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FIFTH CANADIAN EDITION

# FINANCIAL ACCOUNTING

LIBBY | LIBBY | SHORT | KANAAN | GOWNG

# FINANCIAL ACCOUNTING

FIFTH CANADIAN EDITION

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**Financial Accounting  
Fifth Canadian Edition**

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# A Trusted Leader

Since it was first published, *Financial Accounting* has grown to be the market-leading financial accounting textbook on which both students and instructors rely. The authors of the Fifth Canadian Edition continue to make financial accounting more relevant and interesting to students. How? By helping the instructor and student become partners in learning, using a remarkable learning approach that keeps students engaged and involved in the material from the first day of class.



*Financial Accounting*'s distinctive focus-company approach motivates students by involving them in the business decisions of a real company and demonstrating how financial accounting makes a difference in the success of a firm. That, combined with pedagogical features and technology tools that serve a variety of learning styles, makes *Financial Accounting* the textbook that both students and instructors agree is the best of its kind on the market today.

# For Both Students and Instructors

*Financial Accounting* maintains its leadership by focusing on

**CURRENCY.** *Financial Accounting* keeps your students' learning up to date, preparing them for the courses and jobs they will have in the future. International Financial Reporting Standards (IFRS) are completely integrated within each chapter (or throughout the text), and an Accounting Standards for Private Enterprises box concludes each chapter. In addition, the annual reports, financial data, and articles used in both the instruction and the problem material continue to be updated.

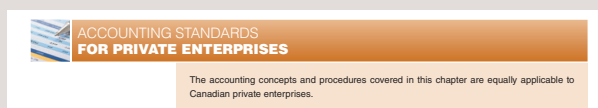
**RELEVANCE—THE PIONEERING FOCUS-COMPANY APPROACH.** The authors first introduced their focus-company approach as the best method for helping students understand financial statements and real-world implications of financial accounting for future managers. This approach shows how relevant accounting is and motivates students by explaining accounting in a real-world context. Throughout each chapter, the material focuses on a familiar company, its decisions, and its financial statements. This provides the perfect setting for discussing the importance of accounting and how businesses use accounting information. Furthering the real-world applicability, the end-of-chapter cases tie directly to the financial statements of the Canadian Tire Corporation, conveniently located in Appendix A, and to the annual report of RONA Inc., available online. These reports give students valuable practice reading and interpreting real financial data. In addition, real-world excerpts expand on topics, with insight into how real firms use financial accounting to their competitive advantage.

**CLARITY.** Do students complain that their textbook is hard to read? They don't if they're reading *Financial Accounting*. It is the proven choice for presenting financial accounting with a clear, relevant approach that keeps students engaged throughout the course. To continue to meet the changing needs of financial accounting instructors and students, the organization of the material has been refined to ensure maximum readability for students and flexibility for instructors.

**TECHNOLOGY—POWERFUL TOOLS FOR TEACHING AND STUDY.** Today's students have diverse learning styles and conflicting time commitments, so they need technology tools that will help them study more efficiently and effectively. Every new copy of the text includes access to *Connect*, a web-based assignment and assessment platform that gives students the opportunity to better connect with their coursework. *Connect* also includes a fully integrated eBook, access to LearnSmart, and other study tools that will help them maximize their study time and make their learning experience more enjoyable. The powerful course management tool on *Connect* also offers a wide range of exclusive features that help instructors spend less time managing and more time teaching.

# Inside the Textbook

*Financial Accounting* offers a host of pedagogical tools that complement the way you like to teach and the ways your students like to learn. Some offer information and tips that help you present a complex subject, while others highlight issues relevant to what your students read online and in the papers, or see on TV. Either way, *Financial Accounting*'s pedagogical support will make a real difference in your course and in your students' learning.



**ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES**

The accounting concepts and procedures covered in this chapter are equally applicable to Canadian private enterprises.

## ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

Not all companies are public, and not all students will end up working in one. Because of this, and because private enterprises are not required to use IFRS, this box was developed. **Accounting Standards for Private Enterprises** addresses the differences between the two types of reporting, such as why a statement of changes in equity isn't necessary or what details aren't reported in financial statements and related notes.



