PREFACE

"There is too much material to learn!" is a complaint commonly heard among both students and instructors of intermediate-level financial accounting. The current environment in Canada involving multiple accounting standards certainly adds to the problem. However, this sentiment was prevalent even before the splintering of Canadian generally accepted accounting principles (GAAP) in 2011. So what is the source of the problem, and how do we best resolve it?

Regardless of one's perspective—as an instructor of intermediate accounting, as a student, or as a researcher reading and writing papers—often *the problem of too much content is an illusion*. Instead, the issue is really one of *flow*, not just of words, but *of ideas*. Why does a class, research paper, or presentation appear to cover too much, and why is it difficult to understand? Most often, it is because the ideas being presented did not flow—they were not coherent internally within the class, paper, or presentation, or not well connected with the recipients' prior knowledge and experiences.

Connecting new ideas to a person's existing knowledge and efficiently structuring those new ideas are not just reasonable notions. Modern neuroscience tells us that in order for ideas to be retained they need to be logically structured to each other and presented in ways that connect with a person's prior knowledge and experiences.

OUR APPROACH

How can we better establish the flow of ideas in intermediate accounting? One way is to apply more accounting theory to help explain the "why" behind accounting standards and practices. Inherently, humans are inquisitive beings who want to know not just how things work, but also why things work a particular way. When students understand "why," they are better able to find connections between different ideas and internalize those ideas with the rest of their accumulated knowledge and experiences.

This approach contrasts with that found in existing intermediate accounting textbooks, which present accounting topics in a fragmented way, not only between chapters but within chapters. For example, how is the conceptual framework connected with other ideas outside of accounting? How do the components such as qualitative characteristics relate to the elements of financial statements? Fragmented ideas are difficult to integrate into the brain, which forces students to rely on memorization tricks that work only for the short term.

Also different from alternative textbooks, we do not aim to be encyclopedic—who wants to read an encyclopedia? This textbook is designed as a learning tool for students at the intermediate level, rather than as a comprehensive reference source they might use many years in the future. Being comprehensive burdens students with details that are not meaningful to them. At the rate at which standards are changing, books become outdated rapidly, and students should learn to refer to official sources of accounting standards such as the *CICA Handbook*.

ARE INTERMEDIATE ACCOUNTING STUDENTS READY FOR ACCOUNTING THEORY?

Most programs that offer an accounting theory course do so in the final year of their programs, with good reason—concepts in accounting theory are difficult. Thorough exploration of these concepts requires a solid grounding in accounting standards and practices and higher-level thinking skills. However, not exposing students to these concepts earlier is a mistake.

Other management (and non-management) disciplines are able to integrate theory with technical applications. For example, when finance students study investments and diversification, the capital asset pricing model is an integral component. Finance students also learn about firms' capital structure choices in the context of Modigliani and Miller's propositions, the pecking order theory, and so on. Students in operations management learn linear programming as an application of optimization theory. Relegating theory to the end of a program is an exception rather than the rule.

Accounting theory is too important to remain untouched until the end of an accounting program. This text exposes students to the fundamentals of accounting theory in the first chapter, which lays the foundation for a number of *threshold concepts* (see Meyer and Land, 2003[1]).

THRESHOLD CONCEPTS

While by no means perfect, this textbook aims to better establish the flow of ideas throughout the book by covering several threshold concepts in the first three chapters. Threshold concepts in this case are the portals that connect accounting standards and practices with students' prior knowledge and experiences. As Meyer and Land suggest, these threshold concepts will help to *transform* how students think about accounting, help students to *integrate* ideas within and between chapters, and *irreversibly improve* their understanding of accounting. Introducing these concepts is not without cost, because threshold concepts will often be troublesome due to their difficulty and the potential conflict between students' existing knowledge and these new concepts.

