

Preface

Financial Accounting Helps Students “Nail” the Accounting Cycle!

Financial Accounting helps students “nail” the accounting cycle up front in order to increase success and retention later on. The concepts and mechanics students learn in the critical accounting cycle chapters are used consistently and repetitively—and with clear-cut details and explanations—throughout the remainder of the text, minimizing confusion.

The Fourth Canadian Edition features new coauthor Catherine Seguin of the University of Toronto Mississauga who brings her financial accounting teaching experience to key sections of the book.

Better Coverage of the Accounting Cycle from Start to Finish

Chapter 1 introduces the accounting cycle with a brief financial statement overview, using the financial statements of Gildan Activewear Inc. This first exposure to accounting explores financial statements in depth, familiarizes students with using real business data, and points out basic relationships between the different types of statements. Chapter 1 also includes a discussion of financial accounting reporting standards and how these standards are set. The role of ethics in business and accounting decisions is examined.

Chapter 2 continues the discussion of the accounting cycle by explaining how to analyze and record basic transactions, and builds in repetition to ensure that students understand the fundamentals when they prepare the trial balance.

EXHIBIT 2-1 Event Analysis: Tara Inc.

Panel A—Event Details

(1) Received \$50,000 cash and issued shares to the owners	(7) Paid \$1,900 on the account payable created in Event 3
(2) Paid \$40,000 cash for land	(8) Shareholder pays personal funds to remodel home, not a transaction of the business
(3) Bought \$3,700 of office supplies on account	(9) Received \$1,000 on account
(4) Received \$7,000 cash from customers for service revenue earned	(10) Sold land for cash at its cost of \$22,000
(5) Performed services for customers on account, \$3,000	(11) Declared and paid a dividend of \$2,100 to the shareholders
(6) Paid cash for \$2,700 of expenses: rent, \$1,100; employee salary, \$1,200; utilities, \$400	

Panel B—Analysis of Events

	Assets					Liabilities + Shareholders' Equity			Type of Shareholders' Equity Transaction
	Cash	Accounts Receivable	Office Supplies	Land		Accounts Payable	Common Shares	Retained Earnings	
(1)	+50,000						+50,000		Issued shares
(2)	-40,000			+40,000					
(3)			+3,700		+3,700				
(4)	+7,000							+7,000	Service revenue
(5)		+3,000						+3,000	Service revenue
(6)	-1,100					-1,100		-1,100	Rent expense
	-1,200					-1,200		-1,200	Salary expense
	-400					-400		-400	Utilities expense

Source of Cash Flow Data: Panel A
Income Statement Data: Panel B

EXHIBIT 2-2 Financial Statements of Tara Inc.

**Tara Inc.
Income Statement
For the Month Ended April 30, 2011**

Revenue	
Service revenue (\$7,000 + \$3,000)	\$10,000
Expenses	
Salary	\$1,200
Rent	1,100
Utilities	400
Total expenses	2,700
Net income	\$ 7,300

**Tara Inc.
Statement of Retained Earnings
For the Month Ended April 30, 2011**

Retained earnings, April 1, 2011	\$ 0
Add: Net income for the month	7,300
Less: Dividends	(2,100)
Retained earnings, April 30, 2011	\$5,200

**Tara Inc.
Balance Sheet
As at April 30, 2011**

Assets	Liabilities
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① points to Net income in the Income Statement and the Add: Net income for the month in the Statement of Retained Earnings.
② points to Retained earnings, April 30, 2011 in the Statement of Retained Earnings and the Liabilities section of the Balance Sheet.

Chapter 3 concludes the discussion of the accounting cycle with adjusting and closing entries, and preparation of the related trial balances to close the loop for students.

Consistency, Repetition, and a High Level of Detail

Throughout the text, the core concepts and mechanics are brought together using consistent language, format, and formulas. Students also receive thorough explanations and details that show the meaning behind each concept and how to do the computation following it, providing an in-depth understanding of the fundamentals. Basic procedures and concepts are placed in a business context.

Whether it's the first transaction or the last, students perform the analysis in the same way, thus reinforcing their understanding, reducing the level of confusion and frustration, and helping them capture those “I get it!” moments.

For example, in Chapter 2 students see the impact of transactions and how the transactions are eventually summarized into the income statement, statement of retained earnings, and balance sheet.

Event 5 Analysis. Tara performed services for King Contracting on account. King Contracting did not pay immediately so Tara billed King Contracting for \$3,000. The transaction increased accounts receivable; therefore, debit Accounts Receivable. Service revenue also increased, so credit Service Revenue.

<i>Journal entry</i>	Accounts Receivable	3,000	
	Service Revenue		3,000
	Performed services on account.		

<i>Accounting equation</i>	ASSETS	=	LIABILITIES	+	SHAREHOLDERS' EQUITY	+	REVENUES
	+3,000	=	0	+	0	+	3,000

	Accounts Receivable		Service Revenue
<i>The ledger accounts</i>	(5) 3,000		(4) 7,000
			(5) 3,000

Event 6 Analysis. Tara paid \$2,700 for the following expenses: office rent, \$1,100; employee salary, \$1,200; and utilities, \$400. Credit Cash for the sum of the expense amounts. The expenses increased, so debit each account separately.

