

 Sixteenth Canadian Edition

FUNDAMENTAL ACCOUNTING PRINCIPLES

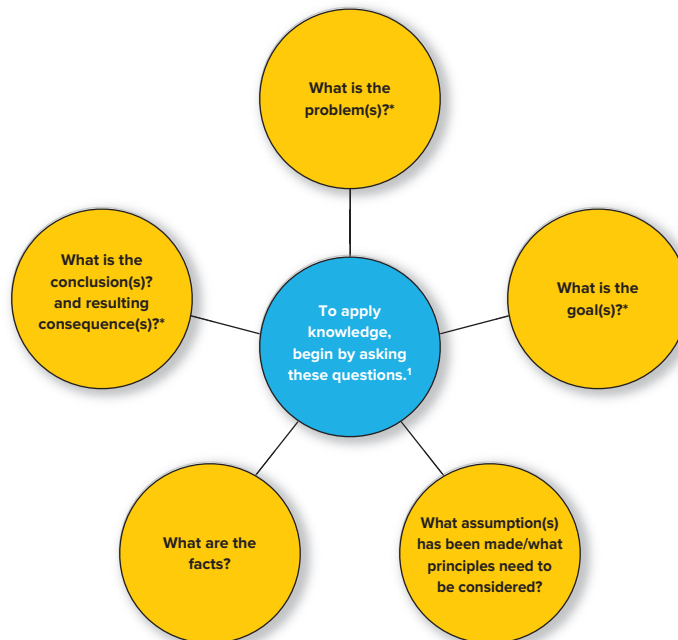
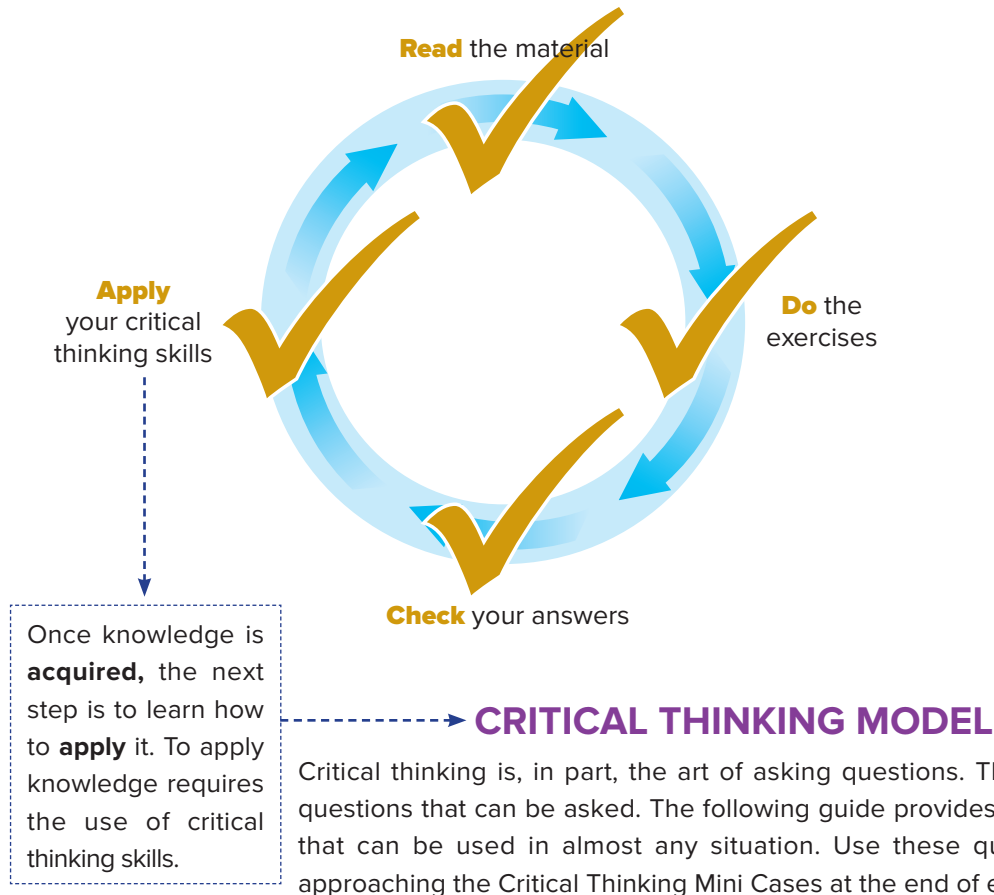
VOLUME 2



LARSON | DIECKMANN

STUDENT SUCCESS CYCLE

Following the Student Success Cycle will help you **acquire** knowledge through **active** learning.



