

Fundamental

Fifteenth Canadian Edition

ACCOUNTING PRINCIPLES

Volume 1



LARSON • JENSEN • DIECKMANN

DIFFERENTIATING THE FINANCIAL STATEMENTS

Fundamental Accounting Principles uses a colour scheme to help students differentiate among the four key financial statements.

Organico's Income Statement For Month Ended March 31, 2017		
Revenues:		
Food services revenue	\$ 3,800	
Teaching revenue	<u>300</u>	
Total revenues		\$ 4,100
Operating expenses:		
Rent expense	\$ 1,000	
Salaries expense	<u>700</u>	
Total operating expenses		<u>1,700</u>
Profit		<u>\$ 2,400</u>

Organico Statement of Changes in Equity For Month Ended March 31, 2017		
Hailey Walker, capital, March 1		\$ -0-
Add: Investments by owner	\$ 10,000	
Profit	<u>2,400</u>	<u>12,400</u>
Total		\$ 12,400
Less: Withdrawals by owner		<u>600</u>
Hailey Walker, capital, March 31		<u>\$ 11,800</u>

Organico Balance Sheet March 31, 2017			
Assets		Liabilities	
Cash	\$ 8,400	Accounts payable	\$ 200
Supplies	3,600	Notes payable	<u>6,000</u>
Equipment	<u>6,000</u>	Total liabilities	\$ 6,200
		Equity	
		Hailey Walker, capital	<u>11,800</u>
Total assets	<u>\$18,000</u>	Total liabilities and equity ..	<u>\$ 18,000</u>

Organico Statement of Cash Flows For Month Ended March 31, 2017		
Cash flows from operating activities		
Cash received from clients	\$ 4,100	
Cash paid for supplies	(3,400)	
Cash paid for rent	(1,000)	
Cash paid to employee	<u>(700)</u>	
Net cash used by operating activities		\$ (1,000)
Cash flows from investing activities		
		-0-
Cash flows from financing activities		
Investment by owner	\$10,000	
Withdrawal by owner	<u>(600)</u>	
Net cash provided by financing activities		<u>9,400</u>
Net increase in cash		\$ 8,400
Cash balance, March 1		-0-
Cash balance, March 31		<u>\$ 8,400</u>

The arrows are provided for education purposes only to emphasize the link between statements.

Fundamental

ACCOUNTING PRINCIPLES

Volume 1

Fifteenth Canadian Edition

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Tilly Jensen

Athabasca University—Alberta

Heidi Dieckmann

Kwantlen Polytechnic University—British Columbia





Fundamental Accounting Principles
Volume 1
Fifteenth Canadian Edition

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Professor Larson is a member of the American Accounting Association, the Texas Society of CPAs, and the American Institute of CPAs. His positions with the AAA have included vice president, southwest regional service president, and chair of several committees, including the Committee of Concepts and Standards. He was a member of the committee that planned the first AAA doctoral consortium and served as its director.

Tilly Jensen, Athabasca University–Alberta

Tilly Jensen graduated from the University of Alberta with a Bachelor of Commerce and later attained the designation of Certified Management Accountant. She worked in private industry for a number of years before making teaching her full-time career. Tilly was an accounting instructor at the Northern Alberta Institute of Technology (NAIT) in Edmonton, Alberta, for a number of years and is now an Assistant Professor of Accounting at Athabasca University, Canada's open, online university. She obtained her M.Ed. at the University of Sheffield in Britain while travelling abroad and completed her doctoral studies at the University of Calgary focusing on how educational technologies might be used to enhance critical thinking. Tilly spent four years in the Middle East teaching at Dubai Men's College of the Higher Colleges of Technology in the United Arab Emirates. While overseas, she also taught financial accounting to students enrolled in the Chartered Institute of Management Accountants (CIMA) program, a British professional accounting designation. During a sabbatical, Tilly also taught accounting in China to ESL students at Shenyang Ligong University. She authored LIFA—Lyryx Interactive Financial Accounting—a dynamic, leading-edge, Web-based teaching and learning tool produced by Lyryx. Tilly has also authored material for CGA-Canada. In addition to her professional interests, Tilly places a priority on time spent with her family and friends.

Heidi Dieckmann, Kwantlen Polytechnic University–British Columbia

Heidi Dieckmann graduated from Simon Fraser University in Burnaby, BC with a BBA in Accounting and carried on her studies in the Masters of Professional Accountancy Program at the University of Saskatchewan. Heidi attained her CA designation while working in public practice at KPMG in Burnaby before beginning her career in education as an Accounting instructor at Kwantlen Polytechnic University. While at KPU, Heidi has served as Department Chair and has sat on several committees. Her major initiatives at KPU included spearheading the Accounting Society of Kwantlen, an impressive accounting student club that has created opportunities for students to network with professional accountants in industry and public practice. She was also actively involved in the redesign of KPU's new BBA program and managed the detailed competency mapping for the new CPA designation. She is currently involved as a CPA Mentor, coaching upcoming CPAs through the new CPA education and experience requirements.

Heidi has a passion for student engagement and learning outcomes and is inspired by Eric Mazur's research on the Flipped Classroom and Peer Instruction, and Dee Fink's research in Creating Significant Learning Experiences. Heidi is a member of the Canadian Accountants Academics Association and has presented at the Learning Strategies Exchange for her work in student engagement through online education. She has been inspired to embrace international education through participating in the award-winning Canadian Academics Studying Europe conference led by Catherine Vertesi and Robert Buttery; visiting the European Union and the Council of Europe; and studying Swiss Banking at the University of Zurich, and political and education systems at the University of Applied Sciences and Arts Northwestern Switzerland. In her spare time Heidi enjoys volunteering through teaching art classes at her children's school. She loves to create new dishes; travel; and, most of all, spending time with her husband Andrew, her two children, and her close family and friends.

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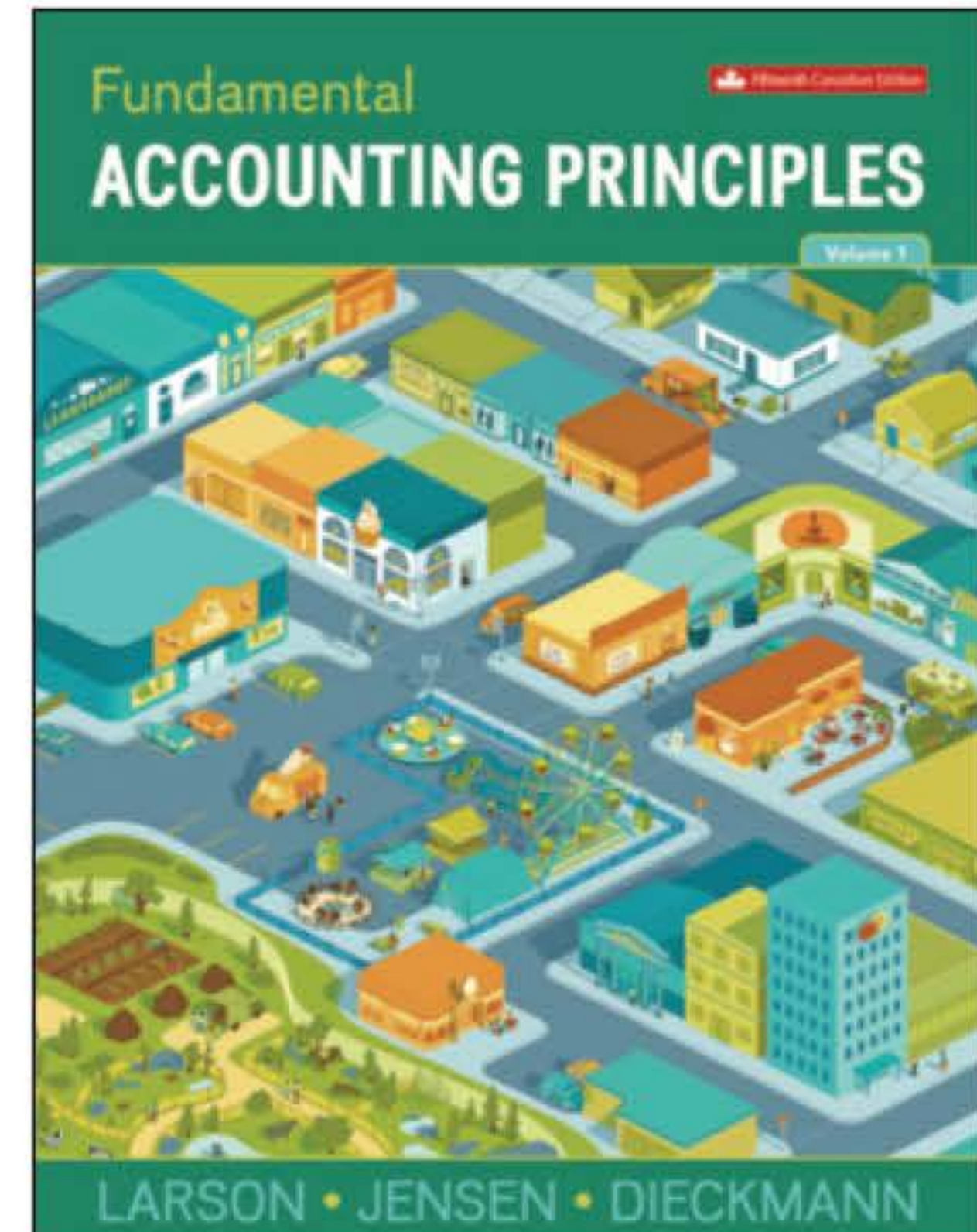
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Preface

A Note About Our Cover

The cover of the Fifteenth Canadian Edition is the work of Rachel Idzerda. Rachel's playful illustration spotlights many of the companies, entrepreneurs, and organizations featured in *Fundamental Accounting Principles*' 17 chapter opening vignettes. See if you can spot the images representing Zane Caplansky's food truck (Chapter 1), Frogbox's green moving supplies (Chapter 3), Kicking Horse Coffee (Chapter 11), or ZooShare (Chapter 14). Rachel is a freelance illustrator specializing in editorial illustration and portraiture. She combines clean, delicate linework with bold colours and graphic elements to create a sense of energy and mood in her work. Rachel received her BAA in Illustration from Sheridan College in 2012, and currently lives and works in Montreal, QC with her partner and their two pampered dogs.