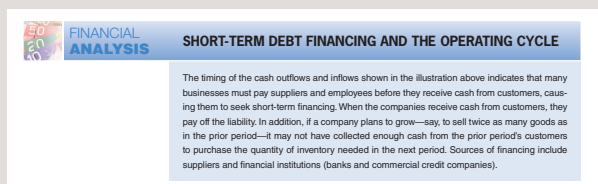
**INTERNATIONAL PERSPECTIVE** THE INTERNATIONAL ACCOUNTING STANDARDS BOARD AND GLOBAL CONVERGENCE OF ACCOUNTING STANDARDS

Financial accounting standards and disclosure requirements are set by national regulatory agencies and standard-setting bodies. However, since 2002, there has been a substantial movement toward the adoption of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Examples of jurisdictions currently requiring the use of IFRS include the following:

- All countries in the European Union
- Australia and New Zealand
- Hong Kong (S.A.R. of China), China, India, Malaysia, and South Korea
- Israel and Turkey
- Argentina, Brazil, and Chile
- Canada and Mexico

## INTERNATIONAL PERSPECTIVE

The **International Perspective** sections make students aware of differences in accounting methods used in various countries. Financial statements and real-world excerpts related to international companies are included in the end-of-chapter material as well.

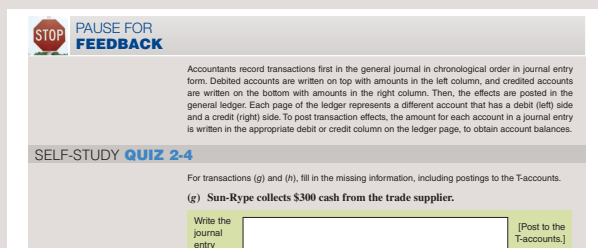


**FINANCIAL ANALYSIS** SHORT-TERM DEBT FINANCING AND THE OPERATING CYCLE

The timing of the cash outflows and inflows shown in the illustration above indicates that many businesses must pay suppliers and employees before they receive cash from customers, causing them to seek short-term financing. When the companies receive cash from customers, they pay off the liability. In addition, if a company plans to grow—say, to sell twice as many goods as in the prior period—it may not have collected enough cash from the prior period's customers to purchase the quantity of inventory needed in the next period. Sources of financing include suppliers and financial institutions (banks and commercial credit companies).

## FINANCIAL ANALYSIS

These features tie important chapter concepts to real-world decision-making examples. They also highlight alternative viewpoints, and add to the critical thinking and decision-making focus of the text.



**STOP PAUSE FOR FEEDBACK**

Accountants record transactions first in the general journal in chronological order in journal entry form. Debited accounts are written on top with amounts in the left column, and credited accounts are written on the bottom with amounts in the right column. Then, the effects are posted in the general ledger. Each page of the ledger represents a different account that has a debit (left) side and a credit (right) side. To post transaction effects, the amount for each account in a journal entry is written in the appropriate debit or credit column on the ledger page, to obtain account balances.

**SELF-STUDY QUIZ 2-4**

For transactions (g) and (h), fill in the missing information, including postings to the T-accounts.

(g) Sun-Rype collects \$300 cash from the trade supplier.

Write the journal entry  [Post to the T-accounts.]

## PAUSE FOR FEEDBACK AND SELF-STUDY QUIZ

Research shows that students learn best when they are actively engaged in the learning process. This active-learning feature engages the student, provides interactivity, and promotes efficient learning. These quizzes ask students to pause at strategic points throughout each chapter to ensure they understand key points before moving ahead.



# A Complete Learning System

## FOCUS ON CASH FLOWS


The early and consistent coverage of cash flows encourages students to think more critically about the decisions they will face as managers, and the impact those decisions will have on the company's cash flow. Each of Chapters 2 through 12 includes a discussion and analysis of changes in the cash flow of the focus company, and an exploration of the decisions that caused those changes.

