

About the Authors

CHARLES T. HORNGREN is the Edmund W. Littlefield Professor of Accounting, Emeritus, at Stanford University. A graduate of Marquette University, he received his MBA from Harvard University and his PhD from the University of Chicago. He is also the recipient of honorary doctorates from Marquette University and DePaul University.

A Certified Public Accountant, Horngren served on the Accounting Principles Board for six years, the Financial Accounting Standards Board Advisory Council for five years, and the Council of the American Institute of Certified Public Accountants for three years. For six years, he served as a trustee of the Financial Accounting Foundation, which oversees the Financial Accounting Standards Board and the Government Accounting Standards Board.

Horngren is a member of the Accounting Hall of Fame.

A member of the American Accounting Association, Horngren has been its President and its Director of Research. He received its first annual Outstanding Accounting Educator Award.

The California Certified Public Accountants Foundation gave Horngren its Faculty Excellence Award and its Distinguished Professor Award. He is the first person to have received both awards.

The American Institute of Certified Public Accountants presented its first Outstanding Educator Award to Horngren.

Horngren was named Accountant of the Year, in Education, by the national professional accounting fraternity, Beta Alpha Psi.

Professor Horngren is also a member of the Institute of Management Accountants, from whom he has received its Distinguished Service Award. He was a member of the Institute's Board of Regents, which administers the Certified Management Accountant examinations.

Horngren is the author of other accounting books published by Pearson Prentice Hall: *Cost Accounting: A Managerial Emphasis*, Thirteenth Edition, 2008 (with Srikant Datar and George Foster); *Introduction to Financial Accounting*, Ninth Edition, 2006 (with Gary L. Sundem and John A. Elliott); *Introduction to Management Accounting*, Fourteenth Edition, 2008 (with Gary L. Sundem and William Stratton); *Financial Accounting*, Seventh Edition, 2008 (with Walter T. Harrison, Jr.).

Horngren is the Consulting Editor for Pearson Prentice Hall's Charles T. Horngren Series in Accounting.

WALTER T. HARRISON, JR. is Professor Emeritus of Accounting at the Hankamer School of Business, Baylor University. He received his BBA degree from Baylor University, his MS from Oklahoma State University, and his PhD from Michigan State University.

Professor Harrison, recipient of numerous teaching awards from student groups as well as from university administrators, has also taught at Cleveland State Community College, Michigan State University, the University of Texas, and Stanford University.

A member of the American Accounting Association and the American Institute of Certified Public Accountants, Professor Harrison has served as Chairman of the Financial Accounting Standards Committee of the American Accounting Association, on the Teaching/Curriculum Development Award Committee, on the Program Advisory Committee for Accounting Education and Teaching, and on the Notable Contributions to Accounting Literature Committee.

Professor Harrison has lectured in several foreign countries and published articles in numerous journals, including *Journal of Accounting Research*, *Journal of Accountancy*, *Journal of Accounting and Public Policy*, *Economic Consequences of Financial*

Accounting Standards, Accounting Horizons, Issues in Accounting Education, and Journal of Law and Commerce.

He is co-author of *Financial Accounting*, Seventh Edition, 2008 (with Charles T. Horngren), published by Pearson Prentice Hall. Professor Harrison has received scholarships, fellowships, and research grants or awards from PriceWaterhouse Coopers, Deloitte & Touche, the Ernst & Young Foundation, and the KPMG Foundation.

M. SUZANNE OLIVER is an associate professor of accounting at Northwest Florida State College in Niceville, Florida. She received her B.A. in Accounting Information Systems and her Masters in Accountancy from the University of West Florida.

Professor Oliver began her career in accounting in the tax department of a regional accounting firm, specializing in benefit plan administration. She has served as a software analyst for a national software development firm (CPASoftware) and as the Oracle fixed assets analyst for Spirit Energy, formerly part of Union Oil of California (Unocal). A Certified Public Accountant, Oliver is a member of the Florida Institute of Certified Public Accountants.

Professor Oliver has taught financial accounting, managerial accounting, intermediate accounting, tax accounting, accounting software applications, payroll accounting, auditing, accounting systems, advanced accounting, managerial finance, business math, and supervision. She has also taught pension continuing education classes for CPAs, and has developed and instructed online courses using MyAccountingLab, WebCT, and other proprietary software.

Professor Oliver lives in Niceville where she is a member of the First United Methodist Church with her husband Greg and son C.J.

PETER R. NORWOOD is an instructor in accounting and the chair of the Langara School of Management at Langara College in Vancouver. A graduate of the University of Alberta, he received his MBA from the University of Western Ontario. He is a Chartered Accountant, a Fellow of the Institute of Chartered Accountants of British Columbia, a Certified Management Accountant, and a Fellow of the Society of Management Accountants of Canada.

Before entering the academic community, Mr. Norwood worked in public practice and industry for over fifteen years. He is First Vice-President of the Institute of Chartered Accountants of British Columbia (President in 2010–2011) and a member of the board of the Chartered Accountants School of Business (CASB). He is chair of the Chartered Accountants Education Foundation for the British Columbia Institute of Chartered Accountants, for whom he has served on a variety of committees. Mr. Norwood is a past member of the Board of Evaluators of the Canadian Institute of Chartered Accountants. Mr. Norwood is also a sessional instructor in the Sauder School of Business, University of British Columbia. He is a past chair of the Langara College Foundation.

JO-ANN L. JOHNSTON is an instructor in accounting and financial planning in the Financial Management Department at the British Columbia Institute of Technology (BCIT). She obtained her Bachelor in Administrative Studies from British Columbia Open University, her Diploma of Technology in Financial Management from BCIT, and her MBA from Simon Fraser University. She is also a Certified General Accountant and recently completed the Canadian Securities Course.

Prior to entering the field of education, Mrs. Johnston worked in public practice and industry for over 10 years. She is a past member of the Board of Governors of the Certified General Accountants Association of British Columbia and has served on various committees for the Association. She was also a member of the Board of Directors for the BCIT Faculty and Staff Association, and served as Treasurer during that tenure. She currently serves as chair of the CGA Student Advisory Group and is a member of CGA-BC Education Foundation and the Strategic Planning Committee for the Certified General Accountants Association of British Columbia.

In addition to teaching duties and committee work for the British Columbia Institute of Technology, Mrs. Johnston is the financial officer for a family-owned business.

A Letter to Students

Students will “Get It” Anytime, Anywhere with *Accounting’s* Student Learning System

Welcome to your introductory accounting course! Accounting is the language of business. Whether you intend to be an accountant or not, you owe it to yourself to develop your skills with this language so that you can give yourself a winning edge in your career.

As instructors, we know that you want to ace your accounting course, and we also know that the volume of material covered in introductory accounting can be overwhelming. To help you develop your skills and understanding of accounting principles—to help you “get it”—we created the *Accounting Student Learning System*. All the features of the **student textbook**, **study resources**, and **online homework system** are designed to work together to provide you with more “I get it!” moments inside the classroom and especially outside the classroom, when you don’t have access to your instructor.

We first had to create a really solid textbook, one that covered the material in a way that makes new and possibly intimidating topics easier to understand. To make sure we were on the right track, we held focus groups with first-year accounting students like you. Many of the changes made to the textbook and many of the new study resources were a direct result of suggestions from these students.

We have also created a number of tools and resources to support you, and your portal to these resources is MyAccountingLab. In intro accounting, sometimes the only way to “get it” is to do it—to practise similar questions many times until the concepts are clear, and MyAccountingLab allows you to do this. Sometimes seeing the basics of accounting presented in a slightly different, interactive way will help you “get it,” and the Accounting Cycle Tutorials and the Demo Docs in MyAccountingLab help you do this. The tools and the features of MyAccountingLab appear in the fold-out at the front of this book. The tools and the features of this textbook are described in detail in the tour, Helping You “Get” Accounting, which is presented over the next few pages. And reminders appear in Chapter 1 to describe how each feature in the text can help you to master accounting.

