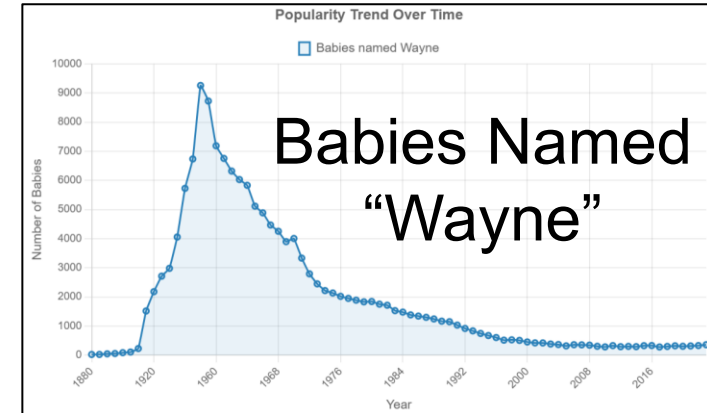


Bridging the Gap: Teaching for Tomorrow's Accounting Careers

**Wayne Thomas
University of Oklahoma**

We Still Do It...But in a Different Way

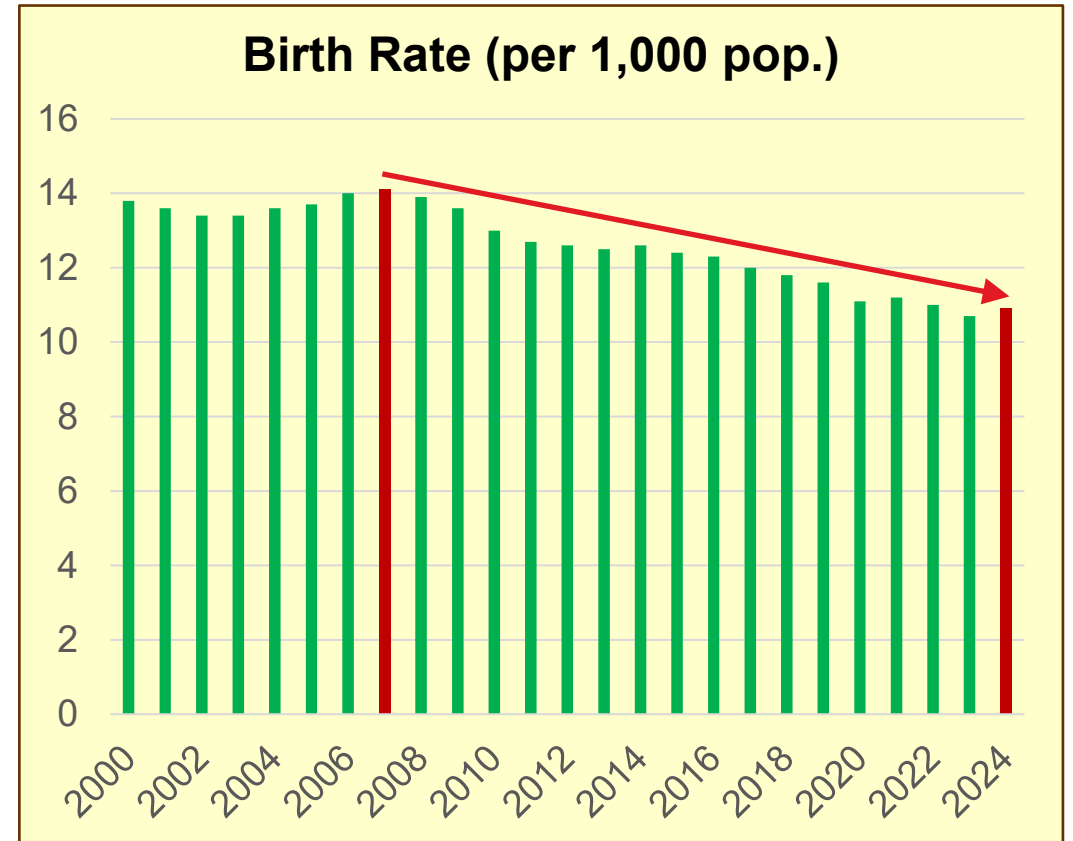
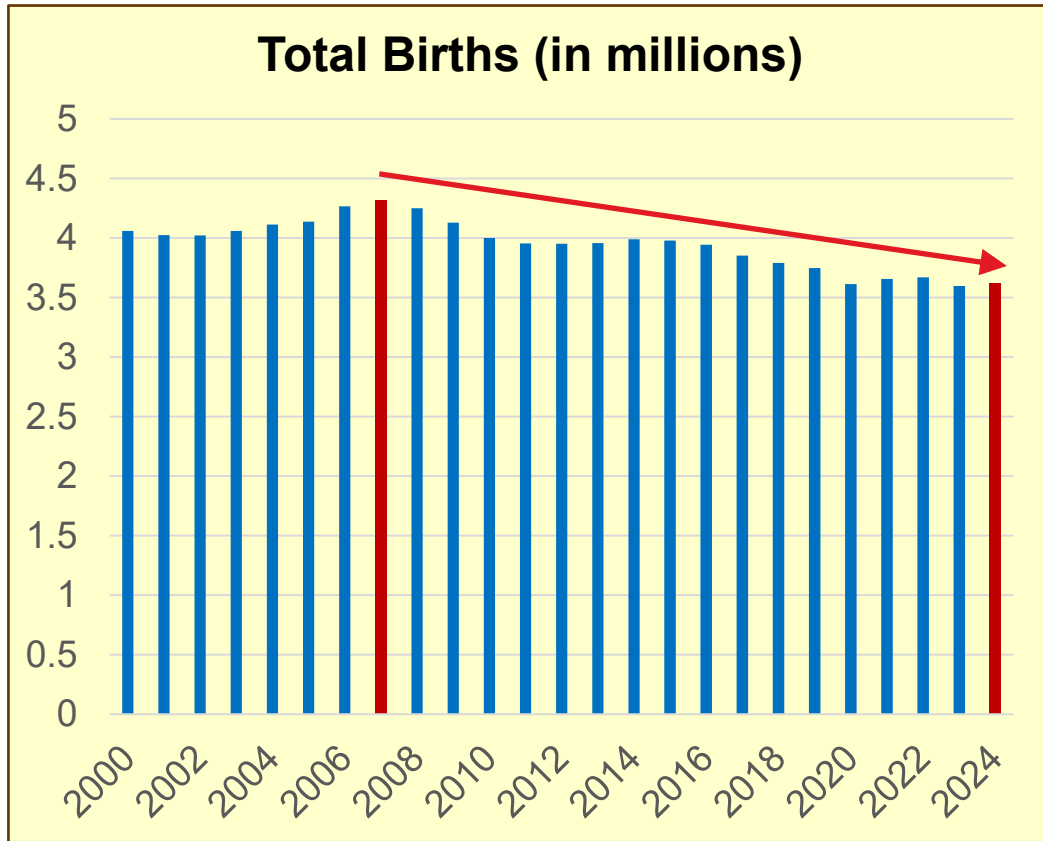


Today's Agenda

- ✓ **Headwinds Facing College Education**
- ✓ **Ideas for a Meaningful Course**
- ✓ **Introducing Real-World Perspectives**
- ✓ **EDGAR Cases, AI Assignments**
- ✓ **Ethics and Earnings Management Assignments**
- ✓ **Data Analytics – Visuals and Dashboards**

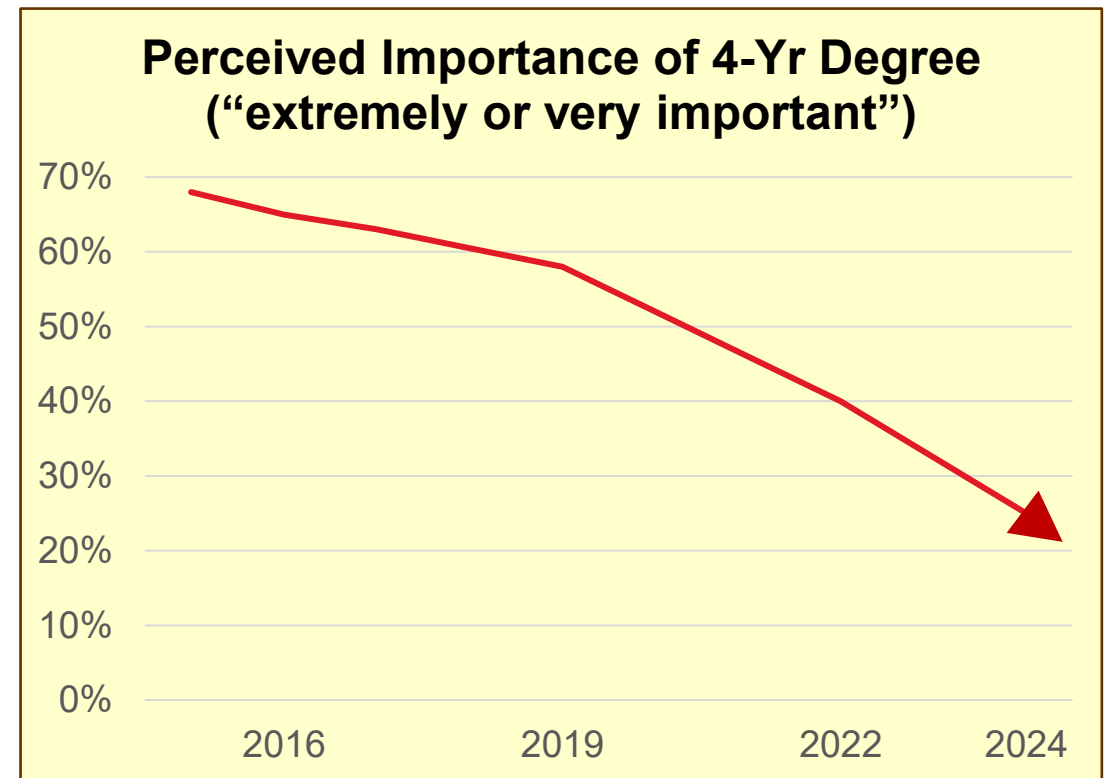
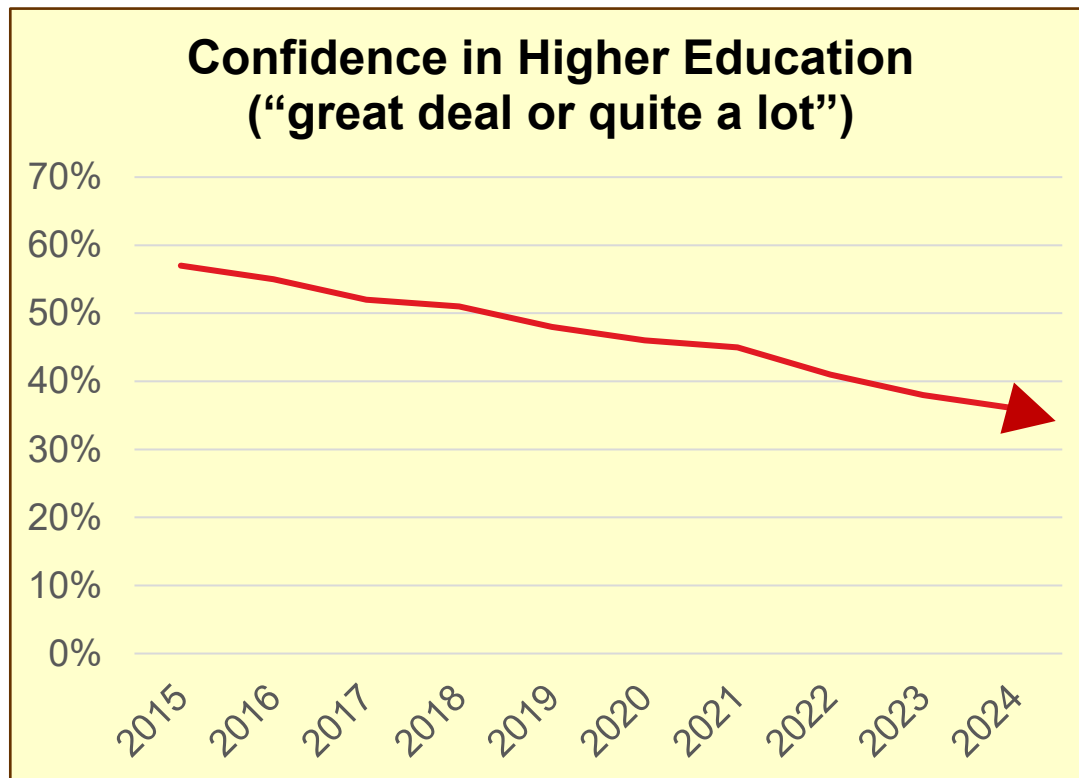
Headwinds Facing College Education