## KEY RATIO ANALYSIS

Students will be better prepared to use financial information if they understand how to evaluate elements of financial performance while learning how to measure and report them. For this reason, we include relevant key ratios in the **Key Ratio Analysis** sections. Each box presents a ratio analysis for the chapter's focus company as well as for comparative companies. Cautions are also provided to help students understand the limitations of certain ratios.

## A QUESTION OF ACCOUNTABILITY

The more students are exposed to ethical situations, the more likely they will be to consider the effects their choices will have on others. These boxes appear throughout the text, conveying to students the importance and consequences of acting responsibly in business practice.


**FOCUS ON CASH FLOWS**

### CASH FLOW FROM OPERATIONS, NET EARNINGS, AND THE QUALITY OF EARNINGS

As presented in the previous chapters, the statement of cash flows explains the difference between the ending and beginning balances in the cash account during the accounting period. Put simply, the statement of cash flows is a categorized list of all transactions of the period that affected the cash account. The three categories are operating, investing, and financing activities. Since the adjustments made in this chapter did not affect cash, the components of the statement of cash flows presented in Chapters 2 and 3 have not changed.

Many standard financial analysis texts warn analysts to look for unusual deferrals and accruals when they attempt to predict future periods' earnings. They often suggest that wide disparities between net earnings and cash flow from operations are a useful warning sign. For example, Subramanyan suggests the following:

Accounting accruals determining net income rely on estimates, deferrals, allocations, and valuations. These considerations sometimes allow more subjectivity than do the factors determining cash flows. For this reason we often relate cash flows from operations to net income in assessing its quality. Some users consider earnings of higher quality when the ratio of cash flows from operations divided by net income is greater. This derives from a concern with revenue recognition or expense accrual criteria yield-

**KEY RATIO ANALYSIS**

### THE CURRENT RATIO


Users of financial information compute a number of ratios when analyzing a company's past performance and financial condition as input in predicting its future potential. The change in ratios over time and how they compare to the ratios of the company's competitors or industry averages provide valuable information about a company's strategies for its operating, investing, and financing activities.

We introduce here the first of many ratios that will be presented throughout the rest of this textbook, with a final summary of ratio analysis in Chapter 13. In Chapters 2, 3, and 4, we present four ratios that provide information about management's effectiveness at managing short-term debt (current ratio), controlling revenues and expenses (net profit margin), and utilizing assets (total asset turnover ratio and return on assets), all for the purpose of enhancing returns to shareholders. The remaining chapters discuss other ratios that provide valuable information to assess a company's strategies, strengths, and areas of concern.

As we discussed earlier in the chapter, companies raise large amounts of money to acquire additional assets by issuing shares to investors and borrowing funds from creditors. These additional

**MANAGEMENT'S INCENTIVES TO VIOLATE ACCOUNTING RULES**

### A QUESTION OF ACCOUNTABILITY



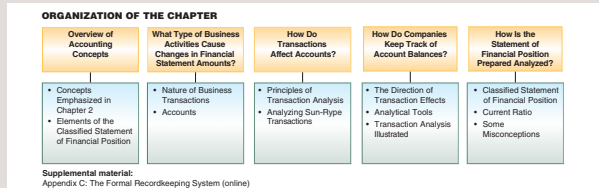
The decisions of investors in the stock market are based on their expectations of a company's future earnings. When companies announce quarterly and annual earnings information, investors evaluate how well the company met expectations and adjust their investing decisions accordingly. Companies that fail to meet expectations often experience a decline in the share price. Thus, managers are motivated to produce earnings results that meet or exceed expectations to bolster share prices. Since many executives are given options to purchase company shares as part of their compensation, greed may lead some managers to make unethical accounting and reporting decisions, often involving falsifying revenues and expenses.

Fraud is a criminal offense for which managers may be sentenced to jail. Samples of fraud cases, a few involving faulty revenue and expense accounting, are shown below. Just imagine what it must have been like to be 65-year-old Bernie Ebbers or 21-year-old Barry Minkow, both sentenced to 25 years in prison for accounting fraud.