¹These are highly dependent on perspective.

¹R. Paul, L. Elder, & Foundation for Critical Thinking, *The Miniature Guide to Critical Thinking: Concepts & Tools*, 3rd ed. (Dillon Beach, Calif.: Foundation for Critical Thinking, 2003).

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, 2020		
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, 2020		
Hailey Walker, capital, March 1		\$ -0-
Investments by owner	\$10,000	
Profit	<u>2,400</u>	<u>12,400</u>
Total		\$12,400
Less: Withdrawals by owner		600
Hailey Walker, capital, March 31		<u>\$11,800</u>

Organico Balance Sheet March 31, 2020			
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
Total assets	<u>\$18,000</u>	Equity	
		Hailey Walker, capital	<u>11,800</u>
		Total liabilities and equity	<u>\$18,000</u>

Organico Statement of Cash Flows For Month Ended March 31, 2020		
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 2

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University of Texas—Austin

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**Fundamental Accounting Principles
Volume 2
Sixteenth 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.

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 transition to 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 keen interest in providing students with real-world relevance and preparing students for ethical issues they will come across in the workplace. She has a passion for maximizing 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 focusses her research on engagement and motivation strategies to reach today's generation of technology-immersed students. She has an interest in online student engagement with a focus on creating a seamless transition into online learning and providing resources to assist teams to collaborate in a virtual environment.

Heidi is a member of the Canadian Academic Accounting Association's Education Committee and has presented at the CAAA annual conference for her work in student engagement through online education and top strategies to reach millennial learners. 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 and STEM classes at her children's school. She loves to explore nutrition through creating new flavours, travel, take art classes at a local gallery, analyze real estate investment opportunities, and most of all spend time with her husband Andrew, her two children Nolan and Hailey, and her close family and friends.

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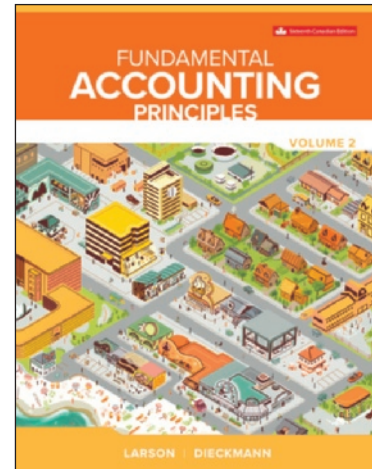
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Preface

A Note About Our Cover

The cover of the Sixteenth 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'* chapter-opening vignettes. See if you can spot the images representing Zane Caplansky's Deli (Chapter 1), Amazon's drones (Chapter 6), Better-with Ice Cream (Chapter 7), and the Vancouver Airport Authority (Chapter 9). Rachel is a freelance illustrator specializing in editorial illustration and portraiture. She works with her husband and lives with him and their two dogs just outside of Toronto.



INSIDE THE CHAPTERS

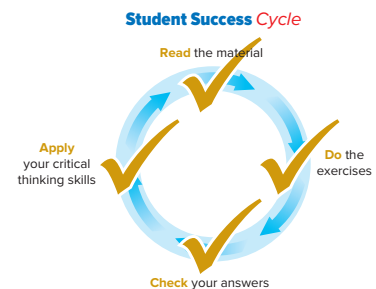
As educators, instructors strive to create an environment that fosters learning and provides students with the tools they need to succeed. The Sixteenth Canadian Edition continues to meet and surpass the high standards the market expects from *Fundamental Accounting Principles*. We continue to put learning 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 measured not 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

Why is assessing customer credit critical to the overall success of businesses like WN Pharmaceuticals?

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"> Requires that financial statements be presented at least annually^a; 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^b and items must be presented consistently from period to period.^c 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"> Uses the term <i>depreciation</i>^d (although it uses <i>amortization</i> for intangible assets).^e 	<ul style="list-style-type: none"> Uses the term <i>amortization</i>.^f

a. IFRS 2018, IAS 1 para. 36.
 b. ASPE, Accounting Standards, Section 1000.17(b).
 c. ASPE, Accounting Standards, Section 1000.19-20.
 d. IFRS 2018, IAS 16 para. 6.
 e. IFRS 2018, IAS 38 para. 8.
 f. ASPE, Accounting Standards, Section 3061.6.