A **Mid-Chapter Summary Problem** provides a stopping point for students—it gives them an opportunity to repeat the entire process again, using data from a different company, to make sure they've “got it.” The **End-of-Chapter Summary Problem** closes out the chapter and allows students to practise the process again and really “nail” these fundamental skills. By presenting these problems and solutions twice in one chapter, this text breaks up the information, enabling students to absorb and master the material in more manageable pieces.

MyAccountingLab **MID-CHAPTER SUMMARY PROBLEM**

Margaret Jarvis opens a research service near a college campus. She names the corporation Jarvis Research Inc. During the first month of operations, July 2011, Margaret Jarvis and the business engage in the following events:

- Jarvis Research Inc. issues its common shares to Margaret Jarvis, who invests \$25,000 to open the business.
- The company purchases, on account, office supplies costing \$350.
- Jarvis Research Inc. pays cash of \$20,000 to acquire a lot near the campus. The company intends to use the land as a building site for a business office.
- Jarvis Research Inc. performs services for clients and receives cash of \$1,900.
- Jarvis Research Inc. pays \$100 on the account payable it created in event b.
- Margaret Jarvis pays \$2,000 of personal funds for a vacation.
- Jarvis Research Inc. pays cash expenses for office rent (\$400) and utilities (\$100).
- The business sells a small parcel of the land it purchased for its cost of \$5,000.
- The business declares and pays a cash dividend of \$1,200.

Required

- Analyze the preceding events. First determine if each is a transaction affecting the business and, if it is, determine the effect on the accounting equation of Jarvis Research Inc. Use Exhibit 2-1, Panel B as a guide.
- Prepare the income statement, statement of retained earnings, and balance sheet of the business after recording the transactions. Draw arrows linking the statements.

SOLUTIONS

Requirement 1

Name: Jarvis Research Inc.
Industry: Research services
Fiscal Period: Month of July 2011
Key Facts: New business

MyAccountingLab **END-OF-CHAPTER SUMMARY PROBLEM**

The trial balance of Bos Personnel Services Inc. on March 1, 2011, lists the entity's assets, liabilities, and shareholders' equity on that date.

Account Title	Balance	
	Debit	Credit
Cash	\$26,000	
Accounts receivable	4,500	
Accounts payable		\$ 2,000
Common shares		10,000
Retained earnings		18,500
Total	\$30,500	\$30,500

During March, the business completed the following transactions:

- Borrowed \$70,000 from the bank, with C. Bos signing a note payable in the name of the business.
- Paid cash of \$60,000 to a real estate company to acquire land.
- Performed service for a customer and received cash of \$5,000.
- Purchased supplies on credit, \$300.
- Performed customer service and earned revenue on account, \$4,000.
- Paid \$1,200 on account.
- Paid the following cash expenses: salary, \$3,000; rent, \$1,500; and interest, \$400.
- Received \$3,100 on account.
- Received a \$200 utility bill that will be paid next month.
- Declared and paid a dividend of \$300.

Name: Bos Personnel Services Inc.
Industry: Human Resources
Fiscal Period: Month of March 2011
Key Fact: An existing, ongoing business

New to the Fourth Canadian Edition

New Financial Reporting Standards


Canadian accounting standards have undergone and will continue to undergo significant changes in the next few years. Publicly accountable enterprises (public companies) in Canada must issue financial statements based on **International Financial Reporting Standards** (IFRS) after January 1, 2011. Private enterprises (private companies) in Canada must issue financial statements based on **Accounting Standards for Private Enterprises** (ASPE) after January 1, 2011. To ensure that students are learning the most current information and are ready for the new standards they will encounter, we have based the discussion of accounting in the text on IFRS. We have also included key references and explanations of SPE where the requirements under ASPE differ from IFRS.

When students practise or complete their homework in **MyAccountingLab**, they will be working on questions based on IFRS that are designed to be a companion for the IFRS text coverage.

New User and Preparer Features

We recognize that students take a financial accounting course for a number of reasons. Some will go on to higher level accounting courses, while others will use the fundamental accounting concepts they've learned in financial accounting as they pursue other business fields. In the Fourth Canadian Edition of *Financial Accounting*, we have taken care to highlight accounting concepts from both the user and preparer perspectives to ensure that students understand the value of accounting regardless of the path they take after the course.

Using Accounting in Decision Making Boxes




USING UNDERSTANDING OF TRANSACTIONS ANALYSIS IN DECISION MAKING

The knowledge that a business has an annual audit gives managers, investors, and creditors confidence that the business is properly accounting for its transactions and that the financial statements present fairly the financial position and results of operations. They can be relied upon for making decisions.