Best of luck with your course, and much success!

*Peter Norwood
Jo-Ann Johnston*

Helping You "Get" Accounting

Each chapter of *Accounting* includes a number of tools and features designed to guide you through the process of developing your skills and understanding of key accounting concepts. Please read through the next few pages to learn more about these tools and the many ways in which they will help you learn, understand, and apply accounting concepts.

4 Completing the Accounting Cycle

How do you complete the accounting cycle, and why is it important? **What are closing entries? How do closing entries differ from other journal entries?** **Why are some types of accounts closed? How do decision makers evaluate a company?**

These questions and others will be answered throughout this chapter. And the Decision Guidelines at the end of this chapter will provide the answers to a final summary.

LEARNING OBJECTIVES

- 1 Prepare an accounting work sheet.
- 2 Use the work sheet to complete the accounting cycle.
- 3 Close the revenue, expense, and withdrawal accounts.
- 4 Correct typical accounting errors.
- 5 Classify assets and liabilities as current or long-term and prepare a classified balance sheet.
- 6 Use the current ratio and the debt ratio to evaluate a company.
- 7 Describe the accounting cycle and financial-statement relationships of international financial reporting standards (IFRS).
- 8 Describe and prepare closing entries.

LEARNING OBJECTIVES

It's a beautiful day in late spring in Montreal, but you are still interested in hockey as you watch the Vancouver Canucks play the Toronto Maple Leafs in the sixth game of the Stanley Cup Championship. The teams are playing a back-to-back series and the Leafs lead the series three games to two. The Canucks need to win this game or Toronto will win the Stanley Cup. The game is tied 1-1 at the end of the second period. Toronto scores early in the third period to take a 2-1 lead. The Canucks fight back and score the tying goal with two minutes to go. There is no more scoring in regulation time and the final result will be decided in overtime.

The game goes back and forth in overtime, before the Canucks finally score to force a seventh game back in Toronto.

When the teams return to Toronto to play the seventh game, what will the scoreboard say at the start of the game? Will it be 2-2? Do you ever see the score from the previous game or will the scoreboard be set back to zero? The answer is obvious. After a game is completed, the scoreboard always sets back to zero. In the same way, the accounting process sets the scoreboard back to zero at the end of each fiscal year. The process is called "closing the books," and that is the main topic in this chapter. The logo behind the closing process in

Learning Objectives are listed on the first page of each chapter. This "roadmap" shows you what will be covered and what is especially important. Each Learning Objective is repeated in the margin where the material is first covered. The Learning Objectives are summarized at the end of the chapter. Notice that the final Learning Objective deals with International Financial Reporting Standards (IFRS).

11 Current Liabilities and Payroll

What are current liabilities of known and unknown amount, and why are they important? **What is the ethical and legal challenge in accounting for current and potential liabilities?** **What are the key elements of a payroll system, and how is payroll recorded and reported?**

These questions and others will be answered throughout this chapter, and the Decision Guidelines at the end of this chapter will provide the answers to a final summary.

LEARNING OBJECTIVES

- 1 Assess the current liabilities of known amount.
- 2 Assess the current liabilities that must be estimated.
- 3 Compute payroll amounts.
- 4 Assess how payroll transactions affect the balance sheet.
- 5 Describe the impact on current liabilities of international financial reporting standards (IFRS).

Computers, cameras, and automobiles are guaranteed warranties, usually for a specified period of time. Many other new products are sold. When you buy a new car, the manufacturer agrees to repair it if something goes wrong within a specified number of kilometers. Do you ever consider this warranty when you buy a product? That may motivate you to select a product over its competitor. If not, you should consider the product's warranty because it can vary from a guarantee of temporary repairs that can be expensive. Product warranties are called warranties, and warranties are an important liability of companies such as Bombardier Recreational Products Inc., General Motors, and Dell Computers. Warranties pose an accounting challenge because companies such as Bombardier Recreational Products don't know which vehicle might have to be repaired. If this type of information could be known in advance, companies such as Bombardier might question whether or not to sell these products. But it's almost certain that companies will have unforeseen problems with quality of their new products, so companies like Bombardier and General Motors record a warranty liability based on estimates.

In this chapter we will see how companies account for their product warranties. We will also learn about the other current liabilities, such as accounts payable and payroll liabilities.

Chapter openers present a story about a real company or a real business situation, and show why the topics in the chapter are important to real companies. Some of the companies you'll read about include WestJet Airlines, Bombardier Recreational Products Inc., Canadian Tire, and The Forzani Group. Students tell us that using real companies makes it easier for them to learn and remember accounting concepts.

Key questions appear at the beginning of each chapter to highlight the important issues and questions that will be answered in the chapter. Once you read these questions, they will remain in the back of your mind. As you work through the chapter, you'll discover the answers and see why the chapter topics really are important.

Chapter 1

introduced transaction analysis and the financial statements. That chapter showed simple financial statements but not how they are prepared. Chapters 2, 3, and 4 cover the accounting process that results in the financial statements. The following diagram summarizes the accounting process—steps 2, 3, and 4—are covered in this chapter.

1. Identify and analyze transactions
2. Record transactions in a journal
3. Post (copy) from the journal to the accounts in the ledger
4. Prepare the trial balance
5. Journalize and post adjusting entries
6. Prepare the financial statements
7. Journalize and post the closing entries
8. Prepare the postclosing trial balance

By learning how accounting information is processed, you will understand where the facts and figures reported in the financial statements come from. This knowledge will increase your confidence and ability to understand and analyze financial information.

Accounting begins and ends with accounts.

The Account, the Ledger, and the Journal

The basic summary device of accounting is the **account**, which is the detailed record of the changes that have occurred in a particular asset, liability, or item of owner's equity during a period of time. As we saw in Chapter 1, business transactions create the changes.

Accountants record transactions first in a **journal**, which is the chronological record of transactions. Accountants then copy (post) the data to the book (or print-out) of all the accounts called the **ledger**. (One way to think of a ledger is as a binder, with each page in the binder representing one account.) In the phrase

OBJECTIVE Define and use key accounting terms.

Learning Objectives in the margin visually signal the beginning of the section that covers the objective topic. Look for this feature when you are studying and want to review a particular topic.

Exhibits are provided in full colour to make the concepts easier to understand and easier to remember.

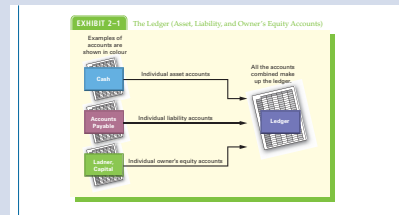
Learning Tips in the margin are suggestions for learning or remembering concepts that you might find difficult.

Key Points in the margin highlight important details from the text. These are good review tools for when you prepare for tests or exams.

Real World Examples show how real companies make use of the concepts just discussed in the text. Linking concepts to real companies makes them easier to understand and remember.

Did You Get It? boxes appear at the end of each Learning Objective. The questions allow you to slow down for a moment and test your mastery of the material just covered in the Learning Objective before moving on in the chapter. These serve as an excellent way to check your progress because the answers are provided on MyAccountingLab. Notice the MyAccountingLab reminder!

Decision Guidelines show how the accounting concepts covered in the chapter are used by business people to make business decisions. This feature shows why accounting principles and concepts are important in a broader business context, not just to accountants. The Decision Guidelines also serve as an excellent summary of the chapter topics.



DID YOU GET IT?

To check your understanding of the material in this Learning Objective, complete these questions. The solutions appear on MyAccountingLab so you can check your progress.

4. Indicate whether each account listed below is an asset (A), liability (L), owner's equity (OE), revenue (R), or expense (E) account. Next to each answer, indicate whether the account's normal balance is a debit (Dr) or a credit (Cr).

