

WEYGANDT KIESO KIMMEL TRENHOLM WARREN NOVAK

ACCOUNTING PRINCIPLES

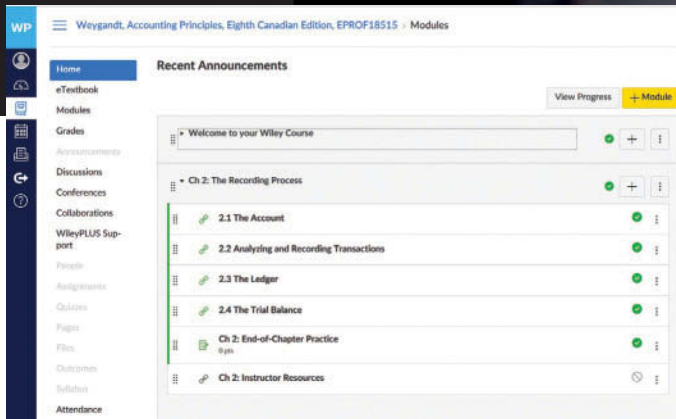
VOLUME 1

EIGHTH CANADIAN EDITION



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Accounting Principles

Accounting Principles

Eighth Canadian Edition

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To our students—past, present, and future

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Eighth Canadian Edition

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Professor Trenholm is a member of the boards of several public, Crown, and private corporations, including Plazacorp Retail REIT, NB Power, and the International Development Research Centre. She is a past board member of Atomic Energy of Canada Limited, the Canadian Institute of Chartered Accountants (now known as CPA Canada), and the Atlantic School of Chartered Accountancy (now known as CPA Atlantic School of Business), and past president of the New Brunswick Institute of Chartered Accountants (now known as CPA New Brunswick). She has extensive service as chair and a member of a wide range of committees at the provincial, national, and international levels of the accounting profession. In addition to her involvement with her profession, she has also served in leadership roles at the university and in the community.

She has presented at many conferences and published widely in the field of accounting education and standard setting in journals including *Accounting Horizons*, *Journal of the Academy of Business Education*, *CAMagazine*, *CGA Magazine*, and *CMA Magazine*. She is also part of the Canadian author team of Kimmel, Weygandt, Kieso, Trenholm, and Irvine, *Financial Accounting: Tools for Business Decision-Making*, published by John Wiley & Sons Canada, Ltd.

VALERIE WARREN, M.B.A., CPA, CA, is an instructor at Kwantlen Polytechnic University in the Fraser Valley, British Columbia. She has a wide range of teaching experience in financial accounting and auditing. She is also currently the academic chair of the accounting program at Kwantlen. Ms. Warren has also been active in the accounting profession. She participated in the Institute of Chartered Accountants of British Columbia student education program in a variety of roles, including facilitator and marker. She also serves as a practice review officer for CPABC (Chartered Professional Accountants British Columbia), where she conducts practice reviews of national, regional, and local firms for compliance with current accounting and assurance standards. She is also the Canadian author of Moroney, Campbell, Hamilton, and Warren's *Auditing: A Practical Approach*, published by John Wiley & Sons Canada, Ltd.

LORI E. NOVAK, H.B.Comm., CPA, CGA, is an instructor at Red River College in Winnipeg, Manitoba. Her teaching experience includes course development and delivery in

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U.S. Edition

JERRY J. WEYGANDT, Ph.D., CPA, is Arthur Andersen Alumni Emeritus Professor of Accounting at the University of Wisconsin—Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in the *Accounting Review*, *Journal of Accounting Research*, *Accounting Horizons*, *Journal of Accountancy*, and other academic and professional journals. These articles have examined such financial reporting issues as accounting for price-level adjustments, pensions, convertible securities, stock option contracts, and interim reports. Professor Weygandt is author of other accounting and financial reporting books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of *The Accounting Review*; he also has served as President and Secretary-Treasurer of the American Accounting Association. In addition, he has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee of that organization. He has served on the FASB task force that examined the reporting issues related to accounting for income taxes and served as a trustee of the Financial Accounting Foundation. Professor Weygandt has received the Chancellor's Award for Excellence in Teaching and the Beta Gamma Sigma Dean's Teaching Award. He is on the board of directors of M & I Bank of Southern Wisconsin. He is the recipient of the Wisconsin Institute of CPAs' Outstanding Educator's Award and the Lifetime Achievement Award. In 2001, he received the American Accounting Association's Outstanding Educator Award.

DONALD E. KIESO, Ph.D., CPA, received his bachelor's degree from Aurora University and his doctorate in accounting from the University of Illinois. He has served as chairman of the Department of Accountancy and is currently the KPMG Emeritus Professor of Accounting at Northern Illinois University. He has public accounting experience

with PricewaterhouseCoopers (San Francisco and Chicago) and Arthur Andersen & Co. (Chicago) and research experience with the Research Division of the American Institute of Certified Public Accountants (New York). He has done post-doctoral work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and four Golden Apple Teaching Awards. Professor Kieso is the author of other accounting and business books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Illinois CPA Society. He has served as a member of the board of directors of the Illinois CPA Society, the AACSB's Accounting Accreditation Committees, and the State of Illinois Comptroller's Commission; as secretary-treasurer of the Federation of Schools of Accountancy; and as secretary-treasurer of the American Accounting Association. He is the recipient of the Outstanding Accounting Educator Award from the Illinois CPA Society, the FSA's Joseph A. Silvano Award of Merit, the NIU Foundation's Humanitarian Award for Service to Higher Education, the Distinguished Service Award from the Illinois CPA Society, and in 2003 an honorary doctorate from Aurora University.

PAUL D. KIMMEL, Ph.D., CPA, received his bachelor's degree from the University of Minnesota and his doctorate in accounting from the University of Wisconsin. He is an Associate Professor at the University of Wisconsin—Milwaukee, and has public accounting experience with Deloitte & Touche (Minneapolis). He was the recipient of the UWM School of Business Advisory Council Teaching Award, the Reggie Taite Excellence in Teaching Award, and is a three-time winner of the Outstanding Teaching Assistant Award at the University of Wisconsin. He is also a recipient of the Elijah Watts Sells Award for Honorary Distinction for his results on the CPA exam. He is a member of the American Accounting Association and the Institute of Management Accountants and has published articles in *Accounting Review*, *Accounting Horizons*, *Advances in Management Accounting*, *Managerial Finance*, *Issues in Accounting Education*, and *Journal of Accounting Education*, as well as other journals. His research interests include accounting for financial instruments and innovation in accounting education. He has published papers and given numerous talks on incorporating critical thinking into accounting education, and helped prepare a catalogue of critical thinking resources for the Federated Schools of Accountancy.