Throughout the text, we have included new 'Using Accounting' boxes that demonstrate how specific concepts such as accounting transactions apply to decision-makers such as managers, investors, and creditors. For example, the new Using Understanding of Transactions Analysis in Decision Making box on page 85 explains that when managers, investors, and creditors know a business has an annual audit, this knowledge gives them confidence that the business is properly accounting for its transactions and that the financial statements can therefore be relied upon.

Accounting for... Boxes



ACCOUNTING FOR TRANSACTIONS PART 2

I. The accountant must decide where and how to record the transaction.
The transaction is recorded in the journal, which is the chronological record of transactions.
The transaction in the *journal* must include a debit and a credit and follow the *rules of debit and credit*:

	Increase	Decrease
Asset	Debit	Credit
Liability	Credit	Debit
Shareholders' equity	Credit	Debit
Revenue	Credit	Debit
Expense	Debit	Credit

II. The accountant must decide where to store the account information in the journal.
The account information is recorded in the respective accounts in the ledger.

Complimenting our user-focused boxes are new preparer-oriented boxes that highlight how key accounting concepts relate to the individuals responsible for preparing accounting information. For example, in our new Accounting for Transactions Part 2 box on page 83, we discuss how accountants must follow the *rules of debit and credit* when recording transactions in the journal.

These new boxes show how the key terms, concepts, and formulas introduced in the text are used in the context of business decisions by both users and preparers.

New and Updated Content on Ethics

Sound ethical judgment is important for every major financial decision—which is why this text provides consistent ethical reinforcement. A new decision-making model is introduced in Chapter 1 and integrated throughout the text.

New End-of-Chapter Summaries

Each chapter concludes with a chapter summary that is keyed to the Learning Objectives of the chapter. The summary highlights the major topics discussed in the chapter. The student will have the opportunity to review the concepts presented in a clear, concise way. Terms introduced and discussed in the chapter are highlighted for quick cross-reference.

Enhanced Coverage of Cash Flows

The current economy has created a shift in how we view money—specifically, cash. Cash flow is the lifeblood of any business, so in the Fourth Canadian Edition of *Financial Accounting*, coverage of cash flows has been increased and highlighted in selected chapters so that students can easily see the connections and understand the significance.

New Fraud Coverage

In an age of public scandals, understanding fraud is a key component of Financial Accounting. Chapter 4 now includes the concept of fraud, and introduces students to the “fraud triangle” (motivation, opportunity, and rationalization) and a discussion of internal controls as the primary way companies prevent fraud.

Examples of real fraud cases have been included in relevant sections throughout the text, giving students real-life business context. Examples include the following:

- Livent (Chapter 4)
- Datapoint and MiniScribe (Chapter 6)
- WorldCom (MCI) (Chapters 7 and 13)
- Bristol-Myers Squibb (Chapter 11)

A FRAMEWORK FOR MAKING ETHICAL JUDGMENTS

Weighing tough ethical judgments in business and accounting requires a decision framework. Answering the following four questions will guide you through tough decisions:

Decision	Guidelines
1. What is the issue?	1. The issue will usually deal with making a judgment about an accounting measurement or disclosure that results in economic consequences, often to numerous parties.
2. Who are the stakeholders, and what are the consequences of the decision to each?	2. Stakeholders are anyone who might be affected by the decision—you, your company, and potential users of the information (investors, creditors, regulatory agencies). Consequences can be ethical in nature.
3. Weigh the alternatives.	3. Analyze the impact of the decision on all stakeholders, using ethical criteria. Ask “Who will be helped or hurt, whose rights will be exercised or denied, and in what way?”
4. Make the decision and be prepared to deal with the consequences.	4. Exercise the courage to either defend the decision or to change it, depending on its positive or negative impact. How does your decision make you feel afterward?

SUMMARY OF CHAPTER 1

Learning Objective 1 Learn that financial statements are the product of accounting

Accounting is an information system that measures business activities, processes data into reports, and communicates results to decision makers. These **decision makers or users** include investors and creditors (primary users), managers, government and regulatory agencies, taxing authorities, and individuals.

A business can be **organized** as a **proprietorship**, a **partnership**, or a **public** or **private corporation**. A public corporation's shares are traded on a stock exchange while a private corporation's shares are privately held.

Learning Objective 2 Apply the accounting equation to business organizations

The financial statements are based on the **accounting equation** whereby **assets equal liabilities and owners' equity**. **Assets** are the resources of the business and include cash, accounts receivable, inventory, and property, plant, and equipment.

Financial Accounting is the process of recording, summarizing, and reporting the financial transactions and events of a business.

Reporting Property, Plant, and Equipment Transactions on the Statement of Cash Flows

Three main types of capital asset transactions appear on the statement of cash flows:

- Acquisitions
- Sales
- Depreciation, and amortization

Acquisitions and sales of property, plant, and equipment are **investing activities**. A company invests in property, plant, and equipment by paying cash or incurring a liability. The cash payments for buildings and equipment are investing activities that appear on the statement of cash flows. The sale of property, plant, and equipment results in a cash receipt, as illustrated in Exhibit 7-9, which excerpts data from the



Is That Cost Really an Asset?

