

# Contents

## 1

### The Financial Statements ... 1

**SPOTLIGHT: GILDAN ACTIVEWEAR INC. ... 1**

#### Economic Decisions ... 3

#### A Model of Business ... 3

#### Accounting Is the Language of Business ... 3

Who Uses Accounting Information? ... 4

Two Kinds of Accounting: Financial Accounting and Management Accounting 5

Organizing a Business ... 5

#### The Accounting Equation ... 7

Assets and Liabilities ... 7

Owners' Equity ... 8

STOP + THINK ... 10

#### The Financial Statements ... 10

The Income Statement Measures Operating Performance ... 11

Using Financial Statements in Decision Making ... 12

Using Financial Accounting in Decision Making ... 13

Using the Income Statement in Decision Making ... 14

#### Statement of Retained Earnings ... 14

Using the Statement of Shareholders' Equity in Decision Making ... 15

The Balance Sheet Measures Financial Position ... 16

STOP + THINK ... 18

Using the Balance Sheet in Decision Making ... 19

The Statement of Cash Flows Measures Cash Receipts and Payments ... 20

Using the Statement of Cash Flows in Decision Making ... 22

The Notes to the Financial Statements Provide Additional Information ... 22

#### Relationships Among the Financial Statements ... 23

#### Understanding How Accounting Standards Are Set ... 24

Multiple GAAPs ... 26

#### The Accounting Conceptual Framework and Accounting Characteristics and Assumptions ... 27

The Entity Assumption ... 28

The Going-Concern Assumption ... 29

The Cost Assumption ... 29

The Stable-Monetary-Unit Assumption ... 29

STOP + THINK ... 30

Accounting for Financial Statements ... 30

### Ethics in Business and Accounting Decisions ... 30

We Need an Audit to Validate the Financial Statements ... 31

A Framework for Making Ethical Judgments ... 33

Summary of Chapter 1 ... 34

End-of-Chapter Summary Problem ... 36

Review the Financial Statements Quick Check (38), Accounting Vocabulary (39)

Assess Your Progress Short Exercises (40), Exercises (42), Quiz (45), Problems (47)

Apply Your Knowledge Decision Cases (55), Ethical Issue (57), Focus on Financials (57), Focus on Analysis (58), Group Project (58), Quick Check Answers (59)

## 2

### Transaction Analysis ... 60

**SPOTLIGHT: RESEARCH IN MOTION® ... 60**

#### Transactions ... 61

#### The Account ... 62

Assets ... 62

Liabilities ... 63

Shareholders' (Owners') Equity ... 63

STOP + THINK ... 64

Accounting for Business Transactions ... 64

Accounting for Transactions Part 1 ... 68

Transactions and Financial Statements ... 69

Mid-Chapter Summary Problem ... 72

Solutions ... 72

#### Double-Entry Accounting ... 74

The T-Account ... 74

Increases and Decreases in the Accounts: The Rules of Debit and Credit ... 74

Additional Shareholders' Equity Accounts: Revenues and Expenses ... 76

#### Recording Transactions ... 77

Copying Information (Posting) From the Journal to the Ledger ... 77

The Flow of Accounting Data ... 78

Accounts After Posting to the Ledger ... 82

Accounting for Transactions Part 2 ... 83

#### The Trial Balance ... 83

Analyzing Accounts ... 84

Using Understanding of Transactions Analysis in Decision Making ... 85

Accounting for Transactions Part 3 ... 85  
 Correcting Accounting Errors ... 85  
 Chart of Accounts ... 86  
 The Normal Balance of an Account ... 86  
 Account Formats ... 87

## Analyzing Transactions Using Only T-Accounts ... 87

Summary of Chapter 2 ... 88

End-of-Chapter Summary Problem ... 90

**Review the Transaction Analysis** Quick Check (94), Accounting Vocabulary (95)

**Assess Your Progress** Short Exercises (95), Exercises (98), Serial Exercise (101), Challenge Exercises (101), Quiz (103), Problems (105)