The Use of Bloom's Taxonomy

Bloom's Taxonomy is a classification framework that you can use to develop your skills from the most basic to the most advanced competence levels: knowledge, comprehension, application, analysis, synthesis, and evaluation. These levels are in a hierarchy. In order to perform at each level, you must have mastered all prior levels.

Questions, exercises, and problems at the end of each chapter of this text have been classified by the knowledge level required in answering each one. Below you will learn what your role is in each of the six skill levels and how you can demonstrate mastery at each level. Key word clues will help you recognize the skill level required for a particular question.

(K) Knowledge (Remembering)

Student's role: "I read, listen, watch, or observe; I take notes and am able to recall information; ask and respond to questions."

Student demonstrates knowledge by stating who, what, when, why, and how in the same form in which they learned it.

Key word clues: define, identify, label, name, etc.

(C) Comprehension (Understanding)

Student's role: "I understand the information or skill. I can recognize it in other forms and I can explain it to others and make use of it."

Student demonstrates comprehension by giving an example of how the information would be used.

Key word clues: describe, distinguish, give example, compare, differentiate, explain, etc.

(AP) Application (Solving the Problem)

Student's role: "I can apply my prior knowledge and understanding to new situations."

Student demonstrates knowledge by solving problems independently, recognizing when the information or skill is needed, and using it to solve new problems or complete tasks.

Key word clues: calculate, illustrate, prepare, complete, use, produce, etc.

(AN) Analysis (Detecting)

Student's role: "I can break down the information into simpler parts and understand how these parts are related."

Student demonstrates knowledge by recognizing patterns and hidden meanings, filling in missing information, correcting errors, and identifying components and effects.

Key word clues: analyze, break down, compare, contrast, deduce, differentiate, etc.

(S) Synthesis (Creating)

Student's role: "I use all knowledge, understanding, and skills to create alternatives. I can convey this information to others effectively."

Student demonstrates knowledge by acting as a guide to others, designing, and creating.

Key word clues: relate, tell, write, categorize, devise, formulate, generalize, create, design, etc.

(E) Evaluation (Appraisal)

Student's role: "I am open to and appreciative of the value of ideas, procedures, and methods and can make well-supported judgements, backed up by knowledge, understanding, and skills."

Student demonstrates knowledge by formulating and presenting well-supported judgement, displaying consideration of others, examining personal options, and making wise choices.

Key word clues: appraise, assess, criticize, critique, decide, evaluate, judge, justify, recommend, etc.

What TYPE of learner are you?

Understanding each of these basic learning styles enables the authors to engage students' minds and motivate them to do their best work, ultimately improving the experience for both students and faculty.

	Intake: To take in the information	To make a study package	Text features that may help you the most	Output: To do well on exams
VISUAL	<ul style="list-style-type: none"> • Pay close attention to charts, drawings, and handouts your instructors use. • Underline. • Use different colours. • Use symbols, flow charts, graphs, different arrangements on the page, white spaces. 	<p>Convert your lecture notes into “page pictures.” To do this:</p> <ul style="list-style-type: none"> • Use the “Intake” strategies. • Reconstruct images in different ways. • Redraw pages from memory. • Replace words with symbols and initials. • Look at your pages. 	<p>The Feature Story/Preview Infographics/Illustrations/Photos Accounting in Action insight boxes Accounting equation analyses Highlighted words Key Terms in blue Demonstration Problem/ Action Plan Questions/Exercises/Problems Financial Reporting and Analysis</p>	<ul style="list-style-type: none"> • Recall your “page pictures.” • Draw diagrams where appropriate. • Practise turning your visuals back into words.
AURAL	<ul style="list-style-type: none"> • Attend lectures and tutorials. • Discuss topics with students and instructors. • Explain new ideas to other people. • Record your lectures. • Leave spaces in your lecture notes for later recall. • Describe pictures and visuals to somebody who was not in class. 	<p>You may take poor notes because you prefer to listen. Therefore:</p> <ul style="list-style-type: none"> • Expand your notes by talking with others and with information from your textbook. • Record summarized notes and listen. • Read summarized notes out loud. • Explain your notes to another “aural” person. 	<p>Preview Accounting in Action insight boxes DO IT! Action Plan Summary of Learning Objectives Glossary Demonstration Problem/ Action Plan Self-Study Questions Contrast test passes Questions/Exercises/Problems Financial Reporting and Analysis Critical Thinking, particularly the Collaborative Learning Activities Ethics Case</p>	<ul style="list-style-type: none"> • Talk with the instructor. • Spend time in quiet places recalling the ideas. • Do extra assignments and attempt practice quizzes. • Say your answers out loud.
READING/ WRITING	<ul style="list-style-type: none"> • Use lists and headings. • Use dictionaries, glossaries, and definitions. • Read handouts, textbooks, and supplementary readings. • Use lecture notes. 	<ul style="list-style-type: none"> • Write out words again and again. • Reread notes silently. • Rewrite ideas and principles in other words. • Turn charts, diagrams, and other illustrations into statements. 	<p>The Feature Story/Learning Objectives Preview Accounting equation analyses DO IT! Action Plan Summary of Learning Objectives Glossary/Self-Study Questions Questions/Exercises/Problems Taking It Further Financial Reporting and Analysis Critical Thinking, particularly the Communication and Collaborative Learning Activities</p>	<ul style="list-style-type: none"> • Do extra assignments. • Practise with multiple-choice questions. • Write paragraphs, beginnings, and endings. • Write your lists in outline form. • Arrange your words into hierarchies and points.
KINESTHETIC	<ul style="list-style-type: none"> • Use all your senses. • Go to labs, take field trips. • Listen to real-life examples. • Pay attention to applications. • Use hands-on approaches. • Use trial-and-error methods. 	<p>You may take poor notes because topics do not seem concrete or relevant. Therefore:</p> <ul style="list-style-type: none"> • Put examples in your summaries. • Use case studies and applications to help with principles and abstract concepts. • Talk about your notes with another “kinesthetic” person. • Use pictures and photographs that illustrate an idea. 	<p>The Feature Story/Preview Infographics/Illustrations DO IT! Action Plan Summary of Learning Objectives Demonstration Problem/Action Plan Self-Study Questions Questions/Exercises/Problems Financial Reporting and Analysis Critical Thinking, particularly the Communication and Collaborative Learning Activities</p>	<ul style="list-style-type: none"> • Do extra assignments. • Role-play the exam situation.

Student-Focused and Instructor-Friendly—*The Solution for Your Accounting Principles Class!*

In the previous editions of *Accounting Principles*, we sought to create a book about accounting that makes the subject clear and fascinating to students. And that is still our passion: to empower students to succeed by giving them the tools and the motivation they need to excel in their accounting courses and their future careers.