There is a world of difference between a capital expenditure and an expense. Just ask MCI. MCI WorldCom (now just MCI) got into hot water by missing the mark in its accounting for capital expenditures.

A few years ago—before cellular phones became so popular—long-distance (LD) phone service was extremely profitable for Sprint and MCI. These companies invested huge amounts on LD phone networks. MCI was one of the hottest stocks on Wall Street.

Almost overnight, cellular companies Cingular and Verizon began to siphon profits away from MCI. Profits grew thin and then turned to losses. MCI needed to protect its pacesetter image. But how?



SPOTLIGHT

Have you ever gone to Canadian Tire to fill our car with gas? More than 50 years ago, this company began operations by just selling tires, and now offers many products and services including clothing, gas bars, and financial services. This Canadian company has grown substantially and today has total assets worth over \$7 billion.

As you can see from the company's consolidated balance sheets on the following page, Canadian Tire's long-lived assets include property and equipment, goodwill, and intangible assets.

This chapter will complete our coverage of assets, except for investments, which we will examine in Chapter 10. Let's begin by examining the various types of long-lived assets.

LEARNING OBJECTIVES

- 1 Determine the cost of property, plant, and equipment
- 2 Account for depreciation
- 3 Examine additional depreciation topics
- 4 Analyze the effect of property, plant, and equipment derecognition
- 5 Account for intangible assets and amortization
- 6 Report long-lived assets on the statement of cash flows

Measuring the Cost of Property, Plant, and Equipment

Here is a basic working rule for determining the cost of an asset:

The cost of any asset is the sum of all the costs incurred to bring the asset to its location and intended use. The cost of property, plant, and equipment includes its purchase price (less any purchase discounts), plus any taxes, commissions, and other amounts paid to make the asset ready for use. Because the specific costs differ for the various categories of property, plant, and equipment, we discuss the major groups individually.

OBJECTIVE

- 1 Determine the cost of property, plant, and equipment

MyAccountingLab
Accounting Cycle Tutorial
Income Statement Accounts and Transactions Tutorial

- A debit decreases a liability or a shareholders' equity account.

Dividends and Expenses accounts are exceptions to the rule. Dividends and Expenses are equity accounts that are increased by a debit. Dividends and Expenses accounts are negative (or *contra*) equity accounts.

Revenues and Expenses are often treated as separate account categories because they appear on the income statement. Exhibit 2-7 shows Revenues and Expenses below the other equity accounts.

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END-OF-CHAPTER SUMMARY PROBLEM

Problem 1

The figures that follow appear in the *Answers to the Mid-Chapter Summary Problem*, Requirement 2, on page 350, for Canadian Tire.

Year	Method A: Straight-Line			Method B: Double-Diminishing-Balance		
	Annual Depreciation Expense	Accumulated Depreciation	Carrying amount	Annual Depreciation Expense	Accumulated Depreciation	Carrying Amount
Start			\$44,000			\$44,000
2010	\$4,000	\$ 4,000	40,000	\$8,800	\$ 8,800	35,200
2011	4,000	8,000	36,000	7,040	15,840	28,160
2012	4,000	12,000	32,000	5,632	21,472	22,528

Required

Suppose the income tax authorities permitted a choice between these two depreciation methods. Which method would Canadian Tire select for income tax purposes? Why?

Problem 2

Suppose Canadian Tire purchased the equipment described in the table on January 1, 2007.

Review the Statement of Cash Flows

Quick Check (Answers are given on page 637.)

1. All the following activities are reported on the statement of cash flows, except

- a. Operating activities
 - b. Investing activities
 - c. Financing activities

- d. Marketing activities
2. Activities that create long-term liabilities are usually

- a. Operating activities
 - b. Investing activities

- c. Financing activities
 - d. Noncash investing and financing activities
3. Activities affecting long-term assets are

- a. Operating activities
 - b. Investing activities

- c. Financing activities
 - d. Marketing activities

Features

Learning Objectives are listed on the first page of each chapter. This “roadmap” shows you what will be covered and what is especially important. Each learning objective is repeated in the side margin where the material is first covered in the chapter.

Chapter-Opening Vignettes immerse you in the real world of accounting, where business decisions affect the future of actual organizations. These stories show why the chapter topics are important to real companies. Some of the companies you’ll read about include Canadian companies such as RIM, Canadian Tire, Leon’s Furniture, and WestJet.

Objectives in the margins signal the beginning of the section that covers the learning objective topic. Look for this feature when you are studying and want to review a particular topic.

Accounting Vocabulary key terms are highlighted in boldface within the text and their full definitions are given at the end of each chapter. These terms are collected in the glossary at the end of the text.

MyAccountingLab icons in the first three chapters direct readers to an online **Accounting Cycle Tutorial** that can be found through the MyAccountingLab site at www.myaccountinglab.com. These icons appear whenever a topic is covered in a tutorial or application. When readers enter the tutorial, they’ll find three buttons on the opening page of each module: Tutorial provides a review of the major concepts, Application provides practice exercises, and Glossary reviews important terms.

