

Fundamentals of

FINANCIAL ACCOUNTING



FUNDAMENTALS OF FINANCIAL ACCOUNTING

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Fundamentals of FINANCIAL ACCOUNTING

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GETTING THE MOST FROM THIS BOOK

We're tired of people saying that accounting is deadly boring. So we wrote this textbook to show just how interesting it can be. Here are a few tips to help you get the most from this book and this course.

- **Read the book.** Seriously.
- **Get the point.** Even though you're going to read all the assigned chapters (right?), you'll want to know what's important and likely to be on your test. The learning objectives tell you. Find them in the first exhibit in each chapter.
- **Consult the coach.** Each coach in Coach's Corner will walk you through tough problems and give you advice on improving your game.
- **Keep on track.** The self-study quizzes gauge whether you've been thinking hard enough as you read. There's no point in blasting through the chapter just to finish. Cover the self-study quiz answers with your thumb and give the questions a try.
- **Practice, practice, practice.** We can't say it enough. You can't just read about accounting, you have to do it. So be sure to do all the questions that you've been assigned. If you're assigned the Group A problems, you can do the Group B problems for extra practice and use the coached problems when reviewing for tests and exams.
- **Get extra help.** The Online Learning Centre is full of digital tools that will help you pull it all together.

One last tip. Enjoy yourself. Ask questions. Share the cartoons with friends who aren't even taking this course. Discover for yourself that accounting isn't boring.

about the authors



Fred Phillips

Fred Phillips is a Professor and the George C. Baxter Chartered Accountants of Saskatchewan Scholar at the University of Saskatchewan, where he teaches introductory financial accounting. He also has taught introductory accounting at the University of Texas at Austin and the University of Manitoba. Fred has an undergraduate accounting degree, a professional accounting designation, and a PhD from the University of Texas at Austin. He previously worked as an audit manager at KPMG.

Fred's main interest is accounting education. He has won eight teaching awards, including two na-

tional case-writing competitions. He has published instructional cases and numerous articles in journals such as *Issues in Accounting Education*, *Journal of Accounting Research*, and *Organizational Behavior and Human Decision Processes*. Fred currently serves as an associate editor of *Issues in Accounting Education*, and he is a member of the Teaching & Curriculum and Two-Year College sections of the American Accounting Association. In his spare time, he likes to work out, play video games, and drink iced cappuccino.



Robert Libby

Robert Libby is the David A. Thomas Professor of Management at the Johnson Graduate School of Management at Cornell University, where he teaches the introductory financial accounting course. He previously taught at the University of Illinois, Pennsylvania State University, the University of Texas at Austin, the University of Chicago, and the University of Michigan. He received his BS from Pennsylvania State University and his MAS and PhD from the University of Illinois; he is also a CPA.

Bob is a widely published author specializing in behavioural accounting. He was selected as the AAA Outstanding Educator in 2000. One of his prior

texts, *Accounting and Human Information Processing* (Prentice Hall, 1981), was awarded the AICPA/AAA Notable Contributions to the Accounting Literature Award. He received this award again in 1996 for a paper. He has published numerous articles in the *Journals of Accounting Research*, *Accounting, Organizations, and Society*, and other accounting journals. He is Vice President-Publications of the American Accounting Association and is a member of the American Institute of CPAs and the editorial boards of *Accounting, Organizations, and Society*, *Journal of Accounting Literature*, and *Journal of Behavioral Decision Making*.



Patricia A. Libby

Patricia Libby is Associate Professor of Accounting and Coordinator of the MBA in Professional Accountancy Program at Ithaca College, where she teaches the undergraduate financial accounting course. She previously taught graduate and undergraduate financial accounting at Eastern Michigan University and the University of Texas at Austin. Before entering academe, she was an auditor with Price Waterhouse (now PricewaterhouseCoopers) and a financial administrator at the University of Chicago. She re-

ceived her BS from Pennsylvania State University, her MBA from DePaul University, and her PhD from the University of Michigan; she is also a CPA.