Inside the Chapters

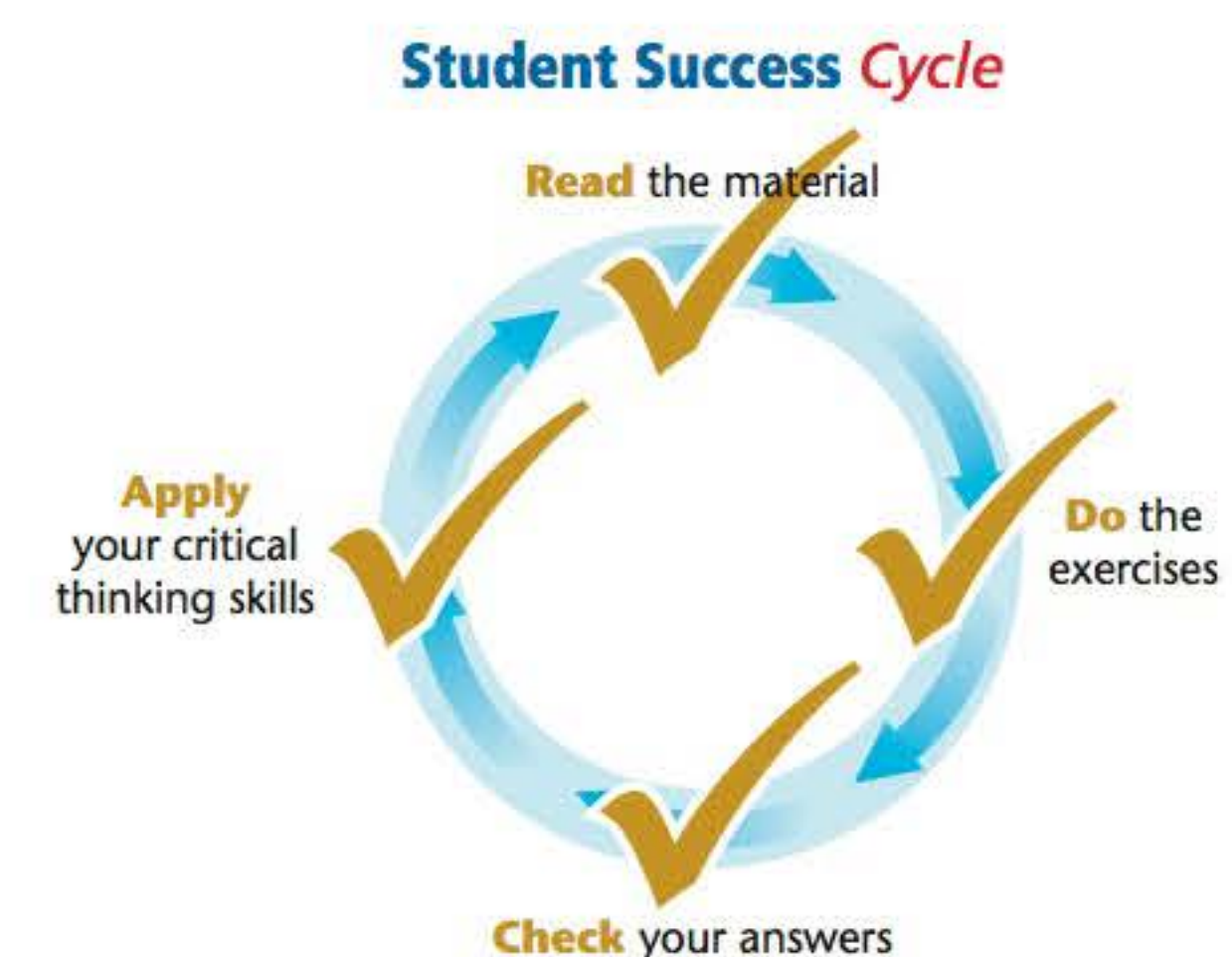
As educators, instructors strive to create an environment that fosters learning and provides students with the tools they need to succeed. The Fifteenth Canadian Edition continues to meet and surpass the high standards the market expects from *Fundamental Accounting Principles*. We continue to put learning first, with student-centred pedagogy and critical thinking lessons throughout the text.

All the pedagogical tools are carefully designed for ease of use and understanding, helping the instructor teach and giving the students what they need to succeed.

Pedagogy

STUDENT SUCCESS CYCLE

Student success at the post-secondary level is not measured by how much knowledge a student has acquired, but rather by how well a student can *use* knowledge. The Student Success Cycle, illustrated by a circular icon, reinforces decision-making skills by highlighting key steps toward understanding and critically evaluating the information the student has just read. **Read–Do–Check–Apply** reinforces active learning rather than passive learning. This tool is integrated throughout the text, including the chapter opening page, Checkpoint questions, Demonstration Problems, and end-of-chapter material.



CRITICAL THINKING CHALLENGE

An essential element of critical thinking is the ability to ask questions while reading (or listening or speaking). These exercises are designed to help students develop the skills related to questioning. Suggested answers are posted on **Connect**.

CRITICAL THINKING CHALLENGE Would Amazon have a merchandise turnover similar to **Lululemon Athletica**'s? Explain why or why not. What does "inventory demand planning" refer to? What would the effect be of cost-saving strategies on the weighted average cost of inventory?

IFRS AND ASPE—THE DIFFERENCES		
Difference	International Financial Reporting Standards (IFRS)	Accounting Standards for Private Enterprises (ASPE)
Recording adjusting entries	<ul style="list-style-type: none"> IFRS require that financial statements be presented at least annually*; therefore, adjustments would be prepared at least annually. However, for publicly listed companies, Securities Commissions' Law requires publicly listed companies to present quarterly financial statements, which, in turn, would require that adjusting entries be prepared at least quarterly. 	<ul style="list-style-type: none"> Unlike IFRS, ASPE does not explicitly require that financial statements be presented at least annually although it is implied given that financial statements must be presented in a timely manner** and items must be presented consistently from period to period.*** Financial statements are prepared at least annually for tax purposes and, for example, to meet any banking requirements.
	<ul style="list-style-type: none"> Both public and private enterprises may prepare adjusting entries more frequently, such as monthly, to enhance the accuracy of information required for decision making. 	
Depreciation vs. amortization	<ul style="list-style-type: none"> IFRS uses the term <i>depreciation</i>**** (although it uses <i>amortization</i> for intangible assets),***** 	<ul style="list-style-type: none"> ASPE uses the term <i>amortization</i>.*****

*IFRS 2014, IAS 1 Para. 36.
 **ASPE, Accounting Standards, Section 1000.17(b).
 ***ASPE, Accounting Standards, Section 1000.14-20.
 ****IFRS 2014, IAS 16 Para. 6.
 *****IFRS 2014, IAS 38 Para. 8.
 *****ASPE, Accounting Standards, Section 3061.16.

IFRS AND ASPE—THE DIFFERENCES

This box appears at the end of every chapter to highlight any differences or important points about reporting and terminology as they relate to the financial accounting course. The chapter content is IFRS 2014 compliant for Volume I and IFRS 2015 compliant throughout Volume 2; references are provided where appropriate.

REAL-WORLD FOCUS

The Fifteenth Canadian Edition has increased the use of real business examples to reflect the most current information available. This continues the text's strong ties to the real world of accounting, be it through detailed interviews with businesspeople for the chapter opening vignettes, examples of ethical standards and treatments, or annual reports for both in-chapter example disclosures and end-of-chapter material. When an actual business is used, its name is highlighted in **bold magenta** for emphasis. This integration with real-world companies helps engage students while they read.

A **business** is an entity represented by one or more individuals selling products or services for profit. Products sold include anything from athletic apparel (**CCM, Bauer, Lululemon, NIKE, Reebok**), to electronic devices (**Apple, Dell, Hewlett-Packard, Samsung**), and clothing (**Abercrombie and Fitch, GAP, Zara**). Service providers such as data communication providers (**Bell, Rogers, and Telus**), food services (**McDonald's, The Keg, Starbucks, Tim Hortons**), and internet services (**Google, Twitter, Skype, Facebook, Instagram**) make our lives more connected. A business can be as small as an in-home

Food Truck Frenzy

Across the country, major urban centres are experiencing an industry trend to go to the street to entice customers with a wide range of made-to-order food options. In Canada, the street vendor industry is in the growth phase of its industry life cycle, according to IBISWorld, a global market research firm. IBISWorld estimates the market for street vendors in Canada to be strong over the next five years with revenues expected to reach \$281 million in 2018 and expected annual growth to cap out at 4.2% in 2015. The market is dominated by new market entrants—in most cases individual owners operating as sole proprietors. The most successful street vendors will take advantage of effective marketing and branding toward health-conscious consumers looking for unique dining options.

Thundering Thelma received her initial debut on CBC's *Dragons' Den* when owner Zane Caplansky decided to expand his famous brick-and-mortar deli in downtown Toronto and enter the trendy urban food truck business. After being labelled "insane Zane" by Kevin O'Leary, and the other Dragons balking at the 15% ownership interest at a proposed cost of \$350,000, Zane decided to continue his new business venture on his own. A year later, Caplansky returned to *Dragons' Den* and boasted achieving profit margins between 30 and 40% and achieving \$110,000 in sales in his first six months of operation. Caplansky's business continues to thrive with two new locations opening at the Toronto Pearson Airport, one modelled after his brick-and-mortar restaurant and the other modelled after his food truck.

Sources: <http://clients1.ibisworld.ca/reports/ca/industry/industryoutlook.aspx?entid=1683>, accessed April 15, 2014; <http://www.torontolife.com/daily-dish/people-dish/2011/11/03/zane-caplansky-on-dragons-den>, accessed April 15, 2014; <http://www.postcity.com/Eat-Shop-Do/Eat-November-2013/Weekly-Restaurant-Recap-Harvest-Kitchen/CBC-Dragon's-Den-Season-7-Episode-11>, aired January 7, 2013.