Demographic Cliff



Headwinds Facing College Education

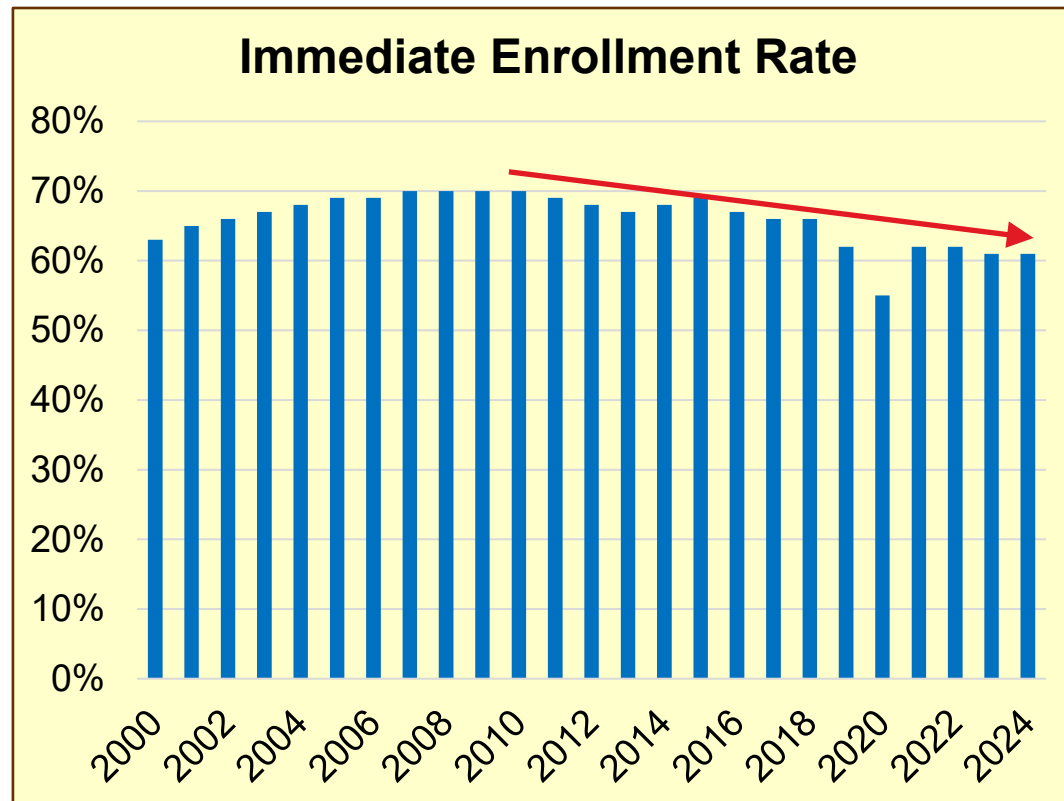
Declining Confidence



Headwinds Facing College Education

Fewer High School Students Opting for College

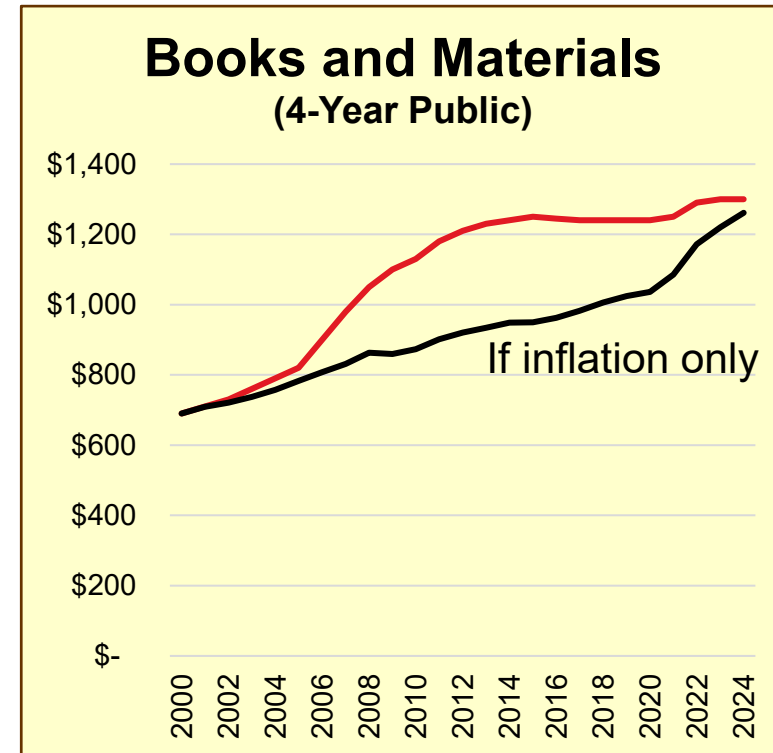
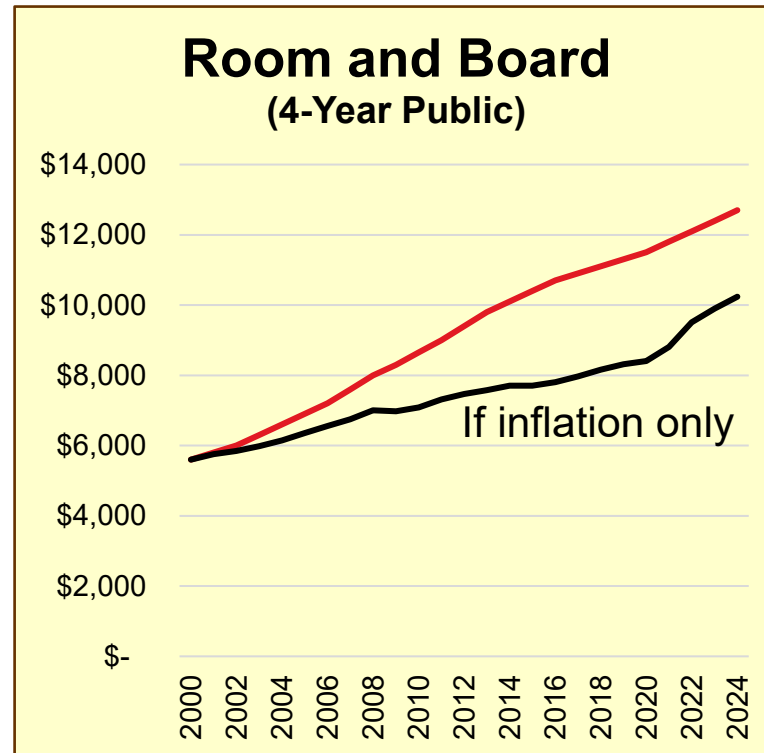
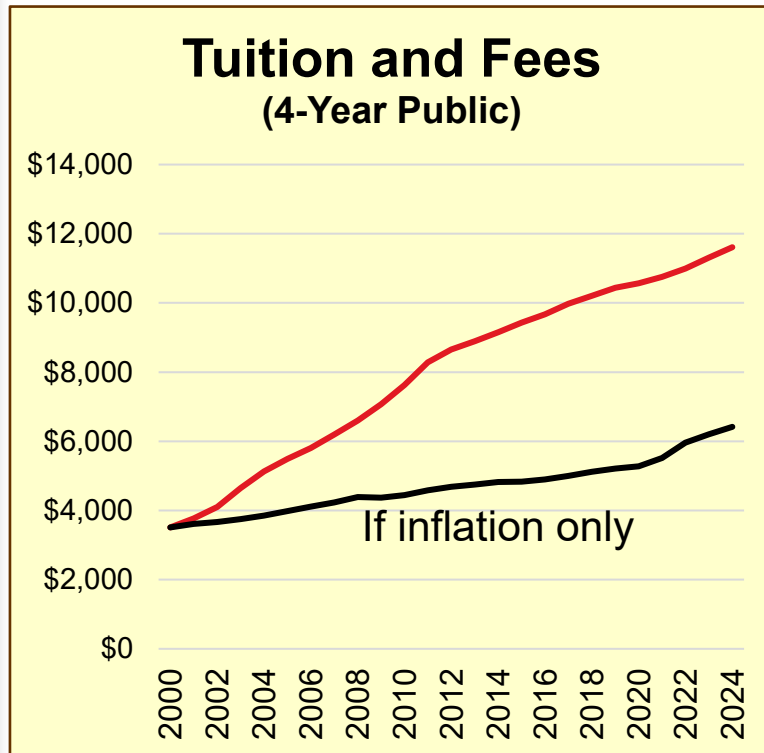
Many opting for non-degree vocations and paths



Headwinds Facing College Education

Rising Costs of College

“Materials” may include computers



Headwinds Facing College Education

Declining Employer Perceptions of Graduates (skills gap)

- Not able to deal with uncertainties/messiness of the real world
- Not prepared to use common tools (Excel, AI)
- Insufficient experiential learning (theory versus practice)
- Lack of communication skills
- Lack of professional behavior
- Grade inflation and lack of rigor (which student is better?)



Headwinds Facing Accounting Education – Misperceptions

Accounting is...

1. A math class (not business, boring)
2. Too difficult (foreign language)
3. Static (never changes)
4. Cut-and-dried (little thought needed)
5. Not a driver of business value (just a bunch of rules to follow)
6. Bookkeeping (only staff-level support)
7. Historical only (backwards looking)
8. Only for accounting majors (not relevant to other business functions)
9. For people who work alone (not part of management group)
10. For people who don't need communication skills (no clients or teams)



All of these are Incorrect!

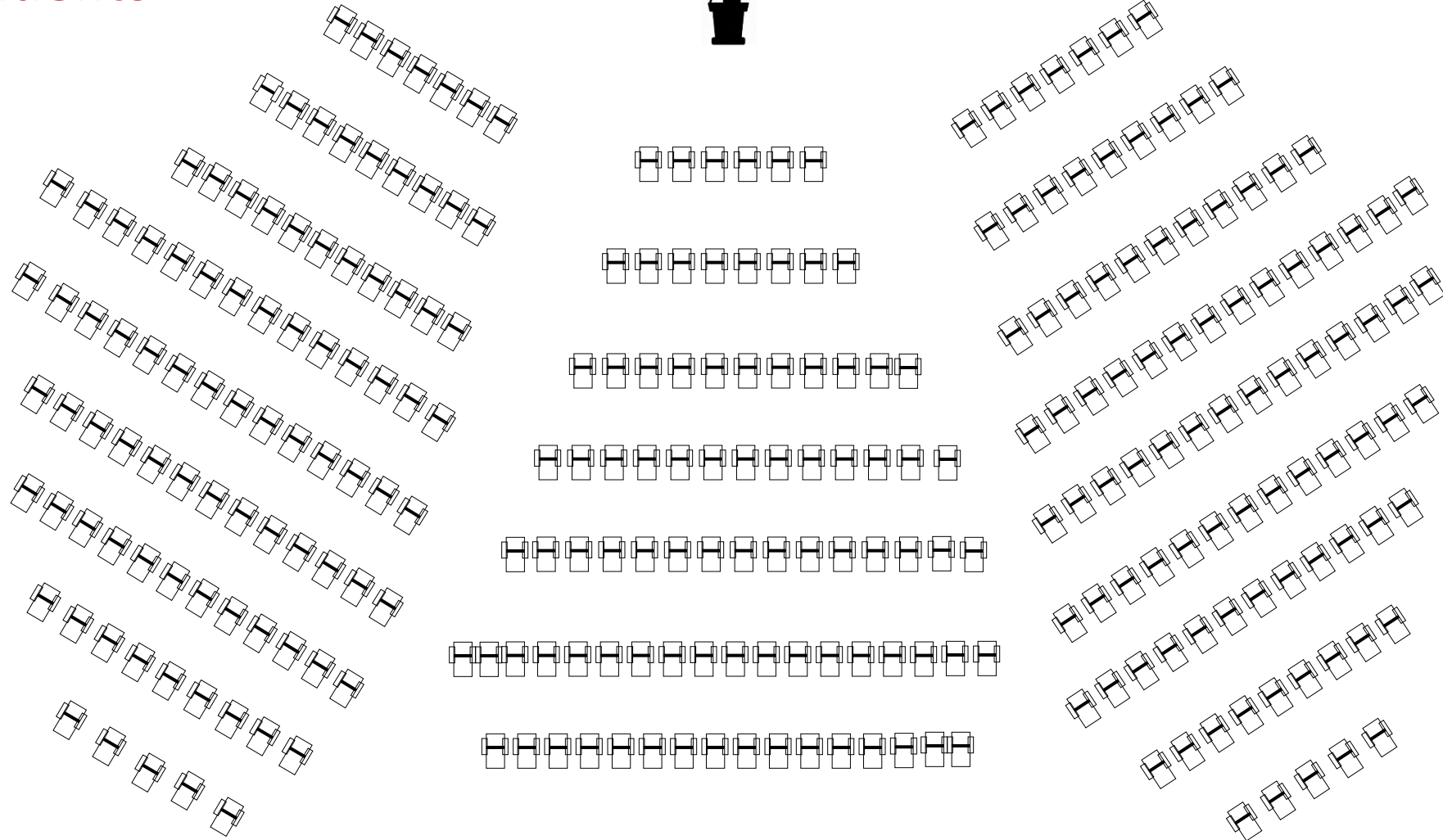
But Wait...Reasons for Optimism!



- **Headwinds ≠ Collapse** → Time of transition (it's happened before)
- **Student value remains** → Lower unemployment and higher wages
- **Employers value degrees** → Business disciplines in particular
- **Expanding opportunities** → Online education, corporate partnerships
- **Innovative programs** → Certificates, credentials, specialty programs
- **Advances in technology** → Innovations at relatively lower cost
- **Institutional norms** → Parents want kids in college classes (and married)
- **Accounting matters** → Decision making and accountability always needed
- **Instructors (we) matter** → Course design and delivery make a difference
 - Generate interest
 - Build knowledge
 - Develop skills

My Classroom

275 students × 2

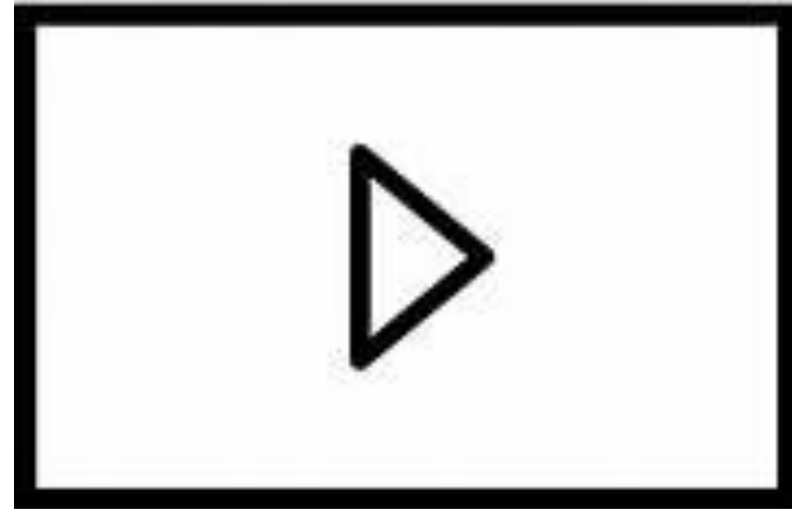


My Other “Classrooms”

Synchronous



Asynchronous



Create a Meaningful Course

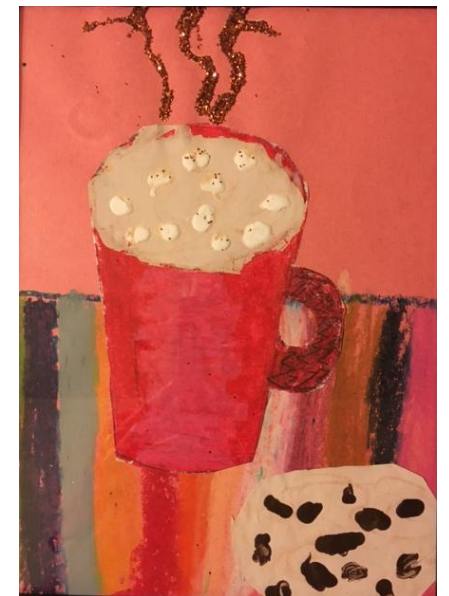
- **“Big Picture”**: Organize students’ perception of accounting
- **Real-world**: Make the course seem relevant to students
- **Useful business tool**: Show them decisions and analysis
- **Career readiness**: Give them the tools and skills they’ll need



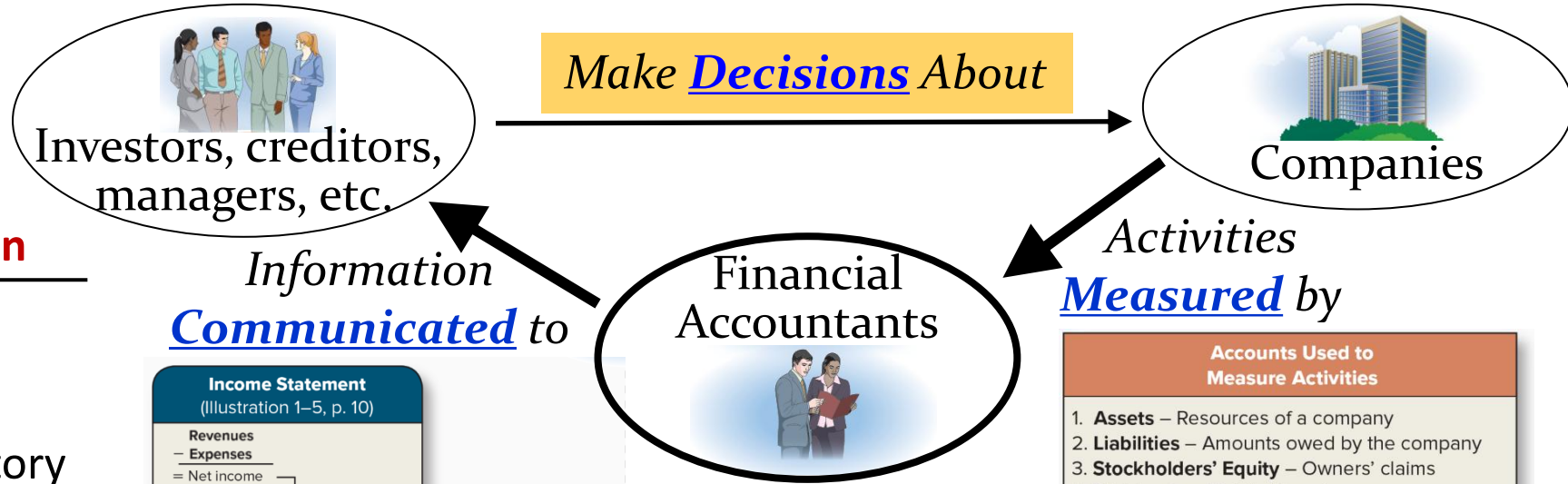
My Goal: Make the course meaningful,
without making it more complex.



My daughter's



Framework for Financial Accounting



Organize Their Perception

- Build a framework
- Accounting ≠ counting
- Accounting = telling a story
- Dynamic social science
- Motivate majors
- Appreciated by non-majors

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	Beginning balance	Beginning total
+ New issuances		+ New issuances
	+ Net income	+ Net income
	- Dividends	- Dividends
Ending balance	+ Ending balance	= Ending total

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

Assets	= Liabilities + Stockholders' Equity
(including Cash)	