Accounts Payable	_____	Cash	_____
Service Revenue	_____	Rent Expense	_____
E. Lockyer Withdrawals	_____	Notes Payable	_____
Accounts Receivable	_____	Land	_____
Insurance Expense	_____	R. Lockyer Capital	_____

5. Indicate on which side of these accounts—debit (Dr) or credit (Cr)—you record an increase.

Accounts Receivable	_____	Salary Expense	_____
Accounts Payable	_____	Building	_____
Equipment	_____	Supplies Expense	_____
John Lockyer, Capital	_____	Interest Payable	_____
Service Revenue	_____	Inventory	_____

6. Indicate on which side of these accounts—debit (Dr) or credit (Cr)—you record a decrease.

Notes Payable	_____	Land	_____
Accounts Receivable	_____	Wages Expense	_____
Cash	_____	Supplies	_____
John Lockyer, Withdrawals	_____	Accounts Payable	_____
Income Tax Payable	_____	Income Tax Expense	_____

DECISION GUIDELINES		Analyzing and Recording Transactions
Decision		Guidelines
Has a transaction occurred?		If the event affects the entity's financial position and can be reliably recorded—Yes If either condition is absent—No
Where do we record the transaction?		In the journal, the chronological record of transactions
What do we record for each transaction?		Increases and/or decreases in all the accounts affected by the transaction (at the business's cost)
How do we record an increase/decrease in an account?		Rules of debit and credit:
Asset?	Debit	Increase
Liability?	Credit	Decrease
Owner's equity?	Debit	Debit
Revenue?	Credit	Credit
Expense?	Debit	Debit
Where do we store all the information for each account?		In the ledger, the book of accounts and their balances
Where do we list all the accounts and their balances?		In the trial balance
Where do we report the results of operations?		In the income statement (Revenues - Expenses = Net income, or Expenses - Revenues = Net loss)
Where do we report the financial position?		In the balance sheet (Assets = Liabilities + Owner's equity)

Summary Problem for Your Review

Suppose Belter Distributors engaged in the following transactions:

2009			
Apr. 1	Leased \$20,000 to Blotchford Agencies. Received a six-month, 10 percent note.		
Oct. 1	Collected the Blotchford Agencies' note at maturity.		
Nov. 30	Leased \$15,000 to Fane Industries on a three-month, 12 percent note.		
Dec. 31	Accrued interest revenue on the Fane Industries note.		
2010			
Feb. 28	Collected the Fane Industries note at maturity.		

Belter Distributors' accounting period ends on December 31.

Required
Explanations are not needed.

- Record the 2009 transactions on April 1, October 1, and November 30 on Belter Distributors' books.
- Make the adjusting entry needed on December 31, 2009.
- Record the February 28, 2010, collection of the Fane Industries note.

Name Belter Distributors' opening books. Accounting Period: Year ended December 31, 2010 and 2010.

SOLUTION

Requirement 1

2009			
Apr. 1	Note Receivable—Blotchford Agencies	20,000	The Blotchford Agencies' note receivable is for six months, or 18 months in a year (360 days ÷ 20).
	Cash	20,000	
Oct. 1	Cash	21,000	
	Note Receivable—Blotchford Agencies	20,000	
Nov. 30	Note Receivable—Fane Industries	15,000	
	Cash	15,000	

Requirement 2

Adjusting Entry			
2009			
Dec. 31	Interest Receivable	150	The Fane Industries' note receivable is for six months, or 18 months in a year (360 days ÷ 20).
	Interest Revenue	150	
	Interest receivable as \$150 (\$15,000 × 0.12 × $\frac{1}{2}$).		

Requirement 3

2010			
Feb. 28	Cash	15,450	Calculate interest based on 12 months in a year (360 days ÷ 30).
	Note Receivable—Fane Industries	15,000	
	Interest Receivable	150	
	Interest Revenue	300	
	Interest revenue as \$300 (\$15,000 × 0.12 × $\frac{1}{2}$).		
	Cash as \$15,450 (\$15,000 + (\$15,000 × 0.12 × $\frac{1}{2}$)).		

Summary Problem for Your Review pulls together the chapter concepts with an extensive and challenging review problem. Full worked solutions are given so that you can check your progress. Red notes in the margin or in the solution give you hints for how to tackle the solution, reminders of things to watch for, and further explanations about the solutions.

Summary

- Define and use key accounting terms. Accounts can be viewed either in the form of the letter "T" or in the three-column format known as T-accounts. The left side of each T-account is its debit side. The right side is its credit side. The first amount in a three-column ledger account is the debit column, the second is the credit column, and the third is the balance column. The ledger which contains a record for each account, groups and numbers accounts by category in the following order: assets, liabilities and owner's equity (and its subparts, revenues and expenses). A list of accounts lists all the accounts in the ledger and their account numbers.
- Apply the rules of debit and credit. Assets and expenses are recorded in debit and liabilities and revenues are recorded in credit. An account's normal balance is the side of the account—debit or credit—in which increases are recorded. Thus, the normal balance of assets and expenses is a debit, and the normal balance of liabilities, owner's equity, and revenues is a credit. The Withdrawals account, which decreases owner's equity, normally has a debit balance. Dividends which are increases in owner's equity have a normal credit balance. Expenses, which are decreases in owner's equity, have a normal debit balance.
- Analyze and record transactions in the journal. The accountant begins the recording process by analyzing the transaction, deciding if it is a transaction, and then entering the transaction's information in the journal, a chronological list of all the entries in transactions.
- Post from the journal to the ledger. Posting means transferring the ledger accounts. Posting instructions are used to move amounts back and forth between the journal and the ledger.
- Prepare and use a trial balance. The trial balance is a summary of all the account balances in the ledger. If the debit and credit totals are equal, the ledger is in balance. If not, the trial balance is not equal.
- Apply International Financial Reporting Standards (IFRS) to recording financial reporting standards. The procedures to identify and record business transactions are the same for private enterprises in Canada and for companies that report their results using International Financial Reporting Standards (IFRS). IFRS companies will need to ensure that the debits and the credits are equal in every transaction.

We can now trace the flow of accounting information through these steps:

Business Transactions → Source Documents → Journal Entry → Posting to Ledger Accounts → Trial Balance

Summary appears at the end of each chapter. It gives a concise description of the material covered in the chapter and is organized by objective. Use this summary as a starting point for organizing your review when studying for a test or exam.

SELF-STUDY QUESTIONS

- Test your understanding of the chapter by marking the correct answer for each of the following questions:
- The party that holds a receivable is called the (p. 47)
 - Debtor
 - Creditor
 - Maker
 - Security holder
 - A critical element of internal control over cash receipts is (p. 47)
 - Assigning an honest employee the responsibility for handling cash
 - Separating the cash-handling and cash-accounting duties
 - Ensuring that cash is deposited in the bank daily
 - Contracting the opening of incoming mail on a single location
 - The function of the credit department is to (p. 47)
 - Collect accounts receivable from customers
 - Report bad credit risks to other companies
 - Exclude customers who apply for credit
 - Write off uncollectible accounts receivable
 - Keady Martin made the following general journal entry related to uncollectibles:

Allowance for Doubtful Accounts	700
Bad Debt Expense	700

 The purpose of this entry is to (pp. 47-49)
 - Write off uncollectibles
 - Close the expense account
 - Age the accounts receivable
 - Record bad debt expense
 - The credit balance in Allowance for Doubtful Accounts is \$12,000 prior to the adjusting entries at the end of the period. The aging of the accounts indicates that an allowance of \$8,200 is needed. The amount of expense to record is (pp. 47-49)
 - \$3,800
 - \$68,800
 - \$4,200
 - \$10,800
 - Keady Martin also made the general journal entry:

Allowance for Doubtful Accounts	1,800
Accounts Receivable (debit)	1,800

 The purpose of this entry is to (p. 49)
 - Write off uncollectibles
 - Close the expense account
 - Age the accounts receivable
 - Record bad debt expense
 - The full amount of interest on this note will be (p. 46)
 - \$1,200
 - \$5,200
 - \$600
 - \$1,800
 - The best side-test ratio among the following is (p. 47)
 - 1.0
 - 1.2
 - 0.8
 - 1.0

Self-Study Questions are multiple-choice questions that allow you to test your understanding of the chapter on your own. Page references are given so that you can review a section quickly if you miss an answer.

