


Fundamental

 Fifteenth Canadian Edition

ACCOUNTING PRINCIPLES

Volume 2



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	300	
Total revenues		\$ 4,100
Operating expenses:		
Rent expense	\$ 1,000	
Salaries expense	700	
Total operating expenses		1,700
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	2,400	12,400
Total		\$ 12,400
Less: Withdrawals by owner		600
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	6,000
Equipment	6,000	Total liabilities	\$ 6,200
		Equity	
		Hailey Walker, capital	11,800
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	(700)	
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	(600)	
Net cash provided by financing activities		9,400
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 2

Fifteenth Canadian Edition

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Kwantlen Polytechnic University—British Columbia

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**Fundamental Accounting Principles
Volume 2
Fifteenth Canadian Edition**

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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.

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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 Academic Accounting 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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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?

LEARNING OBJECTIVES

Learning Objectives have long been a standard in this 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/TUwR7W8Ww>

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

Loblaws Corporate Grocery Stores Go Perpetual

Loblaws 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

- LO1 Explain the accounting cycle.** The accounting cycle includes the steps in preparing financial statements for users that are repeated each reporting period.
- 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.
- 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.
- 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.
- 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 the books. The chart of accounts is a listing of all accounts and usually includes an identification number that is assigned to each account.
- LO5 Analyze the impact of transactions on accounts, record entries in a journal, and post.**

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
$\$1,800 - \$1,300 = \$500/\text{unit}$ $\text{original write-down: } \$500 \times 4 =$ $\$2,000 \text{ maximum reversal}$	

- The reported inventory amount is \$540, calculated as $(20 \times \$5) + (40 \times \$8) + (10 \times \$12)$.
- 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: $\$324,000 + \$195,000 = 60\%$
 $\$530,000 + \$330,000 =$
Step 3: $\$545,000 \times 60\% = \$327,000$
- 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: (h) 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 checking 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?
- David 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 *Basler's* income statement in Appendix III at the end of the book. What journal entry was recorded as of June 30, 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, \$600 of merchandise that is still in transit to Stark Company. Which company should include the \$600 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?

Exercise 6-3 Specific identification cost flow assumption L02 

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.

Problems

Problem 1-1A. Identifying type of business organization L02

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

Characteristics	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

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

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

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

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**.

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.

Revenue:	
Investments by owner	\$ 3,000
Unearned surveying fees	6,000
Total revenues	\$ 9,000

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:

Sales revenue*	\$56,000
Expenses**	34,000

*Sales invoices attached
**Receipts attached

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.

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.



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 *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 1 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.

- 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 9 (FORMER CHAPTER 10)

- New chapter opening vignette featuring Vancouver International Airport, includes a Video Link spotlighting YVR's state-of-the-art Airside Operations Building.
- Updated critical thinking challenge on the Airside Operations Building at YVR.
- New engaging chapter preview to help students understand capital investments in PPE.
- Updated Decision Maker to enhance student engagement.
- New example of obsolescence, to aid in student understanding.
- Updated presentation of accounting for acquired buildings versus constructed buildings to enhance student comprehension.
- Updated mid-chapter and end-of-chapter Demonstration Problems.
- Updated financial statement excerpts, featuring presentation of Indigo Books & Music Inc.'s accounting policy and depreciation schedule for property, plant, and equipment and Microsoft's presentation and disclosure over intangible assets.
- Updated coverage of Patents and Copyrights to reflect current Canadian laws over intellectual property rights.
- New example of acquisition: Shoppers Drug Mart by Loblaw Companies, Ltd. is provided with example note disclosure to help students understand accounting for goodwill.
- New Exhibit 9.23: World's Most Valuable brands.

CHAPTER 10 (FORMER CHAPTER 11)

- New chapter opening vignette spotlighting Pebble Technology Corp. and its efforts to raise capital through Kickstarter fundraising campaigns. Vignette includes video links to further student engagement.
- Updated excerpt of Second Cup Ltd.'s balance sheet, featuring presentation of current liabilities.
- New presentation of Exhibit 10.6 featuring Sales Tax Rates, effective January 1, 2016.
- New Exhibit 10.8: GST-Exempt and Zero-Rated Products, including an explanation of zero-rated goods and GST-exempt products.
- New section illustrating collection, payment, and final remittance of HST.
- New section outlining accounting for customer awards/loyalty programs and gift cards.
- Terminology updated from *long-term* liabilities to *non-current*.
- Updated chapter Demonstration Problem, enhancing student engagement.

CHAPTER 11 (FORMER CHAPTER 12)

- New chapter opening vignette featuring Canadian-born start-up Kicking Horse Coffee includes video links featuring an interview on entrepreneurship and expansion into the United States and an inside look at Kicking Horse Coffee.
- New Critical Thinking challenge.
- Updated terminology from partnership *income/loss* to partnership *profit/loss*.
- Updated Exhibit 11.10.