Preparing the Eighth Canadian Edition

This revision of *Accounting Principles* provided us with an opportunity to improve a textbook that had already set high standards for quality. In this edition, we continue our incorporation of International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) into the text material. Differences between IFRS and ASPE are highlighted throughout each chapter with an ASPE word mark.

While we now live in a multiple GAAP world, the basic accounting cycle has not changed. Thus, our focus for introductory students continues to be the fundamental principles. We have undertaken to reduce unnecessary complexities where possible to ensure students stay focused on the concepts that really matter.

Engaging Digitally


Accounting Principles, Eighth Canadian Edition, is completely integrated with *WileyPLUS*, featuring a suite of teaching and learning resources. *WileyPLUS* allows students to create a personalized study plan, assess their progress along the way, and access the content and resources needed to master the material. *WileyPLUS* provides immediate insight to student strengths and problem areas with visual reports that highlight what's most important for both the instructor and student.

Many dynamic resources are integrated into the course to help students build their knowledge and understanding, stay motivated, and prepare for decision making in a real-world context. *WileyPLUS* also includes Orion, an integrated adaptive practice that helps students build proficiency and use their study time most effectively. Additional features of the *WileyPLUS* course include:

Excel Templates and Excel Function Videos: These provide students with step-by-step examples of how to use Excel Functions. Excel tutorials and templates are also available for the **Santé Smoothie Saga** serial problem.

A **new accounting-specific data analytics module** with interactive lessons, case studies, and videos. This module has been prepared using industry-validated content to help

you develop the professional competencies needed for professional exams and the changing workforce.

Concept Walkthrough Videos using lightboard technology explain core accounting concepts to students. In addition, **Solution Walkthrough videos** offer students just-in-time homework assistance and problem-solving techniques. Students can watch these multiple times if needed, to master the material. The videos, which are identified throughout the text by a  **Video** word mark, are great for students to preview before class or to use for review afterwards.

New and Continuing Features

Unparalleled Pedagogical Features

Alternative Terminology notes throughout the chapter familiarize the user with other commonly used terms. **Helpful Hints** in the margins help clarify concepts being discussed.

The **Ethics Insight** feature illustrates how a particular accounting concept can give rise to an ethical dilemma in a business setting.

Accounting in Action insight boxes give the student glimpses into how companies make decisions. These high-interest boxes are classified by four different points of view—Across the Organization, Business Insight, Ethics, and All About You. Suggested answers appear at the end of the chapter.

A **DO IT!** feature follows each key topic. **DO IT!** exercises ask students to put their newly acquired knowledge to work. They outline an **Action Plan** needed to complete the exercise, and the accompanying **Solution** helps students see how the problem should be solved. **Related exercise material** is presented at the end of the DO IT! feature.

Comparing IFRS and ASPE charts provide a summary at the end of each chapter of the key differences between the two sets of accounting standards.

Demonstration Problems review the chapter material. These sample problems provide students with **Action Plans** that list the strategies needed to solve the problem and **Solutions**.

Unparalleled End-of-Chapter Material

Brief Exercises generally focus on one learning objective at a time. They help students build confidence in their basic skills and knowledge. (These are keyed to learning objectives and Bloom's Taxonomy.)

Exercises that gradually increase in difficulty help learners to build confidence in their ability to use the material learned in the chapter. (These are keyed to learning objectives and Bloom's Taxonomy.)

Each **Problem** helps students pull together and apply several concepts of the chapter. Two sets of problems—Set A and Set B—are usually keyed to the same learning objectives

and cognitive level. These provide additional opportunities to apply concepts learned in the chapter.

Taking It Further is an extra question at the end of each problem designed to challenge the learner to think beyond the basic concepts covered in the problem, and to provide written explanations. Instructors may assign problems with or without this extra element.

In selected chapters, a **Cumulative Coverage Problem** follows the Set A and Set B Problems.

The **Broadening Your Perspective** section helps the learner pull together various concepts covered in the chapter and apply them to real-life business decisions.

The **Santé Smoothie Saga** is a serial problem found in each chapter. It follows the operations of a hypothetical small company, Santé Smoothies, throughout the text. The company is owned by a student and the purpose of the serial problem is to reinforce the application of accounting to the type of business a student could operate.

Relevance for Users

It has always been our goal to motivate both accounting and non-accounting majors to learn accounting. In order to illustrate the importance of financial accounting to non-accounting majors, we started Chapter 1 with a section about why accounting is important to everyone, not just accountants. We consistently emphasize this point throughout the text in our All About You Accounting in Action insight boxes. These boxes demonstrate how learning accounting is useful for students in managing their own financial affairs. We also have many Across the Organization Accounting in Action insight boxes. These clearly demonstrate how accounting is used to address issues in marketing, finance, management, and other functions. It is our sincere hope that non-accounting majors have the opportunity to appreciate accounting both personally and professionally.

This edition continues, and expands, the inclusion of user-oriented material to demonstrate the relevance of accounting to all students, no matter what their area of study is. We have a new focus company this edition—Aritzia Inc., a fashion retailer, was chosen because of its appeal to post-secondary students. References to Aritzia have been made throughout each chapter, including in ratio analysis illustrations, end-of-chapter assignments, and examples cited from Aritzia's financial statements reproduced in Appendix A at the end of the textbook.

This edition was also updated to ensure that it continues to be relevant and fresh. The textbook has a bold and colourful appearance. This new look is accompanied with appealing chapter opening stories. The feature stories were carefully selected to ensure a balanced representation of private and public entities in a variety of industries to reflect the current economic reality in Canada. With the new colourful design comes an increased emphasis on the learning objectives at the beginning of each chapter, to ensure students can easily identify the key concepts to be mastered. Furthermore, many real-world examples remain in the text as appropriate. Our textbook includes references to over 200 real companies.

Realizing that ethics is the basis for a strong business education, an Ethics Insight box has been included in each chapter. Each Ethics Insight box describes a real-world ethical dilemma. Students are encouraged to think of the impact and consequences of these situations. This exposure is so students begin to analyze ethical issues and to promote the development of their ethical reasoning skills.

Responding to instructor requests, we have also added a video feature called Office Hours Videos. These are short videos included in each chapter on core accounting concepts and problem walkthroughs for selected end-of-chapter material to supplement student learning. We continue to feature problem material that allows students to tie the concepts they are learning together and place them in context. Central to this is the Santé Smoothie Saga, a serial problem that allows students to apply chapter topics to an ongoing scenario where a young entrepreneur builds her small business.

