it argued that Apple should spread the recognition of iPhone revenue over a two-year period, rather than recording it upfront? (Go to WileyPLUS for this answer and additional questions.)

Decision Tools

Accounting concepts that are useful for management decision-making are highlighted throughout the text. A summary of Decision Tools is included in each chapter as well as a practice exercise and solution, Using the Decision Tools.

USING THE DECISION TOOLS | Groupon, Inc.

Groupon, Inc. operates online marketplaces that provide goods and services at discounted prices worldwide. Headquartered in Chicago, Illinois, it has over 11,843 employees. Suppose that the information shown in the following trial balance was taken from Groupon's 2022 financial records.

Groupon, Inc.
Adjusted Trial Balance
December 31, 2022
(in millions)

Account	Dr.	Cr.
Cash	$1,072	
Accounts Receivable	105	
Other Current Assets	224	
Equipment	377	
Accumulated Depreciation—Equipment		$ 195
Stock Investments (noncurrent)	24	
Goodwill	619	
Accounts and Other Payables		932
Accrued Expenses Payable		230
Other Current Liabilities		163
Notes Payable (noncurrent)		137
Common Stock		1,687
Dividends	0	
Retained Earnings	849	
Revenues		3,181
Cost of Goods Sold	1,643	
Selling and Administrative Expenses	1,294	
Marketing Expense	269	
Other Expense	33	
Income Tax Expense	16	
	$6,525	$6,525

Instructions

From the trial balance, prepare an income statement, retained earnings statement, and classified balance sheet. **Be sure to prepare them in that order since each statement depends on information determined in the preceding statement.** (*Hint:* Because Groupon has experienced losses, it has a debit balance in Retained Earnings. In its financial statements, Groupon reports an Accumulated Deficit rather than Retained Earnings. Remember that the amount of Retained Earnings reported in the trial balance represents the balance at the beginning of the year.)

Solution

Groupon, Inc.
Income Statement
For the Year Ended December 31, 2022
(in millions)

Revenues		$3,181
Cost of goods sold	$1,643	
Selling and administrative expenses	1,294	
Marketing expense	269	
Other expense	33	
Income tax expense	16	3,255
Net loss		$ (74)

Groupon, Inc.
Retained Earnings Statement
For the Year Ended December 31, 2022
(in millions)

Beginning accumulated deficit	$(849)
Less: Net loss	74
Less: Dividends	0
Ending accumulated deficit	$(923)

Groupon, Inc.
Balance Sheet
December 31, 2022
(in millions)

Assets		
Current assets		
Cash	$1,072	
Accounts receivable	105	
Other current assets	224	
Total current assets		$1,401
Long-term investments		
Stock investments		24
Property, plant, and equipment		
Equipment	377	
Accumulated depreciation—equipment	195	182
Intangible assets		
Goodwill		619
Total assets		$2,226
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities		
Accounts and other payables	$ 932	
Accrued expenses payable	230	
Other current liabilities	163	
Total current liabilities		$1,325
Long-term liabilities		
Notes payable		137
Total liabilities		1,462
Stockholders' equity		
Common stock	1,687	
Accumulated deficit	(923)	
Total stockholders' equity		764
Total liabilities and stockholders' equity		$2,226

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