# A Complete Learning System

## ORGANIZATION OF THE CHAPTER

This framework, at the beginning of each chapter, provides a powerful visual schematic of the content and of what questions will be answered.



## ALL JOURNAL ENTRIES TIED TO THE ACCOUNTING EQUATION

In early chapters, all journal entries marked with (A), (L), (SE), (R), (E), or (X)—if a contra account—and with + and – signs assist students in transaction analysis. All journal entries end with a summary of the effects of each transaction on the fundamental accounting equation.

Write the journal entry [Post to the T-accounts.]

Collection of note from trade supplier.

Assets	=	Liabilities	+	Shareholders' Equity
Cash +300				
Notes receivable -300				

(h) Sun-Rype paid \$400 on the note owed to the local bank.

Long-term borrowings (-L) 400	[Post to the Cash (-A) 400 T-accounts.]
Partial payment of the amount owed to the local bank.	

The T-accounts that changed during the period because of these transactions are shown below. The beginning balances are the amounts from Sun-Rype's statement of financial position at December 31, 2012. The balances of all other accounts remained the same.

Assets				=	Liabilities + Shareholders' Equity			
+	Cash (A)	-	Investments (A)	=	-	Long-Term Borrowings (L)	+	
Beg. bal.	3,727		Beg. bal.	0		Beg. bal.	8,781	
(a)	1,300	(c)	1,500	(e)	3,000		(b)	1,000

T-accounts (when appropriate) in the margin show the effect a transaction has on cash and net earnings.

## REAL WORLD EXCERPT

These excerpts appear throughout the text and include annual report information from focus companies and others, news articles, analysts' reports, and press releases.

**REAL WORLD EXCERPT**  
Deloitte IAS Plus Website  
(WWW.IASPLUS.COM)

Sun-Rype's share price can be determined in part based on the net earnings computed in compliance with IFRS. This presents the possibility that changes in accounting standards can affect the price buyers are willing to pay for companies. Employees who receive part of their pay based on reaching stated net earnings targets are directly concerned with any changes in how the net earnings figure is determined. Managers and owners often are concerned that publishing more information in financial statements will give away trade secrets to other companies that compete with them. As a consequence of these and other concerns, changes in accounting standards are actively debated, political lobbying often takes place, and the accounting standards that are eventually issued are often a compromise among the conflicting wishes of interested parties.

## ICONS

Easily identifiable margin icons indicate what types of skills are being addressed in the end-of-chapter material.

- International coverage
- An ethical dilemma
- Cash flow analysis

- Ratio analysis
- Written work, for developing communication skills
- Exercises to be solved using the Excel template provided

- Problems and cases requiring analysis, for developing the ability to use financial information to guide business decisions.

# Flexible End-of-Chapter Content and Organization

Each chapter is followed by an extensive selection of end-of-chapter material that examines and integrates multiple concepts presented in the chapter. To maintain the real-world emphasis, they are often based on real Canadian, U.S., and international companies, and require analysis, conceptual thought, calculation, and written communication. Assignments suitable for written individual or group projects and oral presentations are also included.

**Chapter Take-Aways** Bulleted end-of-chapter summaries complement the learning objectives outlined at the beginning of the chapter.

**Key Ratios** Summary of the key ratios presented in the chapter.

**Finding Financial Information** Highlights where to find the financial data discussed in the chapter in an easy-to-review graphic.

**Questions** Allow students and faculty to ensure that chapter concepts have been grasped.

**Exercises** Assignments that cover multiple learning objectives from the chapter.

**Problems** Detailed assignments that integrate various topics discussed in the chapter. Cross-references to the Alternate Problems appear in blue.

**Alternate Problems** Similar in level and content to the end-of-chapter problems, and include cross-references to the Problems in blue.

**Cases and Projects** This section includes Finding and Interpreting Financial Information, Financial Reporting and Analysis Cases, Critical Thinking Cases, and Financial Reporting and Analysis Team Project.

**Annual Reports** The annual reports of two dynamic companies, the Canadian Tire Corporation and RONA Inc., are referenced in the text's problem material. Excerpts from the annual report for the Canadian Tire Corporation appear in Appendix A in the text, and RONA's annual report is available online.