Pat conducts research on using cases in the introductory course and other parts of the accounting curriculum. She has published articles in *The Accounting Review*, *Issues in Accounting Education*, and *The Michigan CPA*. She has also conducted seminars nationwide on active learning strategies, including cooperative learning methods.



Teresa Anderson

M. Teresa Anderson, PhD, FCA is a professor of accounting at the University of Ottawa. She received her bachelor's degree from Loyola of Montreal, her master's degree from the University of Ottawa, and her doctorate from Queen's University. She worked as a chartered accountant in public practice in both Montreal and Bermuda. Professor Anderson's research interests encompass various aspects of financial reporting and audit services and she has written articles for both academic and professional journals. Professor Anderson has actively served the Institute of

Chartered Accountants of Ontario, primarily on its examination subcommittee and as an elected member of its governing council. She has been a vice-president of the Canadian Academic Accounting Association and a director for a number of private organizations. Professor Anderson has been active in curriculum review and course development and has been nominated by the School of Management three times for the University of Ottawa Excellence in Teaching Award. In 2006, Professor Anderson was named a Fellow of the Institute of Chartered Accountants of Ontario.

PHILLIPS, LIBBY, LIBBY & ANDERSON'S

Fundamentals of **FINANCIAL ACCOUNTING**

Canadian Edition

What does it mean to have a great coach? When you're approaching a subject for the first time, especially a subject as technical as Financial Accounting, having a great coach means having the ongoing support, direction, and motivation necessary to ensure your success.

If you agree that the cover of this book depicts a great coach who is leading the individual participants to victory, then we have successfully captured the essence of Phillips, Libby, Libby, and Anderson's *Fundamentals of Financial Accounting Canadian Edition*. Through unparalleled pedagogy and the most engaging writing style on the market, this text will act as a personal coach outside the classroom, working to ensure every student's success.

Fundamentals of Financial Accounting Canadian Edition provides students with the tools they will need to make sense of business activities, and to prepare and interpret financial information in an accurate and relevant way. Consider the cover shot of the rowers more closely. To the untrained eye, each rower appears to be a mirror image of the others. Each is simply pushing on the oars as hard as he can to reach the finish line. But is it really so straightforward? Look closer at the oars and you will see they are not exactly in line with each other. Each stroke is slightly different from the one next to it. In reality, each rower is playing a unique part based largely on individual strength and position in the boat.

Insert cover

Understanding the intricacies of a rowing team is not unlike understanding a business. On the surface, a business seems like a hive of hectic activity, defying comprehension. Look closer and order emerges: people at different levels of the organization are working with one another (and hoping to do so with the winning precision of our rowing team!). Business activities occurring in one department are analyzed and their financial effects are captured by the accounting department which, in turn, reports these results to decision makers both inside and outside the business. Financial accounting is the thread tying these roles together. Like the variations between each rower's stroke, the subtle messages conveyed by financial statements become useful after examination by a trained and careful eye. Put another way, the closer you look at financial accounting data, the more you understand.

WHAT MAKES THIS BOOK CANADIAN?

This Canadian adaptation revolved around three key areas.

First, the Canadian edition reflects our unique standard-setting environment, generally accepted accounting practices, national accounting bodies, and regulatory agencies.

Second, this edition discusses dozens of Canadian companies, either as focus, comparison, or demo companies, or in the end-of-chapter material. What could be more Canadian than problems on Tim Hortons or the National Hockey League?

Third, this edition benefited from the valuable suggestions of Canadian accounting instructors. In response to reviewers' comments, some areas were expanded, others were deleted or moved to chapter supplements or the Online Learning Centre, and problem material was increased in many chapters. These changes were made to ensure that this edition is well-suited to the needs of Canadian colleges and universities.

THE COACH IS IN THE ICONS

A *Fundamentals of Financial Accounting Canadian Edition* reader is never alone. Several of this book's innovative and student-friendly pedagogical features are represented by icons students will encounter as they read—it's a visual shorthand that makes it a breeze to find additional help or insight.