Video Link: <http://www.cbc.ca/dragonsden/episodes/season-7/episode-11-season-7>

NEW VIDEO LINKS

This text features interactive digital links directing students and instructors to helpful videos to provide students with real world application of the chapter content and enhance student exposure to valuable online resources.

NEW: A LOOK BACK, A LOOK AT THIS CHAPTER, A LOOK AHEAD

In these brief paragraphs, students are directed to reflect on their learning from previous chapters; provided with a high-level summary of the current chapter; and introduced to the concepts covered in the following chapter. These helpful learning summaries help students focus on how their learning ties into big-picture objectives.

Receivables

A Look Back

Chapter 7 provides an introduction to Internal Control and Cash with a detailed analysis of internal control guidelines, banking activities, accounting for petty cash funds, and reconciling the differences between cash reported in the bank account and cash in the company's accounting records.

A Look at This Chapter

Chapter 8 takes a look at accounting for customer accounts receivable and short-term notes receivable, specifically investigating tools such as initial recognition of the receivables and subsequent measurement at the end of the accounting period. Valuation is assessed through methods to estimate bad debts, including the benefits of an A/R aging report, and using the accounts receivable turnover ratio and days' sales uncollected ratios to evaluate financial statements.

A Look Ahead

Chapter 9, the first chapter of Volume 2, investigates accounting issues for fixed assets under the following major categories: property, plant and equipment, and intangible assets. The chapter focuses on identifying all items that are included in their asset cost and analyzes options for matching their usage costs over their useful lives. Other considerations such as how to handle asset disposals, exchanges, and sales are analyzed.


LEARNING OBJECTIVES

Learning Objectives have long been a standard in the Larson textbook. By giving students a head start on what the following material encompasses, the text readies them for the work ahead.

CHECKPOINT

This series of questions within the chapter reinforces the material presented immediately before it. These questions allow students to “Do” problem material by referencing what they

have just learned. Answers at the end of each chapter will then allow them to “Check” their work, further supporting the Student Success Cycle. Under each set of Checkpoints is a reference to the Quick Study questions (single-topic exercises) available at the end of each chapter. Students can go ahead and try them at this point. Checkpoint solutions are at the end of the chapter. Quick Study solutions are available on **Connect**.



CHECKPOINT

5. What is the difference between private and public accountants?
6. What are the four broad fields of accounting?
7. What is the purpose of an audit?
8. Distinguish between managerial and financial accounting.
9. What is the difference between external and internal users of accounting information?
10. Why are internal controls important?

Do Quick Study question: QS 1-5

Important Tip: Ensure you know the following rules as illustrated in Exhibit 2.7 before reading Chapter 3. For a helpful learning tool, review the following video by Colin Dodds, an educational music video enthusiast.


Video Link: <https://youtu.be/7EuxfW768WU>

NEW: IMPORTANT TIPS

Important tip boxes have been incorporated throughout the text to direct students’ attention to critical concepts that students often miss in their initial reading of the text.

DECISION INSIGHT


Social responsibility continues to be important for students to learn early in their accounting courses. Through the Decision Insight feature, accounting’s role in ethics and social responsibility is described by both reporting and assessing its impact. Relating theory to a real-life situation piques interest and reinforces active learning.



DECISION INSIGHT

Loblaw’s Corporate Grocery Stores Go Perpetual

Loblaw Companies Limited, identifies its upgrade of its IT infrastructure as a positive move to enable the company to develop a more precise estimate through a “system-generated average cost.” The company estimates “the impact of this inventory measurement and other conversion differences associated with implementation of a perpetual inventory system to be a \$190 million decrease to the value of the inventory.”



DECISION MAKER

Answer—End of chapter

Inventory Manager—Ethical Dilemma

You are the inventory manager for a trendy urban retail inventory merchandiser. Your compensation includes a bonus plan based on the amount of gross profit reported in the financial statements. Your supervisor comes to you and asks your opinion about changing the inventory costing method from moving weighted average to FIFO. Since costs have been rising and are expected to continue to rise, your superior predicts the company will be more attractive to investors because of the reported higher profit using FIFO. You realize this proposed change will likely increase your bonus as well. What do you recommend?

DECISION MAKER

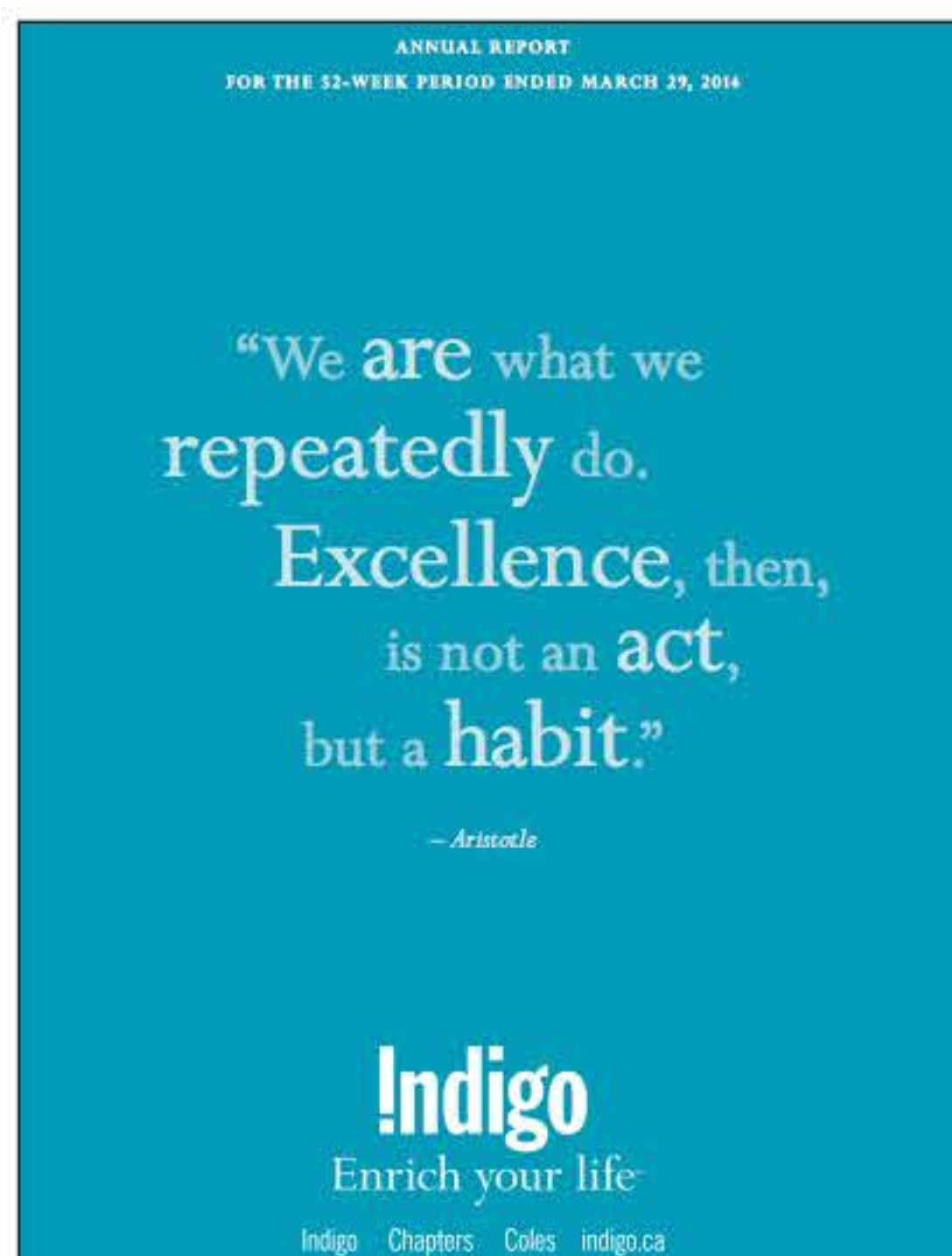
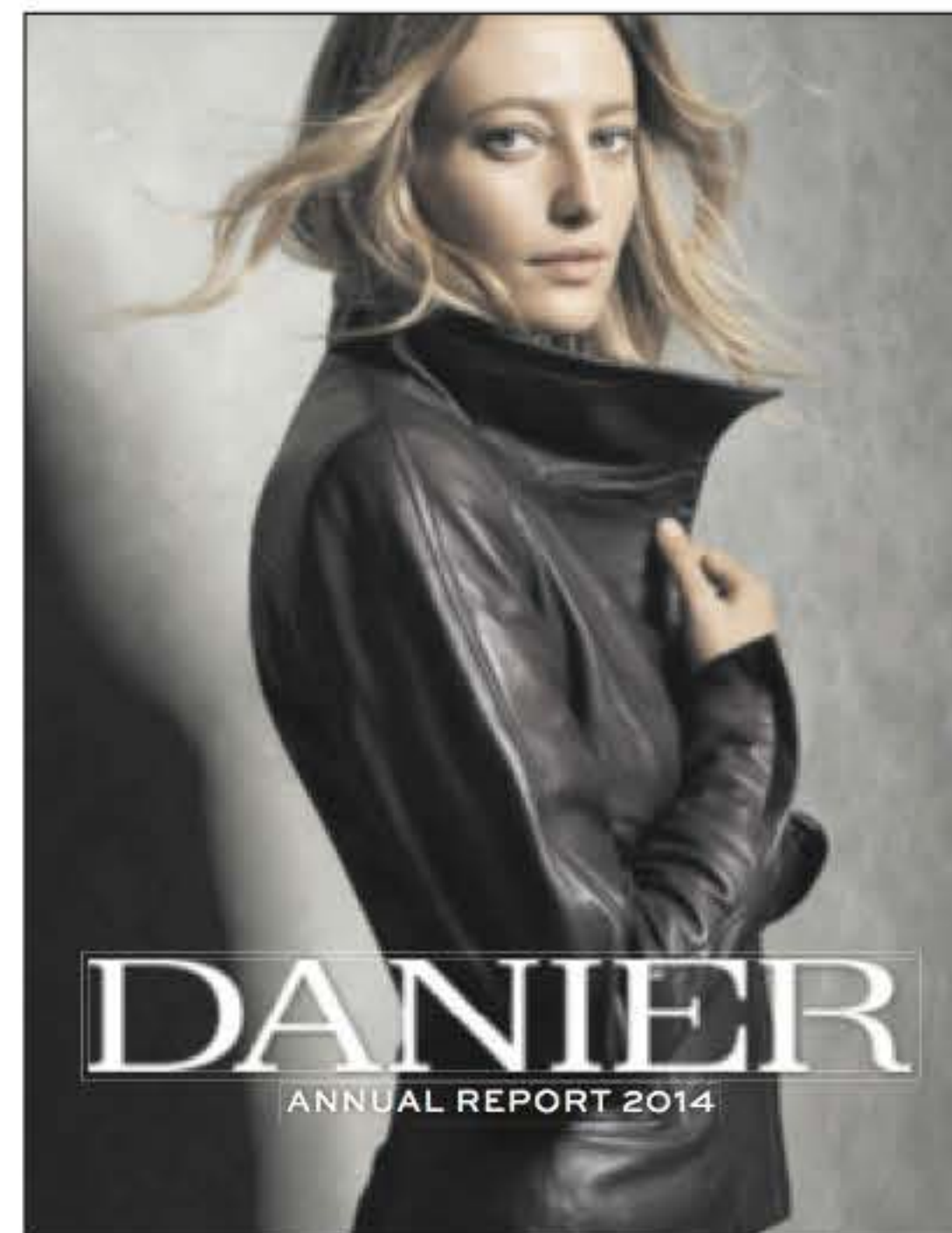
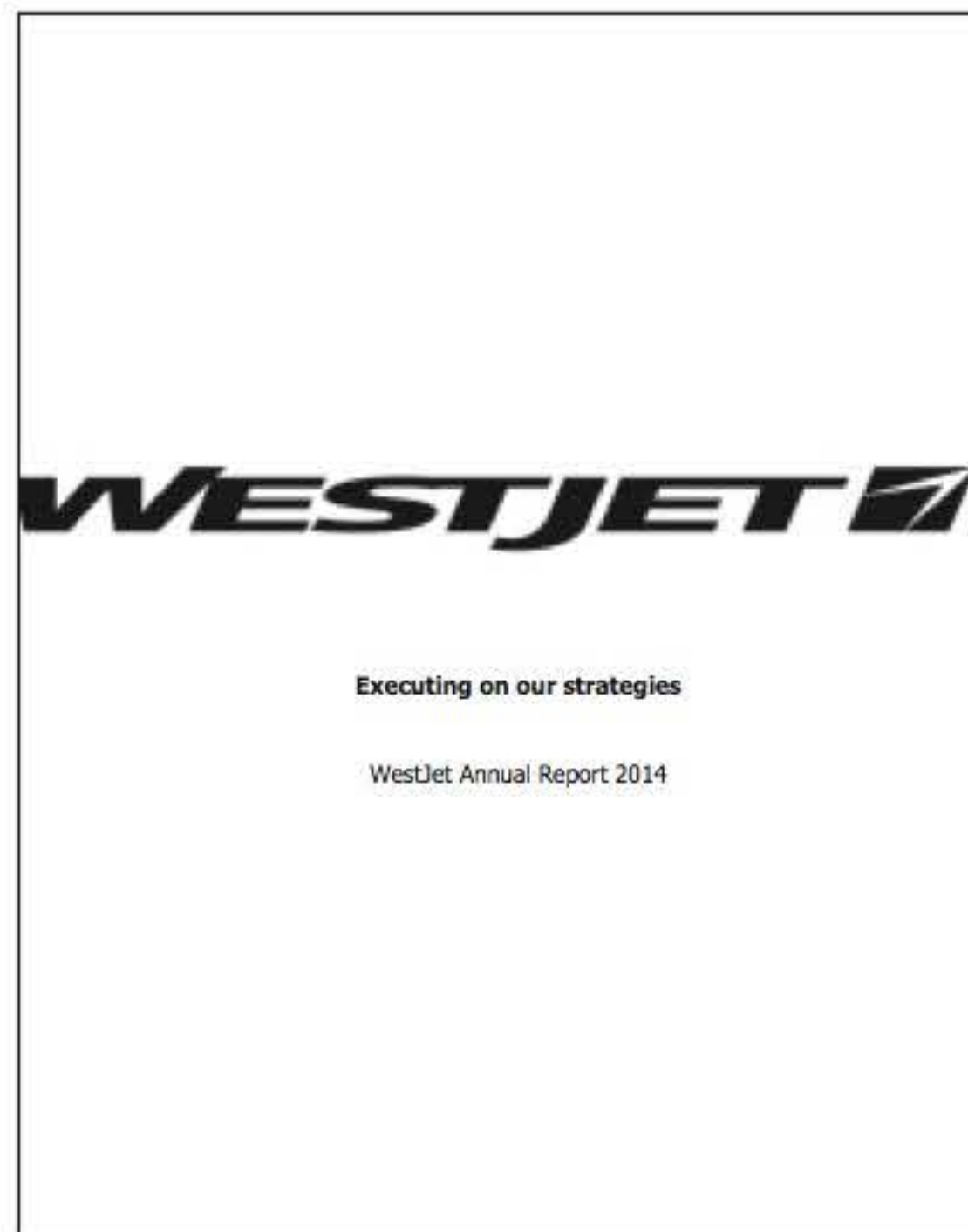
This feature requires students to make accounting and business decisions by using role-playing to show the interaction of judgment and awareness, as well as the impact of decisions made. Guidance answers are available at the end of each chapter.