Topical and Organization Changes

Where there is additional topical coverage, it was written to help students better prepare for the complexities of today's world. As always, each topic had to pass a strict test to warrant inclusion: an item was added only if it represented a major concept, issue, or procedure that a beginning student should understand. Changes to the text's organization were made to simplify chapters or to provide instructors with greater flexibility of coverage.

Some of the more significant additions in each chapter include the following:

- **Chapter 1:** Accounting in Action introduces our feature company Aritzia Inc., one of Canada's leading women's clothing retailers. The chapter has been refreshed and includes the relevant concepts from the revised *Conceptual Framework for Financial Reporting* issued by the IASB in March, 2018. A new, more visually appealing graphic depicting the conceptual framework is included. End-of-chapter material has been refreshed to reflect the changes in the chapter.
- **Chapter 2:** The Recording Process includes new visuals of the accounting cycle throughout the chapter to remind students of the cyclical nature of the accounting process and to provide a roadmap for Chapters 2 to 4.
- **Chapter 3:** The terminology throughout the chapter has been updated to comply with the conceptual framework and the new revenue recognition standard, IFRS 15.
- **Chapter 4:** Chapter 4 starts with a new feature story on Herschel Supply Company. The discussion of the classified balance sheet is demonstrated with updated excerpts from the financial statements of Canadian public companies.
- **Chapter 5:** Accounting for Merchandising Operations now includes an additional Appendix that illustrates revenue recognition for a merchandising operation using *IFRS 15 Revenue from Contracts with Customers*, which we refer to as the contract-based approach. The new appendix describes the basic accounting required

- using IFRS 15 for sales transactions. The material presented will familiarize students with the contract-based approach and prepare them for a deeper look at the standard in Chapter 11. In addition to the new appendix, a brief introduction to the core concepts and terminology for revenue recognition for companies following IFRS and using the contract-based approach to revenue recognition, and for companies following ASPE and using the earnings approach to revenue recognition has been included in the chapter under Recording Sales of Merchandise. End-of-chapter materials have been expanded to reflect the changes in the chapter.
- **Chapter 6:** Inventory Costing has been refreshed. Merchandising sales transactions are presented using the earnings approach to revenue recognition. We chose to feature the earnings approach in this chapter to maintain consistency with the use of ASPE by a proprietorship. The differences that exist between ASPE and IFRS in relation to inventory costing are minor and do not change the key concepts discussed in this chapter. The end-of-chapter materials have also been refreshed.
 - **Chapter 7:** Internal Control and Cash now begins with a new feature company story on DAVIDsTEA. A new feature box on Bitcoin has been added to the chapter.
 - **Chapter 8:** Accounting for Receivables has been refreshed. Terminology has been updated to be consistent with *IFRS 9 Financial Instruments*. Merchandising sales transactions are presented using the earnings approach to revenue recognition. We chose to feature the earnings approach in this chapter to maintain consistency with the use of ASPE by a proprietorship. The differences that exist between ASPE and IFRS in relation to accounts receivable are minor and do not change the key concepts discussed in this chapter. The end-of-chapter materials have also been refreshed.
 - **Chapter 9:** Long-Lived Assets includes a new feature story about Kwantlen Polytechnic University and the All About You feature box has been updated with a story about Game of Thrones, a popular television show. The end-of-chapter materials have also been refreshed.
 - **Chapter 10:** Current Liabilities and Payroll now has an updated discussion on gift cards to comply with IFRS 15.
 - **Chapter 11:** Financial Reporting Concepts includes a new feature story on Cineplex. The chapter discusses further changes to the conceptual framework issued by the IASB in March, 2018. A new more visually appealing graphic is included depicting the conceptual framework. The chapter discussion relating to revenue recognition under both IFRS and ASPE has been expanded and includes deeper coverage about variable consideration and estimation methods used under *IFRS 15 Revenue from Contracts with Customers*. The revenue discussions have been reorganized in the chapter to accommodate the expanded discussion. End-of-chapter materials have been expanded and refreshed for the changes in the chapter.
 - **Chapter 12:** Accounting for Partnerships now has an expanded explanation of a bonus to a new partner.
 - **Chapter 13:** Introduction to Corporations has been refreshed. End-of-chapter materials include additional brief exercises related to dividend calculations and journal entries.
 - **Chapter 14:** Corporations: Additional Topics and IFRS includes a new feature story about Canada Goose and the chapter has been refreshed.
 - **Chapter 15:** Non-current Liabilities has been updated to reflect IFRS 16, the new lease standard. Two new feature boxes have been added on bonds.
 - **Chapter 16:** Investments includes a new feature story about Nutrien. The accounts used to recognize investments transactions have been revised to be consistent with the reporting requirements in *IFRS 9 Financial Instruments*. One account, “Investment Income or Loss” is used to recognize dividend revenue, interest revenue and gains and losses that result from investments classified as fair value through profit or loss. We have revised the asset account names used for investments to reduce the number of accounts used in the chapter. Additional information is provided in the end-of-chapter materials to assist students with appropriate recording and classification of the various investments.
 - **Chapter 17:** The Cash Flow Statement now includes a new visual on the classification of cash flows. The free cash flow discussion has been updated to reflect Aritzia.
 - **Chapter 18:** Financial Statement Analysis continues to separate the material on ratio analysis into the three types of ratios: liquidity, solvency, and profitability. The financial statements analysis has been refreshed.

Unparalleled End-of-Chapter Material

The eighth Canadian edition continues to have a complete range of end-of-chapter material to satisfy all courses. This material guides students through the basic levels of cognitive understanding—knowledge, comprehension, application, analysis, synthesis, and evaluation—in a step-by-step process, starting first with questions, followed by brief exercises, exercises, problems, and finally, integrative cases to broaden a student’s perspective.

Using Bloom’s Taxonomy of Learning, all of the end-of-chapter material was carefully reviewed. A Taking It Further question is included at the end of every problem. These questions are designed to help you determine how far your students have taken their understanding of the material. To ensure maximum flexibility, problems can also be assigned with or without the Taking It Further question. They also make excellent classroom discussion questions.

The Santé Smoothie Saga, a serial problem in each chapter, follows the life of a simulated student-owned company. This edition continues to include moving the business into a family-owned corporation. The conceptual material in each

problem attempts to integrate real-life experience and examples with the changing demands of financial accounting and reporting requirements.

The Collaborative Learning Activities address several major concerns related to improving student learning. They provide an effective method of actively engaging students that cannot be accomplished through traditional lecture and large group discussion. Students benefit from hearing multiple perspectives from their group members and enhance their learning through explaining ideas to other students. Instructor resource material includes information on how to use these activities in class as well as suggestions for modifying them depending on the amount of time available for the activity.

The All About You boxes mentioned earlier are mirrored in the Broadening Your Perspective section. The All About

You activities have been designed to help students appreciate that learning accounting is helpful for everyone, regardless of their current and future career plans.