Answers to Self-Study Questions appear immediately (but upside down!) so you can check your progress.

ACCOUNTING VOCABULARY

Account (p. 52)	Ledger (p. 52)
Chart of accounts (p. 55)	Normal balance (p. 41)
Credit (p. 50)	Note receivable (p. 52)
Debit (p. 50)	Posting (p. 44)
Journal (p. 52)	Trial balance (p. 53)

Accounting Vocabulary lists all the terms that were defined and appeared in bold type in the chapter. The page references are given so you can review the meanings of the terms. These terms are also collected and defined in the Glossary at the end of the text.

SIMILAR ACCOUNTING TERMS

Cr	Credit; right
Dr	Debit; left
The Journal	A general journal, a book of original entry
The Ledger	The books the General Ledger
Entering the transaction in a journal	Making the journal entry; journalizing the transaction
Withdrawals by owner(s)	Is a proprietorship or partnership; distributions from a company to owner(s); Drawings
Open the accounts	Set up the accounts; create the ledger accounts

Similar Accounting Terms link the accounting terms used in the chapter to similar terms you might have heard outside your accounting class, in the media, in other courses, or in day-to-day business dealings. Knowing similar terms should make it easier to remember the accounting terms.

While practice may not make you perfect, it is still the best way to make sure you grasp new accounting concepts and procedures. Working through the end of chapter exercises and problems will help you confirm your understanding of accounting concepts and develop your accounting skills. These review and practice materials are described in the following pages.

Questions require short, written answers or short calculations, often on a single topic.

Starters serve as warm-ups and confidence builders at the beginning of the assignment material. They address a single topic from the chapter. A brief description, the learning objectives covered, and **Check figures** appear in the margin beside each Starter. All of the Starters appear on MyAccountingLab in book-match form and algorithmic form (where applicable).

Exercises on a single or a few topics require you to “do the accounting” and, often, to consider the implications of the results in the same way that real companies would. **Check figures** appear in the margin beside each Exercise. All of the Exercises appear on MyAccountingLab in book-match form and algorithmic form (where applicable).

Excel Spreadsheet Template icons appear beside selected Exercises and Problems to remind you that Excel spreadsheets have been created to answer these questions. You can find these spreadsheets on MyAccountingLab. You don’t have to use the spreadsheets to answer the questions, but you may find they save you time.

Serial Exercise in each chapter in Volume 1 and Volume 2 follows one company and builds in complexity with each chapter, providing an excellent way to see the big picture and to see how the accounting topics build off one another. Each Serial Exercise appears on MyAccountingLab in book-match form and algorithmic form (where applicable).

Assignment Material

QUESTIONS

1. Name the two parties to a receivable/payable transaction. Which party has the receivable? Which has the payable? The asset? The liability?
2. List three categories of receivables. State how each category is classified for reporting on the balance sheet.
3. Many businesses require most of their cash on credit sales through the mail. Suppose you own a business so large that you must hire employees to handle cash receipts and perform the related accounting duties. What internal control feature should you use to ensure that cash received from customers is not taken by a dishonest employee?
4. What duty must be withheld from a company's credit department in order to safeguard cash? If the credit department does this job, what can a dishonest credit department employee do?

STARTERS

Starter 9-1 During the first year of operations, Spring Brook Retail earned revenue of \$700,000 on account. Industry experience suggests that Spring Brook's bad debts will amount to 2 percent of revenue. At December 31, 2010, accounts receivable total \$60,000. The company uses the allowance method to account for uncollectibles.

1. Journalize Spring Brook's bad debt expense using the percent-of-sales method.
2. Show how Spring Brook should report accounts receivable on its balance sheet at December 31, 2010.

Starter 9-2 This exercise continues the situation of Starter 9-1, in which Spring Brook Retail ended 2010 with Accounts Receivable at \$60,000 and Allowance for Doubtful Accounts at \$12,000.

1. Service revenue on account, \$800,000 (assume no cost of goods sold).
2. Collections on account, \$940,000.
3. Write-off of uncollectibles, \$12,000.
4. Bad-debt expense, 2 percent of service revenue.

Journalize Spring Brook Retail's 2010 transactions.

EXERCISES

Exercise 4-1 The trial balance of Brighter Testing Services appears here.

BRIGHTER TESTING SERVICES Trial Balance September 30, 2010	
Cash	\$ 14,240
Accounts receivable	12,800
Prepaid rent	2,400
Supplies	6,700
Equipment	20,000
Accumulated amortization—equipment	\$ 5,000
Accounts payable	10,520
Salary payable	0
J. Brighter, capital	75,000
J. Brighter, withdrawals	6,000
Service revenue	23,600
Amortization expense—equipment	0
Salary expense	3,000
Rent expense	0
Utilities expense	1,500
Supplies expense	0
Total	\$111,600 \$111,600

Additional information at September 30, 2010:

1. Accrued service revenue, \$840.
2. Equipment amortization, \$500.
3. Accrued salary expense, \$2,000.
4. Prepaid rent expired, \$2,200.
5. Supplies used, \$3,300.

Required Complete the Brighter Testing Services work sheet for September 2010. What was net income for the month ended September 30, 2010?

SERIAL EXERCISE

This exercise continues the Hargt Consulting situation from Exercise 3-23 of Chapter 3. If you did not complete Exercise 3-23, you can complete this Exercise by using the accounts and balances given in the adjusted trial balance at December 31, 2010, shown below.

Exercise 4-10 Refer to Exercise 3-23 of Chapter 3. Start from the posted T-accounts and the adjusted trial balance shown below for Hargt Consulting prepared at December 31, 2010.

Note: If you did not do Exercise 3-23, you can complete this Exercise by using the accounts and balances given in the adjusted trial balance at December 31, 2010, shown below.

HARGT CONSULTING Adjusted Trial Balance December 31, 2010	
Cash	\$ 7,200
Accounts receivable	1,500
Supplies	100
Equipment	2,000
Furniture	\$ 33
Accumulated amortization—equipment	3,600
Accounts payable	3,600
Accounts receivable—Hargt	1,600
Salary payable	400
Unearned service revenue	600
Carl Hargt, capital	10,000
Carl Hargt, withdrawals	1,600
Service revenue	1,600
Rent expense	1,000
Utilities expense	200
Salary expense	33
Amortization expense—equipment	33
Amortization expense—furniture	0
Supplies expense	200
Total	\$12,000 \$12,000

Required

1. Journalize and post to T-accounts the closing entries at December 31, 2010. Debit each closing amount on Cr. and an account balance on bal.
2. Prepare a classified balance sheet at December 31, 2010.
3. Compute the current ratio and the debt ratio of Hargt Consulting and evaluate these ratio values as indicators of a strong or weak financial position.
4. If your instructor assigns it, complete the accounting work sheet at December 31, 2010.

CHALLENGE EXERCISES

Exercise 2-16

The owner of Fergas Technical Services is an architect with little understanding of accounting records. She needs to compute the following summary information from the accounting records:

- a. Net income for the month of March
- b. Total cash paid during March
- c. Cash collections from customers during March
- d. Payments on account during March

The quickest way to compute these amounts is to analyze the following accounts:

Account	Balance		Additional Information for the Month of March	
	Feb. 28	Mar. 31		
a. F. Fergas, Capital	\$1,440	\$2,400	Withdrawals, \$640	
b. Cash	2,800	1,440	Cash receipts, \$12,720	
c. Accounts Receivable	2,840	6,360	Sales on account, \$12,560	
d. Accounts Payable	2,080	2,560	Purchases on account, \$108	

Computing financial statement amounts
10 minutes
\$1,440 to \$12,800

BEYOND THE NUMBERS

Beyond the Numbers 2-1

Jake Fined asks your advice in setting up the accounting records for his new business, Jake's Photo Shop. The business will be photography-related and will operate in a rented building. Jake's Photo Shop will need office equipment and cameras. The business will have one owner using a sole proprietorship to run the management. Jake's Photo Shop will purchase on account photographic supplies and office supplies. Each asset has a related expense account, some of which have not yet been discussed. For example, equipment wears out (depreciation) and this results in a depreciation account. As supplies are used up, the business must record a supplies expense.