**Apply Your Knowledge** Decision Cases (112), Ethical Issues (113), Focus on Financials (114), Focus on Analysis (115), Group Projects (115), Quick Check Answers (116)

## Accrual Accounting and the Financial Statements ... 117

**SPOTLIGHT: LE CHÂTEAU INC. ... 117**

### Accrual Accounting Versus Cash-Basis Accounting ... 118

Accrual Accounting and Cash Flows ... 119

The Time-Period Concept ... 120

The Revenue Principle ... 121

Recording Expenses ... 121

STOP + THINK ... 122

Ethical Issues in Accrual Accounting ... 122

### Updating the Accounts: The Adjusting Process ... 122

Which Accounts Need to Be Updated (Adjusted)? ... 123

Categories of Adjusting Entries ... 123

Deferrals—Prepaid Expenses ... 124

STOP + THINK ... 126

Deferrals—Unearned Revenues ... 126

Depreciation of Property, Plant, and Equipment ... 127

STOP + THINK ... 130

Accruals—Accrued Expenses ... 130

Accruals—Accrued Revenues

STOP + THINK ... 132

The Adjusted Trial Balance ... 133

### Preparing the Financial Statements ... 135

Mid-Chapter Summary Problem ... 137

The Balance Sheet ... 143

Classifying Assets and Liabilities ... 143

Reporting Assets and Liabilities: Le Château Inc. ... 144

Using the Balance Sheet in Decision Making ... 145

The Income Statement ... 146

Using the Income Statement in Decision Making ... 147

End-of-Chapter Summary Problem ... 148

Summary of Chapter 3 ... 150

**Review Accrual Accounting and the Financial Statements** Quick Check (151), Accounting Vocabulary (153)

**Assess Your Progress** Short Exercises (153), Exercises (156), Serial Exercise (161), Challenge Exercises (162), Quiz (163), Problems (165)

**Apply Your Knowledge** Decision Cases (176), Ethical Issues (179), Focus on Financials (180), Focus on Analysis (180), Group Project (181), Quick Check Answers (181)

## 4

## Internal Control and Cash ... 182

**SPOTLIGHT: GREBRU PRODUCTS INC. ... 182**

### Fraud and Its Impact ... 184

Fraud and Ethics ... 187

### Internal Control ... 188

#### The Sarbanes-Oxley Act (SOX) ... 189

### The Components of Internal Control ... 190

Using Internal Control in Decision Making ... 192

Internal Control Procedures ... 192

### Internal Controls for E-Commerce ... 196

Pitfalls ... 196

Security Measures ... 196

### Two Faces of Internal Control ... 197

Limitations of Internal Control—Costs and Benefits ... 198

### The Bank Account as a Control Device ... 198

Signature Card ... 198

Deposit Slip ... 199

Cheque ... 199

Bank Statement ... 199

Bank Reconciliation ... 200

Preparing the Bank Reconciliation ... 201

Online Banking ... 204

Using the Bank Reconciliation to Control Cash ... 204

STOP + THINK ... 205

Mid-Chapter Summary Problem ... 206

### Internal Control Over Cash Receipts ... 208

Cash Receipts Over the Counter ... 208

Cash Receipts by Mail ... 209

### Internal Control Over Cash Payments ... 210

Controls Over Payment by Cheque ... 210

Using a Budget to Manage Cash ... 212

Reporting Cash on the Balance Sheet ... 213

Make an Ethical Business Judgment ... 214

Summary of Chapter 4 ... 215

End-of-Chapter Summary Problem ... 216

**Review Internal Control and Cash** Quick Check (217), Accounting Vocabulary (218)

**Assess Your Progress** Short Exercises (219), Exercises (220), Challenge Exercises (224), Quiz (224), Problems (226)

**Apply Your Knowledge** Decision Cases (234), Ethical Issue (235), Focus on Financials (235), Focus on Analysis (236), Group Project (236), Quick Check Answers (236)