COACH'S CORNER



COACH'S CORNER

Coach's Corner: Virtually every student has been inspired by a great coach at some point or another. Throughout the chapters, Coach's Corner provides students with tips, advice, and guidance on learning the material. Coach's Corner appears again at the end of the chapter to offer encouragement as students work to reinforce what they've learned.



POINT OF INTEREST

Points of Interest: It always helps to take a little break now and then and Points of Interest provide attention-grabbing diversions for students as they read. From the origins of the Hudson's Bay Company to bogus investment opportunities, Points of Interest illuminate the topic at hand with amusing and unusual facts that introduce a breath of fresh air into students' reading.



ETHICAL ISSUES

Ethical Issues: We've seen all too plainly what can happen when accounting data are distorted or used inappropriately. *Fundamentals of Financial Accounting Canadian Edition* ensures your students start off with a solid grounding in ethics. Ethical Issues in each chapter prompt your students to think about tough ethical decisions and to practice making these decisions in the end-of-chapter cases.



OUTSIDE LOOKING IN

INSIDE LOOKING OUT

Outside Looking In/Inside Looking Out: Different people use accounting information in different ways: those within the firm must choose when and how to report events, while those outside it rely on those reports to make their own decisions. Instances of this dual nature of accounting information are highlighted in the Outside Looking In/Inside Looking Out feature, using an analogy from students' own experiences to highlight the personal relevance of the chapter's topics.

HIGHLIGHTS OF THE STUDENT-CENTRED APPROACH

Phillips, Libby, Libby, and Anderson's *Fundamentals of Financial Accounting Canadian Edition* arms Canadian students with a secret weapon for success in financial accounting: the best personal coach on the market. The following are highlights of Phillips' innovative student-centred approach:

Writing that students can read. What does it mean to say that a book is "readable"? In the case of *Fundamentals of Financial Accounting Canadian Edition*, it simply means the most enjoyable accounting textbook your students have ever read. Through a mix of conversational wording, humour, and everyday examples, *Fundamentals of Financial Accounting Canadian Edition* achieves a style that maintains rigour while never sacrificing student engagement. Open this textbook to any page and read for yourself: *Fundamentals of Financial Accounting Canadian Edition* offers **the most engaging read** of any financial text.

Focus companies. In an approach pioneered by co-authors Robert Libby and Patricia Libby, each chapter of *Fundamentals of Financial Accounting Canadian Edition* makes financial accounting come alive by using a real-world focus company to teach fundamental concepts. Students learn why accounting is important and how businesses use financial accounting information to make smart decisions. All of the focus companies featured in *Fundamentals of Financial Accounting Canadian Edition* are **real companies whose products and services are popular with students**, such as Sony and Oakley. Even better, the list includes **eight Canadian companies**, such as First Choice Haircutters.

A framework students can USE. The **USER Framework** works as a roadmap for each chapter and ensures a balance between preparer and user concepts. Students learn to **Understand** the business decisions made every day by managers, **Study** the methods used by financial accountants, **Evaluate** the reported results from the viewpoint of financial statement users, and **Reconsider** how accounting methods affect the evaluation of results, which indicate the quality of business decisions that managers have made.

Student-friendly coverage of difficult topics. Written with students in mind, *Fundamentals of Financial Accounting Canadian Edition* handles difficult concepts in a way that reflects the balance of preparer and user concepts and keeps students from being overwhelmed.

- **Financial statement analysis** is covered in two chapters (5 and 13) rather than one.
- **Ratios** are introduced throughout the chapters and then pulled together at the end.
- **Individual concepts** are introduced throughout the text as needed to explain specific accounting practices, and then pulled together at the end.
- **The Accounting Process** is covered in three chapters (2, 3, and 4) rather than two.
- The purpose of a **Statement of Cash Flows** is introduced at the beginning of the text, but the mechanics of preparing one are studied at the end.

By taking the most student-oriented approach on the market, *Fundamentals of Financial Accounting Canadian Edition* shows students that the closer they look at financial accounting data, the more they will understand it.