# What's New in the Fifth Canadian Edition?

Based on market feedback, the primary goals of the fifth edition are to

- Simplify explanations of complex topics.
- Provide a better match of end-of-chapter material to instructor and student needs.
- Accurately reflect the exciting changes taking place in the accounting environment.
- Provide real-world excerpts from financial statements of Canadian and international companies prepared in conformity with International Financial Reporting Standards.
- Provide instructors with more flexibility in key topical coverage.

As a result, the authors have made the detailed revisions noted in the following sections:

## Chapter One

- Changed the focus company to Sun-Rype Products Ltd.
- Simplified the financial statements presented in this chapter.
- Updated the section related to the professional accounting organizations to reflect the current efforts to unify the accounting profession in Canada.
- Revised the section “Accounting Standards for Private Enterprises” for improved clarity in all chapters.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

## Chapter Two

- Changed the focus company to Sun-Rype Products Ltd.
- Simplified the statement of financial position presented in the chapter.
- Expanded on the qualitative characteristics of accounting information.
- Added a new Financial Analysis feature.
- Changed the Key Ratio feature to current ratio (moved debt-to-equity ratio to Chapter 12).
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

## Chapter Three

- Changed the focus company to Sun-Rype Products Ltd.
- Simplified the statement of earnings presented in the chapter.
- Revised the discussion related to non-operating items.
- Updated and revised the sample of revenue recognition policies in Exhibit 3.2.
- Repositioned and expanded the feature “A Question of Accountability.”
- Revised the Transaction Analysis Rules.
- Revised the Key Ratio Analysis feature.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

## Chapter Four

- Changed the focus company to Sun-Rype Products Ltd.
- Revised the steps in the adjustment process to be systematic and for improved clarity.
- Illustrated new three-step analysis for adjusting entries.
- Relocated the discussion of accounting for the use of property and equipment.
- Revised the Focus on Cash Flows feature.
- Deleted the Supplemental Cash Flow information.

- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.
- Added two new comprehensive cases.

#### **Chapter Five**

- Changed the focus company to Danier Leather Inc.
- Added a table comparing the direct and indirect methods of preparing cash flow from operations.
- Added two columns for revenue and expenses in Exhibit 5.4.
- Added an illustration of cash flow patterns.
- Revised the discussion “Additional Cash Flow Disclosure.”
- Revised Appendix 5C (online).
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

#### **Chapter Six**

- Updated focus and comparison companies.
- Expanded on the coverage of the qualitative characteristics of accounting information.
- Added a general classification of accounts in the statement of financial position.
- Shortened the section on the statement of comprehensive income.
- Updated Demonstration Case.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

#### **Chapter Seven**

- Updated focus and comparison companies.
- Expanded on the discussion of accounting for bad debts.
- Eliminated the discussion of the percentage of credit sales method.
- Repositioned the Key Ratio Analysis feature.

- Reorganized the steps needed to prepare bank reconciliation.
- Deleted the instalment method from Appendix 7A.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

#### **Chapter Eight**

- Changed the focus company to Danier Leather Inc.
- Added Exhibit 8.5 to highlight the flow of units and costs over time.
- Repositioned various exhibits so they are closely aligned with the related narrative.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

#### **Chapter Nine**

- Updated focus and comparison companies.
- Added brief discussion of the componentization of property, plant, and equipment.
- Explained that IFRS permits companies to use either the cost model or the revaluation model to report the value of long-lived assets.
- Revised the Key Ratio Analysis feature.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

#### **Chapter Ten**

- Changed the focus company to Bauer Performance Sports Ltd.
- Replaced the current ratio with the quick ratio.
- Added a new section on working capital management.
- Added Appendix 10B on present value concepts, which is a revised version of Appendix 11A from the fourth Canadian edition.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.