In total, we have over 1,844 end-of-chapter items for students to test their understanding of accounting.

Special Student Supplements

Accounting Principles is accompanied by special student supplements to help students master the material and achieve success in their studies.

Canadian Financial Accounting Cases by Camillo Lento and Jo-Anne Ryan provides additional cases at the introductory level that may be used either for assignment purposes or for in-class discussion.

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During the course of developing *Accounting Principles*, Eighth Canadian Edition, the authors benefited from the feedback from instructors and students of accounting principles courses throughout the country, including many users of the previous editions of this text. The constructive suggestions and innovative ideas helped focus this revision on motivating students to want to learn accounting. In addition, the input and advice of the ancillary authors, contributors, and proofreaders provided valuable feedback throughout the development of this edition.

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Through her editorial contributions, Laurel Hyatt added to the real-world flavour of the text and its clarity.

Accuracy

We have made every effort to ensure that this text is error-free. *Accounting Principles* has been extensively reviewed and proofed prior to publication. Moreover, the end-of-chapter material has been independently solved and checked multiple times, prior to publication of the text. We would like to express our sincere gratitude to everyone who spent countless hours ensuring the accuracy of this text and the solutions to the end-of-chapter material.

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We have tried our best to produce a text and supplement package that is error-free and meets your specific needs. Suggestions and comments from all users—instructors and students alike—are encouraged and appreciated.

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Accounting in Action

The **Chapter Preview** outlines the major topics and subtopics you will see in the chapter.

Chapter Preview

The feature story about Aritzia Inc. highlights the importance of having good financial information to make good business decisions. This applies not just to companies but also to individuals. You cannot earn a living, spend money, buy on credit, make an investment, or pay taxes without receiving, using, or giving financial information. Good decision-making for companies and individuals depends on good information.

This chapter shows you that accounting is the system that produces useful financial information for decision-making.

The **Feature Story** helps you see how the chapter topic fits with the real world of accounting and business. The story will be mentioned throughout the chapter.

Feature Story

Accounting Keeps Aritzia Fashionably in the Black

VANCOUVER, B.C.—If you ever operated a babysitting or lawn-mowing service, you probably tried to make more

money by finding as many customers as possible and keeping expenses down. You were using the same principles that businesses use to maximize profit.

Enterprises need a successful business model—a way of generating regular sales that over the long run exceed expenses, which results in profit. Companies use accounting to record

financial information, which they report in financial statements that internal users (such as management) and external users (such as shareholders and banks) use to make decisions. For example, internal users need to know how much to charge for products or services to maximize profits without losing sales to competitors. External users need to decide if the company is worth investing in or lending money to.

Take as an example Aritzia Inc., one of Canada's leading women's clothing retailers. It designs, oversees the production of, and sells clothes and accessories that it markets under several in-house brands, including Tna, Talula, and Wilfred. It has more than 80 stores in Canada and the United States, as well as an online shopping site. Aritzia was founded by Brian Hill, who opened the first boutique in a Vancouver mall in 1984, followed by four more stores in the area. In the late 1990s, Aritzia opened stores across Canada.

But when Mr. Hill sought to move into the U.S. market in 2005, he didn't want to finance the expansion by himself. "If I financed the whole thing myself, it would have meant putting everything on the line again, something I have had to do over and over again in building Aritzia. It was time for me to take some money off the table and find a financial partner," said Mr. Hill, the company's chief executive officer. He chose Berkshire Partners, an American private equity firm, which took a majority stake in the company.

In 2016, Aritzia was looking to open even more stores, so it went public, selling shares on the Toronto Stock Exchange.

Mr. Hill and Berkshire Partners still control the company by owning multiple voting shares.

What kinds of things does Aritzia need to keep track of in its accounts? Like any company, Aritzia records revenues (sales), which totalled \$743 million in 2018, and expenses, which were \$686 million, resulting in a profit of \$57 million. It also records assets (the value of what it owns at a certain point in time) and liabilities (the value of what it owes to others).

Companies such as Aritzia need to boost revenues and reduce expenses. To increase revenues, Aritzia can use several strategies, including expanding or renovating existing stores, opening more stores in existing markets, opening stores in new markets, and launching new brands to appeal to new types of customers. To reduce expenses, Aritzia buys many of its raw materials directly from mills, and partners with long-standing manufacturers and new ones that use innovative manufacturing processes.

All of these efforts are recorded by accounting—a crucial business tool that keeps Aritzia fashionably in the black.

Sources: "Fashion Retailer Aritzia Files to Go Public," CBC.ca, August 18, 2016; Imran Amed, "CEO Talk: Brian Hill, Chief Executive Officer, Aritzia," *Businessoffashion.com*, August 25, 2009; Aritzia 2017 annual report; Aritzia corporate website, www.aritzia.com.

Learning Objectives show what you should be able to do after learning the specific concepts presented in the chapter.

Chapter Outline

LEARNING OBJECTIVES

<p>LO 1 Identify the use and users of accounting and the objective of financial reporting.</p>	<p>Why Is Accounting Important?</p> <ul style="list-style-type: none"> Using accounting information Objective of financial reporting 	<p>DO IT! 1.1 Users of accounting information</p>
<p>LO 2 Compare the different forms of business organization.</p>	<p>Forms of Business Organization</p> <ul style="list-style-type: none"> Proprietorship Partnership Corporation 	<p>DO IT! 1.2 Types of business organization</p>
<p>LO 3 Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.</p>	<p>Generally Accepted Accounting Principles</p> <ul style="list-style-type: none"> Ethics in financial reporting Conceptual framework Accounting standards 	<p>DO IT! 1.3 Building blocks of accounting</p>

<p>LO 4 Describe the components of the financial statements and explain the accounting equation.</p>	<p>The Accounting Model</p> <ul style="list-style-type: none"> • Financial statements • The expanded accounting equation 	<p>DO IT! 1.4 The accounting equation</p>
<p>LO 5 Analyze the effects of business transactions on the accounting equation.</p>	<p>Transaction Analysis</p>	<p>DO IT! 1.5 Tabular analysis</p>
<p>LO 6 Prepare financial statements.</p>	<p>Preparing Financial Statements</p> <ul style="list-style-type: none"> • Income statement • Statement of owner's equity • Balance sheet • Cash flow statement • Understanding the information in the financial statements 	<p>DO IT! 1.6 Financial statements</p>

Why Is Accounting Important?

LEARNING OBJECTIVE 1

Identify the use and users of accounting and the objective of financial reporting.