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 2018 compliant for Volumes I and II; references are provided where appropriate.

Real-World Focus

The Sixteenth 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 business-people 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. The first time 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 Athletica, Nike, Reebok**) to electronic devices (**Apple, Dell, Hewlett-Packard, Samsung**) and clothing (**Abercrombie & Fitch, The Gap, Zara**). Service providers such as data communication providers (**Bell, Rogers, Telus**), food services (**McDonald’s, 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 Limited**, 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 **Loblaw Companies Limited**. 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.

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 fresh, 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 will continue to grow over the next five years. Revenues are expected to reach \$335 million with an expected annualized growth rate of 1.7% by 2023. 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.

Thunderin’ Thelma made her debut on CBC’s *Dragons’ Den* when owner Zane Caplansky decided to expand his famous downtown Toronto brick-and-mortar deli and enter the trendy urban food truck business. After being labelled “insane Zane” by Kevin O’Leary, and seeing the other Dragons balk 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 its latest location at the Toronto Pearson International Airport. According to Zane, “persistence, hard work and integrity” are key to achieving success in new business initiatives.

Sources: <https://www.ibisworld.ca/industry/street-vendors.html>, accessed September 15, 2017; <http://www.torontolife.com/daily-dish/people-dish/2011/10/3/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 *Dragons’ Den*, Season 7, Episode 11, aired January 7, 2013; On the Journey Towards a Perfect Sandwich: Zane Caplansky at TEDxQueensU, https://youtu.be/cN_BHMMmNFk, accessed September 14, 2017.

Video Links: <http://www.cbc.ca/dragonsden/pitches/caplansky-deli> and https://youtu.be/cN_BHMMmNFk.

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.

A Look Back, A Look at This Chapter

In these brief paragraphs, students are directed to reflect on their learning from previous chapters and are provided with a high-level summary of the current chapter. These helpful learning summaries assist students in understanding how their chapter by chapter learning ties into the big-picture learning 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

This chapter 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.

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.

Checkpoints

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/7EuxfW76BWU>

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.

Ethical Impact

Ethics continues to be a critical foundation-level concern to prepare students to understand and apply ethical values in their day-to-day decisions. This new feature helps develop students to reach toward CPA-enabling competencies such as professional and ethical behaviour, problem solving and decision making, communication, self-management, teamwork, and leadership skills. It will be an excellent tool instructors can utilize to provide real-world relevance and develop these critical skills for students as they work toward developing professional competencies.

Each scenario is designed to strengthen each student’s professional competencies as they approach ethical dilemmas that have been developed from current, real-world Canadian and global business scenarios. Each box is designed with a concise scenario and provides open-ended questions to enable effective classroom discussions. Encourage students to use the framework presented in Chapter 1 Decision Insight on Resolving Ethical Dilemmas to help them develop a compass to guide them through alternative courses of action.

ETHICAL IMPACT

\$18.7 Million Maple Syrup Theft

On July 30, 2012, Micheal Gavreau arrived at a warehouse to audit \$30 million worth of inventory at the Global Strategic Maple Syrup Reserve. To his surprise, several of the barrels were discovered to be empty, others had their contents replaced with water. It was the “largest theft investigated by the Sûreté du Québec in its history.” The leader of the heist was found guilty of fraud, theft, and trafficking stolen goods and was sentenced to eight years in prison and fined \$9.4 million. This situation occurred because of inadequate internal controls. In Chapter 7 we will introduce you to the concept of internal controls and the critical role they play in maintaining corporate assets.

What would you do if you noticed unusual activities or discrepancies at your audit client or place of work, such as boxes that looked like they had been tampered with? Would you turn a blind eye or would you take the time to investigate?

Video Link: Follow this link to view a video summary of the full story of “The Sweetest Heist”: <https://youtu.be/adC09cwYAB0>.

DECISION INSIGHT

Loblaw Companies Limited Converts from Periodic to Perpetual

Loblaw Companies Limited began a process of converting its corporate-owned grocery stores from a periodic inventory system to a perpetual inventory system that was completed in 2014. The improved information is a result of an upgrade to its IT infrastructure, enabling the stores to integrate costing information more effectively for items held in inventory.


Decision Insight

Social responsibility is a key concern for today’s generation of socially conscious students. 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.

Relating theory to a real-life situation piques interest and reinforces active learning.