CHAPTER 12 (FORMER CHAPTER 13)

- Updated chapter opening vignette features new video link to Dragon's Den episode and CBC interview.
- New Decision Insight features Cara Operations and its decision to go public.
- New excerpt from Telus Corporation's financial statements illustrates disclosure of declared dividends.

- New Financial Statement Analysis section for ROE and book value per share to provide more real world application context for the chapter content.

CHAPTER 13 (FORMER CHAPTER 14)

- New chapter opening vignette highlights the history of Apple Inc. from its origins as a tech start-up to the recent 7:1 stock split, including a Video Link highlighting what investors should know about the impact of the Apple Inc. stock split.
- Expanded discussion of stock splits incorporates an analysis of the impact of the Apple Inc. stock split to shareholders, enhancing student engagement by demonstrating the impact through investigating the event.
- New Financial Statement Analysis section includes the dividend payout ratio, featuring the dividend payout ratio for Telus Corporation and providing more real-world context for chapter content.
- Removed appendix covering treasury shares
- New table featuring several examples of classifying changes to accounting estimates and accounting policy changes.

CHAPTER 14 (FORMER CHAPTER 15)

- New chapter opening vignette features two examples of real bond issuance by ZooShare with different risk profiles; it includes video link helping students to understand the business model of ZooShare's renewable energy cooperative.
- New example bond issuance for Telus Corporation to enhance real-world application of the bond issuance procedures.
- New Decision Insight covering the over-the-counter trading options for the sale of or determination of market pricing for corporate bonds in Canada.
- New example of a bond issuance by Telus Corp., with the current trading information.
- Updated chapter demonstration example to illustrate the present value of a premium bond to enhance student engagement.

- New Important Tip box on calculating bond interest expense.
- New financial statement note excerpt from WestJet.
- Content covering leases, previously in the appendix, has been moved into the main chapter with expanded examples to help students understand the accounting differences for the lessee and lessor based on the terms of the lease agreement.
- Added Financial Statement Analysis section for debt to equity Ratio, to provide more real-world application context for the chapter content.

CHAPTER 15 (FORMER CHAPTER 16)

- New chapter opening vignette features Saskatchewan craft brewery start-up Farmery; it includes video links to CBC Dragon's Den episode and a CBC interview.
- New Exhibits 15.1 and 15.2, financial statement disclosure excerpts for PMC-Sierra and Indigo, providing context to students and aiding comprehension of chapter topics.
- New Exhibit 15.3 highlights an example stock quote for Spin Master Corp.
- Updated Accounting for Investments section based on IFRS 9.
- New Decision Insight box spotlights Bernie Madoff and Ponzi Schemes (repurposed from chapter opening vignette in 14th edition).
- Updated Investments section based on new IFRS 9, effective January 1, 2018. Terminology is updated to reflect new standards.
- New Exhibit 15.7, Accounting for Investments Summary Chart, outlines the key issues of accounting for strategic and non-strategic investments and corresponding journal entries and financial statement presentation.

CHAPTER 16 (FORMER CHAPTER 17)

- New chapter opening vignette features Butter Avenue patisserie and includes Video Link for students to learn more about the company.

- New Decision Insight on top 10 cash flow management tips for small businesses.
- Coverage of direct method of cash flow statements moved from appendix into main chapter with an emphasis on the key differences and similarities between the direct and indirect methods highlighted through Important Tip boxes to aid student comprehension.
- New financial statement excerpt provides an example cash flow statement for Brick Brewing Company Ltd. to help students understand the real-world application of the material.
- New summary chart (Exhibit 16.14) provides key information to students on preparing a cash flow statement and highlighting key differences between direct and indirect methods of statement of cash flow.
- Mid-Chapter Demonstration Problem and Demonstration Problem now feature both direct and indirect methods.

CHAPTER 17 (FORMER CHAPTER 18)

- New chapter opening vignette features Lululemon Athletica Inc. and analyzes its growth from inception to a \$1.8 billion company, providing analysis of its profit and gross margins and analyzing its key success factors.
- Financial statement analysis is illustrated with a more detailed and engaging example, including heightened company detail to capture student interest and demonstrate real world applicability.

- New introductory section focussing on the basics of analysis encourages students to perform a more holistic approach to their analysis and provides a brief overview of tools such as PESTLE, SWOT, and Porter's Five Forces.
- New terminology: *acid-test ratio* is referred to as the *quick ratio*.
- Formulas requiring memorization are highlighted in purple boxes and key rules of thumb and commentary on favourable versus unfavourable results have been added to help students in interpreting their results.

APPENDIX I

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

APPENDIX II

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

APPENDIX III

- Sample chart of accounts updated to reflect textbook content.

Market Leading Technology



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- 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.