Accounting is the information system that identifies, records, and communicates the economic events of an organization to a wide variety of interested users. The world's economic systems depend on highly transparent and relevant financial reporting that provides a true representation of the economic events. When that does not happen, it can have disastrous results. Lehman Brothers, a major United States bank, used misleading accounting practices to reduce its debt and make its financial position healthier than it was. Not only were Lehman Brothers' investors and lenders unaware of the bank's financial difficulties when the company went into bankruptcy, but economists believe the bankruptcy was a major contributor to the worldwide economic crisis that began in 2008.

As a starting point to the accounting process, a company identifies the economic events relevant to its business. Examples of economic events are the sale of apparel and accessories by Aritzia Inc., the sale of coffee and donuts by Tim Hortons, and the payment of wages by Rogers Communications. Once a company like Aritzia identifies economic events, it records those events in order to provide a history of its financial activities. Recording consists of keeping a systematic, chronological diary of events, measured in dollars and cents. The systematic collection of these data allows Aritzia to prepare financial statements that are then used to communicate financial information to interested users. Financial statements report the recorded data in a standardized way to make the reported information meaningful. For example, Aritzia accumulates all sales transactions over a certain period of time and reports the data as one amount in the company's financial statements. Such data are said to be reported in the aggregate. By presenting the recorded data in the aggregate, the accounting process simplifies the multitude of transactions and makes a series of activities understandable and meaningful.

Essential (key) terms are printed in blue when they first appear, and are defined in the end-of-chapter glossary.

A vital element in communicating economic events is the accountant's ability to analyze and interpret the reported information. Analysis involves using ratios, percentages, graphs, and charts to highlight significant financial trends and relationships. Interpretation involves explaining the uses, meaning, and limitations of reported data. Appendix A at the end of this text shows the financial statements of Aritzia Inc. We refer to these statements at various places throughout the textbook. At this point, these financial statements probably strike you as complex and confusing. By the end of this course, you'll be surprised at your ability to understand, analyze, and interpret them.

You should understand that the accounting process includes the bookkeeping function. Bookkeeping usually involves only the recording of economic events. It is therefore just one part of the accounting process. In total, accounting involves the entire process of identifying, recording, and communicating economic events.

You might think this is all well and good for students who want to become accountants, but what about someone who has plans to be anything *but* an accountant?

Understanding the basics of accounting is helpful for almost every endeavour you can think of. Whether you plan to own your own business in the future, work for someone else in their business, or invest in a business, learning how to read and interpret financial information is a valuable set of skills.

When you study accounting, you will also learn a lot about management, finance, and marketing, which will give you a solid foundation for your future studies. For example, you will learn how making a sale is meaningless unless it is a profitable sale and the money can eventually be collected from the customer. Marketing managers must also be able to decide pricing strategies based on costs. Accounting is what quantifies these costs and explains why a product or service costs what it does. So think of this textbook as your introduction to accounting across the organization.

It doesn't matter if you plan to become a doctor, lawyer, social worker, teacher, engineer, architect, or entrepreneur—whatever you choose, a working knowledge of accounting will be relevant and useful. Make the most of this course—it will serve you for a lifetime in ways you cannot now imagine.

Accounting in Action insight features give examples of accounting situations from different perspectives: all about you, across the organization, and in terms of business and ethics. At the end of the chapter, you will find answers to the questions that are asked after each insight.

All About You



Fotografias de Rodolfo Velasco/ Getty Images

We all know the importance of literacy. But what about financial literacy—the ability to understand and manage your finances? It seems Canadians don't place the same importance on financial literacy—but with rising household debt levels, falling savings levels, increasing personal bankruptcies, and continuing economic uncertainty, they should. According to the most recent Statistics Canada survey on financial literacy, in 2014 only 7.1% of adult Canadians considered themselves “very knowledgeable” about their finances.

There is movement on several fronts to improve financial literacy. For example, the federal government in 2014 appointed its first-ever financial literacy leader, who helped launch a national financial literacy strategy the following year. One of the strategy's activities was partnering in a pilot project with the United Way of Ottawa to create an app to encourage people to save. More than 1,000 signed up for the Small Change app. Over four months in 2016, they saved a total of \$46,716 by doing things such as bringing their lunch to work and brewing their own coffee. Some financial gurus are also spreading the word about the need to get a grip on personal finance. Gail Vaz-Oxlade, for instance, is urging

Canadians to be “debt-free forever” through several best-selling books and popular TV shows. Financial literacy experts point out that making the right financial decisions can have a major impact on an individual's financial well-being, health, and happiness.

Learning the basics of accounting will help you make the right financial decisions. Accounting will help you make investment decisions, determine how much interest you are paying on your student loan or credit cards, and prepare your personal budget. To demonstrate the value of accounting to you, included in each chapter is an “All About You” feature and a related activity (BYP.5) that links accounting to your life as a student or to a situation you are likely to face.

Sources: “Improving Financial Literacy through Mobile Technology: Small Change Pilot Program Outcomes,” Financial Consumer Agency of Canada, January 2018; “Canadian Financial Capability Survey, 2014,” Statistics Canada, *The Daily*, November 6, 2014; Gail Vaz-Oxlade's personal website, www.gailvazoxlade.com.

How might learning accounting help you make sure that your employer or bank hasn't made an error with your paycheque or bank account?

Using Accounting Information

There are two broad groups of users of accounting information: internal users and external users.

Internal Users

Internal users of accounting information plan, organize, and run companies. They work for the company. This includes finance directors, marketing managers, human resources personnel, production supervisors, and company officers. In running a business, internal users must answer many important questions, as shown in **Illustration 1.1**.



Finance

Is there enough cash to pay the bills?



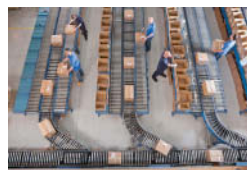
Marketing

What price should we sell smart phones for to maximize profits?



Human Resources

How many employees can we afford to hire this year?



Production

Which product line is the most profitable?

Photo Credits: Finance: John Kuczala/Getty Images; Marketing: Jonathan Kitchen/Getty Images; Production: Echo/Getty Images

ILLUSTRATION 1.1

Questions asked by internal users

To answer these and other questions, users need detailed information on a timely basis; that is, it must be available when needed. Some examples of information that internal users need include:

- forecasts of cash flows for the next year,
- projections of profit from new sales campaigns,
- analyses of salary costs, and
- budgeted financial statements.

Internal users generally have direct access to the business's accounting information and are able to request a wide variety of custom reports designed for their specific needs.

External Users

There are several types of external users of accounting information.

1. **Investors**, who are owners—or potential owners—of the business, use accounting information to make decisions to buy, hold, or sell their ownership interest.
2. **Creditors**—persons or other businesses that are owed money by the business, such as suppliers and bankers—use accounting information to evaluate the risks of granting credit or lending money.