### **Chapter Eleven**

- Changed the focus company to Bell Canada Enterprises Inc.
- Added discussion of notes payable.
- Revised the discussion related to leases and employee retirement benefits.
- Added a Financial Analysis box on zero-coupon bonds.
- Changed the Key Ratio feature to debt-to-equity ratio (moved financial leverage ratio to Chapter 13).
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### **Chapter Twelve**

- Updated focus and comparison companies.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### **Chapter Thirteen**

- Changed the focus company to Canadian Tire Corporation.

- Added percentage component analysis to the statement of financial position.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### **Chapter Fourteen (Online)**

- Changed the focus company to Empire Company Limited.
- Incorporated updates of the relevant IAS and IFRS.
- Simplified accounting for passive investments by directly adjusting the investments account to fair value.
- New Pause for Feedback feature added to the self-study quizzes.
- New content for the A Question of Accountability feature.
- New Key Ratio feature on the economic return to investing.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

# Teaching and Learning with Technology

McGraw-Hill Connect™ is a web-based assignment and assessment platform that gives students the means to better connect with their coursework, with their instructors, and with the important concepts that they will need to know for success now and in the future.



With Connect, instructors can deliver assignments, quizzes, and tests online. Nearly all the questions from the text are presented in an auto-gradeable format and tied to the text's learning objectives. Instructors can edit existing questions and author entirely new problems. Track individual student performance—by question, assignment, or in relation to the entire class—with detailed grade reports. Integrate grade reports easily with Learning Management Systems (LMS) such as WebCT and Blackboard.

By choosing Connect, instructors are providing their students with a powerful tool for improving academic performance and truly mastering course material. Connect allows students to practise important skills at their own pace and on their own schedule. Importantly, students' assessment results and instructors' feedback are all saved online—so students can continually review their progress and plot their course to success. Connect also provides 24/7 online access to an eBook—an online edition of the text—to aid them in successfully completing their work, wherever and whenever they choose.

## KEY FEATURES

### SIMPLE ASSIGNMENT MANAGEMENT

With Connect, creating assignments is easier than ever, so you can spend more time teaching and less time managing.

- Create and deliver assignments easily with selectable end-of-chapter questions and testbank material to assign online.
- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
- Go paperless with the eBook and online submission and grading of student assignments.

### SMART GRADING

When it comes to studying, time is precious. Connect helps students learn more efficiently by providing feedback and practice material when they need it, where they need it.

- Automatically score assignments, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

### INSTRUCTOR LIBRARY

The Connect Instructor Library is your course creation hub. It provides all the critical resources you'll need to build your course, just how you want to teach it.

- Assign eBook readings and draw from a rich collection of textbook-specific assignments.
- Access instructor resources, including ready-made PowerPoint presentations and media to use in your lectures.
- View assignments and resources created for past sections.
- Post your own resources for students to use.

### eBOOK

Connect reinvents the textbook learning experience for the modern student. Every Connect subject area is seamlessly integrated with Connect eBooks, which are designed to keep students focused on the concepts key to their success.

- Provide students with a Connect eBook, allowing for anytime, anywhere access to the textbook.
- Merge media, animation, and assessments with the text's narrative to engage students and improve learning and retention.
- Pinpoint and connect key concepts in a snap using the powerful eBook search engine.
- Manage notes, highlights, and bookmarks in one place for simple, comprehensive review.

# Services and Support

## LEARNSMART™

No two students are alike. Why should their learning paths be? LearnSmart uses revolutionary adaptive technology to build a learning experience unique to each student's individual needs. It starts by identifying the topics a student knows and does not know. As the student progresses, LearnSmart adapts and adjusts the content based on his or her individual strengths, weaknesses, and confidence, ensuring that every minute spent studying with LearnSmart is the most efficient and productive study time possible.

## SMARTBOOK™

As the first and only adaptive reading experience, SmartBook is changing the way students read and learn. SmartBook creates a personalized reading experience by highlighting the most important concepts a student needs to learn at that moment in time. As a student engages with SmartBook, the reading experience continuously adapts by highlighting content based on what each student knows and doesn't know. This ensures that he or she is focused on the content needed to close specific knowledge gaps, while it simultaneously promotes long-term learning.