The inside front cover identifies the threshold concepts and the layout of the chapters. Crucially, the first chapter begins with the threshold concepts of *uncertainty* and *information asymmetry*. The need to make decisions under uncertainty and the presence of information asymmetries results in *economic consequences of accounting choice*. These concepts open up the notion of *supply and demand for accounting information*, which forms the basis of the conceptual frameworks for financial reporting (Chapter 2). Decision making under uncertainty leads to the issues surrounding the *timing of recognition* under accrual accounting (Chapter 3), which in turn lead to the concept of *articulation* between financial statements. The presence of information asymmetries leads to considerations of the *quality of earnings* (Chapter 3).

1. Meyer, J.H.F., and R. Land. 2003. "Threshold Concepts and Troublesome Knowledge 1: Linkages to Ways of Thinking and Practicing." In *Improving Student Learning: Ten Years On*, C. Rust (Ed.), Oxford, UK: Oxford Centre for Staff and Learning Development.

These concepts then resurface at different points in the remaining 7 chapters of this book and in the 9 chapters of the second volume. For example, the concept of information asymmetry is fundamental to understanding the range of accounting for financial assets. Another example is the coverage of accounting changes in Chapter 3 because this topic is intimately connected with the timing of recognition, a threshold concept; changes in accounting estimates influence the accounting for long-term contracts and depreciation. A third example is the application of information asymmetry to the accounting for leases.

ACCOUNTING STANDARDS AND PRACTICES

Along with the unique approach of introducing and integrating theory through the use of threshold concepts, this text also provides thorough coverage of accounting standards and practices typically expected of an intermediate accounting course.

Following an overview of the four financial statements in Chapter 3, Chapter 4 explores revenue and expense recognition to highlight the connection financial reporting has to enterprises' value creation activities. Chapters 5 to 10 in this book then examine, in detail, issues involving the asset side of the balance sheet.

The second volume begins with coverage of the right-hand side of the balance sheet in Chapters 11 to 13. Coverage then turns to special topics that cut across different parts of the balance sheet and income statement: complex financial instruments, earnings per share, pension costs, income taxes, and leases. Finally, Chapter 19 examines the cash flow statement, which integrates the various topics covered in Chapters 4 through 18.

Integration of IFRS

This is the first Canadian text written with International Financial Reporting Standards (IFRS) in mind throughout the development process, rather than as an afterthought. For example, we devote a separate chapter (Chapter 10) to explore issues surrounding asset revaluation and impairment because these issues cut across different asset categories under IFRS. The complete integration of standards in the development process adds to the smooth flow of ideas in and between chapters. Another example is Chapter 9's coverage of agriculture activities, a topic covered by IFRS but not by past Canadian standards.

Coverage of ASPE

While this text puts emphasis on IFRS, we do not neglect Accounting Standards for Private Enterprises (ASPE). Near the end of each chapter is a table that identifies differences between IFRS and ASPE. In contrast to other textbooks, we identify only substantive differences rather than every detail. In addition to the summary table, we carefully choose to discuss certain important differences in the main body of the chapters to create opportunities for understanding the subjective nature of accounting standards and the advantages and disadvantages of different standards. For example, Chapter 8 discusses the different treatments of interest capitalization under IFRS and ASPE.

Issue	IFRS requirements	ASPE requirements
Long-term contracts	Use the percentage of completion method.	Use either the percentage of completion or the completed contract method.
Income and expenses for biological assets	Recognize income and expenses on changes in fair value of biological assets (see Chapter 9).	No specific guidance for agricultural activities.

REFERENCE TO ACCOUNTING STANDARDS

Consistent with the threshold concepts described above, this textbook avoids treating accounting standards in a matter-of-fact manner. Ultimately, it is people who make accounting standards and it is important to analyze and evaluate the choices that standard setters make in order to understand the rationale behind the standards. Where appropriate, the chapters provide specific quotations from authoritative standards so that students begin to develop their ability to interpret the standards themselves rather than rely on the interpretations of a third party.

CHAPTER FEATURES

This text contains a number of features that augment the core text. We are mindful that too many "bells and whistles" serve only to distract students, so we have been selective to include only features that reinforce student learning. The result is an uncluttered page layout in comparison to competing textbooks. We firmly believe that clean design supports clear thinking.