## 5

## Short-Term Investments and Receivables ... 237

**SPOTLIGHT: LOBLAW ... 237**

### Short-Term Investments ... 238

Trading Investments ... 239

Unrealized Gains and Losses ... 239

Reporting on the Balance Sheet and the Income Statement ... 240

Realized Gains and Losses ... 241

Accounting Games That Companies Play ... 241

**Mid-Chapter Summary Problem ... 242**

### Accounts and Notes Receivable ... 242

Types of Receivables ... 242

Internal Controls Over Cash Collections on Account ... 243

How Do We Manage the Risk of Not Collecting? ... 244

Managing Accounts Receivable ... 244

Accounting for Uncollectible Receivables ... 244

Allowance Method ... 245

**STOP + THINK ... 246**

**STOP + THINK ... 249**

Recovery of an Uncollectible Account ... 250

Direct Write-Off Method ... 250

Computing Cash Collections From Customers ... 251

Shifting Sales Into the Current Period Makes a Company Look Good Now, But You Pay for It Later ... 252

### Notes Receivable ... 252

Accounting for Notes Receivable ... 253

How to Speed Up Cash Flow ... 256

Using Ratios in Decisions Making ... 257

Acid-Test (or Quick) Ratio ... 258

Days' Sales in Receivables ... 258

### Reporting on the Statement of Cash Flows ... 259

**Summary of Chapter 5 ... 260**

**End-of-Chapter Summary Problem ... 261**

**Review Short-Term Investments and Receivables** Quick Check (262), Accounting Vocabulary (263)

**Assess Your Progress** Short Exercises (264), Exercises (267), Challenge Exercises (270), Quiz (271), Problems (273)

**Apply Your Knowledge** Decision Cases (279), Ethical Issue (280), Focus on Financials (280), Focus on Analysis (281), Group Project (281), Quick Check Answers (282)

## 6

## Inventory and Cost of Goods Sold ... 283

**SPOTLIGHT: LEON'S FURNITURE ... 283**

Accounting for Inventory ... 286

Other Categories of Inventory ... 286

Sales Price Versus Cost of Inventory ... 287

Accounting for Inventory in the Perpetual System ... 288

### Inventory Costing ... 291

What Goes Into Inventory Cost? ... 291

The Various Inventory Costing Methods ... 291

The Effects of FIFO and Weighted-Average Cost on Cost of Goods Sold, Gross Profit, and Ending Inventory ... 294

Comparison of the Inventory Methods ... 295

Managing Inventory ... 296

**Mid-Chapter Summary Problem ... 296**

### Accounting Standards and Inventories ... 298

Comparability ... 298

Disclosure Principle ... 298

### Decision Making: Using Inventory ... 300

Detailed Income Statement ... 300

Analyzing Financial Statements ... 300

Using Inventory Turnover in Decision Making ... 301

**STOP + THINK ... 302**

### Additional Inventory Issues ... 303

Using the Cost-of-Goods-Sold Model ... 303

Estimating Inventory by the Gross Profit Method ... 304

Effects of Inventory Errors ... 304

**STOP + THINK ... 305**

Inventory Errors ... 306

Ethical Issues: Cooking the Books ... 306

Reporting on the Statement of Cash Flows ... 307

**Summary of Chapter 6 ... 307**

**End-of-Chapter Summary Problem ... 308**

**Review Inventory and Cost of Goods Sold** Quick Check (310), Accounting Vocabulary (312)

**Assess Your Progress** Short Exercises (313), Exercises (314), Challenge Exercises (318), Quiz (319), Problems (321)

**Apply Your Knowledge** Decision Cases (330), Ethical Issue (331), Focus on Financials (331), Group Project (331), Quick Check Answers (332)