The business will need an office manager. This person will be paid a weekly salary of \$1,800. Other expenses will include advertising and insurance. Since Jake's Photo Shop will want to know which aspects of the business generate the most and the least revenue, it will use separate service revenue accounts for portraits, school pictures, and weddings. Jake's Photo Shop's better customers will be allowed to open accounts receivable with the business.

Required List all the accounts Jake's Photo Shop will need, starting with the assets and ending with the expenses. Indicate which accounts will be reported on the balance sheet and which accounts will appear on the income statement.

ETHICAL ISSUE

Associated Charities Inc., a charitable organization in Brandon, Manitoba, has a standing agreement with Prairie Trust. The agreement allows Associated Charities Inc. to redeposit its cash balance at the bank when donations are received. In the past, Associated Charities Inc. managed funds wisely and rarely used this privilege. Greg Clava has recently become the president of Associated Charities Inc. To represent expenditures on acquiring office equipment and spending large amounts for fund-raising. During his presidency, Associated Charities Inc. has maintained a negative bank balance (a credit cash balance) of approximately \$28,000.

Required What is the ethical issue in this situation? State why you approve or disapprove of Clava's management of Associated Charities Inc.'s funds.

PROBLEMS (GROUP A)

Problems 9-1A through 9-1E

Problem 9-1A

Lacoste Hockey distributes merchandise to sporting goods stores and hockey shops. All sales are on credit, so virtually all cash receipts arrive in the mail. Because the company is in the last year of the current year, Frank Lacoste has hired an accountant to manage the financial aspect of the business. Lacoste has requested that strong internal controls over cash receipts and receivables be the first priority.

Required Assume you are Clavin Tan, the new accountant. Write a memo to Frank Lacoste outlining the internal controls you intend to establish for Lacoste Hockey. Assume also that you have two employees in the accounting department and a receipt clerk who report to you. Use this format for your memo:

To: Frank Lacoste
From: Clavin Tan, Accountant
Re: Proposed internal controls over cash receipts and receivables

Designing internal controls
10 minutes

PROBLEMS (GROUP B)

Problems 9-1F through 9-1J

Controlling accounts receivable

Problem 9-1B

North York Laboratories provides laboratory testing for samples that veterinarians send in. All work is performed on account, with regular monthly billing to participating veterinarians. The Finance Department for North York Laboratories reviews and issues the bank Company procedure requires him to separate customer cheques from the antibiotic slips, which list

CHALLENGE PROBLEMS

Problem 9-1C

Kirkham Builders Supply is a six-store chain of retail stores selling home renovation materials and supplies mainly on credit. The company has its own credit card and does not accept other cards. Kirkham Builders Supply had a tendency to institute policies that conflicted with each other. Management rarely became aware of these conflicts until they became serious.

Recently, the owner, Angela Kim, who has been reading all the latest management texts, has instituted a new hiring plan. All managers will be paid by month and the accounts of these departments. For example, for George Daniels, the sales manager has been in business for two months. For Steve White, the credit manager, her bonus is based on reducing the bad-debt expense.

Required Describe the conflict that the bonus plan has created for the sales manager and the credit manager. How might the conflict be resolved?

DECISION PROBLEMS

Decision Problem 1

One factor influencing how always used the direct write-off method to account for uncollectibles. The company's revenues, bad-debt write-offs, and year-end receivables for the most recent year follow:

Year	Revenues	Write-Offs	Receivables at Year End
2010	\$187,000	\$1,300	\$44,000

One factor in deciding for a bank loan, and the loan officer requires figures based on the allowance method of accounting for bad debts. Jacca estimates that bad debts run about 3 percent of revenues each year.

Required Jacca must give the banker the following information:

- How much more or less would net income be for 2010 if Jacca were to use the allowance method for bad debts?
- How much of the receivables balance at the end of 2010 does Jacca expect to collect?

Complete these amounts, and then explain for Jacca why net income is more or less for 2010 using the allowance method versus the direct write-off method for uncollectibles.

Computing allowance and direct write-off methods for uncollectibles
10 minutes

Challenge Exercises provide a challenge for those students who have mastered the Exercises, and appear on MyAccountingLab in book-match form and algorithmic form (where applicable).

Beyond the Numbers exercises require analytical thinking and written responses about the topics presented in the chapter.

Ethical Issues are thought-provoking situations that help you recognize when ethics should affect an accounting decision.

Problems are presented in two groups that mirror each other, "A" and "B." Many instructors work through problems from Group A in class to demonstrate accounting concepts, then assign problems from Group B for homework or extra practice. **Check figures** are included for the "A" Problems only to make sure you're on the right track. Each Problem appears on MyAccountingLab in book-match form and algorithmic form (where applicable).

Challenge Problems encourage you to consider the effect of accounting information and apply it to decision situations.

Decision Problems allow you to prepare and interpret accounting information and then make recommendations to a business based on this information.

Appendix A

WINNING THE



Appendix B

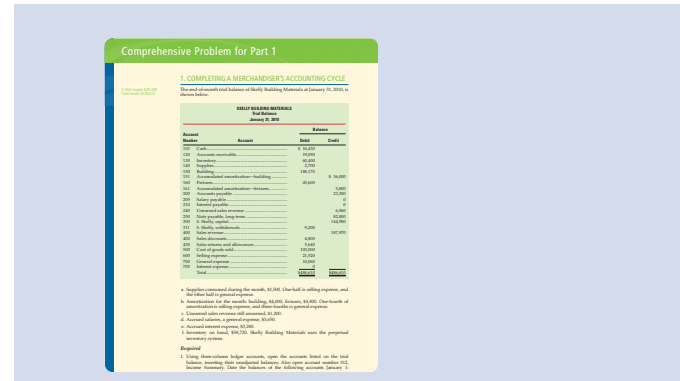


ANNUAL REPORT
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Comprehensive Problem appears at the end of each part of Volume 1 and Volume 2. It covers the content addressed in the book so far. This is a relatively long problem that provides an excellent review of all of the topics covered in the chapters in that part. See your instructor for the solution to this problem.

Working Papers are available for purchase, and are a set of tear-out forms that you can use to solve all the exercises and problems in Volume I. Because the forms you need have already been created, you avoid time-consuming set-up and can focus on the accounting right away.



MyAccountingLab Online Homework and Assessment Manager



Experiencing the Power of Practice with MyAccountingLab:
www.myaccountinglab.com

MyAccountingLab is an online homework system that gives students more “I get it!” moments through the power of practice. The power of repetition when you “get it” means learning happens. With MyAccountingLab students can:

- Work on the exact end-of-chapter material and/or similar problems assigned by the instructor.
- Use the Study Plan for self-assessment and customized study outlines.
- Use the Help Me Solve This tool for a step-by-step tutorial.
- View the Demo Docs Example to see an animated demonstration of where the numbers came from.
- View the Flash Animations to understand important text concepts
- Watch a Video to see additional information pertaining to the lecture.
- Open Textbook Pages to find the material they need to get help on specific problems.

Multimedia Library

The **Multimedia Library** provides direct links to all media assets for this course, the eText, Audio Chapter Summaries, Glossary Flashcards, Demo Docs, Accounting Cycle Tutorial, Animations, Excel Templates, Student PowerPoint Slides, Solutions to Did You Get It? Questions, and Acadia Videos.

Multiple Pathways to Learning

Pearson Canada’s **Multiple Pathways to Learning Assessment** helps you discover your own personal learning style, including identifying your personal strengths and weaknesses. After completing the survey, you can refer to the “Mapping Guide” to learn which features of your textbook or MyAccountingLab will be most effective for your learning style, ultimately enabling you to develop productive and effective study practices.