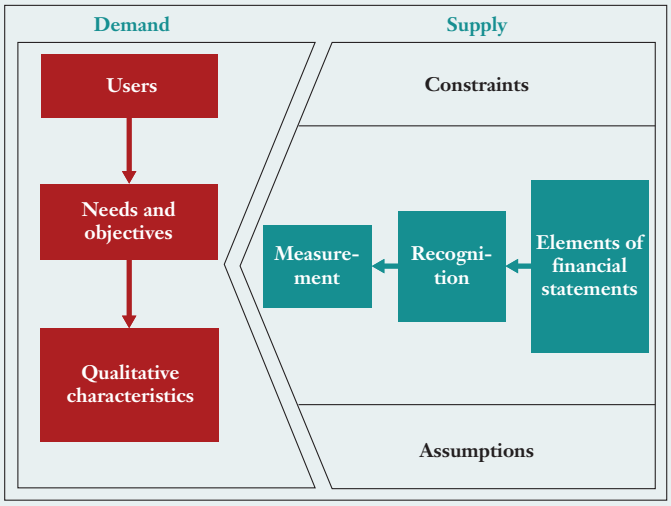
Opening vignettes

Each chapter opens with a short vignette of a real world example that students will easily recognize and to which they will relate. These examples range from household names such as Bank of Montreal, Blackberry, and Telus, to car shopping and Christopher Columbus. As mentioned earlier, this connection to existing knowledge and experiences is crucial to learning new concepts. Each vignette serves to motivate interesting accounting questions that are later addressed in the chapter.

INTEGRATION OF LEARNING OBJECTIVES

To enhance the flow of material, each chapter fully integrates learning objectives from beginning to end. Each chapter enumerates four to six learning objectives that the chapter covers. The end of each chapter summarizes the main points relating to each of these learning objectives. We have also organized the problems at the end of each chapter to match the order of these learning objectives.

Exhibit 2-2 Outline of a conceptual framework for financial reporting



Charts and diagrams

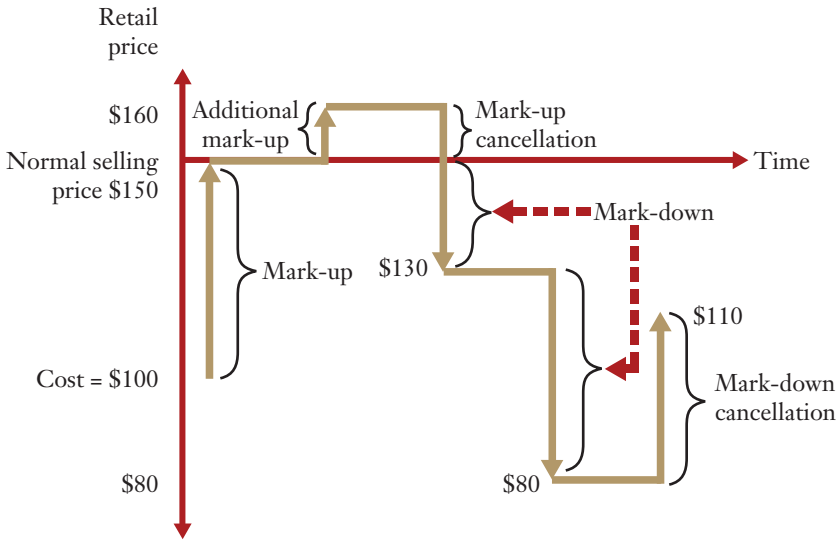
We have chosen to use graphics sparingly but deliberately. These graphics always serve to augment ideas in a logical way rather than to serve as memory "gimmicks" that lack meaning. For instance, it has been popular to use a triangle to organize the conceptual framework for financial reporting. We eschew the use of this triangle because that shape has no logical foundation or connection with the conceptual framework. Instead, we develop the conceptual framework from fundamental forces of supply and demand, so we provide a diagram that illustrates the interaction of those forces.