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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

Joan Baines	<i>Red River College</i>	Rod Delcourt	<i>Algonquin College</i>
Les Barnhouse	<i>Grant MacEwan University</i>	Kevin deWolde	<i>University of the Fraser Valley</i>
Maria Belanger	<i>Algonquin College</i>	Han Donker	<i>University of Northern British Columbia</i>
Robert Briggs	<i>New Brunswick Community College</i>	David Fleming	<i>George Brown College</i>
Lewis Callahan	<i>Lethbridge College</i>	Brent Groen	<i>University of Fraser Valley</i>
Barb Chapple	<i>St. Clair College</i>	Kerry Hendricks	<i>Fanshawe College</i>
Shiraz Charania	<i>Langara College</i>	Rhonda Heninger	<i>Southern Alberta Institute of Technology</i>
Denise Cook	<i>Durham College</i>	Elizabeth Hicks	<i>Douglas College</i>
Derek Cook	<i>Okanagan College</i>	Darcie Hillebrand	<i>Capilano University</i>
Heather Cornish	<i>Northern Alberta Institute of Technology</i>	Gwen Hoyseth	<i>Grande Prairie Regional College</i>

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Laurette Korman	<i>Kwantlen Polytechnic University</i>	David Scott	<i>Niagara College</i>
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James Reimer	<i>Lethbridge College</i>		

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 who 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 Rhondra 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

Property, Plant, and Equipment and Intangibles

A Look Back

Chapters 7 and 8 focused on current assets: cash, cash equivalents, and receivables. We explained why they are known as liquid assets and described how companies account and report for them.

A Look at This Chapter

This chapter introduces us to non-current assets. We explain how to account for a non-current asset's initial cost, the allocation of an asset's cost to periods benefiting from it, the recording of additional costs after an asset is purchased, and the disposal of an asset.



Photo Courtesy of Vancouver International Airport and Larry Goldstein.

LEARNING OBJECTIVES

- LO1** Describe property, plant, and equipment (PPE) and calculate their cost.
- LO2** Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
- LO3** Explain and calculate depreciation for partial years.
- LO4** Explain and calculate revised depreciation.

LO5 Explain and record impairment losses.

LO6 Account for asset disposal through discarding, selling, or exchanging an asset.

LO7 Account for intangible assets and their amortization.

***Appendix 9A**

LO8 Explain and calculate revised depreciation when there is a subsequent capital expenditure that creates partial-period depreciation.

Vancouver International Airport—Canadian Leaders in Customer Experience and Innovation

Vancouver Airport Authority is a community-based, not-for-profit organization that manages Vancouver International Airport (YVR). Since its inception in 1992, the Airport Authority has experienced an incredible history of growth, innovation, and leadership along with industry excellence.

Canada's second-busiest airport, YVR served more than 19 million passengers in 2014, with 53 airlines connecting people and businesses to more than 110 non-stop destinations worldwide. The Airport Authority continues to build a world-class, sustainable airport to fulfill its mission to connect British Columbia to the world.

YVR was voted Best Airport in North America for the sixth consecutive year, and Best Airport in the World for its size category of 10 to 20 million passengers, in the 2015 Skytrax World Airport Awards, the global benchmark of airport excellence. YVR is the only airport to have ever received this honour for six consecutive years. "This award is a powerful testament to the commitment of the YVR community—24,000 strong—to go beyond, every day," said Craig Richmond, president & CEO, Vancouver Airport Authority.

The Airport Authority reinvests all earnings into airport operations and development. The Airport Authority continues to ensure airport operations are optimized through its 10-year, \$1.8 billion capital plan to upgrade terminal facilities and infrastructure, including hundreds of metres of moving walkways and high-speed baggage systems, with a focus on decreasing connection times between international and domestic flights.

YVR's new, state-of-the-art Airside Operations Building (AOB) opened in winter 2014. The AOB replaced the existing 50-year-old fire hall and consolidated all airside operations, from emergency response to snow removal, into one, central airside location. The AOB is 117,101 square feet, slightly smaller than seven hockey rinks.

In addition to terminal and airside improvements, the Airport Authority formed a joint venture with McArthurGlen Group to develop Greater Vancouver's first luxury designer outlet, which opened in summer 2015.

YVR also recently launched an innovative solution to passenger flow issues—BorderXpress Automated Passport Control (APC) kiosks. These kiosks are able to efficiently process passengers through customs based on self-serve, touchscreen prompts, significantly reducing passenger wait times. Since its product launch in September 2013, YVR has successfully deployed more than 600 BorderXpress kiosks in over 23 international airports across Canada, the United States, and the Caribbean, serving over 20 million travellers.