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. This feature works well to develop enabling professional competencies such as professional and ethical behaviour, problem solving and decision making, communication, self-management, teamwork, and leadership skills. These boxes work well in conjunction with the new Ethical Impact box. Guidance answers are available at the end of each chapter.

 **Guidance Answer to DECISION MAKER**

Analyzing Results
Yes, you are concerned about the absence of a depreciation adjustment on the manufacturing equipment. Equipment does lose value as it is used in the business, and financial statements must recognize this occurrence. Its absence suggests an error or a misrepresentation (there is also the possibility that equipment is fully utilized and should have been completely depreciated or that it was scrapped).

Analyst
A current ratio of 1.2 suggests that current assets are sufficient to cover current liabilities, but it implies a minimal buffer in case of errors in measuring current assets or current liabilities. Removing the past due receivable reduces the current ratio to 0.7. Your assessment is that the bakery will have some difficulty meeting its loan payments.

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

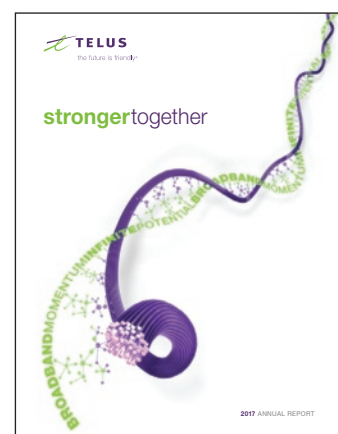
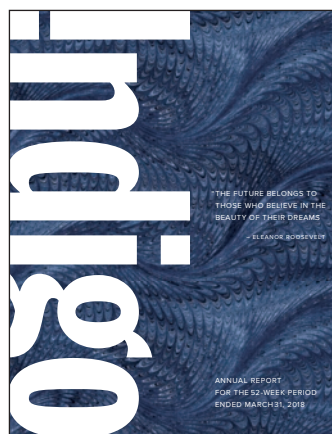
EYK 4-1 Work Sheet Demonstration
EYK 4-2 Corporate Supplement
EYK 4-3 Summary of Business Activities
EYK 4-4 Examples of Classified Balance Sheets

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.

Financial Statements

Features and assignments that highlight companies such as **Spin Master** (a successful Canadian toy innovator and children’s entertainment company) and **WestJet** (a company that provides services) 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 **Telus** and **Indigo Books & Music** (with weblinks provided to access the notes), are reproduced at the end of Volume 1. In Volume 2, the annual audited financial statements are presented without notes, and weblinks are provided for student access to the full set of Annual Reports.



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</p>	<p>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>

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

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.

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
<i>\$1,800 – \$1,300 = \$500/unit original write-down</i>		
<i>\$500 × 4 = \$2,000 maximum reversal</i>		

- The reported inventory amount is \$540, calculated as (20 × \$5) + (40 × \$8) + (10 × \$12).
- Cost of goods sold is understated by \$10,000 in 2020 and overstated by \$10,000 in 2021.

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.

Glossary

All terms highlighted in the chapter are included.

Knowledge Check-Up

This new feature has been incorporated to enable instructors to do a quick initial assessment of reading comprehension through a 10-question multiple-choice quiz that can easily be facilitated at the beginning of a lecture. The questions have been written by the author to cover key learning objectives from the chapter readings. They can be used in conjunction with a flipped teaching pedagogy in order to motivate students to complete readings ahead of class time, enabling instructors to spend more time in class on in-depth coverage of complex learning objectives. Solutions can be found under the Instructor Resources link on **Connect**.