EXTEND YOUR KNOWLEDGE (EYK)

Supplementary material has been developed to explore some topics in more detail than the textbook can allow. A list of EYKs relevant to each chapter is presented at the end of the chapter, alerting students to visit **Connect** if they choose to delve deeper into the material.

For further study on some topics of relevance to this chapter, please see the following Extend Your Knowledge supplements:

- EYK 4-1** Work Sheet Demonstration
- EYK 4-2** Corporate Supplement
- EYK 4-3** Summary of Business Activities
- EYK 4-4** Examples of Classified Balance Sheets



FINANCIAL STATEMENTS

Features and assignments that highlight companies such as **WestJet** (a company that provides services) and **Danier** (a merchandiser) show accounting in a modern and global context. Because students go directly to the financial statements of real companies, they remain engaged in the active learning process. The audited annual financial statement section of these annual reports (with notes to the financial statements), as well as those of **Indigo Books & Music**, and **Telus** (without the notes), are reproduced at the end of Volume 1. In Volume 2, the annual audited financial statements, **excluding** notes to the financial statements, for WestJet, Danier, Indigo, and Telus are included.

End-of-Chapter Material

Fundamental Accounting Principles sets the standard for quantity and quality of end-of-chapter material.

SUMMARY

Each chapter includes a Summary of the chapter by Learning Objective, to reinforce what students have just learned.

Summary

- | | |
|---|--|
| <p>LO1 Explain the accounting cycle. The accounting cycle includes the steps in preparing financial statements for users that are repeated each reporting period.</p> <p>LO2 Describe an account, its use, and its relationship to the ledger. An account is a detailed record of increases and decreases in a specific asset, liability, or equity item. Information is taken from accounts, analyzed, summarized, and presented in useful reports and financial statements for users.</p> <p>LO3 Define debits and credits and explain their role in double-entry accounting. Debit refers to left, and credit refers to right. The following table summarizes debit and credit effects by account type:</p> | <p>Double-entry accounting means that every transaction affects at least two accounts. The total amount debited must equal the total amount credited for each transaction. The system for recording debits and credits follows from the accounting equation. The debit side is the normal balance for assets, owner's withdrawals, and expenses, and the credit side is the normal balance for liabilities, owner's capital, and revenues.</p> <p>LO4 Describe a chart of accounts and its relationship to the ledger. A ledger is a record that contains all accounts used by a company. This is what is referred to as <i>the books</i>. The chart of accounts is a listing of all accounts and usually includes an identification number that is assigned to each account.</p> <p>LO5 Analyze the impact of transactions on accounts, record entries in a journal, and post</p> |
|---|--|

Guidance Answer to DECISION MAKER

Accounting Clerk

The business entity principle is being violated because it requires that the owner's personal expenses be recorded separately from those of his business. By debiting the entire amount to Office Supplies, assets will be overstated on the balance sheet. By crediting Accounts Payable for the

whole amount, liabilities will also be overstated. At the end of the accounting period when the amount of supplies used is recorded, Office Supplies Expense will be overstated on the income statement, causing profit to be understated. When profit is too low, equity is also understated.

GUIDANCE ANSWERS TO DECISION MAKER

These discuss the Decision Maker boxes presented earlier in the chapter, and reinforce the need for decision making and critical thinking skills. This feature fits into the Student Success Cycle by reinforcing the "Apply" step.

Guidance Answers to CHECKPOINT

- Best Buy.
- Total cost is \$12,180, calculated as:
\$11,400 + \$130 + \$150 + \$100 + \$400.
- The matching principle.
- Businesses that sell unique, high dollar-value merchandise in relatively low volume levels might choose specific identification. Car dealerships are a good example because each car received as merchandise inventory is unique in terms of both features and identification number. Using specific identification allows the business to accurately tag each item coming in and going out.
- Moving weighted average gives a lower inventory figure on the balance sheet as compared to FIFO. FIFO's inventory amount will approximate current replacement costs. Moving weighted average costs increase but more slowly because of the effect of averaging.
- Because these units are the same ones that were originally written down, a reversal is appropriate and would be recorded as:

Merchandise Inventory	2,000
Cost of Goods Sold.....	2,000
\$1,800 - \$1,300 = \$500/unit	
original write-down; \$500 × 4 =	
\$2,000 maximum reversal	

- The reported inventory amount is \$540, calculated as (20 × \$5) + (40 × \$8) + (10 × \$12).
- Cost of goods sold is understated by \$10,000 in 2017 and overstated by \$10,000 in 2018.
- The estimated ending inventory (at cost) is \$327,000 and is calculated as:
Step 1: (\$530,000 + \$335,000) - \$320,000 = \$545,000
Step 2: $\frac{\$324,000 + \$195,000}{\$530,000 + \$335,000} = 60\%$
Step 3: \$545,000 × 60% = \$327,000
- Company B is more efficient at selling its inventory because it has higher merchandise turnover.