With continued investment in capital assets, the Airport Authority has developed policies and procedures to ensure they are captured effectively in its accounting records. In its 2014 audited consolidated financial statements, the Airport Authority reported net capital assets of \$1.83 billion, representing 86.6% of total assets. Major categories include buildings and structures, runways, rapid transit infrastructure, machinery and equipment, furniture and fixtures, computer equipment and systems, construction in progress, and the Airport Authority's impressive art collection. Based on the significant accounting policies, capital assets are amortized on a straight-line basis, at cost less estimated salvage value, over a period not exceeding the estimated useful lives. Capitalized costs include the purchase price and acquisition and construction costs such as "installation costs, design and engineering fees, legal fees, survey costs, site preparation, transportation charges, labour, insurance and duties."

From new buildings to improved infrastructure and innovative services, the Airport Authority is committed to creating an airport that British Columbia can be proud of—a premier global gateway.

Source: www.yvr.ca

Video Link: <https://www.youtube.com/watch?v=xS60bqgB8VM>

**CRITICAL
THINKING
CHALLENGE**

You are asked by the CFO of YVR to evaluate the newest capital asset, the Airside Operations Building at YVR, and to break it into major components for depreciation purposes. Identify at least five major components and determine an expected life for each of those components.

CHAPTER PREVIEW

Why do companies like **Facebook Inc.** and **Google Inc.** have less than 20% of total assets in PPE while other companies like **WestJet** and **Air Canada** have over 50% of total assets invested in PPE? The difference is that airlines are capital intensive and technology companies require a greater investment in research and development. *Property, plant, and equipment* and *intangible assets* are often the key areas requiring investment of capital resources for newly established businesses. Over time, the major assets held in this category require repairs, improvements, and replacements with newer, more efficient assets or more physical capacity due to expansion. As the items held in this category are material in relation to their total assets, it is essential that we are cautious to effectively capture the initial costs on the balance sheet and subsequently record the usage of these assets on the income statement as an expense, referred to as *depreciation expense*, in the period the asset is utilized.

This chapter focuses on non-current assets used in the operation of a business: *property, plant, and equipment* and *intangible assets*. Property, plant, and equipment represent a major investment for most companies and make up a large portion of assets on the balance sheet. They also affect the income statement because their costs are charged to depreciation expense, often one of the largest expenses on the income statement. This chapter will describe the purchase and use of these assets. We also explain what distinguishes property, plant, and equipment assets from other types of assets, how to determine their cost, how to allocate their costs to periods benefiting from their use, and how to record their disposal.



Property, Plant, and Equipment (PPE)

LO1 Describe property, plant, and equipment (PPE) and calculate their cost.

Non-current assets that are used in the operations of a business and have a useful life of more than one accounting period are divided into three groups:

1. Tangible assets known as property, plant, and equipment¹
2. Intangible assets²
3. Goodwill³

Property, plant, and equipment (PPE), sometimes referred to as **capital assets** or **fixed assets**, includes land, buildings, equipment, machinery, and leasehold improvements. For instance, WestJet's \$2,793,194 of net PPE as at December 31, 2014, includes aircraft, ground property and equipment, spare engines and parts, buildings, and leasehold improvements as shown in the financial statements located in

¹ IFRS 2015, IAS 16.

² IFRS 2015 IAS 38.

³ **Goodwill** is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Appendix II. **Intangible assets** lack physical substance and include patents, copyrights, leaseholds, drilling rights, and trademarks and are discussed in a later section of this chapter.

For many businesses, PPE make up the single largest asset category on the balance sheet. For example, on its September 28, 2014, balance sheet, **Starbucks Ltd.** shows total assets of \$10.75 billion with net PPE comprising \$3.52 billion of this amount. **Telus Corporation** reported \$8.4 billion of net property, plant, and equipment at December 31, 2013, representing 39% of total assets.

PPE are set apart from other assets by two important features:

1. *These assets are used in business operations to help generate revenue.* This makes them different from *inventory*, for instance, which is an asset that is *not used* in operations but rather held for the purpose of resale. A company that purchases a computer for the purpose of selling it reports the computer on the balance sheet as inventory. But if the same company purchases this computer for use in operations, it is classified as PPE.
2. *PPE are in use and provide benefits for more than one accounting period.* This makes PPE different from *current assets* such as *supplies* that are usually consumed soon after they are placed in use. The cost of current assets is assigned to a single period as they are used.

Accounting for PPE reflects these two important features. We must initially record the cost of each PPE item (balance sheet focus) and allocate its estimated period cost to each appropriate period benefiting from its use (income statement focus) in the manner in which the asset is consumed/used.

Exhibit 9.1 shows the *three main accounting issues with PPE*. They are:

1. Calculating and accounting for the initial and subsequent costs of PPE
2. Allocating the costs of PPE against revenues for the periods they benefit in the manner in which the asset is consumed/used
3. Recording the disposal of PPE

This chapter focuses on the decisions and factors surrounding these three important issues.

EXHIBIT 9.1

Issues in Accounting for PPE