KNOWLEDGE CHECK-UP

- Two features distinguishing property, plant, and equipment (PPE) from other assets are that:
 - PPE is used in business operations to generate revenue and provides benefits for more than one accounting period.
 - PPE is acquired through a contract and provides benefits for more than one accounting period.
 - PPE is used in business operations to generate revenue and adds value to the organization.
 - None of the above.
- The cost of PPE includes which of the following:
 - Its invoice price, less any cash discount for early payment
 - Freight, unpacking, and assembling costs
 - Non-refundable sales tax (PST)
 - All of the above.
- Which of the following costs should be capitalized as a betterment:
 - Replacement of the engine for the company's transport truck.
 - Installation costs for a new roof on the factory
 - Costs to recalibrate and reprogram the factory machines to tighten quality
 - All of the above.
- Which of the following items qualify as repairs and maintenance expense:
 - Costs to repair the loading dock that was recently damaged by a delivery truck
- Which of the following depreciation methods allocates more depreciation in the early years of an asset's life and less depreciation in later years:
 - units-of-production method
 - double-declining-balance method
 - straight-line method
 - None of the above.
- When there is a revised useful life on a depreciated asset due to more information being available or because of a subsequent capital expenditure, which of the following is adjusted:
 - Depreciation per year is recalculated based on present value of the future cash flows expected to be received from the underlying asset.
 - Depreciation per year remains unadjusted.
 - Depreciation per year is recalculated based on the fair value of the asset.
 - Depreciation per year is recalculated based on the remaining years of useful life.
- Vegan Bites, a local restaurant, had to replace the roof of its building. Advise the new controller on how to handle the accounting adjustment for the new roof.
 - The amount is debited to the corresponding asset account and no adjustment is made to the depreciation of the asset.
 - The amount is debited to the corresponding asset account and depreciation is revised to incorporate the additional cost and change the estimated useful life and residual value.
 - The cost of the original asset is removed from the accounting records and any gain or loss must be re-

PROBLEM MATERIAL

Demonstration Problems

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

Analysis Component:

Refer to The Cutlery's August 31, 2020, financial statements. What do each of *equity* and *liabilities* represent?

Concept Review Questions


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

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?

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: . These have Excel templates located on **Connect**.

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 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.

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.

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, 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.
- Alexis believes that temporary account information is deleted through the closing entries. Do you agree or disagree? Explain. What is the relationship between temporary and permanent accounts?
- Describe the similarities and differences between adjusting and closing entries.
- What is the purpose of the Income Summary account? How is it different from the Income Statement?
- Explain whether an error has occurred if a post-closing trial balance includes a Depreciation Expense, Building account.
- Refer to **Spin Master's** income statement in Appendix III at the end of the book. What journal entry was recorded as of December 31, 2017 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?

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**.

Exercise 6-3 Specific identification cost flow assumption LO2 

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

Problem 1-1A Identifying type of business organization LO2

Complete the chart below by placing a check mark 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			

Problems

Problems typically incorporate two or more concepts. 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

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

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

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, 2020	
Revenue:	
Investments by owner	\$ 3,000
Unearned surveying fees.....	6,000
Total revenues	\$ 9,000

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 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.

CRITICAL THINKING MINI CASE

Prairie Insurance sells life insurance, disability insurance, vehicle insurance, crop insurance, and homeowners' 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, 2020	
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 walk-through 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 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/Dieckmann are setting the accounting standard in *Fundamental Accounting Principles*. We know you'll like what you see.

GENERAL UPDATES

- Larson continues to strive to achieve the ultimate balance between the preparer focus and user focus in its delivery of financial accounting to meet the current needs of today's diverse range of students. A strong preparer focus provides students with the tools to understand what is happening at the individual transaction level to the financial statements, providing a strong foundation for a career in accounting, as an entrepreneur, or as a savvy business professional. These skills are essential for students to develop to accurately understand the numbers behind key decisions they will face in their careers. In addition, each chapter provides several real-world company business scenarios, an increased focus on ethical issues, financial statement excerpts, and financial statement analysis tools to prepare students to be an effective decision maker in any career path they choose.
- Increased emphasis on global perspectives, bringing ethical issues and examples to students from around the world.
- New Knowledge Check-Up (KCU) questions are ten single-topic, multiple-choice questions designed to assess initial comprehension of the key chapter learning objectives. These reading readiness assessments have been written by the author to provide students with a quick and easy test as to whether they achieved the critical comprehension concepts in each chapter before moving onto more comprehensive review problems. These can be used as a quick mini quiz at the beginning of each lecture to encourage students to complete chapter readings before class. Answers are provided on **Connect** under the instructor resources tab.
- Appendix III for Volume 1 includes the complete annual audited financial statements, including notes to the financial statements, for Spin Master and WestJet, as well as the audited financial statements *without* the notes for Telus and Indigo Books & Music. Appendix II for Volume 2 includes the annual audited financial statements, **excluding** notes to the financial statements, for Spin Master, WestJet, Telus, and Indigo.
- Throughout each chapter in both Volumes 1 and 2, new end-of-chapter practice questions have been added in targeted areas, based on feedback from the market, where students would benefit from additional practice opportunities. Approximately 25% of the exercises and problems have been refreshed in terms of numbers and/or business scenarios. Existing company scenarios have been expanded and updated to provide students with more information and updated examples to enhance student engagement. Volume 1 and 2 end-of-chapter content was revised by Laura Dallas of Kwantlen Polytechnic University.
- The chapter content is IFRS 2018 compliant throughout Volume 1 and Volume 2; references are included where appropriate. New updates include coverage of IFRS 16 Leases in Chapter 14 and conceptual framework integrated throughout. IFRS and ASPE differences are identified at the end of each chapter.