GUIDANCE ANSWERS TO CHECKPOINT

The Checkpoint material throughout the chapter allows students to pause and check their progress. This feature reinforces the “Do,” “Check,” and “Apply” steps of the Student Success Cycle.

GLOSSARY

All terms highlighted in the chapter are included.

Glossary

- Consignee** One who receives and holds goods owned by another party for the purpose of acting as an agent and selling the goods for the owner. The consignee gets paid a fee from the consignor for finding a buyer.
- Consignor** An owner of inventory goods who ships them to another party who will then find a buyer and sell the goods for the owner. The consignor retains title to the goods while they are held offsite by the consignee.
- Consistency principle** The accounting requirement that a company use the same accounting policies period after period so that the financial statements of succeeding periods will be comparable.
- Days' sales in inventory** A financial analysis tool used to estimate how many days it will take to convert the inventory on hand into accounts receivable or cash; calculated by dividing the ending inventory by cost of goods sold and multiplying the result by 365.
- Faithful representation** The accounting principle that requires information to be complete, neutral, unbiased, and free from error.
- First-in, first-out (FIFO)** The pricing of an inventory under the assumption that inventory items are sold in the order acquired; the first items received are the first items sold.

DEMONSTRATION PROBLEM

This Demonstration Problem is based on the same facts as the Demonstration Problem at the end of Chapter 1 except for two additional items: (b) August 1 and (k) August 18. The following activities occurred during the first month of Joanne Cardinal's new haircutting business called The Cutlery:

- On August 1, Cardinal put \$16,000 cash into a chequing account in the name of The Cutlery. She also invested \$10,000 of equipment that she already owned.
- On August 1, Cardinal paid \$2,400 for six months of insurance effective immediately.
- On August 2, she paid \$2,000 cash for furniture for the shop.
- On August 3, she paid \$3,200 cash to rent space in a strip mall for August.
- On August 4, she furnished the shop by installing the old equipment and some new equipment that she bought on credit for \$21,000. This amount is to be repaid in three equal payments at the end of August, September, and October.

Problem Material

DEMONSTRATION PROBLEMS

These problems reinforce the chapter material and further bolster the Student Success Cycle.

ANALYSIS COMPONENT

An analysis component is included in each Mid- and End-of-Chapter Demonstration Problem, as well as several Exercises, Problems, and Focus on Financial Statements questions. These promote critical thinking and give students opportunities to practise their analytical skills.

Analysis Component:

Refer to The Cutlery's August 31, 2017, financial statements. What do each of *equity* and *liabilities* represent?

Concept Review Questions

- What tasks are performed with the work sheet?
- What two purposes are accomplished by recording closing entries?
- What are the four closing entries?
- Daniel is having trouble determining whether withdrawals, the owner's capital, interest income and prepaid insurance are temporary or permanent accounts. Explain to him the difference between a temporary and a permanent account in accounting and classify the accounts into each category.
- Refer to **Daniel's** income statement in Appendix III at the end of the book. What journal entry was recorded as of June 28, 2014, to close the revenue account?
- What is a company's operating cycle?
- Why is a classified balance sheet more useful to financial statement users than a non-classified balance sheet?
- What classes of assets and liabilities are shown on a typical classified balance sheet?

CONCEPT REVIEW QUESTIONS

These short-answer questions reinforce the chapter content by Learning Objective.

QUICK STUDY

These single-topic exercises give students a quick test of each key element in the chapter and are referenced to Learning Objectives. Answers to these items are available on **Connect**.

Quick Study

QS 6-1 Inventory ownership LO1

- At year-end Carefree Company has shipped, FOB destination, \$500 of merchandise that is still in transit to Stark Company. Which company should include the \$500 as part of inventory at year-end?
- Carefree Company has shipped goods to Stark and has an arrangement that Stark will sell the goods for Carefree. Identify the consignor and the consignee. Which company should include any unsold goods as part of inventory?

PREFACE

Exercise 6-3 Specific identification cost flow assumption L02 **Excel**

CHECK FIGURES: COGS = \$9,427; Gross profit = \$15,073

Refer to the data in Exercise 6-2. Assume that Urban Glam Cosmetics uses the specific identification method to cost inventory. The 700 units were specifically sold as follows:

Jan. 10:	70	units from beginning inventory
Mar. 15:	3	units from beginning inventory, and
	177	units from the March 14 purchase
Oct. 5:	50	units from the March 14 purchase, and
	400	units from the July 30 purchase

Calculate cost of goods sold and the gross profit.

PROBLEMS

Problems typically incorporate two or more concepts. As well, there are two groups of Problems: A Problems and Alternate or (B) Problems. B Problems mirror the A Problems to help improve understanding through repetition.

Ethics Challenge

EC 5-1

Claire Phelps is a popular high school student who attends approximately four dances a year at her high school. Each dance requires a new dress and accessories that necessitate a financial outlay of \$100 to \$200 per event. Claire's parents inform her that she is on her own with respect to financing the dresses. After incurring a major hit to her savings for the first dance in her second year, Claire developed a different approach. She buys the dress on credit the week before the dance, wears it to the dance, and returns the dress the next week to the store for a full refund on her charge card.

Required

1. Comment on the ethics exhibited by Claire and possible consequences of her actions.
2. How does the store account for the dresses that Claire returns?

FOCUS ON FINANCIAL STATEMENTS

Each chapter includes two technical and analytical questions that incorporate into the financial statements all major topics covered up to that point. Additional questions are available online on **Connect**.

Critical Thinking Mini Case

Prairie Insurance sells life insurance, disability insurance, vehicle insurance, crop insurance, and home-owners' insurance. You are employed by Prairie Insurance and have been promoted to sales division manager for the Western Canadian division. You will be supervising approximately 25 salespeople, along with five administrative assistants at various locations. The salespeople travel extensively and submit expense reports along with sales information monthly. A sample expense report for September shows:

Prairie Insurance—Western Canadian Division	
Sales Report: John Bishop	
Month Ended September 30, 2017	
Sales revenue*	\$56,000
Expenses**	34,000

*Sales invoices attached
**Receipts attached

HELP ME SOLVE IT

New *Help Me Solve It* tutorials are available on **Connect** for Larson's *Fundamental Accounting Principles*. The tutorials guide students through one or two of the more challenging end-of-chapter problems per chapter, providing them with an engaging visual and audio walkthrough of the problem.



EXERCISES

Exercises provide students with an additional opportunity to reinforce basic chapter concepts by Learning Objective. Note: Selected end-of-chapter exercises and problems are marked with this icon: **Excel**. These have Excel templates located on **Connect**.

Problems

Problem 1-1A Identifying type of business organization L02

Complete the chart below by placing a checkmark in the appropriate column.

Characteristic	Type of Business Organization		
	Sole Proprietorship	Partnership	Corporation
Limited liability			
Unlimited liability			
Owners are shareholders			
Owners are partners			
Taxed as a separate legal entity			

ETHICS CHALLENGE

Each chapter includes at least one Ethics Challenge to reinforce critical thinking skills for students and open up discussion about various ethical topics.

Focus on Financial Statements

FFS 2-1

Travis McAllister operates a surveying company. For the first few months of the company's life (through April), the accounting records were maintained by an outside bookkeeping service. According to those records, McAllister's equity balance was \$75,000 as of April 30. To save on expenses, McAllister decided to keep the records himself. He managed to record May's transactions properly, but was a bit rusty when the time came to prepare the financial statements. His first versions of the balance sheet and income statement follow. McAllister is bothered that the company apparently operated at a loss during the month, even though he was very busy.

McAllister Surveying Income Statement For Month Ended May 31, 2017	
Revenue:	
Investments by owner	\$ 3,000
Unearned surveying fees	6,000
Total revenues	\$ 9,000

CRITICAL THINKING MINI CASES

These cases give students the opportunity to apply critical thinking skills to concepts learned in the chapter, thus further reinforcing the "Apply" step of the Student Success Cycle.

What's New

The Accounting Standard

We listened! Through extensive reviewing and consultations with the market, we have heard the issues and concerns instructors like you have about the materials you use to teach introductory financial accounting. Here you will find a list of new changes to specific chapters that our author has made to ensure the content of Larson's *Fundamental Accounting Principles* remains current and fresh. Whether you are new to using *Fundamental Accounting Principles* or new to this edition, you can see that McGraw-Hill Education and Larson/Jensen/Dieckmann are setting the accounting standard in *Fundamental Accounting Principles*. We know you'll like what you see.

General Updates

- Appendix III for Volume 1 includes the complete annual audited financial statements, including notes to the financial statements, for WestJet and Danier Leather, as well as the audited financial statements *without* the notes for Indigo Books & Music and Telus. Appendix II for Volume 2 includes the annual audited financial statements, **excluding** notes to the financial statements, for WestJet, Danier Leather, Indigo, and Telus.
- Throughout Volumes 1 and 2, the exercises and problems have been refreshed in terms of numbers and/or business name/owner with a focus on providing relevant company examples to connect with today's students. Company scenarios have been expanded and updated to provide students with more information and updated examples to enhance student engagement. Volume 1 end-of-chapter content was revised by Praise Ma of Kwantlen Polytechnic University, and Volume 2 by Laura Dallas, also of Kwantlen Polytechnic University.
- Various end-of-chapter exercises/problems have been adjusted to incorporate instructor and reviewer suggestions.
- The chapter content is IFRS 2014 compliant throughout Volume I and IFRS 2015 compliant throughout Volume 2; IFRS 2014/2015 references are included where appropriate.
- The 15th edition includes 14 exciting *new* chapter opening vignettes, featuring a range of engaging topics, and including inspiring stories from company startups to success stories of well-known businesses and not-for-profit organizations. Additionally, Chapter 7's vignette features an analysis titled "What Is Cash?" outlining the vast array of Canadian payment options available today. Nearly all of the vignettes now include relevant video links for students to broaden their real-world exposure to critical business decisions.
- Actual businesses used as examples throughout Volumes 1 and 2 are bolded and highlighted in magenta at first mention to emphasize integration of accounting concepts with actual business practice.
- IFRS and ASPE differences are identified at the end of each chapter.
- Important tip boxes have been incorporated throughout the text to direct students' attention to critical concepts that students often miss in their initial reading of the text.
- Many new exhibits have been added, including several new learning summaries to assist students in tying together chapter concepts. Many existing exhibits have been refreshed as appropriate with updated information.
- Several new excerpts have been added to direct students' attention to real-company example disclosures in their most recent published annual financial statement reports.