Mid-Chapter and End-of-Chapter Summary Problems give you the opportunity to pause and assess your understanding of chapter concepts at two locations within each chapter—midway and at the end of the chapter. Full solutions appear with the problems for immediate feedback. Each problem has been enhanced with annotations to guide you through the thought processes involved in each step.

Each of the summary problems can also be found on the MyAccountingLab that accompanies the text. MyAccountingLab provides students with the opportunity to practise these problems over and over with new values and data until they’ve mastered the underlying concepts.

Review the Chapter with These Features

Quick Check provides multiple-choice questions with answers included for quick self-assessment.

Accounting Vocabulary lists and defines the special accounting terms introduced in boldface in the text. Page numbers are given for your reference. These terms are also defined in the Glossary at the end of the book.

Stop & Think sections relate concepts to everyday life so that students can see the immediate relevance.

Assess Your Progress with These Features

NEW Each of the exercises and problems can be found at **www.myaccountinglab.com**. Students can practise them as often as they want, and they feature step-by-step guided solutions to help them find the right answer.

Short Exercises are single-concept exercises designed to serve as warm-ups for homework assignments. The topic of the short exercise and the learning objectives covered are given in the margin.

Exercises on a single or a small number of topics require you to “do the accounting.” The topic of the exercise and the learning objectives covered are given in the margin. The pencil icon in the margin indicates a writing exercise or problem.

NEW Some chapters also include **Serial Exercises** that involve an accounting cycle that spans several chapters.

Challenge Exercises provide a challenge for those students who have mastered the Exercises.

A multiple-choice **Quiz** follows the exercises in each chapter. This quiz asks students to think back to some of the key concepts from the chapter before moving on to solve some more complicated problems.

Problems are presented in two groups that mirror each other, “A” and “B.” Many instructors work through problems from Group A in class to demonstrate accounting concepts, then assign problems from Group B for homework or extra practice. The topic of the problem and the learning objectives covered are provided in the margin.

Apply Your Knowledge with These Features

Decision Cases put you in business situations where you need to apply your accounting knowledge to make recommendations.

Ethical Issues are thought-provoking situations that help you recognize when ethics should affect an accounting decision.

Focus on Financials and **Focus on Analysis** cases give readers the opportunity to explore sections of the Gildan Annual Report, which is included as an Appendix at the back of the book. As students work with Gildan throughout the course, they will develop the ability to analyze actual financial statements.

Accounting Vocabulary

cash equivalents Highly liquid short-term investments that can be converted into cash immediately. (p. 599)

cash flows Cash receipts and cash payments (disbursements). (p. 598)

direct method Format of the operating activities section of the statement of cash flows; lists the major categories of operating cash receipts (collections from customers and receipts of interest and dividends) and cash disbursements (payments to suppliers, to employees, for interest and income taxes). (p. 601)

financing activities Include receipt and disbursement of cash from investors and creditors. (p. 600)

free cash flow The amount of cash available from operations after paying for planned investments in plant, equipment, and other long-term assets. (p. 612)

indirect method Format of the operating activities section of the statement of cash flows; starts with net income and reconciles to net cash provided by activities. (p. 601)

operating activities Includes revenues, expenses, gains, and losses of the business. (p. 600)

investing activities Includes increases and decreases in long-term assets. (p. 600)

STOP + THINK

- A client pays Windsor Group Ltd. \$900 on March 15 for consulting service to be performed April 1 to June 30. Has Windsor Group Ltd. earned revenue on March 15? When will Windsor Group Ltd. earn the revenue?
- Windsor Group Ltd. pays \$4,500 on July 31 for office rent for the next three months. Has the company incurred an expense on July 31?

Answers:

- No. Windsor Group Ltd. has received the cash but will not perform the service until later. Windsor Group Ltd. earns the revenue when it performs the service.
- No. Windsor Group Ltd. has paid cash for rent in advance. This prepaid rent is an asset because Windsor Group Ltd. has the use of an office in the future.

Assess Your Progress

Make the grade with MyAccountingLab: The exercises and problems in this chapter can be found on MyAccountingLab at www.myaccountinglab.com. You can practise them as often as you want, and they feature step-by-step guided solutions to help you find the right answer.

MyAccountingLab

Short Exercises

S12-1 State how the statement of cash flows helps investors and creditors perform each of the following functions:

- Predict future cash flows.
- Evaluate management decisions.

Learning Objective 1
Purposes of the statement of cash flows

S12-2 Examine the Gildan Activewear statement of cash flows on page 597. Suppose Gildan's operating activities used, rather than provided, cash. Identify three things under the indirect method that could cause operating cash flows to be negative.

Learning Objective 2
Evaluating operating cash flows—indirect method

Challenge Exercise

Learning Objective 3
Using the balance sheet and the statement of cash flows together

E12-17 Crown Specialties Ltd. reported the following at December 31, 2011 (in thousands):

	2011	2010
From the comparative balance sheet:		
Property and equipment, net	\$ 11,150	\$9,590
Long-term notes payable	4,400	3,080
From the statement of cash flows:		
Depreciation	\$ 1,920	
Capital expenditures	(4,130)	
Proceeds from sale of property and equipment	770	
Proceeds from issuance of long-term note payable	1,190	
Payment of long-term note payable	(110)	
Issuance of common shares	383	

Determine the following items for Crown Specialties during 2011:

- Gain or loss on the sale of property and equipment

Group Project

Select a company and research its business. Search the business press for articles about this company. Obtain its annual report by requesting it directly from the company or from the company's Web site.