Investors and creditors are the main external users of accounting information, but there are also many other external users with a large variety of information needs and questions. Some examples of other external users and their information needs are the following:

- Labour unions want to know whether the owners can afford to pay increased salaries and benefits to their members.
- Customers are interested in whether a company will continue to honour its product warranties and support its product lines.
- Taxing authorities, such as the Canada Revenue Agency, want to know whether the company respects the tax laws.
- Regulatory agencies, such as provincial securities commissions that regulate companies that sell shares to the public, want to know whether the company is respecting established rules.
- Economic planners use accounting information to forecast economic activity.

Some questions that external users may ask about a company are shown in **Illustration 1.2**.

ILLUSTRATION 1.2
Questions asked by external users



Investors

Is the company earning enough to give me a return on my investment?



Creditors

Does the company generate enough cash flow to pay me the amounts I am owed?



Labour Unions

Can the company afford to increase our members' benefits?



Customers

Will the company stay in business long enough to service the products I buy from it?

Photo Credits: Investors: Blend Images/Getty Images; Creditors: Claire Cordier/Getty Images; Labour Unions: DebbiSmirmoff/Getty Images; Customers: Kirby Hamilton/Getty Images

Unlike internal users, external users have access to only the accounting information available publicly and/or provided to them by the business. Determining what information should be provided to external users, and how, is the focus of financial accounting.

Objective of Financial Reporting

As stated, accounting information is communicated in financial reports, and the most common reports are financial statements. **The main objective of financial reporting is to provide useful information to investors and creditors (external users) to make decisions about providing resources to a business.** This information is most commonly supplied in general purpose financial statements, which we will discuss later in the chapter. Recall that internal users have access to a broader range of accounting information and do not necessarily need general purpose financial statements to make informed decisions, although they can be used by internal users as well.

To make the decision to invest in a business or to lend to a business, users need information about the business's ability to earn a profit and generate cash. Consequently, financial statements must give information about the following:

1. The business's economic resources. What resources does the business have that it can use to carry out its business activities?
2. The claims to the business's economic resources. What are the amounts owed by the business and the owner's rights to the business's resources?
3. Economic performance. Is the business generating a profit and enough cash to pay its debts, and provide a return to its owners?

We will learn more about financial statements in the following sections.

DO IT! exercises like the one here ask you to put your new knowledge to work. They also outline an Action Plan you need to follow to do the exercise. *Related exercise material* tells you which Brief Exercises (BE) and Exercises (E) at the end of the chapter have similar study objectives.

DO IT! 1.1 | Users of Accounting Information

The following is a list of some users of accounting information. For each user indicate:

- a. whether they are an internal or external user, and
- b. an example of a question that might be asked by that user.
 1. Creditor
 2. Canada Revenue Agency
 3. Investor
 4. General manager of the production department
 5. Manager of the human resources department

Solution

User	(a) Internal or External	(b) Question
1. Creditor	External	Will the business be able to pay back the loan?
2. Canada Revenue Agency	External	Is the company following the tax laws?
3. Investor	External	Should I invest money in the company?
4. General manager of the production department	Internal	How much will it cost to produce the product?
5. Manager of the human resources department	Internal	Can the company afford to give the employees raises?

Related exercise material: **BE1.1**, **E1.1**, and **E1.2**.

ACTION PLAN

- Understand that internal users work for the company and have direct access to the business's accounting information.
- Understand that external users are users who do not work for the company and have access to only the accounting information available publicly and/or provided to them by the company.
- Understand that users require information to make decisions.

Forms of Business Organization

LEARNING OBJECTIVE 2

Compare the different forms of business organization.

Now that we understand that accounting information is prepared to convey financial information to various users, it is important to note that how the financial statements are prepared depends on the form and nature of the business organization. Therefore, let's now discuss the different organizational forms a business can take. The most common forms of business organization are the proprietorship, partnership, and corporation.

Proprietorship

A business owned by one person is a **proprietorship**. The owner is usually the operator of the business. Small service businesses (hair stylists, plumbers, and mechanics), farms, and small retail stores (antique shops, corner grocery stores, and independent bookstores) are often proprietorships.

Often only a relatively small amount of money (capital) is needed to start in business as a proprietorship. The owner (the proprietor) receives any profits, suffers any losses, and is personally liable (responsible) for all debts of the business. This is known as **unlimited liability**.

There is no legal distinction between the business as an economic unit and the owner. Thus the life of a proprietorship is limited to the life of the owner. This also means that the profits of the business are reported and taxed on the owner's personal income tax return. However, for accounting purposes, the records of the proprietorship's business activities are kept separate from the personal records and activities of the owner.

Many businesses in Canada are proprietorships, but they earn only a small percentage of the revenue earned by Canadian businesses as a whole. In this textbook, we start with proprietorships because many students organize their first business this way.

Partnership

A business owned by two or more persons who are associated as partners is a **partnership**. In most aspects, a partnership is similar to a proprietorship, except that there is more than one owner. Partnerships are often used to organize service-type businesses, including professional practices (lawyers, doctors, architects, and accountants).

Typically, a partnership agreement (written or oral) defines the initial investments of each partner, the duties of each partner, how profit (or loss) will be divided, and what the settlement will be if a partner dies or withdraws. As in a proprietorship, for accounting purposes a partnership's business activities must be kept separate from the personal activities of each partner. The partners' share of the profit must be reported and taxed on the partners' personal income tax returns.

Each partner generally has unlimited liability for all debts of the partnership, even if one of the other partners created the debt. This means that any of the partners can be forced to give up his or her personal assets in order to repay the partnership debt, just as can happen to an owner in a proprietorship. We will learn more about partnerships in Chapter 12.

Helpful hints help clarify concepts or items that are being discussed.

HELPFUL HINT

You can usually tell if a company is a corporation by looking at its name. The words *Limited (Ltd.)*, *Incorporated (Inc.)*, or *Corporation (Corp.)* usually follow its name.

Corporation

A business that is organized (incorporated) as a separate legal entity under federal or provincial corporate law is a **corporation** (see **Helpful Hint**). A corporation can have one owner or many owners. A corporation is responsible for its debts and paying taxes on its profit. A corporation's ownership is divided into transferable shares. The corporation's separate legal status provides the owners of the shares (shareholders) with **limited liability** because they risk losing only the amount that they have invested in the company's shares. They are not personally liable for the debts of the corporate entity. Shareholders, also known as investors, may sell all or part of their shares to other investors at any time. Easy changes of ownership are part of what makes it attractive to invest in a corporation. Because ownership can be transferred through the sale of shares and without dissolving the corporation, the corporation enjoys an unlimited life.