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	

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

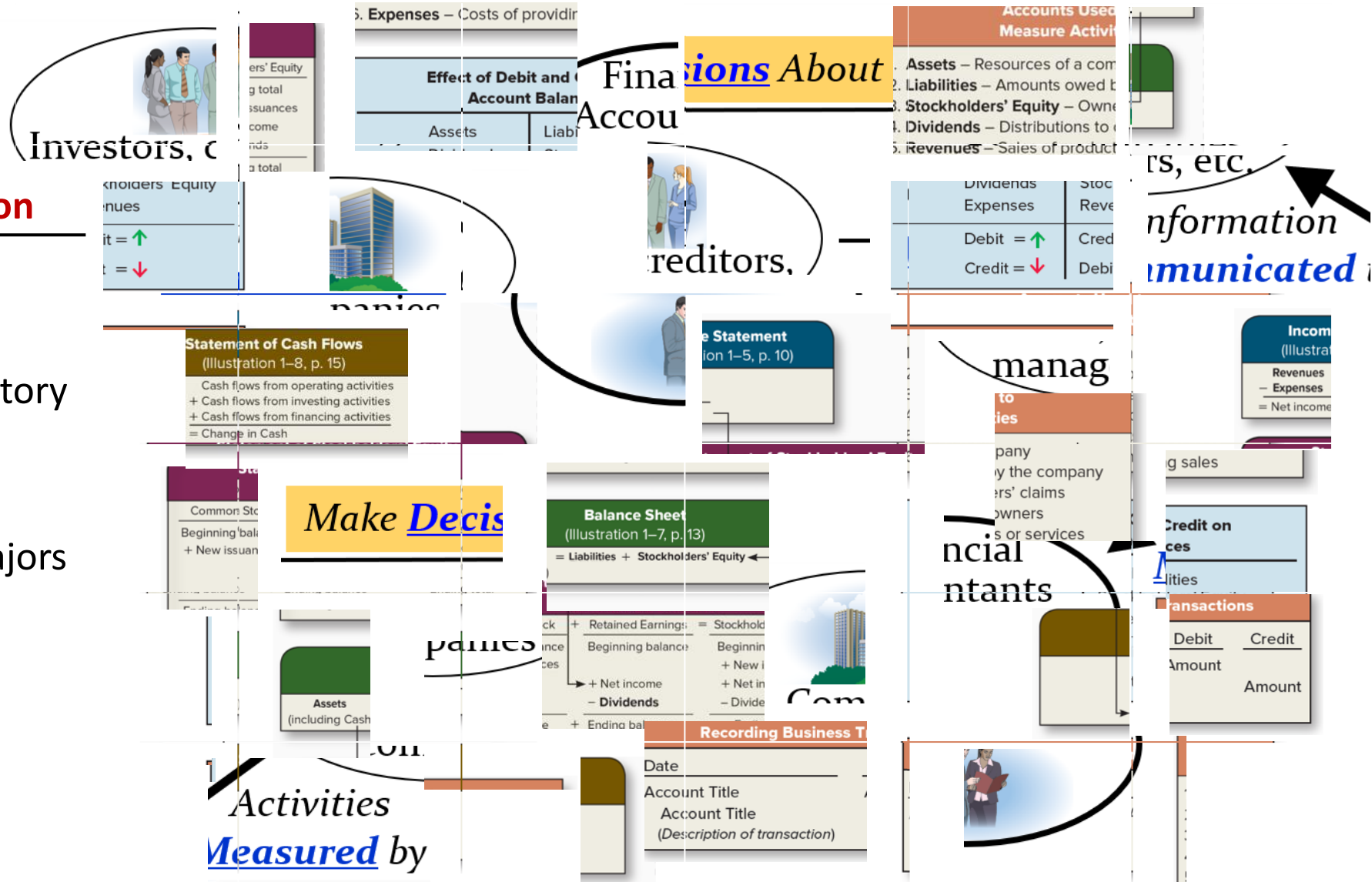
Recording Business Transactions

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

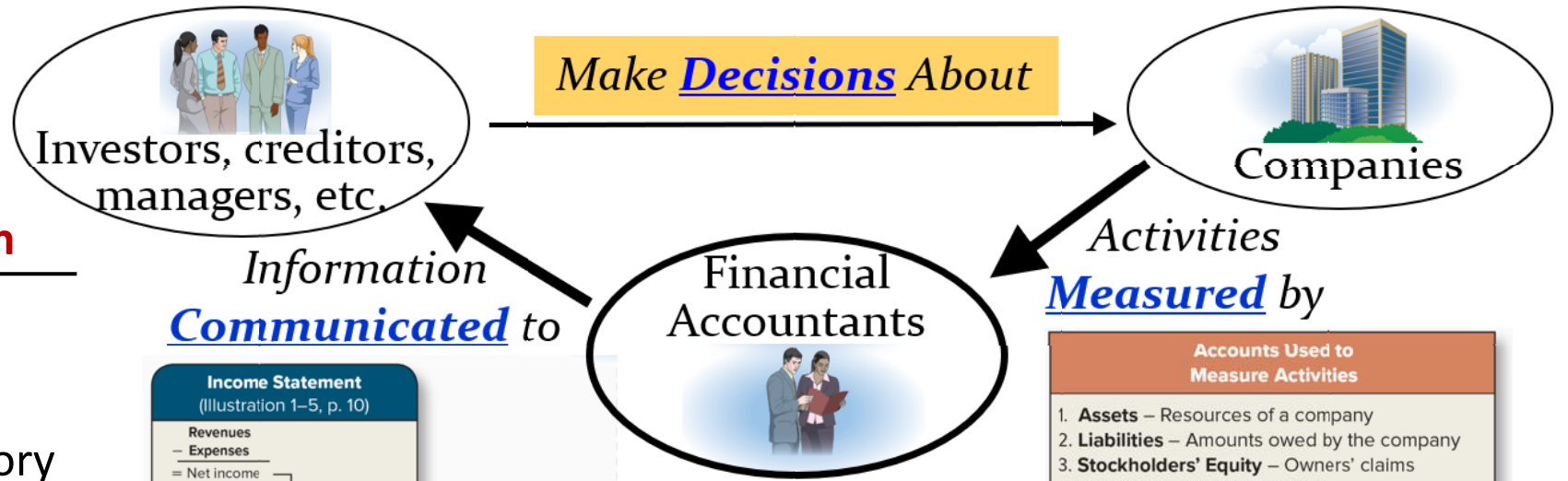
Framework for Financial Accounting

Organize Their Perception

- Build a framework
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Framework for Financial Accounting



Organize Their Perception

- Build a framework
- **Accounting** ≠ counting
- **Accounting** = telling a story
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Income Statement (Illustration 1-5, p. 10)	
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Balance Sheet (Illustration 1-7, p. 13)	
Assets (including Cash)	= Liabilities + Stockholders' Equity

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Assets	Liabilities
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Expenses	Revenues
Debit = ↑	Credit = ↑
Credit = ↓	Debit = ↓

Recording Business Transactions		
Date	Debit	Credit
Account Title	Amount	Amount
Account Title		Amount
(Description of transaction)		

Journal Entries and Financial Statements (Measurement and Communication)

Measurement → Communication

Journal Entry → Financial Statements

Example. On October 19, purchase inventory for \$6,600 on account.

<u>Journal Entry</u>	<u>Debit</u>	<u>Credit</u>	<u>Financial Statement Effects</u>												
Inventory	6,600		<div data-bbox="1755 778 2374 1025" data-label="Table"> <table border="1"> <thead> <tr> <th colspan="4">Income Statement</th> </tr> <tr> <th>R</th> <th>-</th> <th>E</th> <th>= NI</th> </tr> </thead> <tbody> <tr> <td colspan="4"> ----- No effect ----- </td> </tr> </tbody> </table> </div>	Income Statement				R	-	E	= NI	----- No effect -----			
Income Statement															
R	-	E	= NI												
----- No effect -----															
Accounts Payable		6,600													

Balance Sheet			
A	=	L	+ SE
+6,600		+6,600	
Inventory		Accts. Pay.	

Journal Entries and Financial Statements (Measurement and Communication)

Example. On December 15, sold inventory for \$7,500 on account with a cost of \$5,300.

<u>Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	7,500	
Sales Revenue		7,500
Cost of Goods Sold	5,300	
Inventory		5,300

Financial Statement Effects

Income Statement			
R	-	E	= NI
+7,500		+5,300	+2,200
Sales Rev.		COGS	

Balance Sheet			
A	=	L	+ SE
+7,500			+2,200
Accts. Rec.			
-5,300			
Inventory			

Journal Entries and Financial Statements (Measurement and Communication)

A company purchases inventory on account on February 2 for \$40,000 and then sells this inventory on account on March 17 for \$60,000.

(a) Record the purchase of inventory on account.

(b) Record the sale of inventory on account.

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

Journal Entries and Financial Statements (Measurement and Communication)

A company purchases inventory on account on February 2 for \$40,000 and then sells this inventory on account on March 17 for \$60,000.

(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		

Journal Entries and Financial Statements (Measurement and Communication)

A company purchases inventory on account on February 2 for \$40,000 and then sells this inventory on account on March 17 for \$60,000.


(b) Record 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					


Ratio Analysis (Decision Making)

- Real-World analysis
- Inventory analysis: **Best Buy** vs. **Target** vs. **Ralph Lauren**

(\$ in millions)	<u>Inventory Turnover Ratio</u>	<u>Average Days in Inventory</u>
Best Buy	$\$36,386 \div \$5,552.5 = \mathbf{6.6 \text{ times}}$	$\frac{365}{6.6} = \mathbf{55 \text{ days}}$
Target	$\$82,229 \div \$13,700.5 = \mathbf{6.0 \text{ times}}$	$\frac{365}{6.0} = \mathbf{61 \text{ days}}$
Ralph Lauren	$\$2,278 \div \$1,024 = \mathbf{2.2 \text{ times}}$	$\frac{365}{2.2} = \mathbf{166 \text{ days}}$



	<u>Gross Profit/Net Sales</u>	=	<u>Gross Profit Ratio</u>
Best Buy	$\$9,912/\$46,298$	=	21%
Target	$\$25,359/\$107,588$	=	24%
Ralph Lauren	$\$4,166/\$6,444$	=	65%

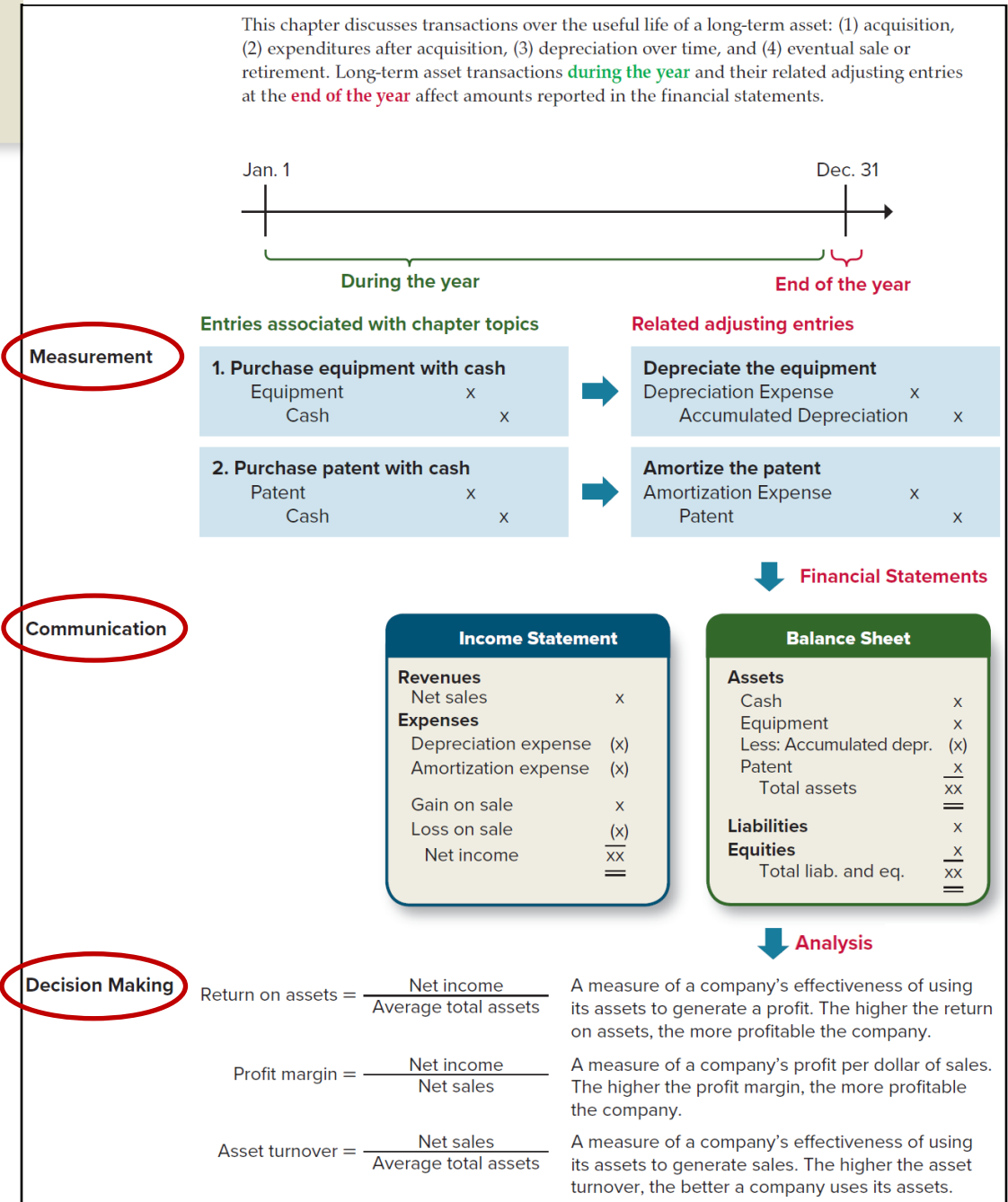


Chapter Framework

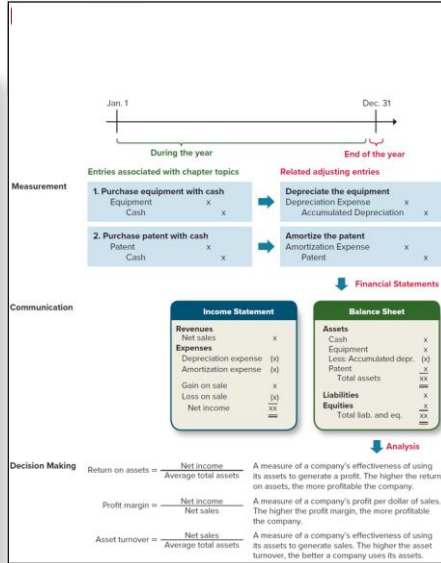
- Every chapter
- One-page illustration
- Summarize for major topics:
 - Measurement** (during vs. end)
 - Communication** (I/S & B/S)
 - Decision Making** (Ratios & interp.)

Also:

- Video walk-through (2-4 min.)
- 10 MC Questions



Chapter Framework



Purposeful order:

Measurement (during the year)



Measurement (end of the year)



Communication (income statement)



Communication (balance sheet)

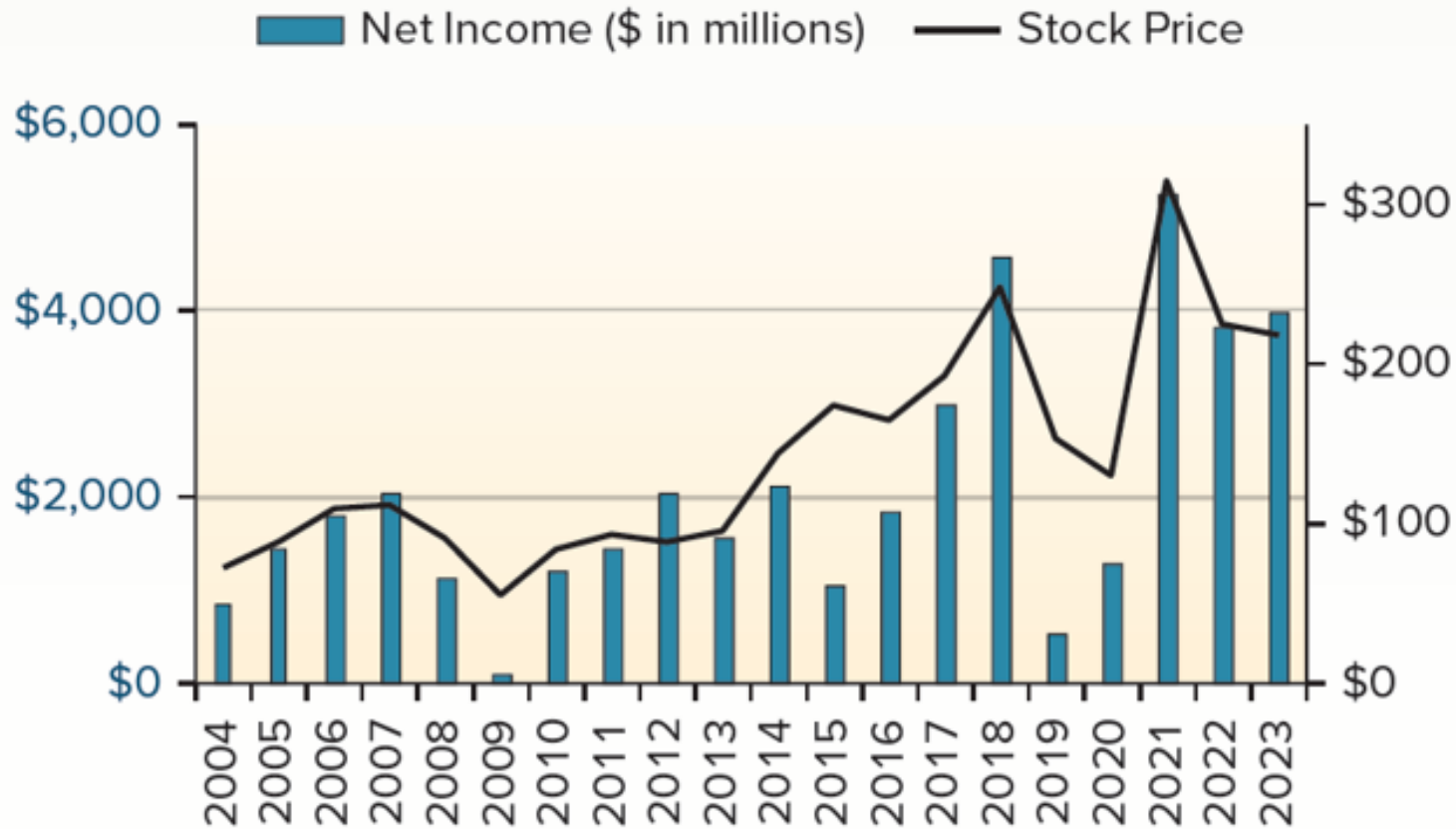


Decision Making (ratio analysis)

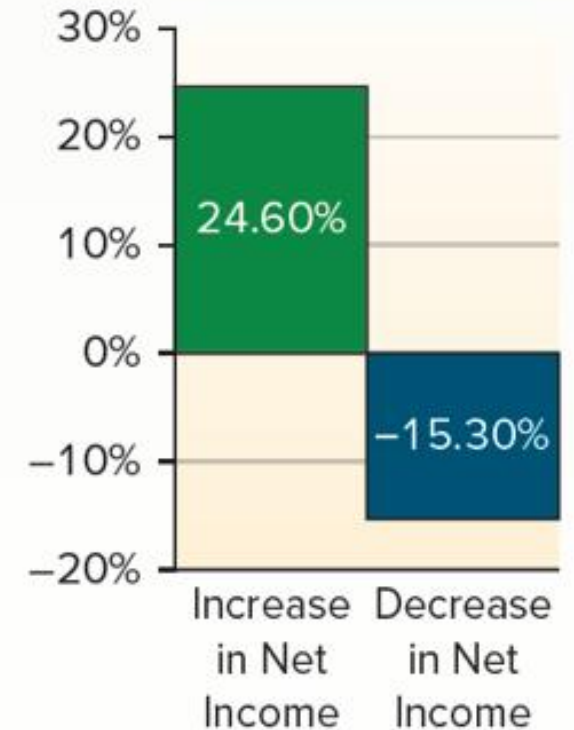
- 1. Measurement (during the year):** During the year, a company purchases equipment that is expected to be used for several years. The company records
 - Debit Equipment; credit Cash.
 - Debit Equipment Expense; credit Cash.
 - Debit Cash; credit Equipment.
 - Debit Cash; credit Equipment Expense.
- 2. Measurement (end of the year):** At the end of the year, the adjusting entry to depreciate equipment involves
 - Debit Accumulated Depreciation; credit Equipment.
 - Debit Depreciation Expense; credit Accumulated Depreciation.
 - Debit Depreciation Expense; credit Equipment.
 - Debit Accumulated Depreciation; credit Depreciation Expense.
- 3. Communication (income statement):** Depreciation of equipment each year has what effect on the income statement?
 - Decrease expenses for the amount of depreciation for the current year only.
 - Decrease expenses for the amount of depreciation since the asset was purchased.
 - Increase expenses for the amount of depreciation for the current year only.
 - Increase expenses for the amount of depreciation since the asset was purchased.
- 4. Communication (balance sheet):** Which of the following is true about Accumulated Depreciation reported in the balance sheet related to equipment?
 - An asset account that maintains a record of the equipment's original cost.
 - A contra (or negative) asset account that represents depreciation of the equipment for the current year only.
 - A liability account that represents total depreciation since the equipment was purchased.
 - A contra (or negative) asset account that represents total depreciation since the equipment was purchased.
- 5. Decision Making (ratio analysis):** A company that is less effective at using its assets to generate sales would have a _____ asset turnover ratio.
 - Higher.
 - Lower.