Required

1. Based on your group's analysis, come to class prepared to instruct the class on six interesting facts about the company that can be found in its financial statements and the related notes. Your group can mention only the obvious, such as net sales or total revenue, net income, total assets, total liabilities, total shareholders' equity, and dividends, in conjunction with other terms. Once you use an obvious item, you may not use that item again.
2. The group should write a paper discussing the facts that it has uncovered. Limit the paper to two double-spaced word-processed pages.

Quick Check Answers

1. b
2. a

Group Projects at the end of each chapter provide both in-class and homework assignments that require collaboration and cooperation among students.

Changes to the Fourth Canadian Edition

Students and instructors will benefit from a variety of new content and features in the Fourth Canadian Edition of *Financial Accounting*. To reflect the most recent developments in the economy and in the accounting industry, the following content additions or changes have been made:

The first chapter has been rewritten to introduce the new **Joint Conceptual Framework for Accounting** from the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

In order to ensure students are introduced to current accounting standards, International Financial Reporting Standards (IFRS), which are required for Canadian public companies for their financial statements for years beginning January 1, 2011, are discussed throughout the Fourth Canadian Edition. In addition, current accounting standards and Accounting Standards for Private Enterprises (ASPE) for private Canadian companies are discussed when there are key differences between ASPE and IFRS.

The Accounting Standards Board has been converging Canadian accounting standards with IFRS for several years and some Canadian companies have early adopted the new standards. (See the Gildan Activewear Inc. Annual Report in Appendix A).

With the recent changes and events in the economy, educating students on the importance of **ethics and ethical decision making** is critical. The discussion of ethics in accounting has been updated and moved to Chapter 1, placing greater emphasis on the importance of ethics at the very beginning of the text. The Fourth Canadian Edition also introduces an expanded decision-making model in Chapter 1 and integrates the model where appropriate throughout the text with economic, legal, and ethical dimensions. The Ethical Cases in the end-of-chapter material have been rewritten to unify and better integrate coverage on this important topic so that the material is reinforced consistently in every chapter.

In an age of public scandals, understanding **fraud** is a key component of financial accounting. Chapter 4 now includes the concept of fraud, and introduces students to the “fraud triangle” (motivation, opportunity, and rationalization) that leads to the discussion of internal controls as the primary way that companies prevent fraud—which has also been updated. The discussion of fraud in Chapter 4 also lays the foundation for the new ethical material, which adds real-life relevance and interest to otherwise dry accounting concepts by presenting real-world fraud cases, including Livent (Chapter 4), Datapoint and MiniScribe (Chapter 6), WorldCom (MCI) (Chapters 7 and 13), and Bristol-Myers Squibb (Chapter 11).

To help students understand accounting topics that are currently impacting **the global economy**, Chapter 11 includes a new discussion on quality of earnings, revenue recognition, and fraud. The quality of earnings section focuses on evaluating a

company's financial position to help in decision making, which students will need when they enter the workforce. There is also an expanded discussion on the elements of the income statement and revenue recognition. The revenue recognition and other comprehensive income sections are key points, and are critical to understanding the new Canadian accounting standards.

To keep examples and data current and accurate, all **financial statements** for the companies covered have been updated. All real company financial data now refers to 2009 or 2010.

The **focus company is new** (Gildan Activewear Inc.) so that students see examples of statements and accounting practices that are as current as possible. As a result, the annual report in the book's appendices is new, and all the Focus on Financials and Focus on Analysis questions in the end-of-chapter material have been updated throughout the text.

Understanding cash flows is a critical concept for students in today's economy, which is why there is a new and increased emphasis on the use of cash flow information in selected chapters. By highlighting this coverage in selected chapters, this edition helps students make the connection between cash and other accounting concepts so they understand the significance of cash flow as the lifeblood of a business.

Every chapter of the Fourth Canadian Edition has a summary at the end of the chapter keyed to the Learning Objectives of the chapter.

To provide students with more opportunities to practise important concepts, and to provide instructors with additional choices of material to assign, all of the **end-of-chapter content** has been updated.

- Every end-of-chapter question in the Assess Your Progress sections is now available in **MyAccountingLab** for students to complete and receive immediate tutorial feedback and help when they need it.
- IFRS terminology and accounting requirements have been incorporated in the end-of-chapter questions.