## Lyryx Assessment

Available as an option to package with the Libby text at a small additional cost, Lyryx Assessment Financial Accounting contains algorithmic problems tied to the Libby text, unlimited opportunity for students to practise, and automatic grading with extensive feedback for both students and instructors.

## INSTRUCTOR SUPPORT

The following resources are available online to support instructors:


- **Instructor's Manual.** Includes a chapter outline, detailed lecture notes, suggested activities, and a reading list for each chapter.
- **Solutions Manual.** Provides solutions for end-of-chapter questions, exercises, problems, and cases.
- **PowerPoint® Presentations.** These slides for use in your classroom are completely customized for the fifth Canadian edition of *Financial Accounting*.
- **Computerized Test Bank.** Includes more than 1,800 True/False, Multiple Choice, and Essay questions.
- **Instructor's Excel® Template Solutions.** These Excel template solutions accompany the templates available to students online.






## SUPERIOR LEARNING SOLUTIONS AND SUPPORT

The McGraw-Hill Ryerson team is ready to help you assess and integrate any of our products, technology, and services into your course for optimal teaching and learning performance. Whether it's helping your students improve their grades, or putting your entire course online, the McGraw-Hill Ryerson team is here

to help you do it. Contact your Learning Solutions Consultant today to learn how to maximize all of McGraw-Hill Ryerson's resources!

For more information on the latest technology and Learning Solutions offered by McGraw-Hill Ryerson and its partners, please visit us online: [www.mcgrawhill.ca/he/solutions](http://www.mcgrawhill.ca/he/solutions).

**McGraw-Hill Ryerson**  
**Solutions that make a difference.  
Technology that fits.**

 <b>MH-Campus</b> LMS Integration	 <b>Connect</b> Course Management	 <b>LearnSmart</b> Adaptive Learning	 <b>Tegrity</b> Lecture Capture	 <b>Custom</b> Print & Digital
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## FIFTH EDITION REVIEWERS

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Special thanks go to our families for their support, patience, and understanding while we worked on completing this fifth Canadian edition of the book. We dedicate the book to them.

George Kanaan  
Maureen Gowing

# To Our Student Readers

This book is aimed at two groups of readers:

1. *Future managers*, who will need to interpret and use financial statement information in business decisions.
2. *Future accountants*, who will prepare financial statements for those managers.

Future managers need a firm basis for using financial statement information in their careers in marketing, finance, banking, manufacturing, human resources, sales, information systems, or other areas of management. Future accountants need a solid foundation for further professional study.

Both managers and accountants must understand how to *use financial statements in making real business decisions* to perform their duties successfully. The best way to learn this is to study accounting in real business contexts. This is the key idea behind our focus-company approach, which we introduce in the first chapter. Each chapter's material is integrated with a focus company, its decisions, and its financial statements. The focus companies are drawn from different industries, providing you with a broad range of experience in realistic business and financial accounting practices. In each chapter, you *will actually work with these real companies' statements* and with those of additional contrast companies.

When you complete this course, you will be able to read and understand financial statements of real companies. We help you achieve this goal by

1. Selecting learning objectives and content based on the way that seasoned managers use financial statements in modern businesses. We emphasize the topics that count.
2. Recognizing that students using this book have no previous exposure to accounting and financial statements and often little exposure to the business world. We take you through the financial statements three times, at increasing levels of detail (in Chapter 1, Chapters 2 through 5, and Chapters 6 through 13). This is the secret to our “building-block approach.”
3. Helping you “learn how to learn” by teaching efficient and effective approaches for learning the material. Keep these learning hints in mind throughout.
4. Providing regular feedback in Self-Study Quizzes, which occur throughout each chapter. Complete the quizzes before you move on. Check your answers against the solutions at the end of the chapter. If you are still unclear about any of the answers, refer back to the chapter material before moving on.
5. Repeating the key terms and their definitions in the margins. A handy index is provided on Connect.
6. Introducing the Key Financial Ratios used to assess different elements of financial performance at the same time you are learning how to measure and report those elements. These will show you what kinds of accounting information managers use and how they interpret it.
7. At the end of each chapter, test what you have learned by working through the Demonstration Cases. *Working problems is one of the keys to learning accounting.*

Good luck in your financial accounting course.