Real-World Visuals

FedEx Corporation

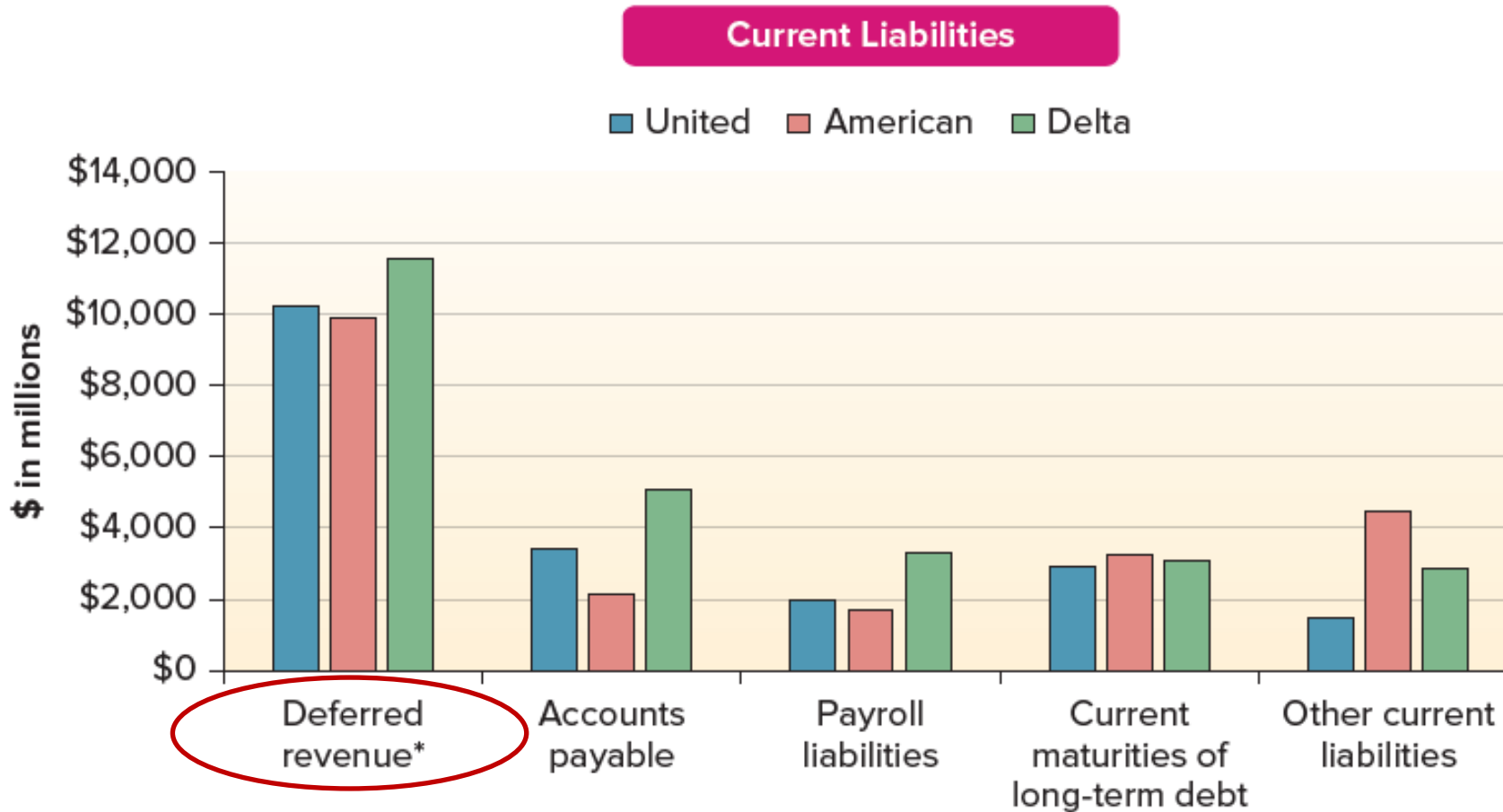


FedEx Corporation Average Annual Stock Returns



Real-World Visuals

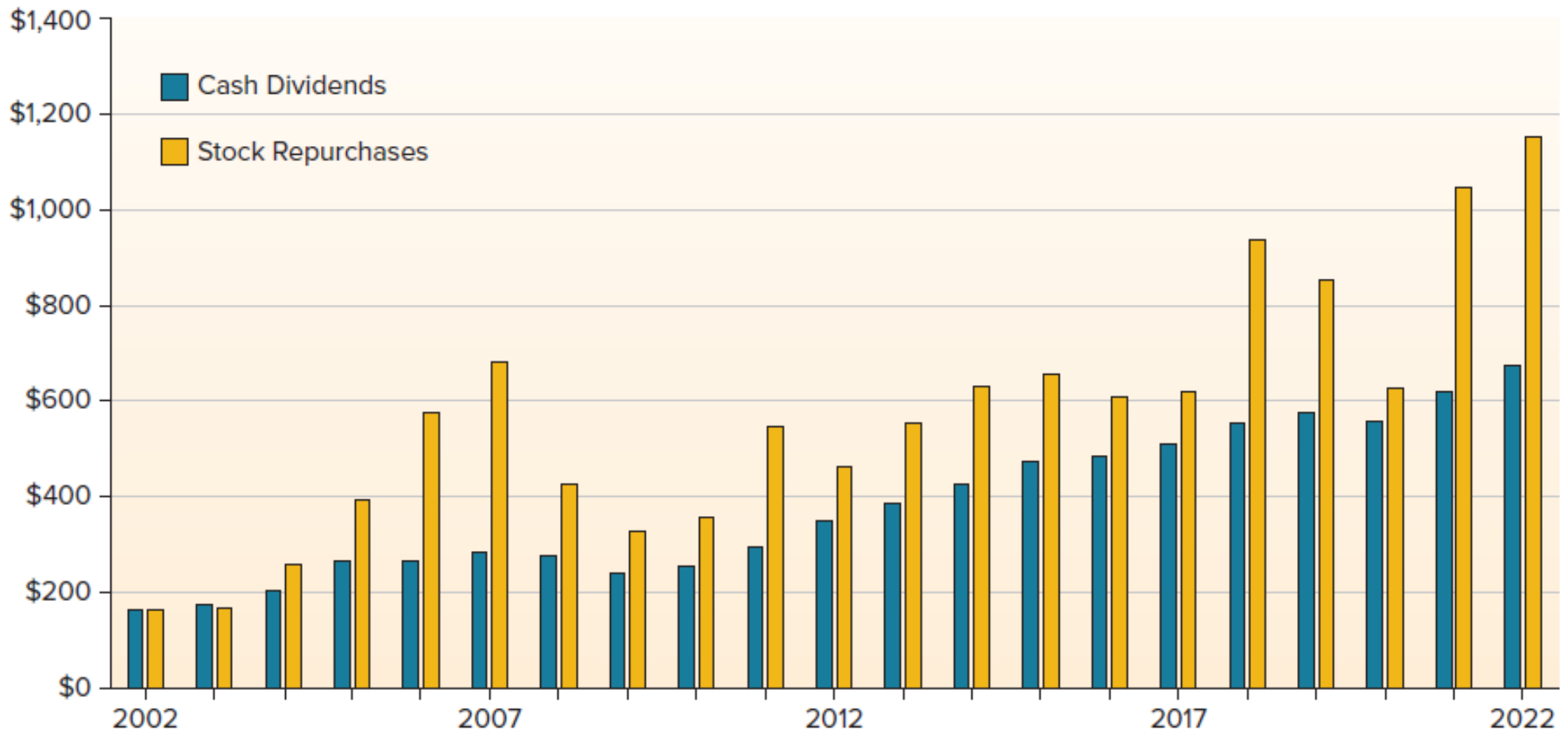
What are some of the current liabilities reported by companies in the airline industry?



* **Deferred revenue** includes advanced ticket sales to customers and rewards earned through customer loyalty programs.

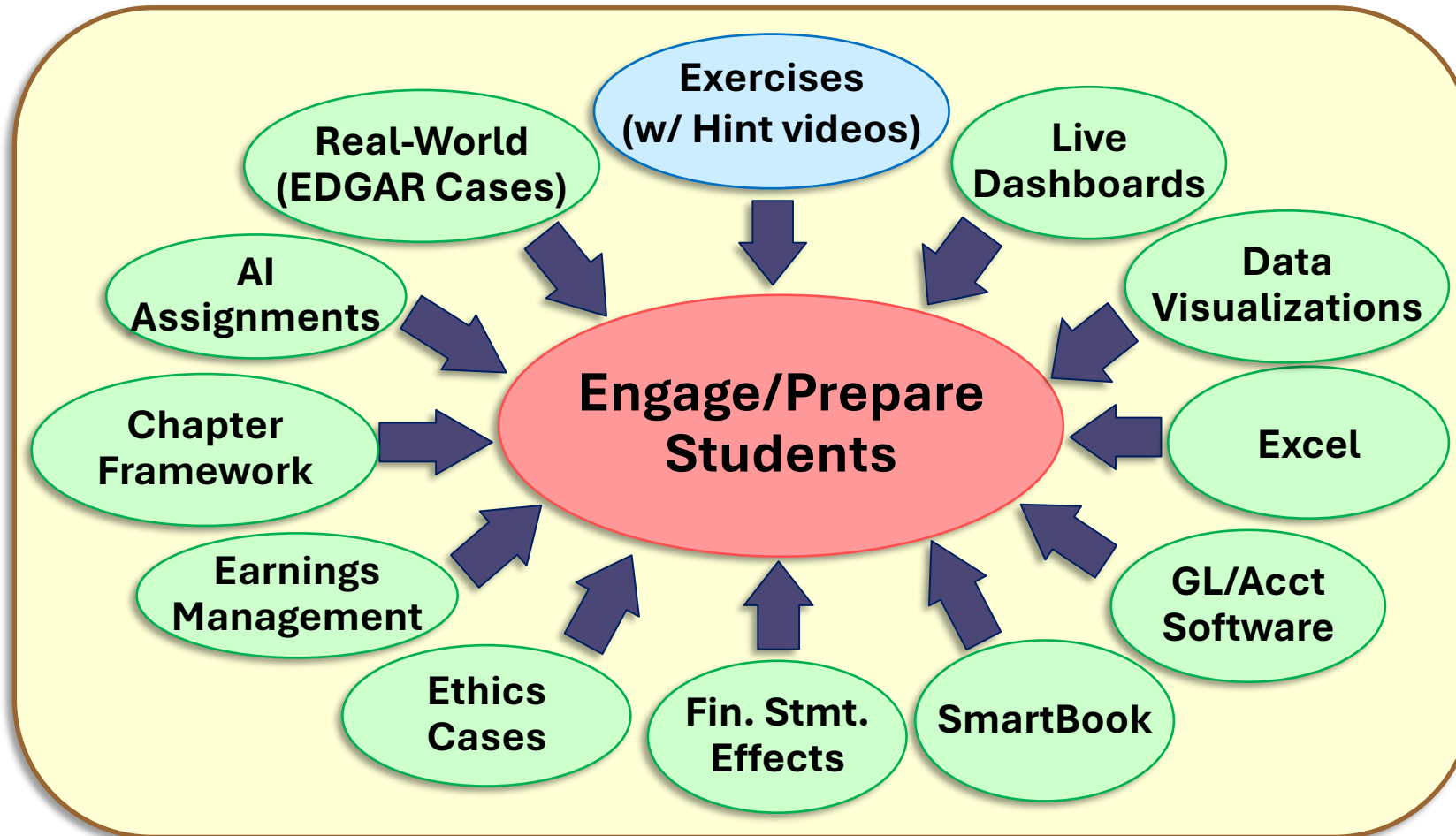
Real-World Visuals

Cash Dividends versus Stock Repurchases Each Year
for the Largest 1,000 Listed Companies in the U.S.
(\$ in billions)



Customize Your Course: Content and Skills

Goal: Generate Interest → Build Knowledge → Develop Skills



Without
adding more
topics or
complexity

My Assignment Variety – Old vs. New

Chapter 7 – Long-Term Assets	Old	New
Brief Exercises, Exercises (all topics)	✓ (many)	✓ (fewer)
F/S Effects (BEs: Depreciation & Sale)		✓
Data Visuals (Acquisition, Depreciation)		✓
Dashboard (Depreciation)		✓
EDGAR Case (Meta)		✓
Earnings Management Case (Depreciation estimates)		✓
General Ledger Software (Accounting cycle)		✓
AI Case (Depreciation schedule)		✓
Chapter Framework video/questions		✓
SmartBook		✓

Assignments in other chapters:

Ethics Cases, Financial Analysis Cases, Integrated Excel

EDGAR Cases

- Unique for each chapter
- Visit SEC website (www.sec.gov)
- Search for 10-K
 - Financial statements
 - Financial statements + disclosures
 - Comparative analysis (analyze two companies)

EDGAR Cases

Visit www.sec.gov and use EDGAR to search for the **McDonald's** (ticker: MCD) annual report (10-K) for the year ended **December 31, 2023**. Locate the “Consolidated Statement of Income” (income statement) and “Consolidated Balance Sheets.”

The image shows a composite of three screenshots from the SEC website. The top screenshot shows the SEC homepage with the search bar "Search SEC.gov & EDGAR" circled in red. The middle screenshot shows the "Quick Links" section with "SEARCH EDGAR" circled in red. The bottom screenshot shows the search results for McDonald's 2023 10-K report, with the "Financial Statements" link circled in red.

U.S. Securities and Exchange Commission

Newsroom | Investors | Small Businesses | Whistleblowers

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We make markets work better.

Founded to help our country respond to the Great Depression, we're the agency that **protects investors** from misconduct, **promotes fairness & efficiency** in the securities markets, and **facilitates capital formation** for those looking to hire, innovate, and grow.

ABOUT THE SEC

Quick Links

We work together to make a positive impact on America's economy, our capital markets, and people's lives.

- CHECK RULEMAKING ACTIVITY
- CRYPTO TASK FORCE
- READ ENFORCEMENT NEWS
- CHECK INVESTMENT PROFESSIONALS
- SEARCH EDGAR
- VIEW COMMISSION VOTES
- SUBMIT YOUR FILINGS
- ENVIAR UN DATO - RECURSOS EN ESPAÑOL

Tagged Sections

- Cover 2
- Financial Statements 9
- Notes to Financial Statements 13
- Accounting Policies 1
- Notes Tables 10
- Notes Details 44

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2023**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number **1-5231**

McDONALD'S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

110 North Carpenter Street, Chicago, Illinois
(Address of principal executive offices)

36-2361282
(I.R.S. Employer Identification No.)

60607
(Zip code)

Registrant's telephone number, including area code: **(630) 623-3000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
---------------------	-------------------	-------------------------------------------

EDGAR Case

Example: Financial Statements Only

Visit www.sec.gov and use EDGAR to search for the **McDonald's** (ticker: MCD) annual report (10-K) for the year ended **December 31, 2023**. Locate the “Consolidated Statement of Income” (income statement) and “Consolidated Balance Sheets.”

1. Do the company's **revenues** exceed **expenses** in the most recent year shown? What is the amount of **net income**?
2. Did net income increase in the most recent year compared to the previous year?
3. What amounts are reported for **current assets** and **total assets** in the most recent year shown?
4. What amount is reported for **current liabilities** in the most recent year shown? Does the company have any **long-term liabilities**?
5. By how much did **retained earnings increase/decrease** in the most recent year compared to the previous year?
6. What is the amount of **dividends** paid to common stockholders in the most recent year shown? This information can be found in the statement of shareholders' equity or the statement of cash flows.
7. Does the **change in retained earnings** equal net income minus dividends?

EDGAR Case

Example: Financial Statements and Disclosure

Visit www.sec.gov and use EDGAR to search for the **Meta** (ticker: META) annual report (10-K) for the year ended December 31, 2023. Locate the “Consolidated Statements of Income” (income statement) and “Consolidated Balance Sheet.”

1. What is the net balance in **property and equipment** in the most recent year shown?
2. What are the amounts reported for (a) **goodwill** and (b) **intangible assets net** in the most recent year shown?
3. What are the balances of (a) **gross property and equipment** and (b) **accumulated depreciation**? (Hint: Locate **Note 7** on Property and Equipment.)
4. Which **depreciation method** is used? (Hint: Locate **Note 1** on the Summary of Significant Accounting Policies and find the section on Property and Equipment.)
5. Calculate the **profit margin ratio** in the most recent year shown and the previous year. Is the company’s profitability increasing or decreasing?

EDGAR Case

Example: Comparative Analysis

Visit www.sec.gov and use EDGAR to search for the **Coca-Cola** (ticker: KO) and **Pepsico** (ticker: PEP) annual reports (10-K) for the year ended December 31, 2023, and December 30, 2023, respectively. Locate the "Consolidated Statements of Income" (income statement) and "Consolidated Balance Sheets."

1. For each company, calculate the **gross profit ratio**, **inventory turnover ratio**, and **average days in inventory** in the most recent year shown.
2. Compare the management of each company's investment in inventory. Which company is **more profitable** and which company **sells its inventory more quickly** based on the ratios calculated in requirement 1?