PREFACE

- The number of actual business examples has increased based on review requests; these have been bolded and highlighted in magenta at first mention for emphasis.
- NEW presentation displays all formulas students need to pay attention to in purple boxes.

Chapter-by-Chapter Updates

CHAPTER 1

- New chapter opening vignette featuring entrepreneur Zane Caplansky, founder of Caplansky's Deli and the food truck "Thunderin' Thelma" as featured on CBC's the *Dragons' Den*. A new video link provides students with access to the *Dragons' Den* episode.
- Introduction of new chapter demonstration company, *Organico*, a food truck business.
- New *Decision Insight* on the Chartered Professional Accountants of Ontario's Approach to Ethical Conflict Resolution.
- New *Decision Insight* on the Vancouver Portland Hotel Society's employee travel expenses scandal.
- Updated Exhibit 1.5 charting average annual salaries for accounting positions.
- New Exhibit 1.6: Summary Model of GAAP Framework.
- New Exhibit 1.12 summarizing the elements of financial statements.
- Refreshed section on ethics.

CHAPTER 2

- New chapter opening vignette featuring Olympic double gold medalist, Alexandre Bilodeau. New video link provides a motivating interview with Alexandre Bilodeau.
- Updated transaction analysis chapter demonstration company, *Organico*, linked to Chapter 1.
- Updated presentation and approach to mid-chapter demonstration problem makes the transaction analysis section easier to follow.

- Important Tips boxes added to provide extra support in topic areas where students typically struggle.
- Updated Exhibit 2.8 presentation of revenue and expenses in relation to equity.
- Reordered chapter presentation on recording and posting transactions, and accounting transactions in action, to improve student connections of material to real-world application.

CHAPTER 3

- Updated chapter opening vignette featuring green moving box supplier, Frogbox. New video link features the company's *Dragons' Den* debut and *Dragons' Den* Update episodes.
- Updated adjusting entry analysis chapter demonstration company, *Organico*, linked to preceding chapters.
- Simplified descriptions of each current asset item.
- Updated *Decision Insight* on the Chris Brown concert scam impacting the Chronico Music Group.
- Important Tip boxes added regarding requirement to use accrual accounting, reminding students that adjusting entries do not affect cash, and drawing students' attention to techniques to determine the ending capital balance.

CHAPTER 4

- New chapter opening vignette features founders of BC startup Cupcakes, as featured on their reality series *The Cupcake Girls* on W, We TV, and the Oprah Network (OWN). Vignette includes a link to an interview with the founders discussing entrepreneurship and leadership advice.
- Important Tip box added, emphasizing that the closing process involves only temporary accounts.
- Updated mid-chapter Demonstration Problem to Melodies Piano School.
- Updated terminology for long-term liabilities section of the classified balance sheet to non-current liabilities.
- New Exhibit 4.15 featuring example presentation of current assets for Apple Inc.

- New section on Financial Statement Analysis moving coverage of current ratio from Appendix A to body of chapter. In addition, the quick ratio and debt to equity ratio were added to chapter content.

CHAPTER 5

- Updated chapter opening vignette featuring Mountain Equipment Co-op (MEC), including a new video link to demonstrate MEC's business structure.
- New effective summary table outlines Merchandising Inventory Journal Entries—Perpetual and Merchandising Inventory Journal Entries—Periodic.
- New *Decision Insight* covers Loblaw Companies' transition from periodic to perpetual inventory system.
- New Exhibit 5.18: Gross Margin Snapshot by Company.
- Several new Important Tip boxes on accounting for periodic and perpetual inventory sales and purchases.
- New Financial Statement Analysis sections added for Gross Margin and how markups are calculated.
- New terminology for trade discounts provided for volume purchases and purchase discounts for early payment.
- New *Decision Insight* discusses inventory shrinkage.
- Enhanced discussion covering inventory shrinkage for merchandising adjusting entries.
- Enhanced Appendix 5B discussion on PST, GST, and HST.
- New Exhibit 5B.1 summarizing zero-rated and exempt products for GST.
- Updated Exhibit 5B.2, organizing Sales Tax Rates for rate changes, and restructured into a more student-friendly format.

CHAPTER 6

- New chapter opening vignette features inventory innovation at Amazon.com, including

video links outlining Amazon's warehouse operations, demonstrating its kiva robots, and demonstrating the company's octocopter drones.

- New *Decision Insight* addresses Loblaw Companies' move to perpetual inventory.
- New section highlights inventory costing policies for four companies: Amazon.com, Lululemon Athletica, Procter & Gamble, and Tiffany & Co.
- New Important Tip boxes regarding accounting for perpetual inventory systems, and calculating the gross profit method.
- New examples providing accounting policy disclosures for Amazon.com Inc., Lululemon Athletica, Procter & Gamble Company, Tiffany & Co., illustrating the various inventory costing alternatives.
- Enhanced coverage of Advantages and Disadvantages of Cost Flow Assumptions.
- New note disclosure for TJX Companies Inc. illustrating the retail method of inventory.
- Expanded coverage of Retail Inventory Method.
- New Financial Statement Analysis section added, bringing inventory turnover and day's sales in inventory into chapter discussion.

CHAPTER 7 (FORMER CHAPTER 8)

- New chapter opening vignette features an analysis of "What Is Cash?" investigating today's payment options in Canada, and outlining the important role of the Canadian Payments Association. New video links are provided for students who want to learn more about how the complex payment system functions in Canada.
- New Important Tip box addresses CAR principle to simplify understanding of control issues and provide students with an approach to responding to identified control weaknesses, demonstrating understanding of debits and credits from the bank's perspective.
- Enhanced discussion of controls to clarify identification and implications of control weaknesses and provide guidance on how to develop recommendations for improvements.

PREFACE

- Enhanced chapter demonstration of steps in reconciling a bank balance, and an improved summary of required adjustments to the bank's balance and the cash book balance.
- New section on the Fraud Triangle and the Drivers of Fraud (includes two new exhibits).
- New *Decision Insight* covers ATM hacker cybercriminals.
- New description of cash and cash equivalents and example disclosure of accounting policy for Amazon.
- New *Decision Insight* on Bank of Canada controls over currency, including a video link to a Bank of Canada video on identifying counterfeit currency.
- New Financial Statement Analysis section for Quick Ratio highlights differences with Current Ratio in body of text (moved from appendix).

CHAPTER 8 (FORMER CHAPTER 9)

- New chapter opening vignette discussing BC-based WN Pharmaceuticals, including insight into the company's approach to the management of customer receivables.
- Coverage of quick ratio moved from appendix into chapter.
- New *Decision Insight* box covers recent applications from Rogers Canada and Walmart Canada to operate as financial institutions in Canada.
- Updated Exhibit 8.1: Accounts Receivable Analysis for Selected Companies as a Percentage of Total Assets.
- New excerpt from Canadian Tire's annual report describing its risk management process for customers.
- New section on Accounts Receivable with Revenue recognition criteria.
- Updated coverage of store-issued credit cards to reflect current approach used by companies.

- New section on Credit Risk Analysis.
- New Important Tip box on calculating interest for Short-Term Notes Receivable.
- New section on Accounts Receivable Control Considerations to reinforce Chapter 7 control concepts and integrate into Accounts Receivable.
- Added a Financial Statement Analysis section incorporating A/R turnover and days' sales (moved from appendix).
- New Exhibit 8.21: Comparison of Accounts Receivable Turnover and Days' Sales Uncollected for High Liner Foods Incorporated and Maple Leaf Foods Inc.

APPENDIX I

- All rates (i.e., EI, CPP, Provincial Tax, Federal Tax) updated to 2015.

APPENDIX II (FORMER CHAPTER 7)

- Responding to reviewer feedback, the former Chapter 7, Accounting Information Systems, has been relocated to an online appendix.

APPENDIX III (FORMER APPENDIX II)

- Volume 1 includes annual audited financial statements (including notes to the financial statements) for WestJet and Danier Leather and annual audited financial statements (excluding notes to the financial statements) for Telus Corporation and Indigo Books & Music.
- Volume 2 includes annual audited financial statements (*excluding* notes to the financial statements) for WestJet, Danier Leather, Telus Corporation, and Indigo Books & Music.

APPENDIX IV (FORMER APPENDIX III)

- Sample chart of accounts updated to reflect textbook content.

Market Leading Technology



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McGraw-Hill Connect® is an award-winning digital teaching and learning 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 take advantage of McGraw-Hill's trusted content to seamlessly deliver assignments, quizzes and tests online. McGraw-Hill Connect is the only learning platform that continually adapts to each student, delivering precisely what they need, when they need it, so class time is more engaging and effective. Connect makes teaching and learning personal, easy, and proven.

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CONNECT INSIGHT®

Connect Insight is Connect's new one-of-a-kind visual analytics dashboard—now available for both instructors and students—that provides at-a-glance information regarding student performance, which is immediately actionable. By presenting assignment, assessment, and topical performance results together with a time metric that is easily visible for aggregate or individual results, Connect Insight gives the user the ability to take a just-in-time approach to teaching and learning, which was never before available. Connect Insight presents data that empowers students and helps instructors improve class performance in a way that is efficient and effective.