George Kanaan  
Maureen Gowing

# What's New in the Fifth Canadian Edition?

Based on market feedback, the primary goals of the fifth edition are to

- Simplify explanations of complex topics.
- Provide a better match of end-of-chapter material to instructor and student needs.
- Accurately reflect the exciting changes taking place in the accounting environment.
- Provide real-world excerpts from financial statements of Canadian and international companies prepared in conformity with International Financial Reporting Standards.
- Provide instructors with more flexibility in key topical coverage.

As a result, the authors have made the detailed revisions noted in the following sections:

## Chapter One

- Changed the focus company to Sun-Rype Products Ltd.
- Simplified the financial statements presented in this chapter.
- Updated the section related to the professional accounting organizations to reflect the current efforts to unify the accounting profession in Canada.
- Revised the section “Accounting Standards for Private Enterprises” for improved clarity in all chapters.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

## Chapter Two

- Changed the focus company to Sun-Rype Products Ltd.
- Simplified the statement of financial position presented in the chapter.
- Expanded on the qualitative characteristics of accounting information.
- Added a new Financial Analysis feature.
- Changed the Key Ratio feature to current ratio (moved debt-to-equity ratio to Chapter 12).
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

## Chapter Three

- Changed the focus company to Sun-Rype Products Ltd.
- Simplified the statement of earnings presented in the chapter.
- Revised the discussion related to non-operating items.
- Updated and revised the sample of revenue recognition policies in Exhibit 3.2.
- Repositioned and expanded the feature “A Question of Accountability.”
- Revised the Transaction Analysis Rules.
- Revised the Key Ratio Analysis feature.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

## Chapter Four

- Changed the focus company to Sun-Rype Products Ltd.
- Revised the steps in the adjustment process to be systematic and for improved clarity.
- Illustrated new three-step analysis for adjusting entries.
- Relocated the discussion of accounting for the use of property and equipment.
- Revised the Focus on Cash Flows feature.
- Deleted the Supplemental Cash Flow information.



- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.
- Added two new comprehensive cases.

### Chapter Five

- Changed the focus company to Danier Leather Inc.
- Added a table comparing the direct and indirect methods of preparing cash flow from operations.
- Added two columns for revenue and expenses in Exhibit 5.4.
- Added an illustration of cash flow patterns.
- Revised the discussion “Additional Cash Flow Disclosure.”
- Revised Appendix 5C (online).
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### Chapter Six

- Updated focus and comparison companies.
- Expanded on the coverage of the qualitative characteristics of accounting information.
- Added a general classification of accounts in the statement of financial position.
- Shortened the section on the statement of comprehensive income.
- Updated Demonstration Case.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### Chapter Seven

- Updated focus and comparison companies.
- Expanded on the discussion of accounting for bad debts.
- Eliminated the discussion of the percentage of credit sales method.
- Repositioned the Key Ratio Analysis feature.

- Reorganized the steps needed to prepare bank reconciliation.
- Deleted the instalment method from Appendix 7A.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### Chapter Eight

- Changed the focus company to Danier Leather Inc.
- Added Exhibit 8.5 to highlight the flow of units and costs over time.
- Repositioned various exhibits so they are closely aligned with the related narrative.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### Chapter Nine

- Updated focus and comparison companies.
- Added brief discussion of the componentization of property, plant, and equipment.
- Explained that IFRS permits companies to use either the cost model or the revaluation model to report the value of long-lived assets.
- Revised the Key Ratio Analysis feature.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.

### Chapter Ten

- Changed the focus company to Bauer Performance Sports Ltd.
- Replaced the current ratio with the quick ratio.
- Added a new section on working capital management.
- Added Appendix 10B on present value concepts, which is a revised version of Appendix 11A from the fourth Canadian edition.
- Substantially revised the end-of-chapter exercises, problems, and cases, and added new exercises, problems, and annual report cases.