Recent Email from Student

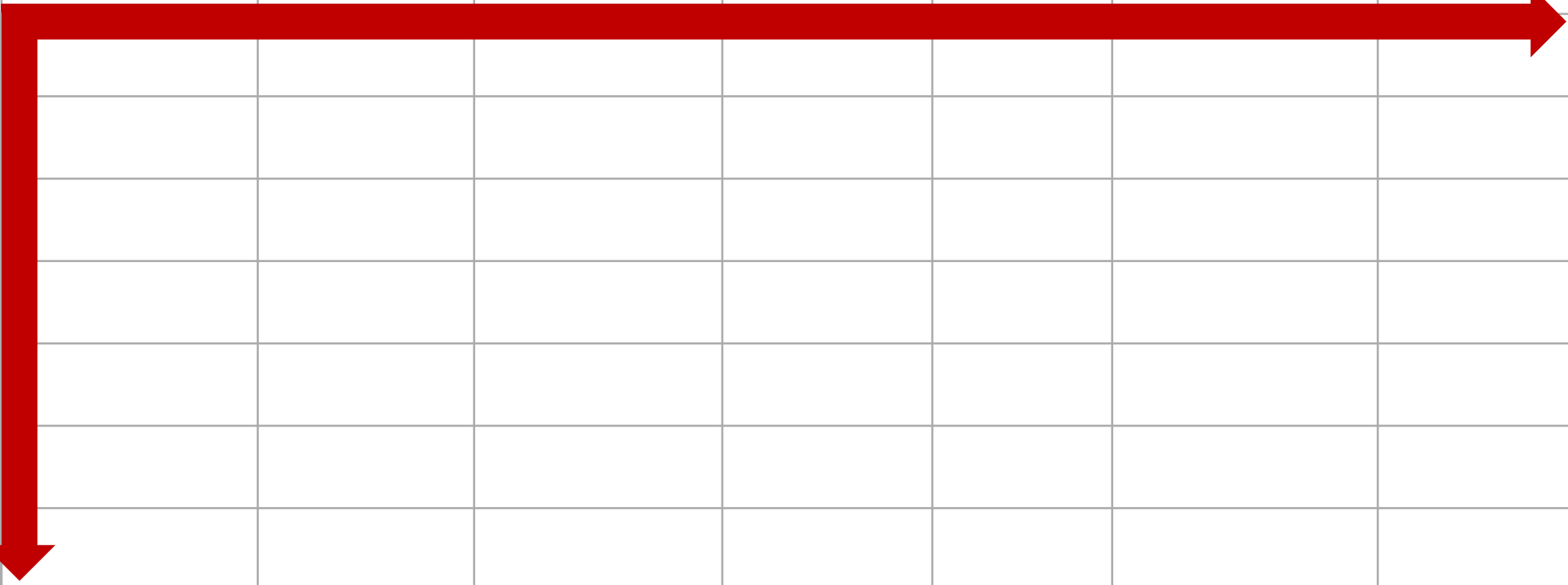
Good evening, Professor Thomas. Wanted to send you a quick email.

I thought it was really cool to scrub Peloton on the SEC website. My wife and sister-in-law use the monthly subscription, and the price just went up from \$44 to \$50 a month. We were wondering why, and for multiple reasons, they're essentially up charging for future advancement. She wanted to know how their performance was doing since I've talked to her about the SEC website throughout the semester. And it was interesting to see their deficits in recent years in many areas.

The main reason I'm sending this email to you is because of what you have said time and time again throughout this semester. That you have given us many tools to examine real-world companies through different lenses, and I think that's awesome! Thank you.

AI Assignments

AI as a Tool

	Transaction analysis and recording	Error detection/correction	Data sorting and retrieval (sched prep)	Financial statement prep	Analysis and decision	Visualization creation and interpretation	Self learning and assessment
Acct Cycle							
Receivables							
Inventory							
LT Assets							
Liabilities							
Equity							
Cash Flows							

AI Assignment:

Example – Allowance for Uncollectible Accounts

What do we typically assign?

A company has the following balances, before any adjustment: Accounts Receivable = \$103,000; Allowance for Uncollectible Accounts = \$3,300 (*debit*). The company estimates:

Age Group	Amount Receivable	Estimated Percentage Uncollectible
Not yet due	\$53,000	5%
0 to 60 days past due	25,300	10%
61 to 120 days past due	15,300	20%
More than 120 days past due	9,400	80%
Total	<u>\$103,000</u>	

Required:

1. Estimate the amount of uncollectible receivables.
2. Record the adjusting entry for uncollectible accounts.
3. Calculate net accounts receivable reported in the balance sheet.

AI Assignment:

Example – Allowance for Uncollectible Accounts

Copy the following instructions and table of customer information as an AI prompt:

Prompt: **At the end of the year (12/31/2024), a company has the following customer account balances outstanding. All amounts are due from the customer within 30 days of the invoice date.**

Customer #	Account Balance	Invoice Date
350	\$3,520	12/23/2024
125	\$4,424	11/1/2024
854	\$6,582	12/18/2024
204	\$6,811	12/14/2024
214	\$11,935	10/20/2024
754	\$14,087	10/17/2024
328	\$3,488	12/21/2024
381	\$9,912	11/7/2024
242	\$4,535	12/23/2024
859	\$12,674	11/18/2024

Group customer invoices into three groups: 1) not yet due, 2) past due by 1 to 30 days, 3) over 30 days past due. The company estimates the following uncollectible accounts: **Group 1) = 5%, Group 2) = 10%, and Group 3) = 40%.**

Determine the amount of total accounts receivable in each group, the amount estimated to be uncollectible in each group, and total estimated uncollectible accounts. Round estimates of uncollectible accounts to the nearest whole dollar.

AI Assignment:

Example – Allowance for Uncollectible Accounts

ChatGPT Output:

Here's the aging at 12/31/2024 (30-day terms) and the estimated uncollectibles:

Group	AR in group	Rate	Estimated uncollectible
1) Not yet due (due date after 12/31)	\$24,936	5%	\$1,247
2) Past due 1–30 days	\$27,010	10%	\$2,701
3) Over 30 days past due	\$26,022	40%	\$10,409
Totals	\$77,968		\$14,357

Notes on classification:

- Not yet due (Group 1): invoices dated 12/14, 12/18, 12/21, 12/23, 12/23 (all due in January 2025).
- 1–30 days past due (Group 2): invoices dated 11/1 (30 days past due), 11/7 (24 days), 11/18 (13 days).
- Over 30 days past due (Group 3): invoices dated 10/20 (42 days) and 10/17 (45 days).

All estimates are rounded to the nearest whole dollar.

AI Assignment:

Example – Allowance for Uncollectible Accounts

Using only the output from the AI prompt, answer the following:

1. What are the amounts of accounts receivable and estimated uncollectible accounts for each age group?
2. Record the year-end adjusting entry for uncollectible accounts. Assume the balance of Allowance for Uncollectible Accounts prior to adjustment is \$1,200 (credit).
3. What amount would be reported in the year-end financial statements for (a) net accounts receivable and (b) bad debt expense?
4. Now assume the balance of Allowance for Uncollectible Accounts prior to adjustment is \$1,200 (debit). (a) Record the year-end adjusting entry for uncollectible accounts. What amount would be reported in the year-end financial statements for (b) net accounts receivable and (c) bad debt expense?

AI Assignment:

Example – Depreciation Methods

On January 1, North Fork Manufacturing purchased a CNC milling machine for \$88,000. The machine has an estimated residual value of \$4,000 and an estimated service life of seven years. The machine was used 1,600 hours in Year 1 and 2,500 hours in Year 2, and total expected usage over its life is 14,000 hours.

1. **Without using AI**, calculate depreciation expense for the first year under each of the following methods:
 - a. Straight-line method
 - b. Double-declining-balance method
 - c. Activity-based method

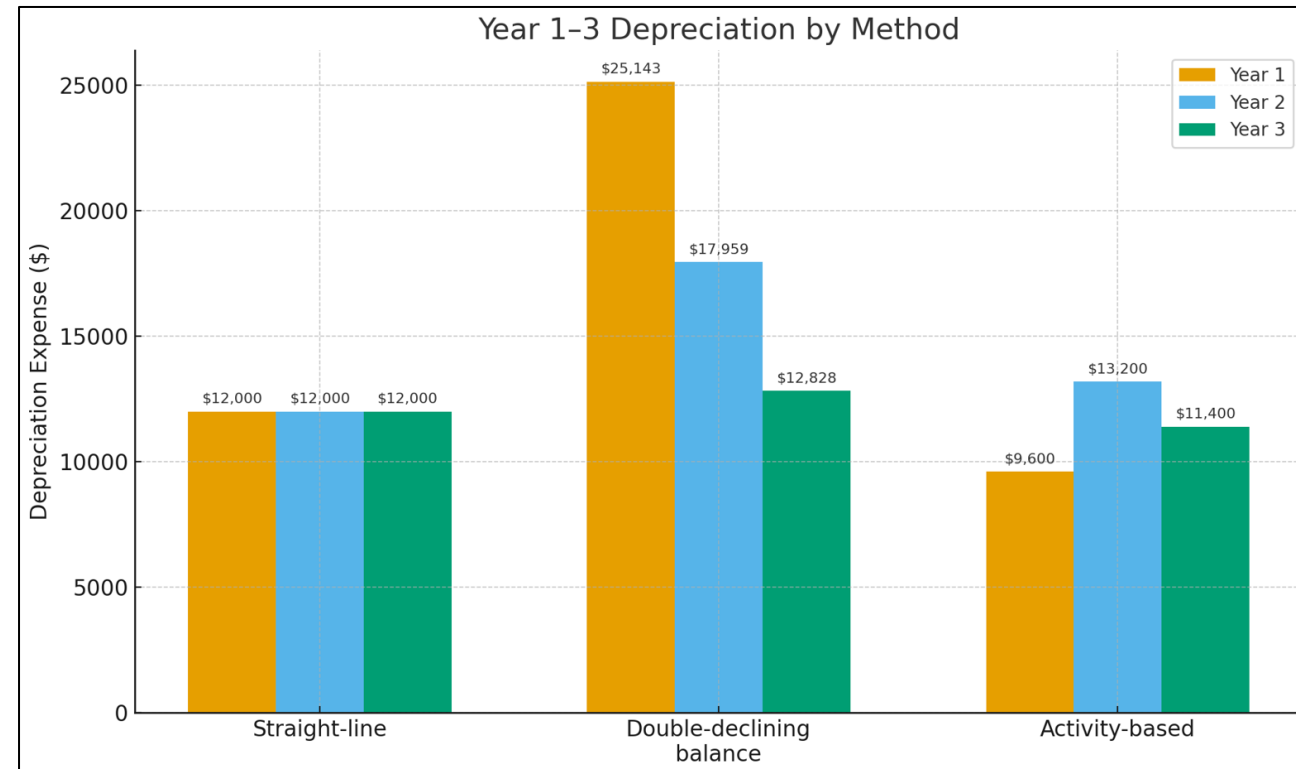
AI Assignment: Example – Depreciation Methods

2. Copying the given information for North Fork Manufacturing, along with the following AI prompt:

Prompt: **Using a single illustration, create a side-by-side bar chart by grouping depreciation expense in Year 1, Year 2, and Year 3 within depreciation method: 1) straight-line, 2) double-declining-balance, and 3) activity-based. The machine was used for 2,200 hours in Year 2, and 1,900 hours in Year 3. Include the depreciation amount with each bar.**

Using only the graphs that were generated, answer the following questions. **ChatGPT Output:**

- For which method does depreciation expense stay the same each year?
- For which method does depreciation expense vary with the level of activity?
- For which method does depreciation expense decrease each year?



AI Assignment:

Example – Gross Profit Ratio and Inventory Turnover

1. Answer the following questions by using each question as a separate AI prompt:
 - a. Prompt: **How is the gross profit ratio computed?**
 - b. Prompt: **How is the gross profit ratio interpreted?**
2. Answer the following questions by using each question as a separate AI prompt:
 - a. Prompt: **How is the inventory turnover ratio computed?**
 - b. Prompt: **How is the inventory turnover ratio interpreted?**

ChatGPT Output:

The **gross profit ratio** (also called the **gross margin ratio**) measures the percentage of sales revenue that exceeds the cost of goods sold (COGS). It shows how efficiently a company produces and sells its products.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

where

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$$

AI Assignment:

Example – Gross Profit Ratio and Inventory Turnover

3. Copy the instructions and table of information as an AI prompt to answer the questions for Required 3.

Prompt: **Use the following data for 10 companies to create a scatter plot. The Y axis is for the gross profit ratio, and the X axis is for the inventory turnover ratio. For each of the 10 data points, show in the scatter plot the company name, the amount of the gross profit ratio as a percentage rounded to one decimal, and the amount of inventory turnover ratio rounded to one decimal.**

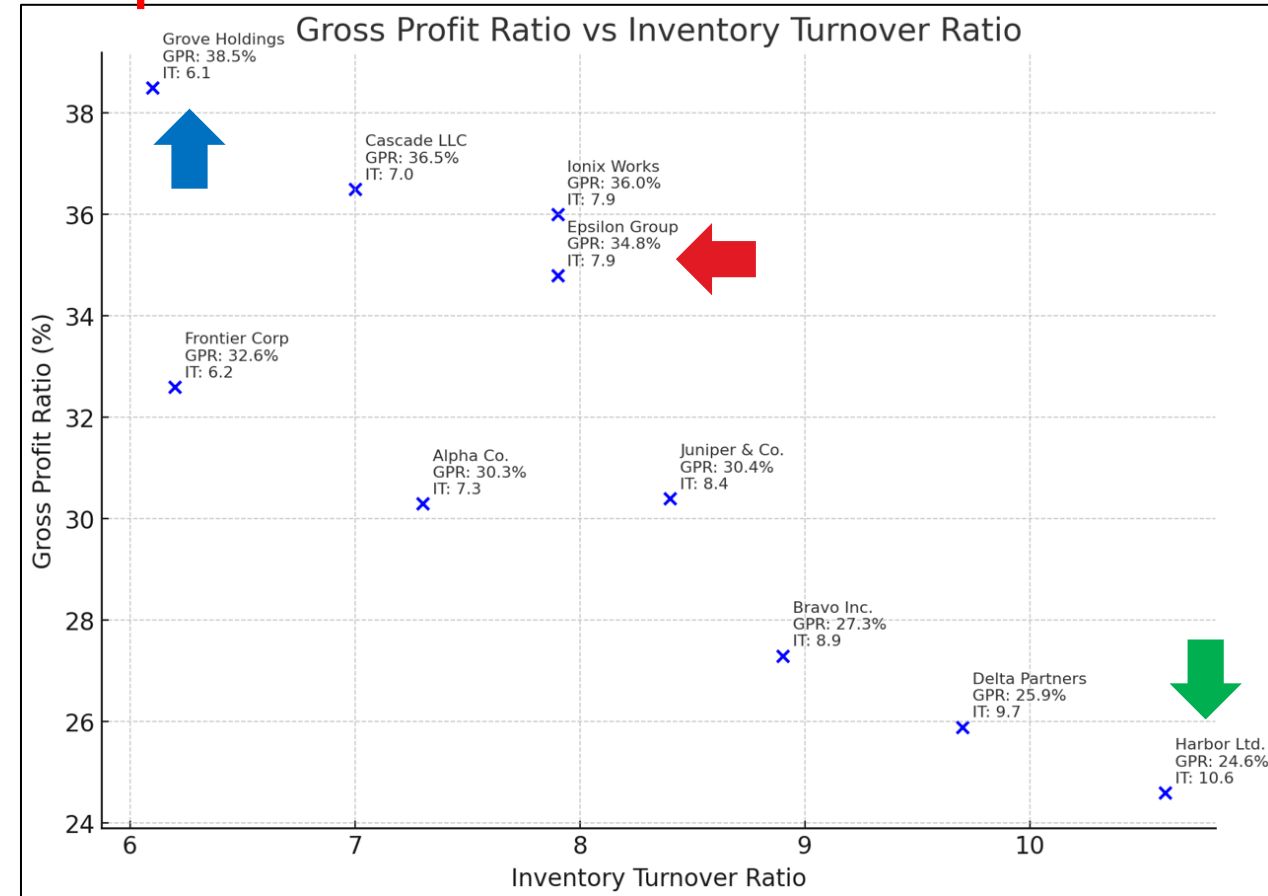
Company	Sales Revenue	Cost of Goods Sold	Beginning Inventory	Ending Inventory
Alpha Co.	\$714,080	\$498,004	\$67,436	\$68,654
Bravo Inc.	153,528	111,546	11,208	13,906
Cascade LLC	298,380	189,516	27,443	26,753
Delta Partners	271,998	201,426	20,159	21,217
Epsilon Group	258,380	168,388	21,682	20,820
Frontier Corp	830,823	559,984	97,149	82,671
Grove Holdings	930,926	572,071	88,599	97,500
Harbor Ltd.	348,962	262,984	25,870	23,524
Ionix Works	837,715	536,284	69,947	65,471
Juniper & Co.	900,825	627,305	69,500	79,208

AI Assignment:

Example – Gross Profit Ratio and Inventory Turnover

ChatGPT Output:

- Without using AI, calculate the **gross profit ratio** for **Epsilon Group** (check your calculation using the scatter plot).
- Without using AI, calculate the **inventory turnover ratio** for **Epsilon Group** (check your calculation using the scatter plot).
- Using the scatter plot, which of the 10 companies shows the **most favorable profitability**?
- Using the scatter plot, which of the 10 companies **sells its inventory the most often**?
- What **general relationship** between the two ratios is shown in the scatter plot?
As the gross profit ratio increases, the inventory turnover ratio _____.