StudyLife

Studying can be lonely and difficult—**StudyLife** can help by matching you with your ideal study partner. Using **StudyLife** is simple. It works much like facebook.com or MySpace®. Once you complete our profile, **StudyLife** will match you with ideal study partners—other students taking the same subject with complementary learning styles, study techniques, and skills. They could be your classmates or they could be students on the other side of the country.

To the Instructor

Welcome to *Accounting*! Instructors have told us that their greatest challenges are effectively teaching students with very different business and accounting backgrounds, and motivating students to give accounting the study time and attention it deserves. Add to this an accounting environment that is changing like never before, with new generally accepted accounting principles (GAAP) for private enterprises and new International Financial Reporting Standards (IFRS), and you have teaching challenges like never before. *Accounting's* approach and features were designed to help you address and overcome these challenges.

Accounting's Approach

With all the changes in the accounting environment, we gave serious thought to all the options before selecting the best approach for presenting the material in *Accounting*. We have chosen **GAAP for private enterprises as the basis for this textbook**. This allows us to base all discussions on the conceptual framework of GAAP for private enterprises, a framework shared in large part with IFRS. GAAP for private enterprises also streamlines some of the material to reduce complexity at the introductory level. One example is the number of categories of investments is reduced, which streamlines recording by focusing on the nature of the investment and its accounting treatment, rather than its label and specific accounting treatment.

We also gave serious thought to **our approach to IFRS**. IFRS will be in effect for all publicly accountable enterprises beginning January 1, 2011, with comparative IFRS figures for 2010 required as well. Given the number of Canadian companies that will have to report results according to IFRS, we thought it was vital for students to be exposed to IFRS and have some understanding of them, even in Introductory Accounting. We thought the “Wait until Intermediate Accounting” approach was *not* an option. However, students can't learn two sets of accounting standards in one introductory-accounting course—many find one set of standards a challenge.

Accounting's approach is to include the description and implications of IFRS as the final Learning Objective in each chapter. It has been designed to stand out from all the other Learning Objectives, but like all the others, it ends with Did You Get It? questions for students and, where applicable, has related Starters, Exercises, or Problems in the end-of-chapter assignment material. While it is integrated with the rest of the chapter's content, its position at the end of the chapter and its self-contained nature make the IFRS Learning Objective “skippable” for those instructors who choose to cover IFRS elsewhere or at another time.

Additional IFRS support materials and updates will be available in the Instructor's section of MyAccountingLab.

A Student-Friendly Textbook Integrated with MyAccountingLab

Instructors have told us that if students miss an accounting class, they must be able to keep up by reading the text. An accounting textbook must help students prepare for class or, should they miss a session, catch up without being overwhelmed. We've taken a two-pronged approach to ensure *Accounting* makes this happen: created a student-friendly textbook and integrated it with a powerful, robust MyAccountingLab.

The biggest change we made to the textbook pedagogy is the introduction of Did You Get It? questions at the end of each Learning Objective. Students have the opportunity to pause at the end of a Learning Objective and check whether they grasped its concepts before moving on to the next Learning Objective. The solutions are provided in MyAccountingLab so students can check their progress immediately and take action if necessary.

We also added examples of documents, such as invoices, cheques, and deposit slips, in Chapter 2. They serve as the source documents for the transactions

described there, but they also ensure that all students have the basics covered regardless of their real-life business experience.

The textbook continues to reflect the changes made in previous editions that were well-received by students and that helped them to keep up or catch up if they missed a class:

- The **book design** is colourful, open, and inviting. Bulleted points and more art highlight key ideas and make the layout of explanations less imposing. Features in the margins—Key Points, Learning Tips, and Real World Examples—help students when they study. Artwork is positioned to reduce page flipping. In all, the textbook’s design makes it easier to use and makes the concepts more clear. That is encouraging for students.
- **Highlights in Chapter 1** describe each feature of the text and explain how the feature can help students study and learn. A feature can’t be effective unless students understand it and use it.
- **Did You Get It?** questions at the end of each Learning Objective, described above, encourage students to be active in their learning.
- We added new **International Financial Reporting Standards (IFRS)** material as the final Learning Objective in every chapter.
- **Worked solutions** for the Summary Problem for Your Review include the full solution as well as red notes in the margin to give students hints for how to tackle the solution, reminders of things to watch for, and further explanations about the solutions. These should help students overcome the “How do I start?” dilemma, as well as the “Why did they do that?” questions that can arise even when a full solution is given.
- **Check figures** in the margins for the Starters, Exercises, and the “A” set of Problems so students can make sure they are on track when they are working on their own. We have not provided check figures for the “B” set of Problems so that they can be assigned for homework or testing. The “B” Problems solutions are available to instructors on MyAccountingLab.
- **Examples from real Canadian** companies enliven the material, make difficult concepts easier to grasp, and illustrate the role of accounting in business. For that reason, we continue to include the **annual reports of two Canadian companies** in the text and on MyAccountingLab—in this edition, we are pleased to present data from the Canadian Western Bank and Sun-Rype Products Ltd. 2008 annual reports.

In those situations where “live” data drawn from real companies would complicate the material for introductory students, we illustrate the accounting with realistic examples from generic companies to give students the clearest examples possible.

- **MyAccountingLab icons and references** appear in the margins or in the headings to remind students of additional materials or resources available on MyAccountingLab, including the solutions to the Did You Get It? questions, reminders of relevant Accounting Cycle Tutorials topics, reminders of Excel Template Spreadsheets to help answer questions, and, of course, opportunities to practise end-of-chapter questions. Seeing a topic presented in a consistent but other, interactive way may help students understand it more fully. MyAccountingLab also includes a complete Study Guide and links to the Acadia Videos, as well as all the material described in the MyAccountingLab spread at the beginning of this book and in the student section of the preface.

Accuracy

As instructors, we know that **accuracy in problems and solutions** is every bit as important as clear writing and effective pedagogy. Tremendous effort has been made to ensure that the solutions to problem materials in *Accounting*, Canadian Eighth Edition are correct.

- The **authors** have developed their own problem and solutions materials.
- Our **Developmental Editor**, Anita Smale, CA, reviewed all problems and solutions.

- As a final stage, **technical checkers** have reviewed all problems and solutions.

We have made every effort to bring you the most accurate text possible. However, if you discover something that is inaccurate, please let us know so we can fix it as soon as possible.

Supplements for Instructors

The primary goal of the Instructor Resources is to help instructors deliver their course with ease, using any delivery method—traditional, self-paced, or online.

www.myaccountinglab.com



MyAccountingLab is web-based tutorial and assessment software for accounting that not only gives students more “I get it!” moments, but also provides instructors the flexibility to make technology an integral part of their course or a supplementary resource for students. And, because practice makes perfect, MyAccountingLab offers exactly the same end-of-chapter material found in the text along with algorithmic options that can be assigned for homework, all auto-graded for unlimited practice. MyAccountingLab also features the same look and feel for exercises and problems so that students are familiar and comfortable working with the material.

It also provides students with rich media assets that are closely integrated with the text including Audio Chapter Summaries, Glossary Flashcards, Demo Docs, Accounting Cycle Tutorial, Animations, Excel Templates, Student PowerPoint Slides, Solutions to Did You Get It? Questions, Acadia Videos, and the eText.