- The Sixteenth Canadian Edition includes three exciting *new* chapter-opening vignettes, and significant updates to the remaining 14 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. Nearly all of the vignettes include relevant video links for students to broaden their real-world exposure to critical business decisions.
- Seventeen new *Ethical Impact* boxes have been crafted to highlight an ethical dilemma for each chapter based on a real-world example linked directly to issues within the chapter learning objectives. Instructors can take a moment to help students develop these critical professional skills.
- Real-world relevance is provided with actual businesses used as examples with several financial statement excerpts throughout Volumes 1 and 2, including issues relating to financial statement presentation and disclosure. These real company names are bolded and highlighted in magenta at first mention to emphasize integration of accounting concepts with actual business practice.
- New *Important Tip* boxes have been added and are incorporated throughout the text to direct students' attention to critical concepts that students often miss in their initial reading of the text.
- Chapter 9 on property, plant, and equipment is now included in both Volume 1 and Volume 2 to offer flexibility to instructors, depending on institutional course design.
- Chapter 14 includes a more integrated approach to bond pricing that includes instructional tips on how to use a financial calculator, with helpful hints and examples provided for students to follow along during their chapter reading.
- 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.
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

CHAPTER-BY-CHAPTER UPDATES

Chapter 9

- New chapter-opening vignette featuring Vancouver International Airport; includes a video link spotlighting YVR's state-of-the-art Airside Operations Building.

Chapter 10

- New chapter-opening vignette spotlighting Toys R Us outlining the danger of high levels of debt and highly leveraged buyouts.
- Updated definition of a liability, including Exhibit 10.1 Characteristics of a Liability to align with revised IFRS Conceptual Framework.
- Updated Exhibit 10.3 and 10.4 to provide a current example from Empire Company Limited's 2017 annual report.

- New *Decision Insight* on crowdfunding—outlining to students an alternative method of funding options that provide entrepreneurs with alternative options to raise critical funds during the start-up phase of their business.
- Updated Exhibit 10.6 with 2018 effective provincial sales tax rates for PST, GST, and HST.
- Updated CNR example of current portion of provisions, based on its 2017 annual report disclosures in note 16 of its annual report.
- New *Ethical Impact* box outlining the business circumstances relating to the SEC penalty issued to Logitech of \$7.5 million for “fraudulently inflating its 2011 results” related to the warranty under accrual and failure to amortize certain intangibles. Students are put in the role of the senior accountant who recognized the errors in estimating warranty accruals and probes them on how they would have handled the real-life circumstances in this scenario.
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Chapter 11

- Updated 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 subsequent acquisition by Italy-based, privately owned, Lavazza S.p.A.
- New *Ethical Impact* box featuring suggestions on structuring a partnership agreement, including a helpful video link; asks students how they can structure a partnership to ensure its success and what precautions they can take to structure their agreement to handle any potential problems.
- New *Important Tip* box on providing clarity to students on the process of allocating a loss in a partnership.
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Chapter 12

- New chapter-opening vignette featuring Poppy Barley, highlighting the company’s journey from concept to business launch and how it keeps employees empowered with monthly financial reviews, training on financial statement analysis, and a commitment to ethical decision making.
- New real-world example of corporate taxation financial statement presentation taken from Cineplex Inc.’s December 31, 2017 income statement.
- New *Ethical Impact* box featuring Topher White’s start-up company Rainforest Connection, which uses used cell phones to help solve deforestation and other issues in undeveloped rainforest habitats impacting native communities. Reintroduces students to the concept of crowdfunding and asks readers if they would be willing to go the extra mile to help solve major world issues.
- New *Decision Insight* featuring 3twenty Modular and Zigloo, which specialize in intermodal steel building units; asks students to consider whether the ISBU industry is sustainable.
- Updated accounting for shares example of WestJet Airline’s trading history.
- Updated example of Telus Corporation’s dividends declared in its 2017 annual report.
- New *Decision Insight* on RBC’s share redemption of its First Preferred Shares Series AB.
- New *Decision Insight* featuring Etsy-based start-up company Flushed in Flora, developed by Kristy Baptista, a young entrepreneur who focuses on developing sustainable natural dyed fabrics and fashion for today’s eco-conscious shoppers.
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Chapter 13