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

- Assign SmartBook learning modules
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- Draw from a variety of text specific questions, resources, and test bank material to assign online
- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever

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, providing students immediate feedback on their work and comparisons with correct answers
- Access and review each response, manually change grades, or leave comments for students to review

PREFACE

- Track individual student performance—by question or assignment, or in relation to the class overall—with detailed grade reports.
- Reinforce classroom concepts with practice tests and instant quizzes.
- Integrate grade reports easily with Learning Management Systems including Blackboard, D2L, and Moodle.

INSTRUCTOR LIBRARY

The Connect Instructor Library is a repository for additional resources to improve student engagement in and out of the class. It provides all the critical resources instructors need to build their course. Instructors can

- Access Instructor resources
- View assignments and resources created for past sections
- Post their own resources for students to use

Instructor Resources

Instructor supplements are available within **Connect**.

SOLUTIONS MANUAL

Fundamental Accounting Principles continues to set the standard for accuracy of its problem material. The Solutions Manual has been revised by Praise Ma, Kwantlen Polytechnic University (Volume 1) and Laura Dallas, Kwantlen Polytechnic University (Volume 2). Additional accuracy checking was provided by Rhonda Heninger, SAIT Polytechnic, Elizabeth Hicks, Douglas College, and Michelle Young, CPA. Available in both Microsoft Word and PDF format, solutions for all problem material are included.

COMPUTERIZED TEST BANK

The test bank has been revised and technically checked for accuracy to reflect the changes in the Fifteenth Canadian Edition. Carol Tristani, Mohawk College, revised the test bank for this edition. Grouped according to Learning Objective, difficulty level, and by level of Bloom's Taxonomy, the questions in the computerized test bank include true/false, multiple choice, matching, short essay, and problem material.

POWERPOINT® PRESENTATIONS

These presentation slides, revised by Betty Young, Red River College, are fully integrated with the text to visually present chapter concepts.

INSTRUCTOR'S MANUAL

The Instructor's Manual, revised by Denise Cook, Durham College (Volume 1) and Joe Pidutti, Durham College (Volume 2), cross-references assignment materials by Learning Objective and also provides a convenient chapter outline.

FOCUS ON FINANCIAL STATEMENTS

These include technical and analytical questions that incorporate major topics covered. These, and accompanying solutions in the Solutions Manual, have been revised by Stephanie Ibach, MacEwan University. Two additional Focus on Financial Statement exercises for each chapter are included on Connect.

EXTEND YOUR KNOWLEDGE

This supplemental material has been developed to delve into more detail for specific topics. These have been revised by Stephanie Ibach, MacEwan University.

EXCEL TEMPLATE SOLUTIONS

Solutions to the problems using Excel templates are available for instructors. These have been revised by Ian Feltmate, Acadia University.

IMAGE BANK

All exhibits and tables displayed in the text are available for your use, whether for creating transparencies or handouts, or customizing your own PowerPoint presentations.

Other Supplements for Students

WORKING PAPERS

Available for purchase by students, printed Working Papers for Volumes 1 and 2 match the end-of-chapter material. They include papers that can be used to solve all of the Quick Study questions, Exercises, and A and B Problem sets. The Working Papers for the Fifteenth Canadian Edition have been revised by Praise Ma, Kwantlen Polytechnic University (Volume 1) and Laura Dallas, Kwantlen Polytechnic University (Volume 2). Additional technical checking was completed by Michelle Young.

Superior Learning Solutions and Support

The McGraw-Hill Education team is ready to help instructors 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 Education team is here to help you do it. Contact your Learning Solutions Consultant today to learn how to maximize all of McGraw-Hill Education's resources.

For more information, please visit us online: <http://www.mheducation.ca/highereducation/educators/digital-solutions>

Developing a Market-Driven Text

The success of this text is the result of an exhaustive process, which has gone beyond the scope of a single edition. Hundreds of instructors and educators across the country have been involved in giving their feedback to help develop the most successful accounting fundamentals text in the country. We owe thanks to all of those who took the time to evaluate this textbook and its supplemental products.

Fifteenth Canadian Edition Reviewers

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Fundamental Accounting Principles continues to set the bar in terms of its leading-edge approach to educating today's students through outstanding quality, dependable accuracy, and state-of-the-art supplemental resources.

This has been possible only because of the outstanding efforts and contributions of a dedicated team of exceptional individuals. I owe many thanks to their expertise and commitment as it was extensively drawn upon during the process of writing this textbook. Particular thanks go out to Maria Belanger, Shannon Butler, Denise Cook, Ian Feltmate, Rhonda Heninger, Elizabeth Hicks, Stephanie Ibach, Joe Pidutti, Don Smith, Carol Tristani, Betty Young, and Michelle Young. A big thanks to the many entrepreneurs, financial experts, and business owners that devoted their precious time to making our chapter opening vignettes compelling and captivating. Thanks also to our brilliant illustrator, Rachel Idzerda (www.rachelidzerda.com), for sharing our vision and for her tireless efforts in crafting our cover illustration with creativity and vibrant energy. A special thanks to my close friends and colleagues Praise Ma and Laura Dallas for approaching the project with a fresh perspective. Their innovative spirits and their outstanding dedication ensure the end-of-chapter questions are accurate, relevant and engaging for today's students. I am thankful to McGraw-Hill Ryerson's exceptional team, including Rhondda McNabb, Joy Armitage Taylor, Keara Emmett, Sarah Fulton May, Jessica Barnoski, and freelance copyeditor Karen Rolfe, who have been exceptionally responsive, supportive and dedicated to producing a phenomenal product.

I am incredibly appreciative to my colleagues across Canada and current and past students who have inspired enhancements for this edition. Their knowledge and expertise in identifying student learning hurdles in the classroom and suggestions for enhancing student comprehension are invaluable in our continuous improvement initiative to maintain this textbook as the industry standard.

With heartfelt appreciation,
Heidi Dieckmann

Accounting in Business

A Look at This Chapter

Accounting is crucial in our information age. In this chapter, we discuss the importance of accounting to different types of organizations and describe its many users and uses. We explain that ethics are essential to accounting. We also explain business transactions and how they are reflected in financial statements.



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LEARNING OBJECTIVES

- LO1** Describe the purpose and importance of accounting.
- LO2** Describe forms of business organization.
- LO3** Identify users and uses of, and opportunities in, accounting.
- LO4** Identify and explain why ethics and social responsibility are crucial to accounting.
- LO5** Identify, explain, and apply accounting principles.
- LO6** Identify and explain the content and reporting aims of financial statements.
- LO7** Analyze business transactions by applying the accounting equation.
- LO8** Prepare financial statements reflecting business transactions.

Food Truck Frenzy

Across the country, major urban centres are experiencing an industry trend to go to the street to entice customers with a wide range of made-to-order food options. In Canada, the street vendor industry is in the growth phase of its industry life cycle, according to IBISWorld, a global market research firm. IBISWorld estimates the market for street vendors in Canada to be strong over the next five years with revenues expected to reach \$281 million in 2018 and expected annual growth to cap out at 4.2% in 2015. The market is dominated by new market entrants—in most cases individual owners operating as sole proprietors. The most successful street vendors will take advantage of effective marketing and branding toward health-conscious consumers looking for unique dining options.

Thundering Thelma received her initial debut on CBC's *Dragons' Den* when owner Zane Caplansky decided to expand his famous brick-and-mortar deli in downtown Toronto and enter the trendy urban food truck business. After being labelled "insane Zane" by Kevin O'Leary, and the other Dragons balking at the 15% ownership interest at a proposed cost of \$350,000, Zane decided to continue his new business venture on his own. A year later, Caplansky returned to *Dragons' Den* and boasted achieving profit margins between 30 and 40% and achieving \$110,000 in sales in his first six months of operation. Caplansky's business continues to thrive with two new locations opening at the Toronto Pearson Airport, one modelled after his brick-and-mortar restaurant and the other modelled after his food truck.

Sources: <http://clients1.ibisworld.ca/reports/ca/industry/industryoutlook.aspx?entid=1683>, accessed April 15, 2014; <http://www.torontolife.com/daily-dish/people-dish/2011/11/03/zane-caplansky-on-dragons-den>, accessed April 15, 2014; <http://www.postcity.com/Eat-Shop-Do/Eat/November-2013/Weekly-Restaurant-Recap-Harvest-Kitchen/>; CBC *Dragon's Den*, Season 7, Episode 11, aired January 7, 2013.