AI Assignment:

Examples – Current Assets and Current Liabilities (Real-World)

Use the following text as three separate AI prompts (run each prompt separately):

- Prompt: **Using the annual report (10-K) as of February 1, 2025, list **Best Buy's current assets**, dollar amounts, and percentage of total current assets.**

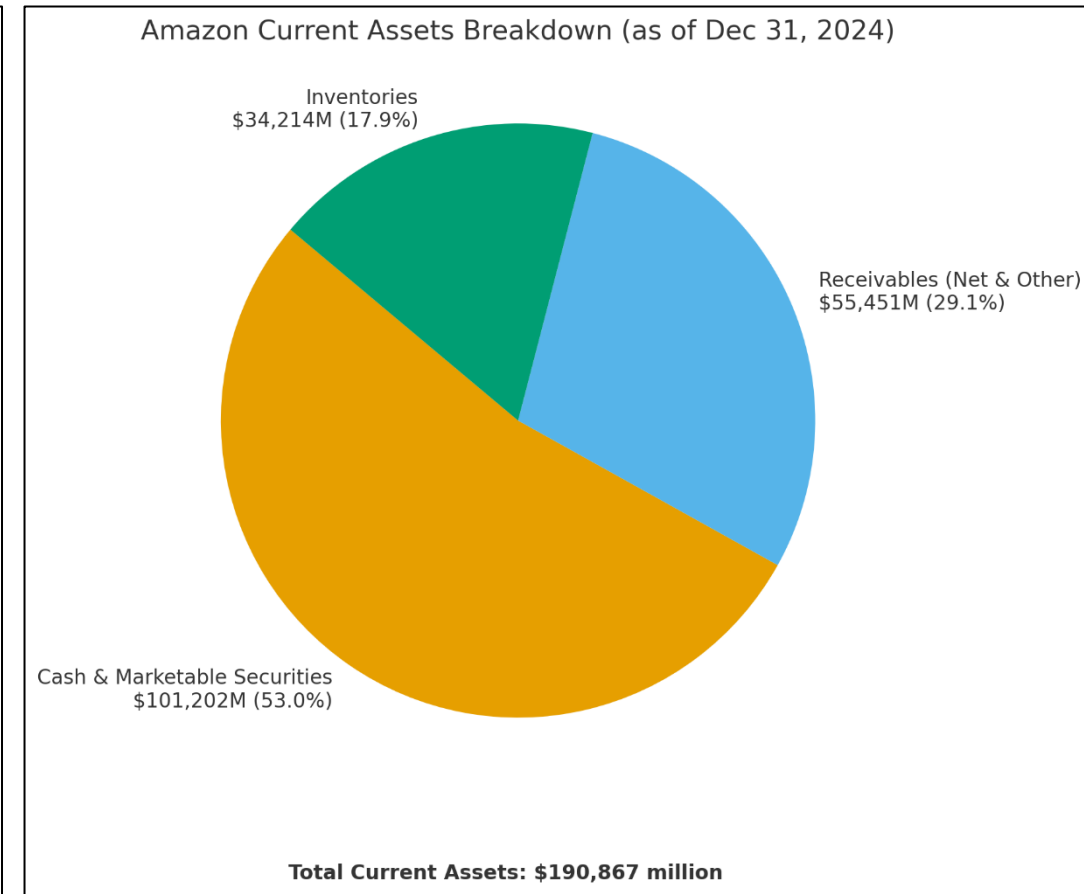
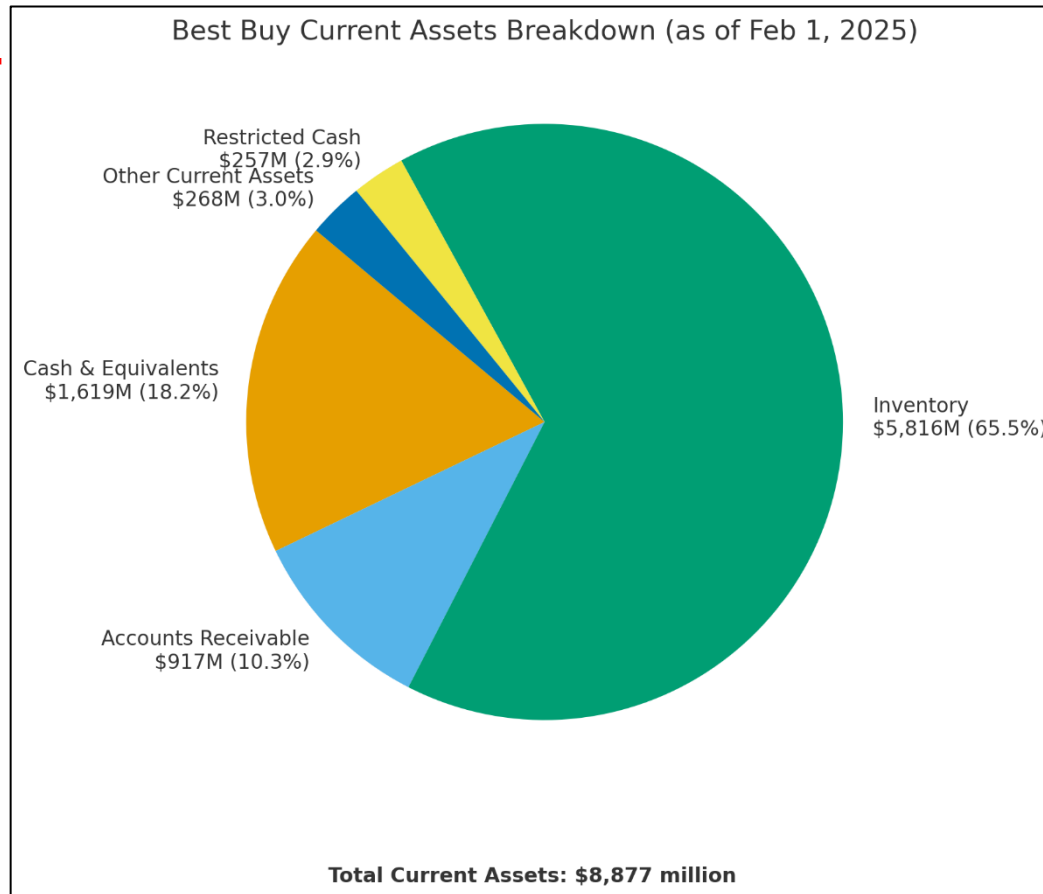
[You can verify the output by using EDGAR (sec.gov) to find each company's balance sheet in the annual report (10-K).]

- Prompt: **Generate a **pie chart** showing these amounts and percentages, with the amount of total current assets listed at the bottom.**
- Prompt: **Provide similar amounts for current assets of **Amazon** as of December 31, 2024, and generate a pie chart with the amount of current assets listed at the bottom.**

AI Assignment: Examples – Current Assets and Current Liabilities (Real-World)

1. Which company has a greater percentage of its current assets in the form of **cash**?
Which company has a greater percentage of its current assets in the form of **inventory**?

ChatGPT
Output:



AI Assignment:

Examples – Current Assets and Current Liabilities (Real-World)

Use the following text as three separate AI prompts (run each prompt separately):

- Prompt: **Using the annual report (10-K) as of February 1, 2025, list Best Buy's **current liabilities**, dollar amounts, and percentage of total current liabilities.**
- Prompt: **Generate a pie chart showing these amounts and percentages, with the amount of total current liabilities listed at the bottom.**
- Prompt: **Provide similar amounts for current liabilities of Amazon as of December 31, 2024, and generate a pie chart with the amount of current liabilities listed at the bottom.**

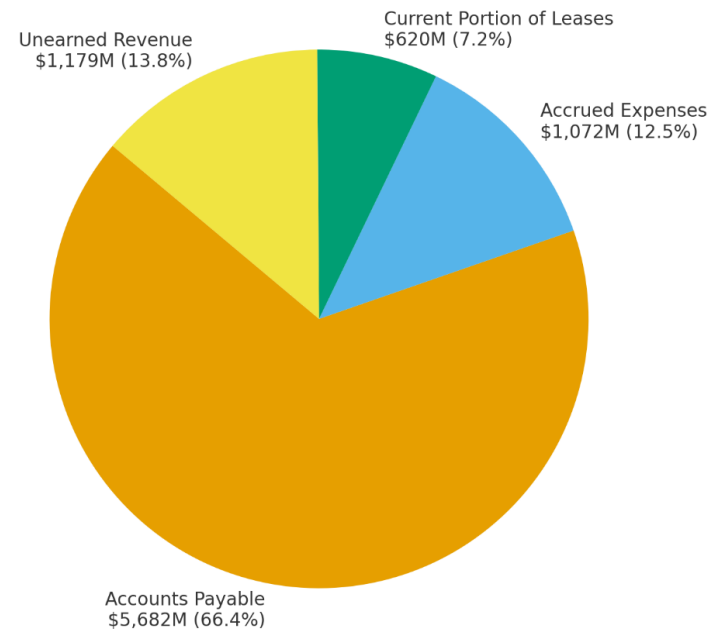
AI Assignment: Examples – Current Assets and Current Liabilities (Real-World)

2. What current liability has the greatest percentage for both companies?

3. What percentage of current liabilities does Amazon report as Deferred Revenue (also known as Unearned Revenue)?

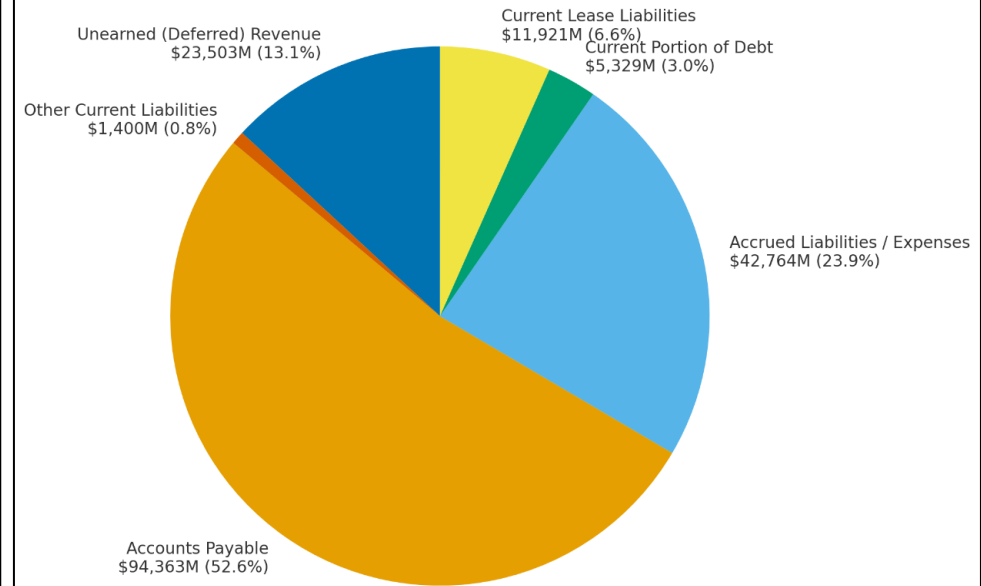
**ChatGPT
Output:**

Best Buy Current Liabilities Breakdown (as of Feb 1, 2025)



Total Current Liabilities: \$8,553 million

Amazon Current Liabilities Breakdown (as of Dec 31, 2024)



Total Current Liabilities: \$179,280 million

4. Calculate each company's **current ratio**. Which company has **greater liquidity**? [For your own additional understanding, ask AI to compare the two ratios and explain the difference.]

AI Assignment: Self Quiz—Account Classifications

Use the following text as an AI prompt:

Prompt: **Create a five-question interactive quiz using html code with dropdown menu selections to help me practice. The five questions should be classification of common account titles. The first dropdown menu should have six classifications: asset, liability, equity, revenue, expense, and dividend. The second dropdown menu should have two reporting choices: balance sheet and income statement. Indicate correct answers in green and incorrect answers in red.**

1. Complete the practice quiz with all answers correct by following these instructions:

- Open a text editor (such as Notepad).
- Paste the AI-generated code into the text editor.
- Save the file as **quiz.html** into your preferred folder.
- Double-click the file and it will open in a browser (Edge, Chrome, etc.).
- Complete the quiz and check your answers.

AI Assignment: Self Quiz—Account Classifications

```
<!DOCTYPE html>
<html lang="en">
<head>
<meta charset="UTF-8">
<meta name="viewport" content="width=device-width, initial-scale=1.0">
<title>Account Classification Quiz</title>
<style>
  body { font-family: Arial, sans-serif; margin: 40px; background-color: #f9f9f9; }
  h2 { color: #333; }
  .question { margin-bottom: 20px; padding: 15px; background-color: #fff; border-radius:
10px; box-shadow: 0 0 5px rgba(0,0,0,0.1); }
  select { margin: 5px; padding: 5px; }
  .correct { color: green; font-weight: bold; }
  .incorrect { color: red; font-weight: bold; }
</style>
</head>
<body>
<h2>Classify Each Account</h2>

<div class="question" data-type="asset" data-statement="balance sheet">
  <p><strong>1. Accounts Receivable</strong></p>
  <label>Classification:
  <select class="type">
    <option value="">--Select--</option>
    <option>asset</option>
    <option>liability</option>
    <option>equity</option>
    <option>revenue</option>
    <option>expense</option>
    <option>dividend</option>
  </select>
</label>
<label>Statement:
  <select class="statement">
    <option value="">--Select--</option>
    <option>balance sheet</option>
    <option>income statement</option>
  </select>
</label>
<span class="feedback"></span>
</div>
<div class="question" data-type="liability" data-statement="balance sheet">
  <p><strong>2. Accounts Payable</strong></p>
  <label>Classification:
  <select class="type">
    <option value="">--Select--</option>
    <option>asset</option>
    <option>liability</option>
    <option>equity</option>
    <option>revenue</option>
    <option>expense</option>
    <option>dividend</option>
  </select>
```

**ChatGPT
Output:**

```
</label>
<label>Statement:
  <select class="statement">
    <option value="">--Select--</option>
    <option>balance sheet</option>
    <option>income statement</option>
  </select>
</label>
<span class="feedback"></span>
</div>
<div class="question" data-type="equity" data-statement="balance sheet">
  <p><strong>3. Common Stock</strong></p>
  <label>Classification:
  <select class="type">
    <option value="">--Select--</option>
    <option>asset</option>
    <option>liability</option>
    <option>equity</option>
    <option>revenue</option>
    <option>expense</option>
    <option>dividend</option>
  </select>
</label>
<label>Statement:
  <select class="statement">
    <option value="">--Select--</option>
    <option>balance sheet</option>
    <option>income statement</option>
  </select>
</label>
<span class="feedback"></span>
</div>
<div class="question" data-type="revenue" data-statement="income statement">
  <p><strong>4. Service Revenue</strong></p>
  <label>Classification:
  <select class="type">
    <option value="">--Select--</option>
    <option>asset</option>
    <option>liability</option>
    <option>equity</option>
    <option>revenue</option>
    <option>expense</option>
    <option>dividend</option>
  </select>
</label>
<label>Statement:
  <select class="statement">
    <option value="">--Select--</option>
    <option>balance sheet</option>
    <option>income statement</option>
```

```
</select>
</label>
<span class="feedback"></span>
</div>

<div class="question" data-type="expense" data-statement="income statement">
  <p><strong>5. Rent Expense</strong></p>
  <label>Classification:
  <select class="type">
    <option value="">--Select--</option>
    <option>asset</option>
    <option>liability</option>
    <option>equity</option>
    <option>revenue</option>
    <option>expense</option>
    <option>dividend</option>
  </select>
</label>
<label>Statement:
  <select class="statement">
    <option value="">--Select--</option>
    <option>balance sheet</option>
    <option>income statement</option>
  </select>
</label>
<span class="feedback"></span>
</div>

<button onclick="checkAnswers()">Check Answers</button>

<script>
function checkAnswers() {
  document.querySelectorAll('.question').forEach(q => {
    const type = q.querySelector('.type').value;
    const stmt = q.querySelector('.statement').value;
    const correctType = q.dataset.type;
    const correctStmt = q.dataset.statement;
    const feedback = q.querySelector('.feedback');

    if (type === correctType && stmt === correctStmt) {
      feedback.textContent = '√ Correct!';
      feedback.className = 'feedback correct';
    } else {
      feedback.textContent = 'X Incorrect!';
      feedback.className = 'feedback incorrect';
    }
  });
}
</script>
</body>
</html>
```

AI Assignment: Self Quiz—Account Classifications

Did you complete the quiz with all correct answers?

Classify Each Account

1. Accounts Receivable
Classification: Statement:

2. Accounts Payable
Classification: Statement:

3. Common Stock
Classification: Statement:

4. Service Revenue
Classification: Statement:

5. Rent Expense
Classification: Statement:

AI Assignment: Self Quiz—Account Classifications

2. Without using AI, determine how each of the following accounts would be classified and on which financial statement they would be reported:

	<u>Classification</u>	<u>Statement</u>
a. Prepaid Insurance		
b. Salaries Payable		
c. Interest Revenue		
d. Utilities Expense		
e. Retained Earnings		

AI Assignment: Self Quiz—CVP Analysis

Use the following text as an AI prompt:

Prompt: **Write an `html code` to create an `interactive chart` that allows me to do CVP analysis. The sales price per unit is \$90, variable cost per unit is \$50, and fixed costs are \$20,000. Allow the volume of units to vary, and calculate the profit based on the volume selected.**

Using the chart created, answer the following.

1. What is the breakeven number of units?
2. How many units must be sold if target profits are \$32,000?
3. What is the breakeven number of units if fixed costs increase to \$22,000?

AI Assignment: Errors

1. Copy the following text as an AI prompt:

Prompt: **Briefly describe the revenue recognition principle and explain “when” revenue should be recognized.**

Based on the AI output from the prompt, when should revenue be recognized?

- A. When the customer pays cash for the goods or services.
- B. When the company signs a contract with the customer.
- C. When the company provides goods or services to the customer.
- D. When production of the goods or services is complete.