Instructor’s Resource CD-ROM or <http://vig.pearsoned.ca/>

This CD-ROM and password-protected site provide a collection of resources to help you with lecture preparation, presentation, and assessment. It contains the following supplements:

- **Instructor’s Solutions Manual** Now provided in both Adobe PDF and MS Word format for ease of use.
- **Instructor’s Resource Manual** Also provided in both Adobe PDF and MS Word format, the Instructor’s Resource Manual includes Chapter Overviews and Outlines, Assignment Grids, Ten-Minute Quizzes, and other valuable teaching resources including how to integrate MyAccountingLab in your course. In addition there is a new section describing all the supplements that come with *Accounting*, along with suggestions for how and when they can be used, written by an instructor who has used them all!
- **TestGen** This powerful and user-friendly computerized test bank includes well over 100 questions per chapter, ranging from True False, Multiple-Choice, and Matching to Problems and Critical Thinking Exercises.
- **PowerPoint Teaching Transparencies** For flexibility of use, we provide two sets of transparencies: a brief set with six to eight slides per chapter, and a comprehensive set with 40 to 50 slides per chapter.
- **Exhibits** We are pleased to provide the exhibits from the text in GIF format for use in the classroom and easy conversion to acetate format.
- **Adapting Your Lecture Notes** These detailed transition notes, including comparison of tables of content, chapter objectives, and chapter content, will facilitate your course preparation if you make the switch to *Accounting* from another introductory accounting text.
- **Personal Response Systems (PRS) Questions** For classrooms that use PRS, an exciting new wireless polling technology that makes classrooms even more interactive by enabling instructors to pose questions to the students, record results, and display those results instantly.

Other items include:

- **Group Projects**
- **Solutions to Group Projects**
- **Check Figures**
- **Excel Spreadsheet Templates**
- **Accounting Cycle Tutorials**
- **Canadian Western Bank 2008 Annual Report**
- **Sun-Rype Products Ltd. 2008 Annual Report**

Finally, we want to draw your attention to a great service offered by Pearson to further enhance the use of *Accounting* in your course:

Pearson Custom Publishing We know that not every instructor follows the exact order of a course text. Some may not even cover all the material in a given volume. Pearson Custom Publishing provides the flexibility to select the chapters you need, presented in the order you want, to tailor fit your text to your course and your students' needs. Contact your Pearson Education Canada Sales and Editorial Representative to learn more.

We hope you enjoy *Accounting*!

*Peter Norwood
Jo-Ann Johnston*

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Abby Tumak
Marc Andre Villeneuve

These students took the time to give us feedback on what we have been doing well and what we could improve upon with this new edition. As a result of their feedback, many changes were incorporated into the revision. For example, we “chunked” the material in each chapter by inserting Did You Get It? questions at the end of each Learning Objective, giving students the opportunity to check their understanding before moving on in the chapter. New materials have been added to MyAccountingLab as a direct result of these students’ suggestions, including animations of important accounting concepts (the links among financial statements; the process of journalizing and posting; creating an accounting work sheet); a business math review; and instructions on using financial calculators. Several students asked for a new design with a fresh and open feel, and we have redesigned this new edition with this in mind.

Thanks are extended to Canadian Western Bank and Sun-Rype Products Ltd. for permission to use their annual reports in Volumes I and II of this text. Thanks are extended to JVC Canada Inc. for permission to use its invoice in Chapter 5. We acknowledge the support provided by *The Globe and Mail’s Report on Business*, the *Financial Post*, the websites of various news organizations, and by the annual reports of a large number of public companies.

The Canadian Institute of Chartered Accountants, as the official promulgator of generally accepted accounting principles in Canada, and the *CICA Handbook*, are vital to the conduct of business and accounting in Canada. We have made every effort to incorporate the most current *Handbook* recommendations in this new edition of *Accounting* for both private enterprises and for publicly accountable enterprises subject to international financial reporting standards (IFRS).

We would like to give special thanks to Amy Lam, CA, Senior Director of Member Services, Institute of Chartered Accountants of British Columbia, for her guidance and technical support during this time of great changes in the accounting-standards environment. Her willingness to review and discuss portions of the manuscript was very generous and insightful, and it is gratefully acknowledged.

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I would like to thank my wife, Helen, and my family very much for their support, assistance, and encouragement.

Peter R. Norwood

I would like to thank my husband Bill and my family for their encouragement and support.

Jo-Ann L. Johnston

The Accounting Profession: Career Opportunities

The accounting profession offers exciting career opportunities because every organization uses accounting. The corner grocery store keeps accounting records to measure its success in selling groceries. The largest corporations need accounting to monitor their locations and transactions. And the dot.coms must account for their transactions. Why is accounting so important? Because it helps an organization understand its business in the same way a model helps an architect construct a building. Accounting helps a manager understand the organization as a whole without drowning in its details.

The Work of Accountants

Positions in the field of accounting may be divided into several areas. Two general classifications are *public accounting* and *private accounting*.

In Canada, most accountants, both public and private, belong to one of three accounting bodies, which set the standards for admission of members and deal with matters like the rules of professional conduct followed by their members: The Canadian Institute of Chartered Accountants (CICA), whose members are called *Chartered Accountants (CA)*; the Certified General Accountants Association of Canada (CGAAC), whose members are called *Certified General Accountants (CGA)*; and the Society of Management Accountants of Canada (SMAC), whose members are called *Certified Management Accountants (CMA)*. The role and activities of each of these bodies are discussed below.

Private accountants work for a single business, such as a local department store, the St-Hubert restaurant chain, or McCain Foods Ltd. Charitable organizations, educational institutions, and government agencies also employ private accountants. The chief accounting officer usually has the title of controller, treasurer, or chief financial officer. Whatever the title, this person often carries the status of vice-president.

Public accountants are those who serve the general public and collect professional fees for their work, much as doctors and lawyers do. Their work includes auditing, income tax planning and preparation of returns, management consulting, and various accounting services. These specialized accounting services are discussed in the next section. Public accountants represent about a quarter of all professional accountants.

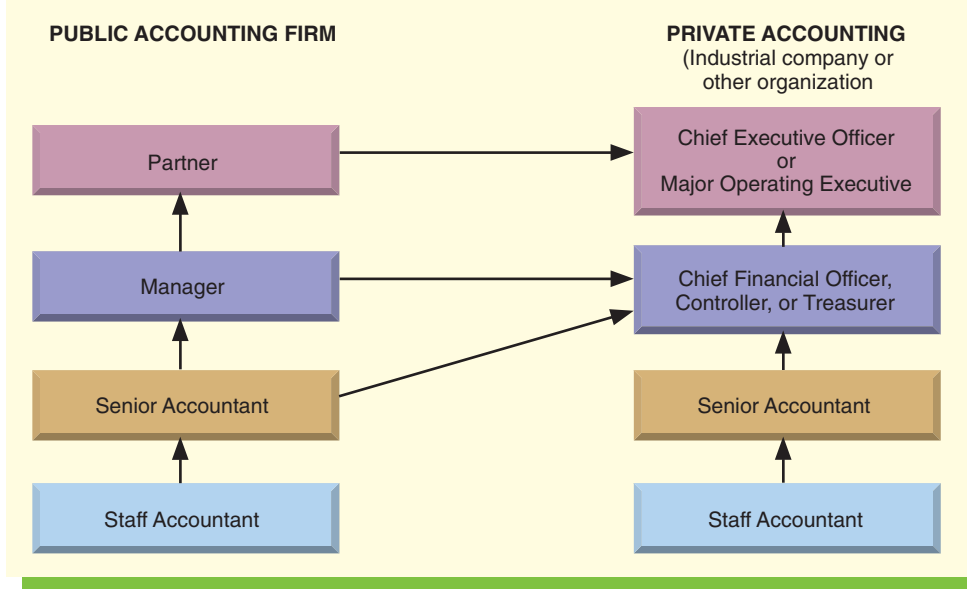
Some public accountants pool their talents and work together within a single firm. Public accounting firms are called CA firms, CGA firms, or CMA firms, depending on the accounting body from which the partners of the firm come. Public accounting firms vary greatly in size. Some are small businesses, and others are medium-sized partnerships. The largest firms are worldwide partnerships with over 2,000 partners. There are four large, international accounting firms:

Deloitte & Touche LLP
Ernst & Young LLP

KPMG LLP
PricewaterhouseCoopers LLP

Although these firms employ less than 25 percent of the more than 60,000 CAs in Canada, they audit most of the 1,000 largest corporations in Canada. The top partners in large accounting firms earn about the same amount as the top managers of other large businesses.