Feature boxes

When warranted, we provide more in-depth discussions to reinforce the core message in the main body of the chapters. These discussions often take the form of alternative viewpoints or surprising research results that serve to broaden students' perspectives on the issues. Compass icons identify these feature boxes to denote the different perspectives on various issues.

RETAIL PRICING TERMINOLOGY

As you are probably aware from experience, retailers adjust their prices quite frequently by having sales events and in response to competitive pressures. A number of terms are used for the different price changes, and they are best understood by seeing them in a diagram with a specific example. Suppose a product costing $100 has a normal selling price of $150 based on the standard mark-up of 50% above cost. After setting this regular price, the retailer adjusted the price to $160, $130, $80, and $110.



End-of-chapter problems

The end of each chapter contains many questions for students to hone their skills. We choose to use a single label --"Problems" --for all questions. This choice follows from our focus on learning objectives. We organized the Problems in the order of the learning objectives, and within each learning objective, according to the Problem's level of difficulty (easy, medium, and difficult). This approach allows students to work on each learning objective progressively starting with easier question and then mastering more difficult questions on the same learning objective. This approach is much preferable to having students jump around from "exercises" to "discussion questions" to "assignments," and so on. Problems in the textbook that are coloured red are also available on MyAccountingLab. Students have endless opportunities to practice many of these questions with new data and values every time they use MyAccountingLab.

Cases

We have included mini-cases that are based on, or mimic, real business scenarios. The distinguishing feature of these cases is their focus on decision-making. While they are technically no more challenging than Problems, cases bring in additional real world subjective considerations that require students to apply professional judgment.

TECHNOLOGY RESOURCES

MyAccountingLab

Intermediate accounting demands both technical proficiency and the development of professional judgment. Instructors have found that *MyAccountingLab* reduces the amount of class time necessary to develop technical proficiency because students can hone their skills on their own time. Valuable class time then becomes more available for the discussion of cases and complex issues involving judgment and critical reasoning skills.

Features include:

- Personalized Study Plan: Pre- and Post-Tests with remediation to the eText help you understand and apply the concepts where you need the most help.
- MyAccountingLab and textbook integration: The online content matches many of the end-of-chapter Problems to provide a consistent teaching approach.
- Interactive elements: Many hands-on activities and exercises let you experience and learn firsthand, whether it's with the Pearson eText in which you can search for specific keywords or page numbers, highlight specific sections, enter notes right on the eText page, and print reading assignments with notes for later review, or with other materials such as videos, glossary flashcards, and the interactive Accounting Cycle Tutorial.

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SUPPLEMENTS

Instructor resources are password protected and available for download via http://vig.pearsoned.ca. For your convenience, many of these resources are also available on the **Instructor's Resource CD-ROM** (ISBN 978-0-13-237420-0).

- **Instructor's Solutions Manual.** Created by Kin Lo and George Fisher, this resource provides complete, detailed, worked-out solutions for all the Problems in the textbook.
- **Instructor's Resource Manual.** Written by Kin Lo and George Fisher, the Instructor's Resource Manual features additional resources and recommendations to get the most out of this textbook for your course.
- **TestGen and Test Item File.** For your convenience, our testbank is available in two formats. TestGen is a computerized testbank containing a broad variety of multiple choice, short answer, and more complex problem questions. Questions can be searched and identified by question type, learning objective, level of difficulty, and skill type (computational or conceptual). All Multiple Choice questions have also been written to conform to CGA specifications. Each question has been checked for accuracy and is available in the latest version of TestGen software. This software package allows instructors to custom design, save, and generate classroom tests. The test program permits instructors to edit, add, or delete questions from the test bank; edit existing graphics and create new ones; analyze test results; and organize a database of tests and student results. This software allows for greater flexibility and ease of use. It provides many options for organizing and displaying tests, along with search and sort features. The same questions can also be found in a Test Item File available in Word format.
- **PowerPoint® Presentations.** Approximately 30-40 PowerPoint® slides, organized by Learning Objective, accompany each chapter of the textbook.
- **Image Library (on IRCD only).** The Image Library provides access to many of the images, figures, and tables in the textbook.

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