Ans: C

AI Assignment: Errors

2. Use the following text as an AI prompt:

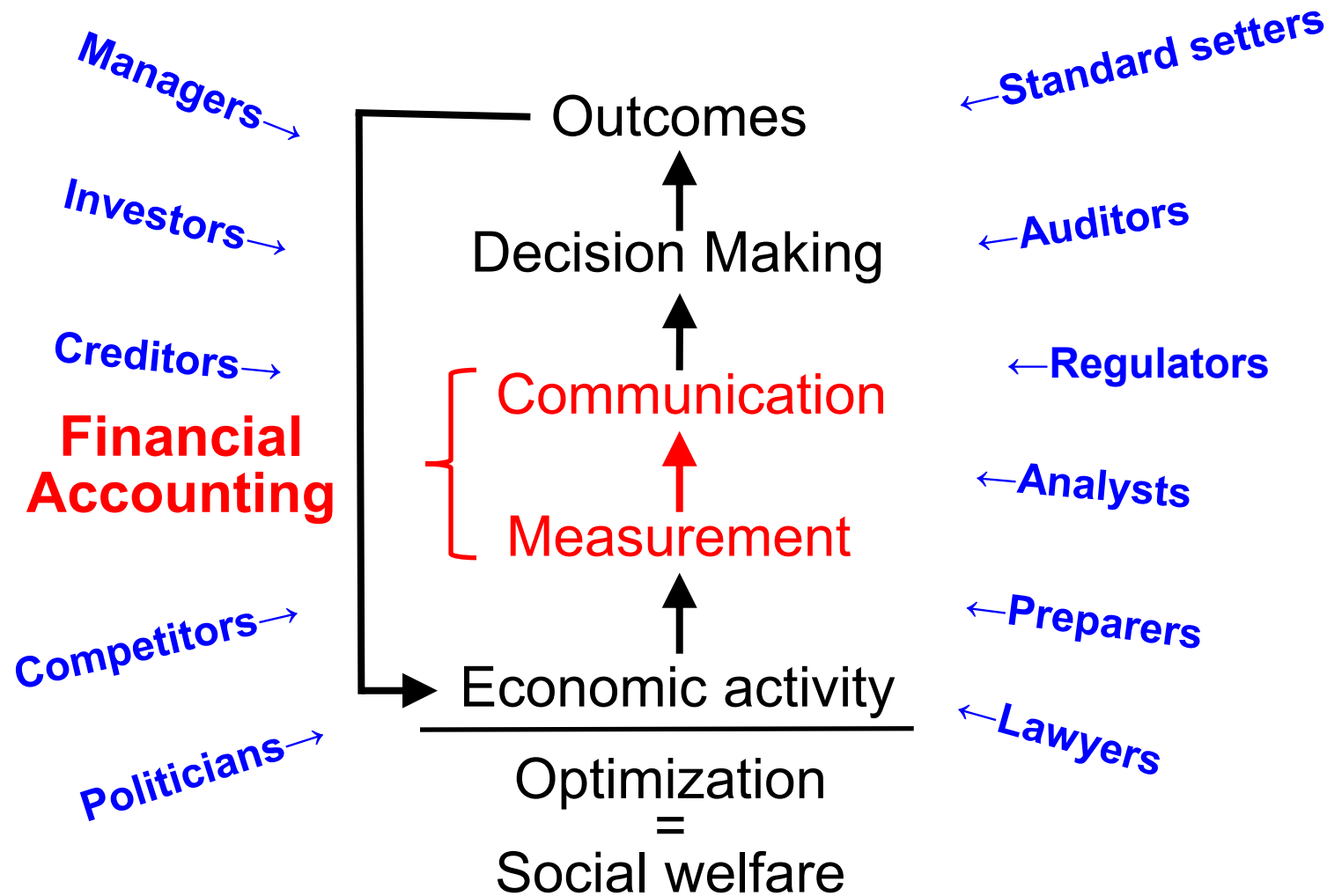
Prompt: A company provides services to customers on account in Year 1 for \$50,000. The company receives cash of \$30,000 from those customers in Year 1, and the remaining cash of \$20,000 is received in Year 2. Therefore, \$30,000 of revenue is recognized in Year 1, and \$20,000 of revenue is recognized in Year 2. Is this correct?

Based on the AI output, is the statement correct? [Yes/No]

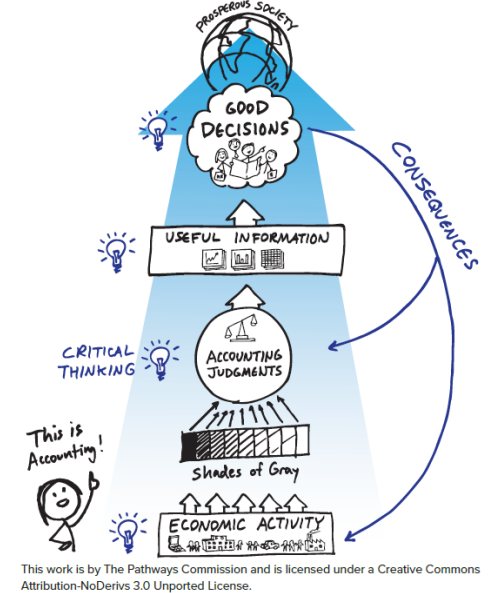
Without using AI, answer the following questions:

3. Prepare the journal entry in Year 1 for \$50,000 of services provided to customers on account.
4. Prepare the journal entry in Year 1 for \$30,000 cash collected from customers on account.
5. Prepare the journal entry in Year 2 for \$20,000 cash collected from customers on account.

Dynamic/Discretionary Nature of Financial Accounting



We are the storytellers

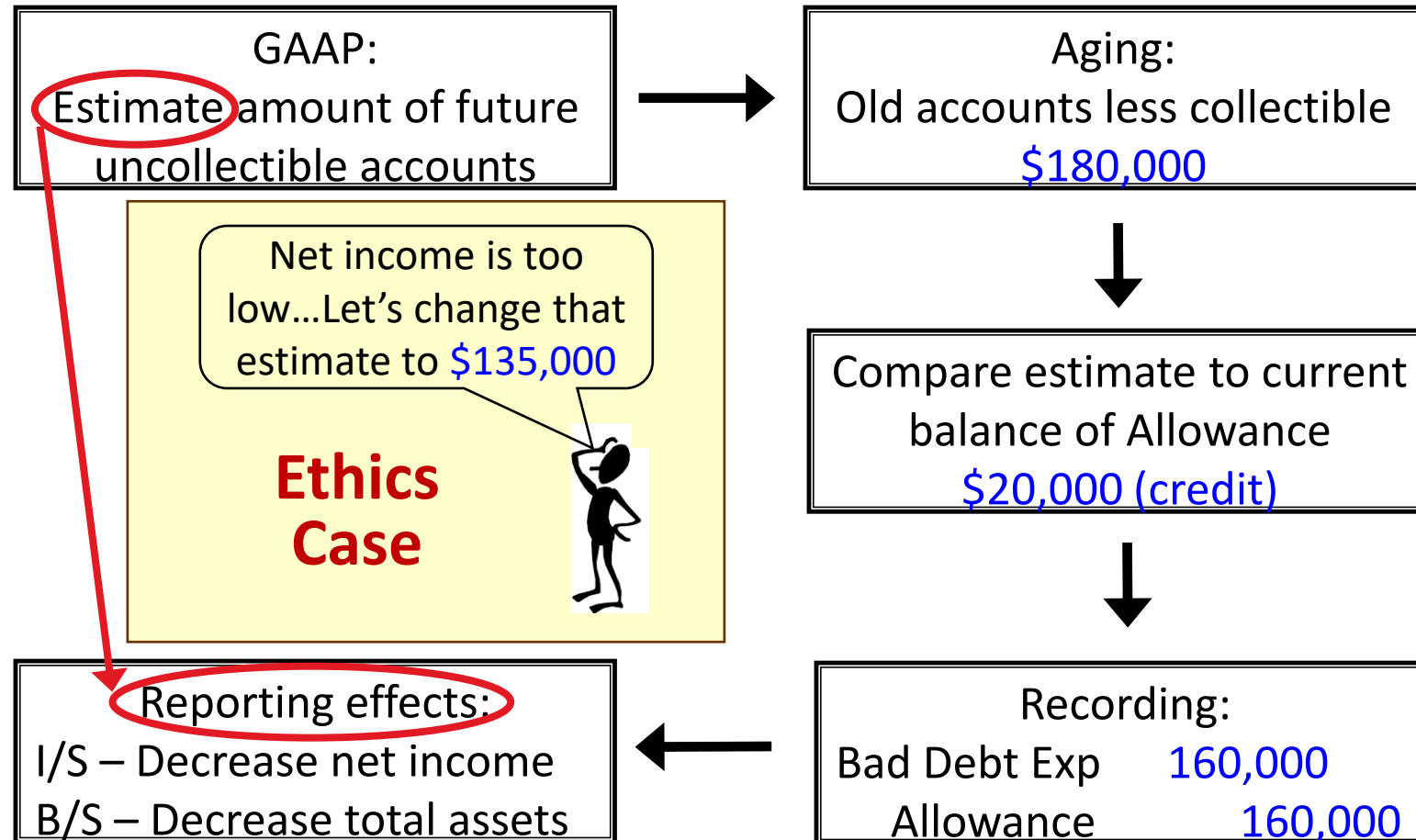


“To engage and retain the strongest possible community of students”

Ethics Cases

Example: Uncollectible Accounts

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



Ethics Cases

Example: Uncollectible Accounts

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

Example: Uncollectible Accounts

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

Example: Depreciation

- 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 years to 6 years

Option 2: Residual \$600K to \$0

Option 3: Both

Straight-line
Depreciation = ?

Earnings Management Cases

Example: Depreciation

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

Example: Depreciation

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

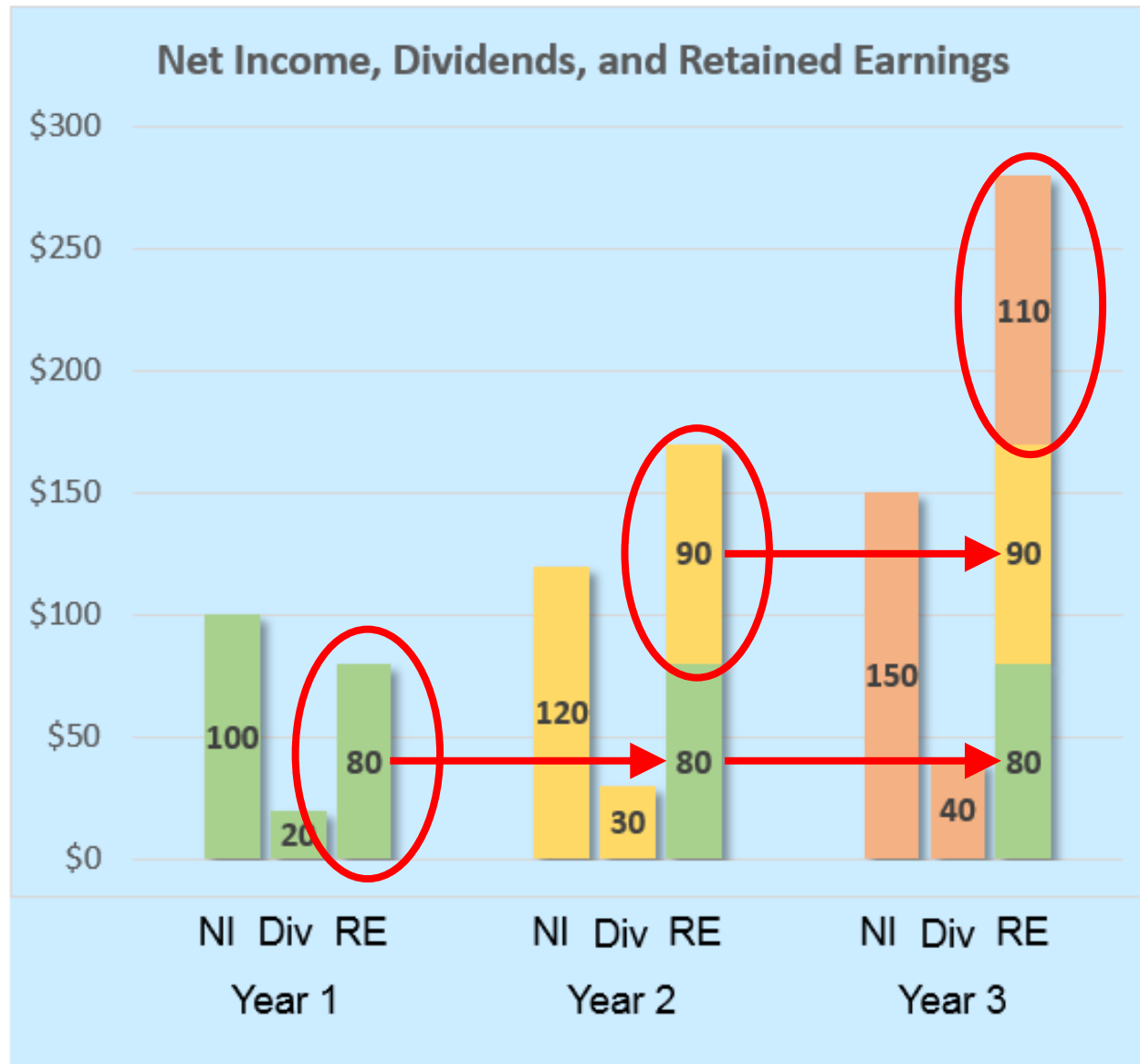
Data Visualizations

- ❖ Graphic representation of data
- ❖ Can we use visuals to help understand concepts?
- ❖ Topic: Balance of the Retained Earnings account
- ❖ **Text** description: “Cumulative amount of net income minus dividends over the life of the company.”
- ❖ **Numerical** example in Illustration/Exercise:

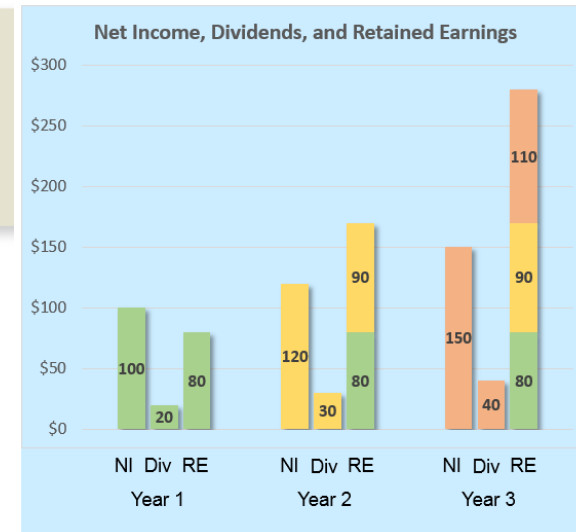
	Year 1	Year 2	Year 3
Net Income	100	120	150
Dividends	20	30	40
Retained Earnings	??	??	??

- ❖ **Visual** representation of the same concept?

Data Visualizations



Data Visualizations



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

Dashboard Activities

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

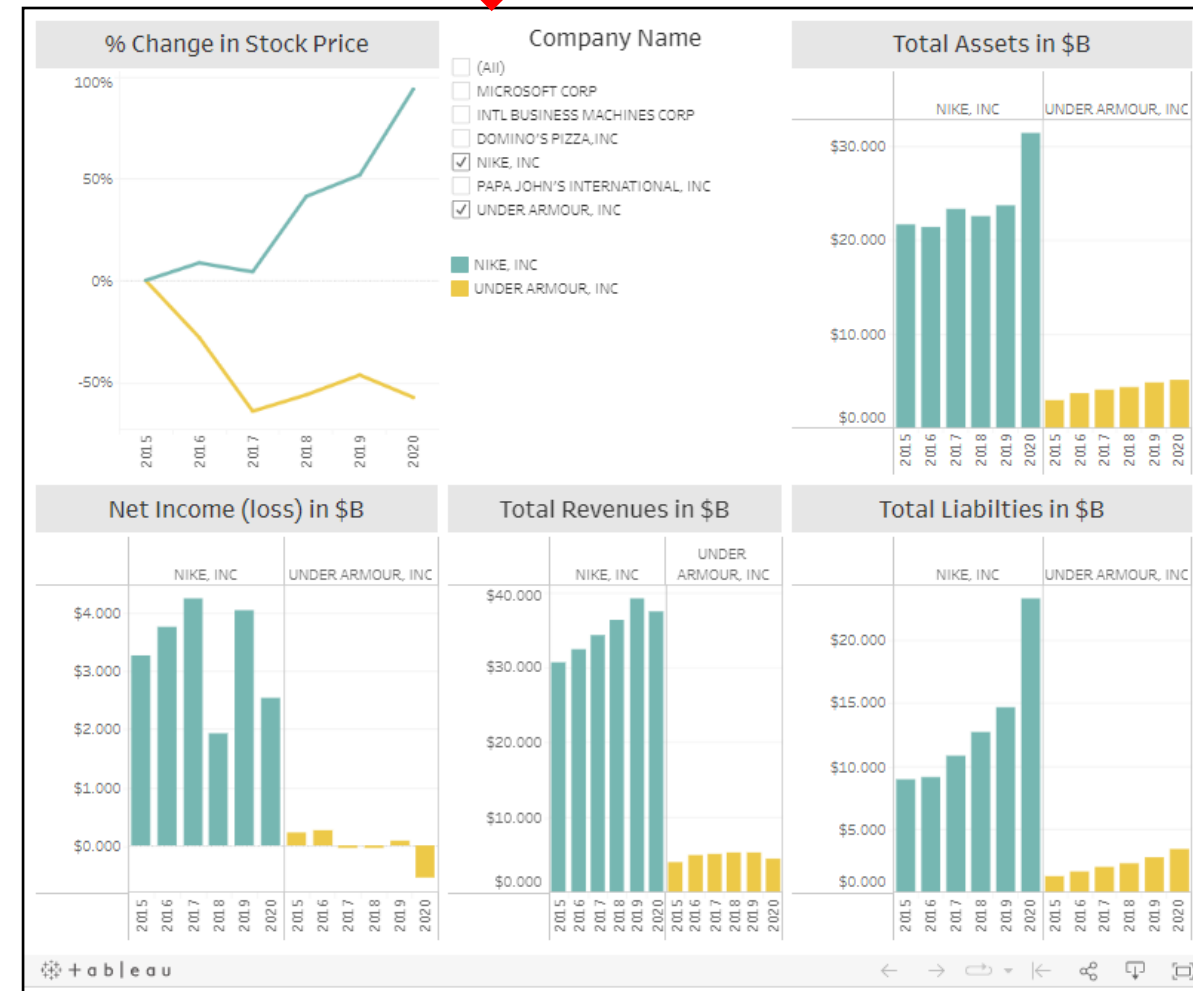
- Which company has the greater increase in stock price over the period?
- Which company shows a more favorable profitability over the period?
- What could explain Under Armour's net income in 2020?