## Appendix 6A

Accounting for Inventory in the Periodic System ... 333

Recording Transactions in the Periodic System ... 333

**Appendix Assignments ... 335**

## 7

## Property, Plant, and Equipment, and Intangible Assets ... 337

**SPOTLIGHT: CANADIAN TIRE ... 337**

### Types of Assets ... 338

#### Measuring the Cost of Property, Plant, and Equipment ... 339

Land ... 339

Buildings, Machinery, and Equipment ... 340

Land Improvements and Leasehold

Improvements ... 340

Lump-Sum (or Basket) Purchases of Assets ... 340

**STOP + THINK ... 341**

Capital Expenditure Versus an Immediate Expense ... 341

Is That Cost Really an Asset? ... 342

#### Measuring Property, Plant, and Equipment Depreciation ... 343

How to Measure Depreciation ... 344

Depreciation Methods ... 345

**STOP + THINK ... 346**

**STOP + THINK ... 348**

Comparing Depreciation Methods ... 348

**Mid-Chapter Summary Problem ... 349**

#### Additional Depreciation Topics ... 351

Depreciation for Partial Years ... 351

Changing the Useful Life of a Depreciable Asset ... 351

**STOP + THINK ... 352**

Fully Depreciated Assets ... 353

#### Derecognition of Property, Plant, and Equipment ... 353

Disposal of Property, Plant, and Equipment ... 353

**STOP + THINK ... 355**

Using T-Accounts to Analyze Property, Plant, and Equipment Transactions 355

Other Issues in Accounting for Property, Plant, and Equipment ... 356

Depreciation for Tax Purposes ... 356

Is It Ethical to Keep Two Sets of Depreciation Records ... 356

Depreciating Significant Components ... 357

Impairment ... 357

Revaluation Model ... 358

Using Property, Plant, and Equipment Decision Making ... 358

Accounting for Natural Resources ... 359

Accounting for Intangible Assets ... 359

Accounting for Specific Intangibles ... 360

Accounting for the Impairment of an Intangible Asset ... 361

Accounting for Research and Development Costs ... 362

#### Reporting Property, Plant, and Equipment Transactions on the Statement of Cash Flows ... 362

**STOP + THINK ... 364**

**Summary of Chapter 7 ... 364**

**End-of-Chapter Summary Problem ... 366**

**Review Property, Plant, and Equipment, and Intangible Assets**  
Quick Check (367), Accounting Vocabulary (368)

**Assess Your Progress** Short Exercises (369), Exercises (371), Challenge Exercises (374), Quiz (375), Problems (377)

**Apply Your Knowledge** Decision Cases (385), Ethical Issue (385), Focus on Financials (386), Focus on Analysis (386), Group Project (386), Quick Check Answers (387)

#### Appendix 7A Depreciation for Accounting Purposes and Capital Cost Allowance for Income Tax Purposes ... 388

**STOP + THINK ... 389**

## 8

## Liabilities ... 390

**SPOTLIGHT: WESTJET ... 390**

### Current Liabilities ... 391

Current Liabilities of Known Amount ... 391

**STOP + THINK ... 397**

Current Liabilities That Must Be Estimated ... 398

Contingent Liabilities ... 399

Are All Liabilities Reported on the Balance Sheet or in the Notes? ... 399

Using Information About Provisions and Contingent Liabilities in Decision Making ... 400