Although there are many more proprietorships and partnerships than corporations in Canada, the revenue produced by corporations is far greater. Most of the largest companies in Canada—for example, Royal Bank of Canada, Canadian National Railway Company, Suncor Inc., and BCE Inc.—are corporations.

Corporations such as these are publicly traded. That is, their shares are listed on Canadian stock exchanges and the public can buy the shares. Public corporations commonly distribute their financial statements to shareholders, creditors, other interested parties, and the general public upon request. Aritzia Inc. is a public corporation, whose shares are traded on the Toronto Stock Exchange (TSX). You can access Aritzia's financial statements on its website and selected statements are also presented in Appendix A at the back of this textbook.

Other companies are private corporations, because they do not issue publicly traded shares. Some of the largest private companies in Canada include Hootsuite, Moosehead Breweries

Limited, McCain Foods Limited, and Goodlife Fitness Centres Inc. Like proprietorships and partnerships, these companies almost never distribute their financial statements publicly. We will discuss the corporate form of organization in Chapters 13 and 14.

Illustration 1.3 provides a summary of the important characteristics of each organizational form a business can take.

Characteristic	Proprietorship	Partnership	Corporation
Owners	Proprietor: one	Partners: two or more	Shareholders: one or more
Owner's liability	Unlimited	Unlimited	Limited
Private or public	Private	Usually private	Private or public
Taxation of profits	Paid by the owner	Paid by the partners	Paid by the corporation
Life of organization	Limited	Limited	Unlimited

ILLUSTRATION 1.3
Characteristics of business organizations

DO IT! 1.2 | Types of Business Organization

For each type of organization (proprietorship, partnership, and corporation) indicate:

1. Number and type of owners.
2. If it has limited or unlimited liability.
3. If it is a separate legal entity from its owners.

ACTION PLAN

- Understand the characteristics of the most common forms of business organization.

Solution

Proprietorship	Partnership	Corporation
1. Proprietor: one	Partners: two or more	Shareholders: one or more
2. Unlimited	Unlimited	Limited
3. Not a separate legal entity from its owners	Not a separate legal entity from the partners	Separate legal entity from the shareholders

Related exercise material: **BE1.2** and **E1.3**.

Generally Accepted Accounting Principles

LEARNING OBJECTIVE 3

Explain the building blocks of accounting: ethics and the concepts included in the conceptual framework.

In order to prepare useful financial information, the accounting profession has developed standards that are generally accepted and universally practised. This common set of standards is called **generally accepted accounting principles (GAAP)**. Generally accepted accounting principles represent broad principles, procedures, concepts, and standards that act as guidelines for accountants. Taken together, GAAP guide the reporting of economic events. However, for these standards to be meaningful, a fundamental business concept must be present—ethical behaviour.

Ethics in Financial Reporting

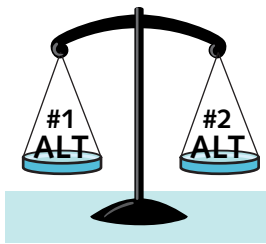
For financial information to have value to its users, whether internal or external, it must be prepared by individuals with high standards of ethical behaviour. The standards of conduct

by which actions are judged as right or wrong, honest or dishonest, fair or not fair are **ethics**. Ethics in accounting is of the utmost importance to accountants and decision makers who rely on the financial information they produce. Effective financial reporting depends on sound ethical behaviour.

Fortunately, most individuals in business are ethical. Their actions are both legal and responsible. They consider the organization's interests when they make decisions. Accountants and other professionals have extensive rules of conduct to guide their behaviour with each other and the public. In addition, many companies today have codes of conduct, or statements of corporate values, that outline their commitment to ethical behaviour in their internal and external relationships. The behaviour of management is critical for creating the appropriate tone from the top of the organization.

Throughout this textbook, ethical considerations will be presented to highlight the importance of ethics in financial reporting. Every chapter includes an Accounting in Action Ethics Insight case that simulates a business situation that asks you to put yourself in the position of a key decision maker. When you analyze these ethical situations, you should follow the steps outlined in **Illustration 1.4**.

ILLUSTRATION 1.4 Steps used to analyze ethics cases and situations



1. Identify the ethical issues involved.

- Use your personal ethics or an organization's code of ethics to identify ethical situations and issues.
- Some business and professional organizations provide written codes of ethics for guidance in common business situations.

2. Identify the stakeholders—the persons or groups that may benefit or face harm.

- Ask the questions: Who are the impacted parties? What are their responsibilities and obligations?

3. Consider the alternative courses of action and the consequences of each for the various stakeholders.

- There may not always be one right answer. Some situations require an evaluation of the alternatives and the impact of each alternative on the identified stakeholders.
- Select the most ethical alternative, considering all the consequences.

Ethics Insight



Jennifer Trenchard/
Getty Images

What would you do if you suspected a co-worker was stealing? Would you confront them or tell your employer or the authorities? Would you keep quiet if you feared losing your job? What to do about suspected fraud is an ethical question facing not just those working in the accounting field, but employees in any role. Workplace fraud can take many forms. It could be an employee forging a cheque or stealing inventory. But it could also be an executive who falsifies financial information to make their department's sales figure look better, to meet company targets and collect a bonus, or to keep their job. According to the Association of Certified Fraud Examiners, the average occupational fraud committed worldwide in 2016 caused a loss of US\$150,000.

Organizations need to send a strong message that they won't tolerate fraud. One way of doing that is to protect and encourage employees who suspect fraud and report it to their employers. The federal government and most provinces in Canada have enacted their own public employee protection legislation. Another way to discourage fraud is to set up an internal crime hotline for employees to report suspected wrongdoing. When fraud is not reported, everyone is potentially harmed, not just the employer. Colleagues may lose jobs, customers may be misled, and shareholders and the public will lose trust in the accuracy of financial information.

Consider the following scenario: Jennifer is an accountant who works for Currie Financial Services Company. Currie has recently been given the opportunity to provide financial services to a large transportation company but Currie must compete against other financial service companies. Jennifer's boss has instructed her to prepare a presentation for the transportation company and include some performance statistics that he created. The potential client wants reassurance that whichever financial services provider it chooses will be in business a long time to serve its needs. Consequently, it wants to see financial figures from bidders that show they have been profitable over several years. Jennifer knows that the financial figures her boss wants her to show the potential client do not reflect Currie's actual performance but her boss told her they must "get that contract at all costs." He also said that those statistics are "likely to reflect actual performance in the future."

Sources: Association of Certified Fraud Examiners, "Report to the Nations on Occupational Fraud and Abuse," 2016; David Malamed, "Whistle Where You Work?"; *CA Magazine*, January/February 2012.

Who are the stakeholders in this situation? How would they be impacted by this situation?