- New *Ethical Impact* box featuring Elizabeth Holmes and former president Ramesh Balwani deceiving Theranos investors by overstating the

capabilities of the company’s portable blood testing devices as well as its business and financial performance. The box outlines the SEC investigation into their massive accounting fraud that impacted many private equity investors. The box asks students some directed questions, such as How would you handle pressures to raise capital for a business that is struggling to prove its technical feasibility? Would you be able to withstand the pressure to deceive investors to remain afloat? Do you think Elizabeth Holmes has any regrets? How could the private equity investors have protected themselves?

- Updated dividend payout ratio featuring the dividend payout ratio for Telus Corporation and providing more real-world context for chapter content.
- Updated real-world example financial statement presentation featuring Canadian Tire Corporation’s Consolidated Income Statement and Consolidated Statement of Comprehensive Income from the company’s December 31, 2017 annual report.
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Chapter 14

- Updated chapter-opening vignette featuring two examples of real bond issuances by ZooShare with different risk profiles; includes a video link to help students understand the business model of ZooShare’s renewable energy cooperative.
- Updated *Decision Insight* featuring an example bond issuance for Telus Corporation to enhance real-world application of the bond issuance procedures.
- New *Important Tip* box added on calculating a bond’s coupon payment.
- New *Decision Insight* featuring a current trend of US corporations issuing “maple bonds” in Canadian dollars to attract Canadian investors.
- New *Important Tip* box featuring tips in order to use a calculator to determine the price of a bond, “Calculating the Present Value of a Bond,” including helpful resources such as a link to a video

tutorial for using the Texas Instruments BA II Plus financial calculator to calculate the price of a bond.

- New expansion of Exhibit 14.6, featuring the calculation of the Metro Toronto Zoo bond price, including a section that breaks down the calculator inputs for students to use as they follow along in their reading of the text.
- Expansion of an *Important Tip* box on outlining the calculation of the bond interest expense for the period.
- New *Important Tip* box on calculating interest expense when bonds are issued at a premium.
- Updated mid-chapter demonstration problem featuring calculator inputs as part of the expanded solution.
- Updated real-world example from Note 10 of WestJet’s 2017 annual report, featuring its installment details of its term loans.
- Updated real-world example in Mortgage Notes, featuring Boardwalk REIT’s Note 11 of its 2017 annual report.
- Updated section on leases to reflect changes to IFRS 16.
- New *Decision Insight* featuring a fictitious example that was written based on a real-world example of a property management group that provides lease arrangements to retailers that need retail space. Provides a “what would you do” scenario to an identified discrepancy that benefits the property management group.
- Updated debt to equity ratio analysis for BCE and Telus based on their 2017/2016 annual reports.
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Chapter 15

- Updated chapter-opening vignette featuring Saskatchewan craft brewery start-up Farmery; includes video links to a CBC *Dragons’ Den* episode and a CBC interview.
- New Exhibit 15.1 example disclosure from Unilever Group Disclosure for Investment in Securities based on their December 31, 2017

PREFACE

Annual Report, providing context to students and aiding comprehension of chapter topics.

- Updated example presented in Exhibit 15.2 providing example real-world financial statement excerpts with financial disclosures for Indigo based on its investments in associates for Calendar Club.
- Updated Exhibit 15.3 based on Freshii and its post-IPO share price.
- Updated Accounting for Investments section based on IFRS 9.
- New *Important Tip* box on the amortized cost method of accounting for bonds.
- New *Ethical Impact* box placing the student in the role of controller, reporting to the VP of finance, with a valuation concern over the investment portfolio of solar energy bonds. Students are asked what they would do and are given the opportunity to reflect on their reaction to the scenario.
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Chapter 16

- Updated chapter-opening vignette features Butter Avenue patisserie and includes a video link for students to learn more about the company.
- Updated *Important Tip* box on net cash inflows for operating activities.
- New real-company financial statement presentation provided for Australia's Treasury Wine Estates, parent company of such brands as Sterling Vineyards, Wolf Blass, and Lindeman's, for the year ended June 30, 2017 illustrating the direct method of reporting cash flow.
- New *Ethical Impact* box featuring a sustainable clothing distributor with an aggressive expansion strategy. President and founder Jacob River has identified the bank's focus on a reported increase in cash flow from operating activities on the cash flow statement. Later, Jacob presents to the student some proposed adjustments to their prepared cash flow statement; the box asks students to consider

the questions What are your thoughts on each of these requests? Why do you think Jacob is concerned about these issues? and What will you do?

- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Chapter 17

- New chapter-opening vignette featuring Roots Canada, providing a summary of the company's inception to its recent IPO.
- New *Ethical Impact* box featuring concerns over releasing financial information through social media. The student is presented with a scenario where they have accepted a position with a nationwide property developer that is considering going public next year. The student reports directly to the VP of finance, Mia Kruner, and the student is asked to manage the release of financial information through social media to help reach their established group of followers to get them excited for the upcoming IPO investment opportunity. The scenario asks students What will you do to ensure your plan meets these objectives? and Do you have any concerns with Mia's request?
- New *Knowledge Check-Up* review section added with ten multiple choice questions written by the author to test the reading readiness of students as they move on to the end of chapter content.

Appendix I

- All rates (i.e., EI, CPP, provincial tax, federal tax) are updated to 2018.

Appendix II

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

Appendix III

- Sample chart of accounts updated to reflect textbook content.

Market Leading Technology



LEARN WITHOUT LIMITS

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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- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever

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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.

Mobile Access

Connect makes it easy for students to read and learn using their smartphones and tablets. With the mobile app, students can study on the go—including reading and listening using the audio functionality—without constant need for Internet access.

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 Laura Dallas, Kwantlen Polytechnic University. Additional accuracy checking was provided by Rhonda Heninger, SAIT Polytechnic. 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 Sixteenth Canadian Edition. Sarah Magdalinski, Northern Alberta Institute of Technology, 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 Lise Wall, Red River College, are fully integrated with the text to visually present chapter concepts.

Instructor's Manual

The Instructor's Manual, revised by Milena Ceglie, Durham College, 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, have been revised by Laura Dallas, Kwantlen Polytechnic University.

Extend Your Knowledge

This supplemental material has been developed to delve into more detail for specific topics.

Excel Template Solutions

Solutions to the problems using Excel templates are available for instructors. These have been revised by Heather Cornish, Northern Alberta Institute of Technology.

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 Sixteenth Canadian Edition have been revised by Laura Dallas, Kwantlen Polytechnic University. Additional technical checking was completed by Rhonda Heninger, Southern Alberta Institute of Technology.

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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.

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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. *In preparation for the 16th edition, the following reviewers provided us with invaluable feedback based on the 15th edition:*

REVIEWERS

Treena Burns	Seneca College	Darlene Lowe	MacEwan University
Milena Ceglie	Durham College	Heather Martin	Nova Scotia Community College
Barb Chapple	St. Clair College	Michelle Nicholson	Okanagan College
Heather Cornish	Northern Alberta Institute of Technology	Dal Pirot	MacEwan University
John Currie	Humber College	James Reimer	Lethbridge College
Samuel Kiragu	Nova Scotia Community College	Joe Toste	Centennial College
		Shawn West	Mount Saint Vincent University

PREFACE

Fundamental Accounting Principles continues to set the bar in terms of its leading-edge approach to educating today's students to both excel as users of financial accounting as well as having outstanding technical understanding through a commitment to relevance, quality, 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, Cheryl Wilson, Sarah Magdalinski, Rhonda Heninger, Milena Ceglie, Lise Wall, Heather Cornish, and Amy Hoggard. 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 friend and colleague Laura Dallas for committing to developing a leading-edge product that is technically strong, relevant, and an effective learning tool for introductory accounting students. Laura's outstanding dedication ensured the end-of-chapter questions are accurate, logical, and easy for students to understand. I am thankful to McGraw-Hill Ryerson's exceptional team, including Rhondda McNabb, Joy Armitage Taylor, Loula March, Alwynn Pinard, Jessica Barnoski, Kelli Howey, Karen Hunter, and Shalini Khanna, who have been exceptionally responsive, supportive, and dedicated to producing a top-tier product.

I am incredibly appreciative to my colleagues, passionate and forward thinking educators, current and past students, the phenomenal group of entrepreneurs and outstanding professional accountants across Canada 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

 Sixteenth Canadian Edition

FUNDAMENTAL **ACCOUNTING** PRINCIPLES

VOLUME 2

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.
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