Summary of Current Liabilities ... 400

**Mid-Chapter Summary Problem ... 401**

### Long-Term Liabilities: Bonds ... 402

Bonds: An Introduction ... 402

Issuing Bonds Payable at Face Value ... 405

Issuing Bonds Payable at a Discount ... 407

What Is the Interest Expense on These Bonds Payable? ... 407

Interest Expense on Bonds Issued at a Discount ... 408

**STOP + THINK ... 410**

**STOP + THINK ... 411**

Partial-Period Interest Amounts ... 411

Issuing Bonds at a Premium ... 412

Should We Derecognize Bonds Payable Before Their Maturity? ... 414

Convertible Bonds ... 415

Financing Operations With Bonds or Shares? ... 415

Accounting for Expansion ... 416

The Times-Interest-Earned Ratio ... 417

**STOP + THINK ... 418**

Using a Company's Financing Choices in Decision Making ... 418

### Long-Term Liabilities: Leases and Pensions ... 419

Leases ... 419

Lease Accounting for Publicly Accountable Enterprises ... 419

Lease Accounting for Private Enterprises ... 420

Do Accountants Prefer Operating Leases or Finance Leases? ... 422

Using a Company's Leasing Choices in Decision Making ... 423

Employee Benefits ... 423

**Reporting Liabilities ... 424**

Reporting on the Balance Sheet ... 424

Reporting the Fair Market Value of Long-Term Debt ... 425

Reporting the Risks Related to Long-Term Debt ... 425

**Summary of Chapter 8 ... 425**

**End-of-Chapter Summary Problem ... 427**

**Review Liabilities** Quick Check (429), Accounting Vocabulary (430)

**Assess Your Progress** Short Exercises (431), Exercises (434), Challenge Exercises (438), Quiz (439), Problems (441)

**Apply Your Knowledge** Decision Cases (448), Ethical Issues (449), Focus on Financials (450), Focus on Analysis (450), Group Projects (450), Quick Check Answers (451)

9

## Shareholders' Equity ... 452

**SPOTLIGHT: POTASH CORP ... 452**

**What Is the Best Way to Organize a Business? ... 454**

**Organizing a Corporation ... 455**

Shareholders' Rights ... 456

Shareholders' Equity ... 457

Classes of Shares ... 458

**Issuing Shares ... 459**

Common Shares ... 460

**STOP + THINK ... 460**

A Share Issuance for Other Than Cash Can Pose an Accounting Problem—Ethical Issue 1 ... 461

Preferred Shares ... 462

A Share Issuance for Other Than Cash Can Pose an Accounting Problem—Ethical Issue 2 ... 463

Using a Company's Share Issuing Choices in Decision Making ... 464

Accounting for Issuing Shares ... 464

**Mid-Chapter Summary Problem ... 465**

**Repurchase of Shares by a Corporation ... 466**

Should a Company Buy Back Its Own Shares? ... 466

**STOP + THINK ... 468**

**Retained Earnings, Dividends, and Splits ... 468**

Should the Company Declare and Pay Cash Dividends? ... 468

Cash Dividends ... 469

Analyzing the Shareholders' Equity Accounts ... 470

Dividends on Preferred Shares ... 470

Stock Dividends ... 471

**STOP + THINK ... 472**

Stock Splits ... 472

Summary of the Effects on Assets, Liabilities, and Shareholders' Equity ... 473

Retained Earnings Restrictions ... 474

**Measuring the Value of Shares ... 474**

Fair, Redemption, Liquidation, and Book Value ... 474

Using Book Value per Share ... 475

Relating Profitability to a Company's Shares ... 476

Using Information About a Company in Decision Making (About Share Investments) ... 477

**Reporting Shareholders' Equity Transactions ... 478**

Statement of Cash Flows ... 478

Variations in Reporting Shareholders' Equity ... 478

**Summary of Chapter 9 ... 479**

**End-of-Chapter Summary Problem ... 481**

**Review Shareholders' Equity** Quick Check (483), Accounting Vocabulary (485)

**Assess Your Progress** Short Exercises (486), Exercises (489), Challenge Exercises (493), Quiz (494), Problems (497)

**Apply Your Knowledge** Decision Cases (504), Ethical Issues (506), Focus on Financials (506), Focus on Analysis (507), Group Project (507), Quick Check Answers (507)