Video Link: <http://www.cbc.ca/dragonsden/episodes/season-7/episode-11-season-7>

CRITICAL THINKING CHALLENGE

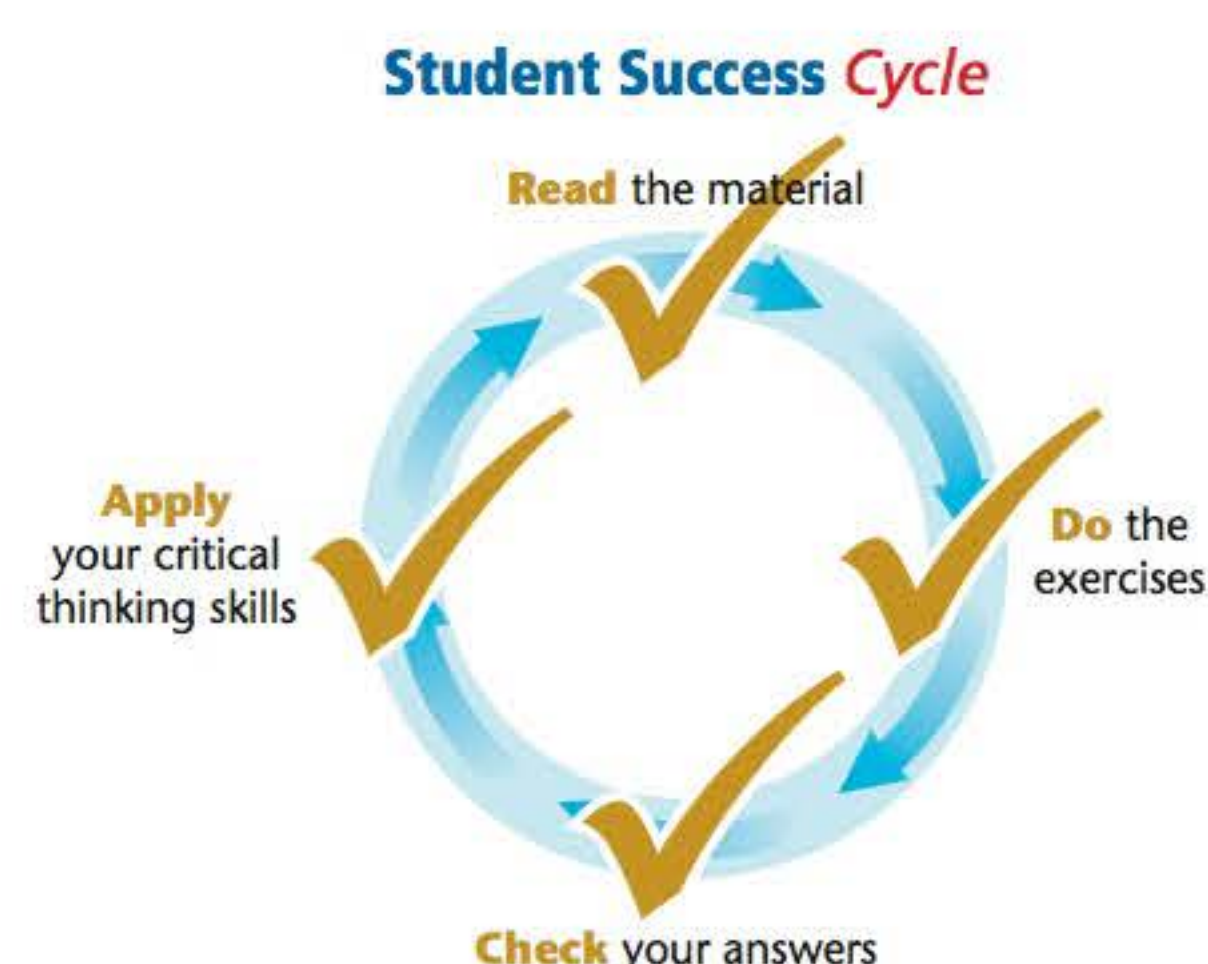
What questions might Caplansky need to answer in order to get a loan from a bank? Who else might require accounting information from Caplansky's business?

↑ An essential element of critical thinking is the ability to ask questions while reading (or listening or speaking). This exercise is designed to help students develop the skills related to questioning. Suggested answers are available on Connect.

CHAPTER PREVIEW

↑ A chapter preview introduces the importance and relevance of the material, and also links these materials to the opening article to help you understand how what you are learning in the chapter relates to the real world through practical examples.

Accounting is at the heart of business: accounting information pulsates throughout an organization, feeding decision makers with details needed to give them an edge over competitors. Whether you have your sights set on a career in the field of accounting, human resources, finance, marketing, or entrepreneurship, you will find the study of financial accounting integral to your ability to communicate successfully in the world of business. Through your study of this book, you will learn about key accounting concepts and develop an ability to interpret financial information that is essential for making sound business decisions.



This first chapter accomplishes three goals. First, it introduces the subject of accounting, providing a foundation for those students who have little or no understanding of business or the role of accounting in business.



Second, it focuses on how accounting information is created and communicated in the form of *financial statements*, which report on the financial performance and condition of an organization. This chapter will illustrate how transactions are reflected in financial statements by illustrating chapter concepts through an in-depth demonstration of entrepreneur Hailey Walker, who decides to start up a new food truck business called Organico, specializing in fresh, organic Mexican burritos. The illustration begins with Walker registering her business name and commencing her first month of operations on March 1, 2017.

Third, it introduces you to each of the learning features found in most chapters. For example, a note above explains the purpose of the chapter preview, and three additional features (Learning Objectives, boldfaced terms, and company names) are described below. Some of the features refer to Connect, located on the web. Take the time in this chapter to explore and learn the value of these additional resources.

What Is Accounting?

LO1 Describe the purpose and importance of accounting.

↑ Each chapter is separated into chunks of information called learning objectives (LO). Each LO tells you what needs to be mastered in that section of reading.

Accounting knowledge is a powerful tool; it provides you with essential information to make critical business decisions. How does accounting knowledge give you power? What exactly is the focus of accounting? This section answers these fundamental questions.

Power of Accounting

Accounting is an information system that identifies, measures, records, and communicates *relevant* information that *objectively and correctly represents* an organization's economic activities,¹ as shown in Exhibit 1.1. Its objective is to help people make better decisions. It also helps people better assess opportunities, products, investments, and social and community responsibilities. In addition to reporting on the performance of a business, what the business owns, and what it owes, accounting opens our eyes to new and exciting possibilities. Put more simply, accounting involves collecting relevant information, recording it, and then reporting it to various decision makers. In the chapter opening story, for example, **Caplansky's Food Truck** collects and records accounting information so that it could be reported to Zane Caplansky, the business owner, and other investors, to help them make important decisions—such as those involved in setting selling prices for his deli sandwiches—and develop an effective expansion strategy.

↑ Boldfaced words or phrases represent new terminology that is explained here and defined in the glossary at the end of the chapter.

Real company names are printed in bold magenta.

¹ When information makes a difference in the decisions made by users, it is *relevant*. For information to possess the quality of *faithful representation*, it must be complete, neutral, and free from error, IFRS 2014 “The conceptual framework for financial reporting: para. QC5-QC6, QC 12. These primary qualitative characteristics of useful accounting information will be discussed in more detail later in this chapter.

EXHIBIT 1.1

Accounting Activities



Focus of Accounting

Accounting for our personal finances enables us to better manage and plan for our future. Some examples of common personal contacts with financial accounting include applying for credit approvals, opening bank accounts, choosing a career path, filling out student loan forms, and making decisions regarding whether to purchase a new or a used car. These experiences are limited and tend to focus on the *recordkeeping* (or *bookkeeping*) parts of accounting. **Recordkeeping**, or **bookkeeping**, is the recording of financial transactions, either manually or electronically, for the purpose of creating a bank of data that is complete, neutral, and free from error. Accounting *involves* the recordkeeping process but *is* much more.

Accounting also involves designing information systems to provide useful reports that provide relevant information in monitoring and controlling an organization's activities. In order to use the reports effectively, decision makers must be able to interpret the information. The skills needed to understand and interpret accounting information are developed through building a foundation in accounting concepts and developing an understanding of recording transactions through the recordkeeping process. The use of technology in recordkeeping reduces the time, effort, and cost of accounting while improving accuracy. As technology has changed the way we store, process, and summarize masses of data, financial analysis tools have improved, resulting in improved decision making. Consulting, planning, and other financial services are now closely linked to accounting. These services require sorting through data, interpreting their meaning, identifying key factors, and analyzing their implications. Because accounting is part of so much that we do in business and our everyday lives, you can enjoy greater opportunities if you understand and are able to use accounting information effectively.



CHECKPOINT

1. What is the major objective of accounting?
2. Distinguish between accounting and recordkeeping.

Do Quick Study questions: QS 1-1, QS 1-2

↑ A series of Checkpoint questions in the chapter reinforces the immediately preceding materials. It gives you feedback on your comprehension before you go on to new topics. Answers to these Checkpoint questions are available for you at the end of each chapter.

↑ Answers to the Quick Study (QS) questions are available on Connect.

Forms of Organization

LO2 Describe forms of business organization.

A **business** is an entity represented by one or more individuals selling products or services for profit. Products sold include anything from athletic apparel (**CCM, Bauer, Lululemon, NIKE, Reebok**), to electronic devices (**Apple, Dell, Hewlett-Packard, Samsung**), and clothing (**Abercrombie and Fitch, GAP, Zara**). Service providers such as data communication providers (**Bell, Rogers, and Telus**), food services (**McDonald's, The Keg, Starbucks, Tim Hortons**), and internet services (**Google, Twitter, Skype, Facebook, Instagram**) make our lives more connected. A business can be as small as an in-home tutoring business or as large as **George Weston Ltd**, the food processing company known for its President's Choice and no name brands, owner of the clothing label Joe Fresh, and holder of a significant investment in the supermarket chain **Loblaws Company Ltd**. Nearly 100,000 new businesses are started in Canada each year, with most of them being founded by people who want freedom from ordinary jobs, a new challenge in life, or the potential of earning extra money.

Most organizations engage in economic activities, such as the business activities of purchasing materials and labour, and selling products and services. They can also involve activities for non-business organizations, more commonly referred to as not-for-profit organizations, such as government, schools, and health care and charities. Non-business organizations do not plan and operate for profit, but rather for other goals such as health, education, and cultural and social activities. A common feature in all organizations, both business and non-business, is the reliance on reported financial information to successfully run the organization.

Business Organizations

When a business is initially established, the owner(s) need to select one of the three legal business structures: sole proprietorship, partnership, or corporation.

SOLE PROPRIETORSHIP

A **sole proprietorship**, or **proprietorship**, is a business owned by one person. Initial setup of a sole proprietorship is relatively easy and inexpensive. No special legal requirements must be met in order to start this form of business, other than to file for a business licence and register the business name. While it is a separate entity² for accounting purposes, it is *not* a separate legal entity from its owner. This means, for example, that a court can order an owner to sell personal belongings to pay a proprietorship's debt. An owner is even responsible for debts that are greater than the resources of the proprietorship; this is known as **unlimited liability**, and is a clear disadvantage of a sole proprietorship. Because tax authorities do not separate a proprietorship from its owner, the profits of the business are reported and taxed on the owner's personal income tax return. Small retail stores and service businesses often are organized as proprietorships.

PARTNERSHIP

A **partnership**³ is owned by two or more persons called *partners*. Similar to a proprietorship, no special legal requirements must be met in order to start a partnership, other than to register the business

² The *business entity principle* is one of a group of accounting rules, the *generally accepted accounting principles (GAAP)*, which are discussed later in this chapter. This principle states that each economic entity or business of the owner must keep accounting records and reports separate from the owner and any other economic entity of the owner.

³ Partnerships are discussed in greater detail in Chapter 11 in Volume 2 of the textbook.