Exhibit 1 shows the accounting positions within public accounting firms and other organizations. Of special interest in the exhibit is the upward movement of accounting personnel, as the arrows show. In particular, note how accountants may move from positions in public accounting firms to similar or higher positions

EXHIBIT 1**Accounting Position within Organizations**

in industry and government. This is a frequently travelled career path. Because accounting deals with all facets of an organization—such as purchasing, manufacturing, marketing, and distribution—it provides an excellent basis for gaining broad business experience.

Accounting Organizations and Designations

The position of accounting in today's business world has created the need for control over the professional, educational, and ethical standards of accountants. Through statutes passed by provincial legislatures, the three accounting organizations in Canada have received the authority to set educational requirements and professional standards for their members and to discipline members who fail to adhere to their codes of conduct. The acts make them self-regulating bodies, just as provincial associations of doctors and lawyers are.

The *Canadian Institute of Chartered Accountants (CICA)*, whose members are chartered accountants or CAs, is the oldest accounting organization in Canada. Experience and education requirements for becoming a CA vary among the provinces. Generally, the educational requirement includes a university degree. All the provincial institutes require that an individual, to qualify as a CA, pass a national three-day uniform examination administered by the CICA and meet experience requirements. The provincial institutes grant the right to use the professional designation CA.

The practical-experience requirements for CAs require that a student be employed by an approved training office. Most of these approved offices are in public accounting, but CAs can now accumulate their experience outside of public practice as well.

CAs belong to a provincial institute (*Ordre* in Quebec) and through that body to the CICA. The provincial institutes have the responsibility for developing and enforcing the code of professional conduct that guides the actions of the CAs in that province.

The CICA publishes a monthly professional journal entitled *CA Magazine*.

The *Certified General Accountants Association of Canada (CGAAC)* is also regulated by provincial law. The experience and education requirements for becoming

a CGA vary from province to province, but in all provinces the individual must either pass national examinations administered by the CGAAC in the various subject areas or gain exemption by taking specified university, college, and association courses. Certain subjects may only be passed by taking a national examination. CGA students require a university degree in order to obtain their designation; they do not need to have the degree to enroll as a student.

CGAs may gain their practical experience through work in public accounting, industry, or government. They are employed in public practice, industry, and government. Some provinces license CGAs in public practice, which gives them the right to conduct audits and issue opinions on financial statements, while some other provinces do not require a licence for them to perform audits.

The association supports research in various areas pertaining to accounting through the Canadian CGA Research Foundation. CGAAC publishes a professional journal entitled *CGA Magazine*.

The *Society of Management Accountants of Canada (SMAC)* administers the Certified Management Accountant program that leads to the Certified Management Accountant (CMA) designation. The use of this designation is similarly controlled by provincial law. Students generally must have a university degree. The SMAC administers an admission or entrance examination that students must pass before embarking on a two-year professional program and completing two years of required work experience. After completing the professional program and the work experience, they write a final examination and make a presentation to a SMAC committee, based on the professional program administered by the SMAC, in order to obtain the CMA designation. The SMAC also administers the professional program and the final examination. CMAs earn their practical experience in industry or government, and are generally employed in industry or government, although some CMAs are in public accounting. The Society issues standards relating to management accounting through the SMAC. The SMAC conducts and publishes research relating primarily to management accounting. The SMAC publishes a professional journal entitled *Cost and Management*.

The *Financial Executives Institute (FEI)* is an organization composed of senior financial executives from many of the large corporations in Canada, who meet on a regular basis with a view to sharing information on how they can better manage their organizations. Most of these executives have one of the three designations just discussed. The FEI supports and publishes research relating to management accounting. The FEI also publishes a journal, the *Financial Executive*.

The *Institute of Internal Auditors (IIA)* is a world-wide organization of internal auditors. It administers the examinations leading to and grants the Certified Internal Auditor (CIA) designation. Internal auditors are employees of an organization whose job is to review the operations, including financial operations, of the organization with a view to making it more economical, efficient, and effective. Many Canadian internal auditors are members of Canadian chapters of the IIA. The IIA supports and publishes research and conducts courses related to internal auditing. The IIA journal is *The Internal Auditor*.

The *Canadian Academic Accounting Association (CAAA)* directs its attention toward the academic and research aspects of accounting. A high percentage of its members are professors. The CAAA publishes a journal devoted to research in accounting and auditing, *Contemporary Accounting Research*.

While it is not an accounting organization or designation, *Canada Revenue Agency (CRA)* enforces the tax laws and collects the revenue needed to finance the federal government.

Specialized Accounting Services

As accounting affects so many people in so many different fields, public accounting and private accounting include specialized services.

Public Accounting

Auditing is one of the accounting profession's most significant services to the public. An audit is the independent examination that ensures the reliability of the reports that management prepares and submits to investors, creditors, and others outside the business. In carrying out an audit, public accountants from outside a business examine the business's financial statements. If the public accountants believe that these documents are a fair presentation of the business's operations, they offer a professional opinion stating that the firm's financial statements have been prepared in accordance with generally accepted accounting principles, or, if generally accepted accounting principles are not applicable, with an appropriate disclosed basis of accounting. Why is the audit so important? Creditors considering loans want assurance that the facts and figures the borrower submits are reliable. Shareholders, who have invested in the business, need to know that the financial picture management shows them is complete. Government agencies need information from businesses. All want information that is unbiased.

Tax accounting has two aims: complying with the tax laws and minimizing taxes to be paid. Because combined federal and provincial income tax rates range as high as 53 percent for individuals and 46 percent for corporations, reducing income tax is an important management consideration. Tax work by accountants consists of preparing tax returns and planning business transactions to minimize taxes. In addition, since the imposition of the Goods and Services Tax (GST), public accountants have been involved in advising their clients how to properly collect and account for GST. Public accountants advise individuals on what types of investments to make, and on how to structure their transactions. Accountants in corporations provide tax planning and preparation services as well.

Management consulting is the term that describes the wide scope of advice public accountants provide to help managers run a business. As they conduct audits, public accountants look deep into a business's operations. With the insight they gain, they often make suggestions for improvements in the business's management structure and accounting systems. The *Sarbanes-Oxley Act of 2002* has created the need for auditors to help their clients ensure the clients have complied with the Act. This includes ensuring that proper and effective internal controls are in place. However, Sarbanes-Oxley has also limited the management consulting services that auditors can supply to their audit clients.

Accounting services is also a catchall term used to describe the wide range of services related to accounting provided by public accountants. These services include bookkeeping and preparation of financial statements on a monthly or annual basis. Some small companies have all their accounting done by a public accounting firm.

Private Accounting

Cost accounting analyzes a business's costs to help managers control expenses or set selling prices. Good cost accounting records guide managers in pricing their products to achieve greater profits. Also, cost accounting information shows management when a product is not profitable and should be dropped from a product line.

Budgeting sets sales and profit goals, and develops detailed plans—called budgets—for achieving those goals. Some of the most successful companies in Canada have been pioneers in the field of budgeting.

Information systems design identifies the organization's information needs, both internal and external. Using flow charts and manuals, designers develop and implement the system to meet those needs.

Internal auditing is performed by a business's own audit staff. Many large organizations, Ontario Power Generation Inc., Hudson's Bay Co., and The Bank of Nova Scotia among them, maintain a staff of internal auditors. These accountants evaluate the firm's own accounting and management systems to improve operating efficiency, and to ensure that employees follow management's policies.

Internal auditors also help to ensure that organizations comply with Sarbanes-Oxley by documenting and assessing internal controls, and by implementing checklists of items prescribed by the Act. Organizations are increasingly hiring outside, freelance accountants to help their own accountants ensure compliance with Sarbanes-Oxley.

Exhibit 2 summarizes these accounting specializations.

As you work through Accounting you will learn how to use accounting to make business decisions. With the exciting career opportunities accounting offers, consider a career in accounting.