**Appendix 9A: Owners' Equity of Partnerships ... 508**

Initial Investment by Partners ... 508

Appendix 9A Solution ... 511

10

**Long-Term Investments and International Operations ... 513**

**SPOTLIGHT: ACTO LTD. ... 513**

**Share Investments: A Review ... 514**

Share Prices ... 515

Reporting Investments on the Balance Sheet ... 515

Accounting for Long-Term Investments in Shares ... 516

Accounting for Available-for-Sale Investments ... 516

What Value of an Investment Is Most Relevant? ... 517

Selling an Available-for-Sale Investment ... 518

**STOP + THINK ... 519**

**Equity-Method Investments ... 519**

Why Buy a Large Stake in Another Company? ... 519

Accounting for Equity-Method Investments ... 519

**Consolidated Subsidiaries ... 521**

Why Buy Another Company? ... 522

Consolidation Accounting ... 522

Goodwill and Non-Controlling Interests ... 523

Income of a Consolidated Entity ... 523

**Long-Term Investments in Bonds ... 524**

Using Insider Information to Generate a Profit ... 525

Using Long-Term Investments in Decision Making ... 526

**Mid-Chapter Summary Problem ... 526**

Accounting for International Operations ... 528

Foreign Currencies and Exchange Rates ... 528

Do We Collect Cash in Dollars or in a Foreign Currency? Do We Pay in Dollars or in a Foreign Currency? ... 529

Reporting Gains and Losses on the Income Statement ... 531  
Should We Hedge Our Foreign-Currency Transaction Risk? ... 531  
Consolidation of Foreign Subsidiaries ... 532  
International Accounting Standards ... 532  
Using International Operations in Decision Making ... 533  
Using the Statement of Cash Flows ... 533

#### Summary of Chapter 9 ... 534

#### End-of-Chapter Summary Problem ... 535

**Review Long-Term Investments and International Operations** Quick Check, (536), Accounting Vocabulary (537)

**Assess Your Progress** Short Exercises (537), Exercises (539), Challenge Exercises (542), Quiz (543), Problems (544)

**Apply Your Knowledge** Decision Cases (551), Ethical Issue (552), Focus on Financials (552), Focus on Analysis (552), Group Project (552), Quick Check Answers (553)

## 11

# The Comprehensive Income Statement and the Statement of Shareholders' Equity ... 554

**SPOTLIGHT: TELUS CORPORATION ... 554**

#### Evaluating the Quality of Earnings ... 556

Revenue Recognition ... 556  
Cooking the Books with Revenue ... 557  
Expense Recognition—Continuing Operations ... 557  
Other Comprehensive Income ... 559  
Accounting Standards for Private Enterprises ... 560  
Which Income Number Predicts Future Profits? ... 560  
Discontinued Operations ... 562  
Accounting for a Change in Accounting Policy ... 562  
Accounting Standards for Private Enterprises ... 563  
Watch Out for Voluntary Accounting Changes That Increase Reported Income ... 563  
Earnings per Share ... 564  
Earnings per Share May Not Be What They Seem ... 565  
What Should You Analyze to Gain an Overall Picture of a Company? ... 565  
Accounting for Income Statement Preparation ... 566  
Using a Company's Income Statement and Statement of Shareholders' Equity for Decision Making ... 566  
Accounting for Corporate Income Taxes ... 567

#### Analyzing Retained Earnings ... 569

Prior Period Error Adjustments ... 569

#### Analyzing the Statement of Shareholders' Equity ... 570

#### Responsibility for the Financial Statements ... 572

Management's Responsibility ... 572  
Auditor's Report ... 573

#### Summary of Chapter 11 ... 574

#### End-of-Chapter Summary Problem ... 576

**Review the Comprehensive Income Statement and the Statement of Shareholders' Equity** Quick Check (577), Accounting Vocabulary (578)

**Assess Your Progress** Short Exercises (579), Exercises (581), Quiz (585), Problems (586)

**Apply Your Knowledge** Decision Cases (592), Ethical Issue (594), Focus on Financials (594), Focus on Analysis (595), Group Project (595), Quick Check Answers (595)