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):

- Which company has the greater increase in stock price over the period?
- Which company's sales of products and services to customers shows a more favorable trend over the period?
- What is the total amount of sales of products and services of Domino's in 2020?

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

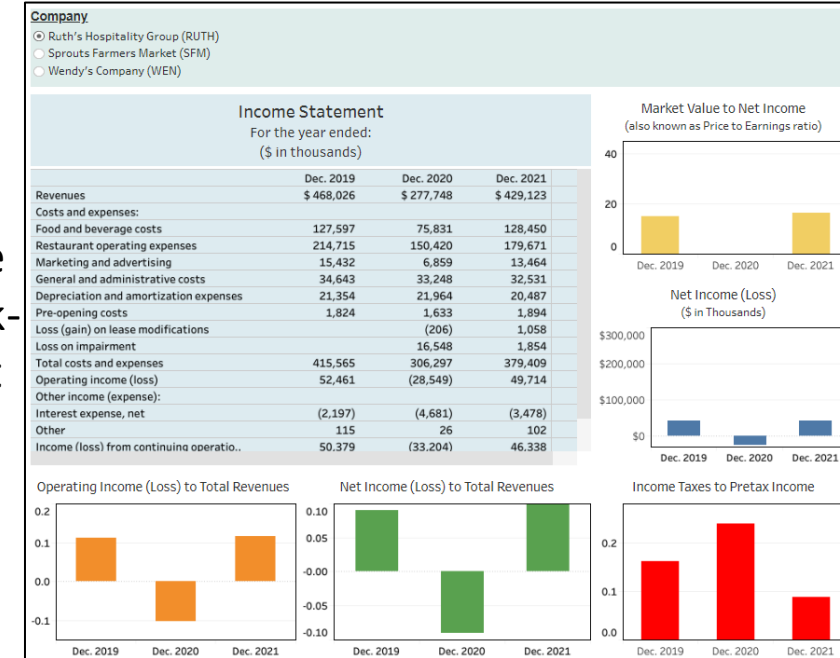
- Which company has the greater increase in stock price over the period?
- Which company's total resources have increased by the greater dollar amount over the period?
- Which company reports greater stockholders' equity in 2020?



Dashboard Activities

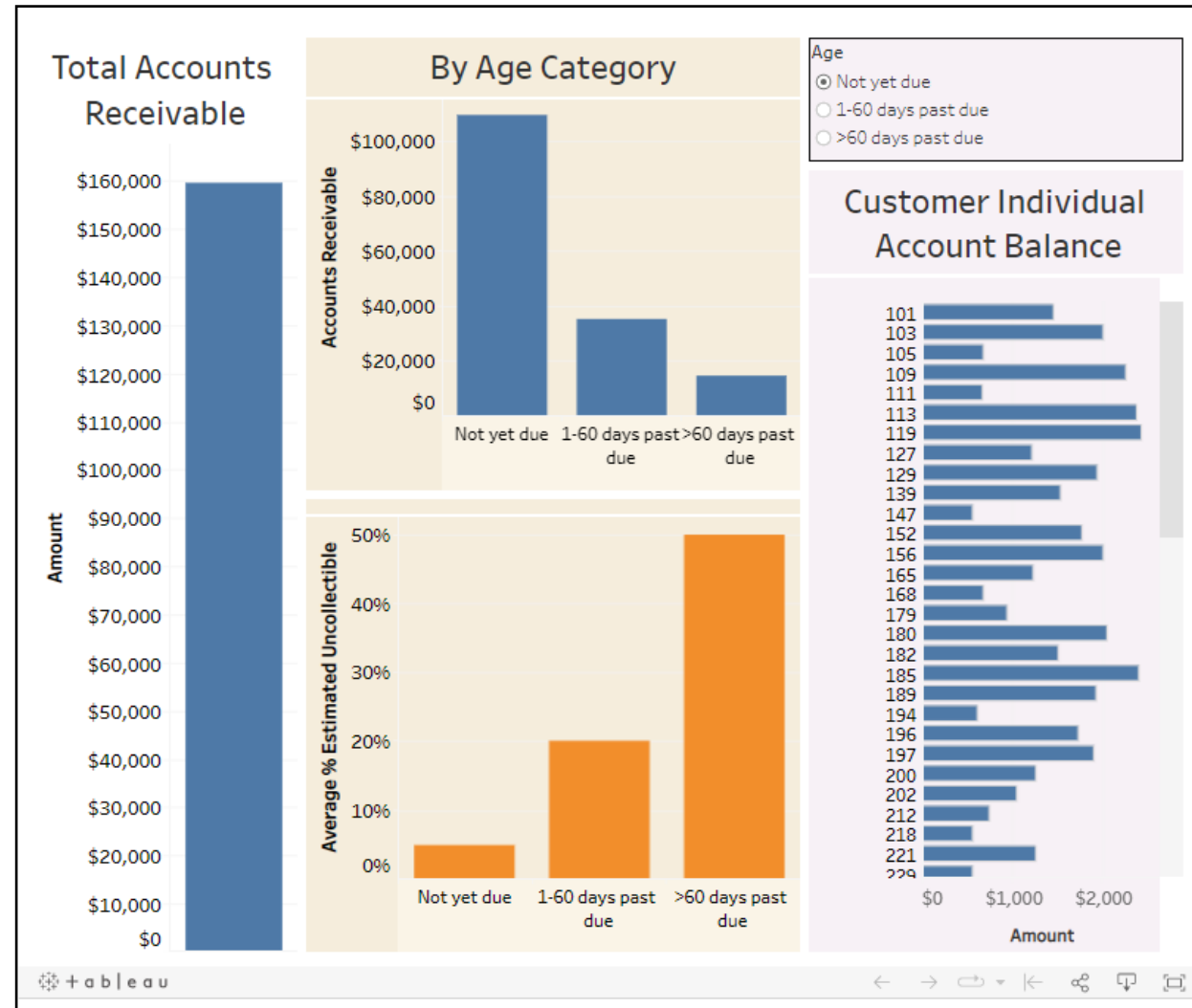
The COVID-19 pandemic affected companies in the food industry in unique ways, particularly during 2020. **Ruth's Hospitality Group** (Ticker: RUTH) develops and operates fine dining restaurants under the trade name Ruth's Chris Steak. **Sprouts Farmers Market** (Ticker: SFM) offers a healthy grocery store experience. **Wendy's Company** (Ticker: WEN) is primarily engaged in the business of operating, developing and franchising a system of distinctive quick-service restaurants. In answering the following questions, consider the impact that the COVID-19 pandemic would have on each company's business model.

1. Which company experienced a significant increase in revenue in 2020?
2. Which company's revenue was most negatively affected by the COVID-19 pandemic in 2020?
3. Which company has the highest ratio of operating income to total revenues in 2021?
4. What is the ratio of net income to total revenues for Sprouts in 2021?
5. What nonoperating item has the largest magnitude for Wendy's in 2021?
6. Which company tends to have lowest ratio of income tax expense to pretax income (effective tax rate) over 2019-2021?
7. Determine the following amounts for Sprouts in 2021: (a) Gross profit, (b) Operating income, (c) Pretax income, and (d) Net income (Sprouts uses a slightly different naming convention for some of these amounts.)
8. Based on the ratio of market value to net income in 2021 (also known as the Price to Earnings ratio), which company do investors value relatively more based on 2021 net income?



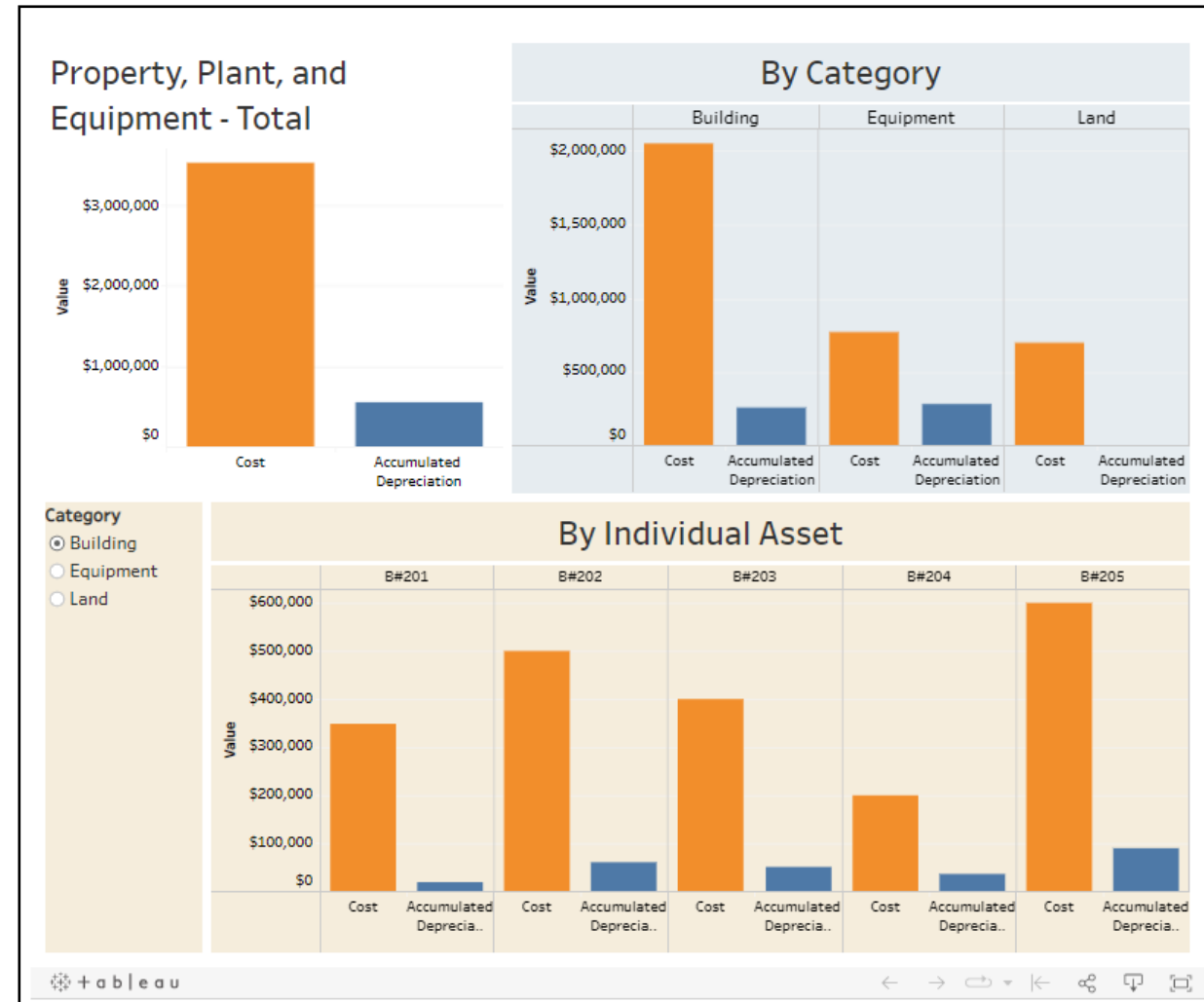
Dashboard Activities

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?



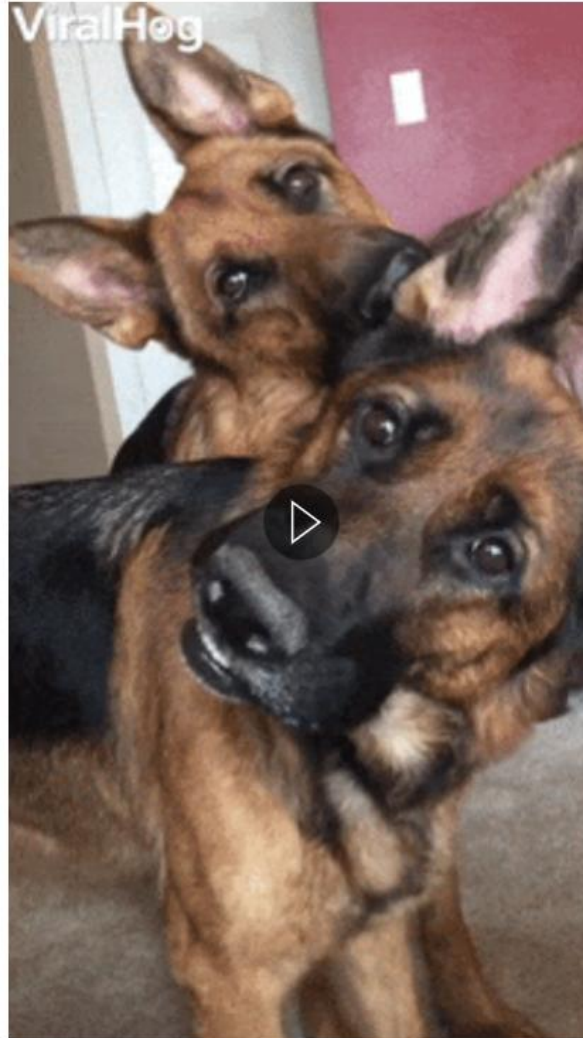
Dashboard Activities

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?



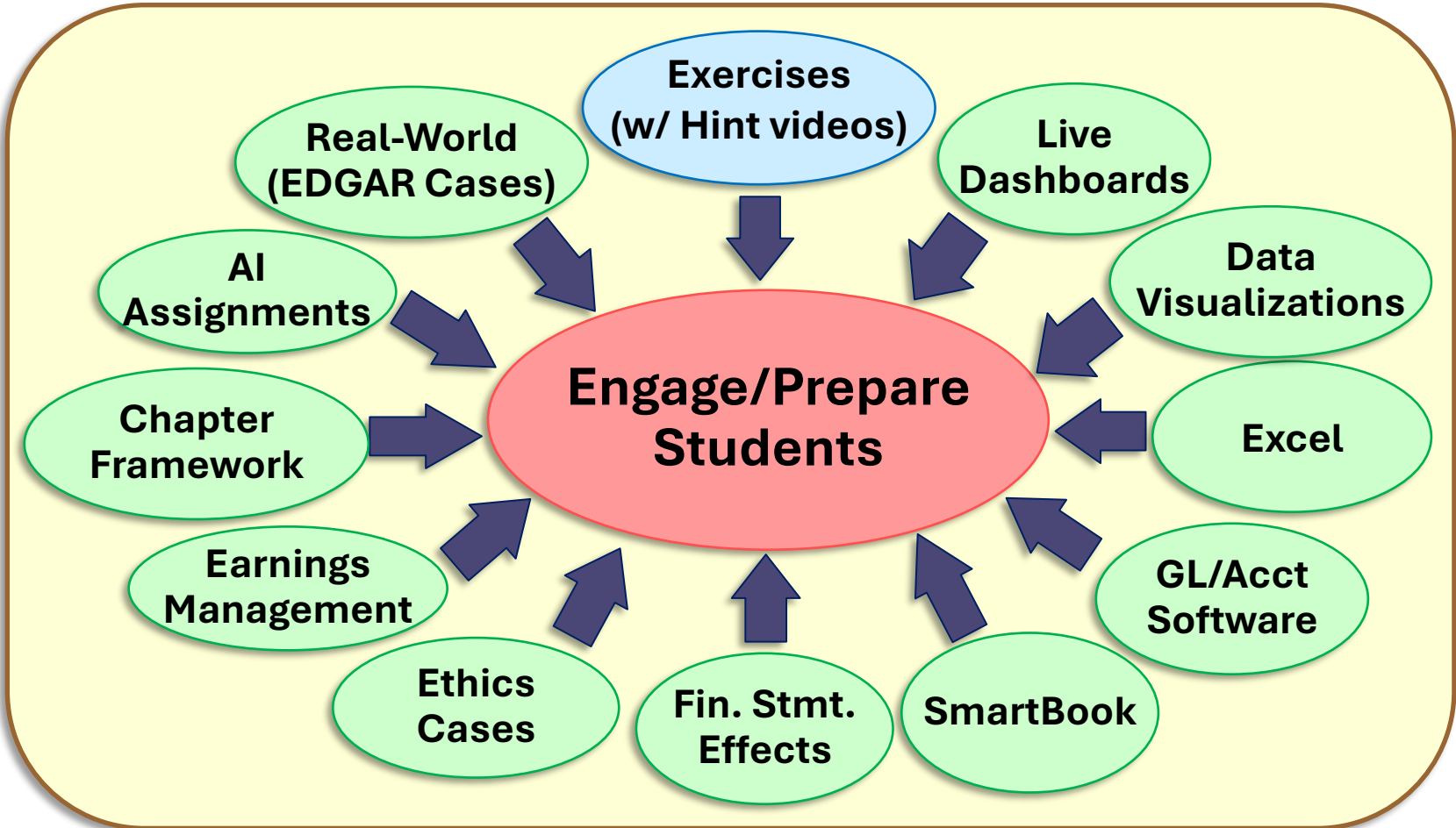
Questions?

“What did he say?”



Customize Your Course: Content and Skills

Goal: Generate Interest → Build Knowledge → Develop Skills



Without
adding more
topics or
complexity

The Goal

At the end of every class...

Accounting is
awesome!!

Tell me more!!

I want to learn!!

Accounting is
my new major!!



Thank you!

**Please feel free to contact me for
more questions or discussion**

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