Student Resources

MyAccountingLab is a powerful online learning tool that not only provides opportunities for limitless practice, but recreates the “I get it” moments from the classroom. MyAccountingLab provides a rich suite of learning tools including

- Static and algorithmic versions of exercises and problems from the textbook
- An online, interactive Accounting Cycle Tutorial
- Mini-Cases
- Help Me Solve It question-specific interactive coaching
- A dynamic ebook with links to a multimedia library
- Excel application problems
- Access to StudyLife, a social networking site designed to help students find their ideal study partner
- Multiple Pathways to Learning Assessments to help students discover their personal learning style



Instructor Supplements

Instructor's Resource CD-ROM: This resource CD includes the following instructor supplements:

- **Instructor's Solutions Manual:** This manual contains full solutions for all end-of-chapter material.
- **Instructor's Resource Manual:** This manual contains valuable resources including chapter outlines, teaching tips, and assignment grids.
- **Pearson TestGen:** Over 1500 test questions, including multiple-choice, true/false, and essay questions, are provided in TestGen format. TestGen is a testing software that enables instructors to view and edit the existing questions, add questions, generate tests, and distribute the tests in a variety of formats. Powerful search and sort functions make it easy to locate questions and arrange them in any order desired. TestGen also enables instructors to administer tests on a local area network, have the tests graded electronically, and have the results prepared in electronic or printed reports. TestGen is compatible with Windows and Macintosh operating systems, and can be downloaded from the TestGen website located at www.pearsoned.com/testgen. Contact your local sales representative for details and access.
- **PowerPoints:** PowerPoint presentations offer an outline of the key points for each chapter.
- **Personal Response System:** These multiple-choice questions are created in PowerPoint for use in Personal Response Systems. Also known as "clickers," these systems allow instructors to poll students in class and to display aggregated results of answers.

These instructor supplements are also available for download from a password-protected section of Pearson Canada's online catalogue (vig.pearsoned.ca). Navigate to your book's catalogue page to view a list of those supplements that are available. See your local sales representative for details and access.

Pearson Advantage: For qualified adopters, Pearson Education is proud to introduce the **Pearson Advantage**. The Pearson Advantage is the first integrated Canadian service program committed to meeting the customization, training, and support needs for your course. Our commitments are made in writing and in consultation with faculty. Your local Pearson Education sales representative can provide you with more details on this service program.

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Prologue

Accounting Careers: Much More Than Counting Things

What kind of career can you have in accounting? Almost any kind you want. A career in accounting lets you use your analytical skills in a variety of ways, and it brings both monetary and personal rewards. According to the *Jobs Rated Almanac*, “accountant” was the fifth best job in terms of low stress, high compensation, lots of autonomy, and tremendous hiring demand.¹

Accounting as an art is widely believed to have been invented by Fra Luca Bartolomeo de Pacioli, an Italian mathematician and Franciscan friar in the 16th century. Pacioli was a close friend of Leonardo da Vinci, and collaborated with him on many projects.

Accounting as the profession we know today has its roots in the Industrial Revolution during the 18th and 19th centuries, mostly in England. However, accounting did not attain the stature of other professions such as law, medicine, or engineering until early in the 20th century. Professions are distinguished from trades by the following characteristics: (1) a unifying body of technical literature; (2) standards of competence; (3) codes of professional conduct; and (4) dedication to service to the public.

Today’s accountants obtain years of formal education at the university level which, for most, culminates in a very rigorous professional qualification process that qualifies them to hold the designation *chartered accountant* (CA), *certified management accountant* (CMA), or *certified general accountant* (CGA). There are other professional designations that accountants may obtain as well, each with its own professional exam and set of professional standards. Examples are *certified internal auditor* (CIA) and *certified fraud examiner* (CFE).

Where Accountants Work

Where can you work as an accountant? There are four kinds of employers.

Public Practice

You can work for a public accounting (PA) firm, which could be a large international firm or a variety of medium to small-sized firms. Within the PA firm, you can specialize in areas such as audit, tax, or consulting. In this capacity, you’ll be serving as an external accountant to many different clients. At present, the largest six international firms are Deloitte, Ernst & Young, KPMG, PricewaterhouseCoopers, Grant Thornton, and BDO Dunwoody. However, there are many other firms with international and national scope of practice. Many PAs start their career at a large PA firm. From there, they move on to obtain positions of leadership in the corporate finance world, industry, or just about anywhere there is a demand for persons who like solving complex problems.

Managerial Accounting

Instead of working for a wide variety of clients, you can work within one corporation or not-for-profit enterprise. Your role may be to analyze financial information and communicate that information to managers, who use it to plot strategy and make decisions. You may be called upon to help allocate corporate resources or improve financial performance. For example, you might do a cost-benefit analysis to help decide whether to acquire a company or build a factory. Or you might describe the financial implications of choosing one strategy over another. You might work in areas such as internal auditing, financial management, financial reporting, treasury management, and tax planning. The highest position in management accounting is the chief financial officer (CFO) position, with some CFOs rising to become chief executive officers (CEOs).

Government and Not-for-Profit Entities

As an accountant, you might work for the government—federal, provincial, or local. Like your counterparts in public accounting and business, your role as a government accountant includes responsibilities in the areas of auditing, financial reporting, and management accounting. You'll evaluate how government agencies are being managed. You may advise decision makers on how to allocate resources to promote efficiency. The RCMP hires CAs, CMAs, and CGAs to investigate the financial aspects of white-collar crime. You might find yourself working for the Canadian Revenue Agency, one of the provincial securities commissions, or a federal or provincial government department.