## 12

# The Statement of Cash Flows ... 596

**SPOTLIGHT: GILDAN ACTIVEWEAR INC. ... 596**

#### Basic Concepts: The Statement of Cash Flows ... 598

How Is a Company's Cash Flow? Telltale Signs of Financial Difficulty ... 599  
Operating, Investing, and Financing Activities ... 600  
Two Formats for Operating Activities ... 601

#### Preparing the Statement of Cash Flows: Indirect Method ... 601

Cash Flows From Operating Activities ... 602  
Cash Flows From Investing Activities ... 607  
Cash Flows From Financing Activities ... 608  
**STOP + THINK ... 610**

Noncash Investing and Financing Activities ... 611

#### Measuring Cash Adequacy: Free Cash Flow ... 612

Using Information From the Statement of Cash Flows in Decision Making ... 612

Accounting for the Statement of Cash Flows ... 613

#### Summary of Chapter 12 ... 613

#### End-of-Chapter Summary Problem ... 615

**Review the Statement of Cash Flows** Quick Check (617), Accounting Vocabulary (618)

**Assess Your Progress** Short Exercises (619), Exercises (621), Challenge Exercise (624), Quiz (625), Problems (627)

**Apply Your Knowledge** Decision Cases (634), Ethical Issue (636), Focus on Financials (636), Focus on Analysis (636), Group Projects (637), Quick Check Answers (637)

#### Appendix 12A

#### Preparing the Statement of Cash Flows: Direct Method ... 638

Cash Flows From Operating Activities ... 638

#### Cash Flows From Investing Activities ... 640

Cash Flows From Financing Activities ... 641  
Noncash Investing and Financing Activities ... 642

**STOP + THINK ... 643**

Computing Operating Cash Flows by the Direct Method ... 643

Computing Investing and Financing Cash Flows ... 647

**STOP + THINK ... 648**

**Summary of Appendix 12A ... 648**

**End-of-Appendix Summary Problem ... 649**

**Assess Your Progress** Short Exercises (652), Exercises (653), Challenge Exercise (656), Problems (657)

## 13

### Financial Statement Analysis ... 666

**SPOTLIGHT: METRO INC. ... 666**

How Is a Company Evaluated? ... 667

**Horizontal Analysis ... 668**

Illustration: Metro Inc. ... 668

**STOP + THINK ... 669**

Trend Percentage ... 670

**Vertical Analysis ... 671**

Illustration: Metro Inc. ... 671

**How Do We Compare One Company to Another? ... 672**

**STOP + THINK ... 674**

**Benchmarking ... 674**

Benchmarking Against a Key Competitor ... 674

Using the Statement of Cash Flows ... 674

**Mid-Chapter Summary Problem ... 676**

Using Ratios in Decision Making ... 678

Ethical Issue: Things May Not Always Be As They Seem ... 679

Measuring Ability to Pay Current Liabilities ... 679

The Limitations of Ratio Analysis ... 680

**STOP + THINK ... 682**

Measuring Ability to Sell Inventory and Collect Receivables ... 682

Analyzing Changes in Receivables Ratios ... 685

Measuring Ability to Pay Long-Term Debt ... 685

Measuring Profitability ... 686

Understanding Ratios That Measure Profitability ... 686

Analyzing Share Investments ... 689

Red Flags in Financial Statement Analysis ... 690

Efficient Markets ... 691

**Summary of Chapter 13 ... 691**

**End-of-Chapter Summary Problem ... 693**

**Review Financial Statement Analysis** Quick Check (695), Accounting Vocabulary (697)

**Assess Your Progress** Short Exercises (698), Exercises (700), Challenge Exercises (704), Quiz (705), Problems (707)

**Apply Your Knowledge** Decision Cases (718), Ethical Issue (720), Focus on Financials (720), Focus on Analysis (721), Group Projects (721), Quick Check Answers (721)

**Appendix A**

Gildan Activewear Inc. Annual Report 2009 ... xxx

**Appendix B**

Time Value of Money: Future Value and Present Value ... xxx

**Appendix C**

Check Figures ... xxx

**Glossary ... xxx**

**Index ... xxx**