The Auditor General of Canada is appointed by the federal government, while the provincial auditors general are appointed by the provincial government. "The Office of the Auditor General of Canada is an independent and reliable source of the objective, fact-based information that Parliament needs to fulfill one of its most important roles: holding the federal government accountable for its stewardship of public funds. The Office audits departments and agencies, most Crown corporations, and many other federal organizations; it is also the auditor for the governments of Nunavut, the Yukon, and the Northwest Territories."²

As an accountant, you might also decide to work in the not-for-profit sector. Colleges, universities, public and private primary and secondary schools, hospitals, and charitable organizations such as churches and the United Way all have accounting functions. Accountants for these types of entities prepare financial statements as well as budgets and projections. Most have special training in accounting standards specially designed for work in the not-for-profit sector.

Education

Finally, you can work at a college or university, advancing the thought and theory of accounting and teaching future generations of new accountants. On the research side of education, you might study how companies use accounting information. You might develop new ways of categorizing financial data, or study accounting practices in different countries. You then publish your ideas in journals and books and present them to colleagues at meetings around the world. On the education side, you can help others learn about accounting and give them the tools they need to be their best.

CA, CMA, CGA Letters That Speak Volumes

When employers see the CA, CMA, or CGA designation, they know what to expect about your education, knowledge, abilities, and personal attributes. They value your analytic skills and extensive training. Your CA, CMA, or CGA credential gives you a distinct advantage in the job market and instant credibility and respect in the workplace. It's a plus when dealing with other professionals such as bankers, lawyers, auditors, and federal regulators. In addition, your colleagues in private industry tend to defer to you when dealing with complex business matters, particularly those involving financial management.

The Hottest Growth Areas in Accounting

Recent legislation, such as the Sarbanes-Oxley Act of 2002, has brought rising demand for accountants of all kinds. In addition to strong overall demand, certain areas of accounting are especially hot.

Sustainability Reporting

Sustainability reporting involves reporting on an organization's performance with respect to health, safety, and environmental (HSE) issues. As businesses take a greater interest in environmental issues, PAs are getting involved in reporting on such matters as employee health, on-the-job accident rates, emissions of certain pollutants, spills, volumes of waste generated, and initiatives to reduce and minimize such incidents and releases. Utilities, manufacturers, and chemical companies are particularly affected by environmental issues. As a result, they turn to PAs to set up a preventive system to ensure compliance and avoid future claims or disputes or to provide assistance once legal implications have arisen.

Corporate social responsibility (CSR) reporting is similar to HSE reporting but with a broadened emphasis on social matters such as ethical labour practices, training, education, and diversity of workforce and corporate philanthropic initiatives. Most of the world's largest corporations have extensive CSR initiatives.

Assurance Services

Assurance services are services provided by a PA that improve the quality of information, or its context, for decision makers. Such information can be financial or non-financial, and it can be about past events or about ongoing processes or systems. This broad concept includes audit and attestation services and is distinct from consulting because it focuses primarily on improving information rather than on providing advice or installing systems. You can use your analytical and information-processing expertise by providing assurance services in areas ranging from electronic commerce to elder care, comprehensive risk assessment, business valuations, entity performance measurement, and information systems quality assessment.

Information Technology Services

Companies can't compete effectively if their information technology systems don't have the power or flexibility to perform essential functions. Companies need accountants with strong computer skills who can design and implement advanced systems to

fit a company's specific needs and to find ways to protect and insulate data. PAs skilled in software research and development (including multimedia technology) are also highly valued.

International Accounting

Globalization means that cross-border transactions are becoming commonplace. Countries in Eastern Europe and Latin America, which previously had closed economies, are opening up and doing business with new trading partners. The passage of the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT) facilitates trade, and the economic growth in areas such as the Pacific Rim further brings greater volumes of trade and financial flows. Organizations need accountants who understand international trade rules, accords, and laws; cross-border merger and acquisition issues; and foreign business customs, languages, cultures, and procedures.

Forensic Accounting

Forensic accounting is in growing demand after scandals such as the collapse of Enron and WorldCom, which are featured in this text. Forensic accountants look at a company's financial records for evidence of criminal activity. This could be anything from securities fraud to overvaluation of inventory to money laundering and improper capitalization of expenses.

Whether you seek a career in business, government, the not-for-profit sector, or a charity, **accounting** has a career for you. Every organization, from the smallest mom-and-pop music retailer to the biggest government in the world, needs accountants to help manage its resources. Global trade demands accountability, and ever-more complex tax laws mean an ever-increasing need for the skills and services of accountants.

Endnotes

¹Alba, Jason, and Manisha Bathija. *Vault Career Guide to Accounting*. (New York: Vault, 2002).

²http://www.oag-bvg.gc.ca/internet/English/admin_e_41.html