KEEP YOUR CLASS FOCUSED ON THE REAL WORLD

The best way to learn to prepare and use financial statements is to study accounting in real business contexts. This is the key idea behind *Fundamentals of Financial Accounting, Canadian Edition's* focus company approach, which is introduced in the first chapter and which integrates each chapter's material around a focus company, its decisions, and its financial statements.

CHAPTER

9

Reporting and Interpreting Long-Lived Tangible and Intangible Assets

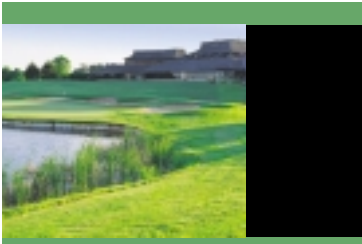


There were 845,000 rounds of golf played on

- U**nderstand the types of long-lived assets used in
 - L01 Define, classify, and explain the nature of long-lived assets.
- S**tudy how to account for long-lived assets.
 - L02 Apply the cost principle to the acquisition of long-lived assets.
 - L03 Apply various amortization methods as future economic benefits are used up over time.
 - L04 Explain the effect of asset impairment on the financial statements.
 - L05 Analyze the disposal of long-lived tangible assets.
 - L06 Analyze the acquisition, use, and disposal of long-lived intangible assets.
 - L07 (Supplement) Analyze changes in amortization.
- E**valuate the effectiveness of long-lived asset management decisions.
 - L08 Interpret the fixed asset turnover ratio.
- R**econsider how reporting decisions affect analysis.
 - L09 Describe factors to consider when comparing a company's performance to its industry.

In choosing *Fundamentals of Financial Accounting Canadian Edition's* focus companies, we took care that our companies' products and services are used by students and will appeal to their curiosity. We further heighten student engagement by injecting our discussions with issues and questions that actually matter in the real world. *What decisions does ClubLink make when investing in and reporting its golf courses and other long-lived assets? How does Magnotta Winery monitor and manage its fluctuating cash flows during the pre- and post-harvest seasons?* These are but a couple of the companies and issues discussed over the course of this book.

ible Assets



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A WARM WELCOME IN EVERY CHAPTER

Students often feel they lack the real-world experience needed to understand accounting, a subject they believe has little impact on their daily lives. *Fundamentals of Financial Accounting, Canadian Edition's* chapter openers provide entertaining analogies that illustrate how accounting principles can inform even the most seemingly mundane things, from making peanut-butter sandwiches to catching a roommate stealing snacks. There's no better way to help students feel comfortable with accounting topics and to trigger an interest that invites them into the chapter. (To see how peanut-butter sandwiches relate to amortization, take a look at Chapter 9.)

A BOOK WITH ITS OWN

Fundamentals of Financial Accounting, Canadian Edition is loaded with so many innovative pedagogical features, you'd swear we shrinkwrapped a TA with the book. From quick review tools to head-scratching ethical dilemmas, *Fundamentals of Financial Accounting, Canadian Edition's* pedagogy gives students every opportunity to reinforce and expand on what they're learning.

COACHED PROBLEMS

CP1-1 Preparing an Income Statement and Balance Sheet
 Assume that you are the president of Nuclear Company. At the end of the first year of operations (December 31, 2007), the following financial data for the company are available:

Cash	\$ 25,000
Accounts receivable from customers	12,000
Inventories	90,000
Equipment owned	45,000
Accounts payable to suppliers	47,370
Notes payable	2,000
Total sales revenue	140,000
Expenses, including the cost of goods sold (excluding income taxes)	89,100
Income tax expense	15,270
Contributed capital, 7,000 shares outstanding	87,000
No dividends were declared or paid during 2007.	

Required (show computations):

- Prepare an income statement for the year 2007.
- Prepare a balance sheet at December 31, 2007.

COACH'S CORNER

1. Dig in to classifying each account as asset, liability, shareholder's equity, revenue, or expense. Then use the formulas shown in the chapter for preparing an income statement and balance sheet. You'll need the net income of the current year to calculate the retained earnings at the end of the year, so do the income statement first.

2. Because this is the first year of operations and there were no dividends, the balance in retained earnings will include only the current year's net income.

Problems With (and Without) the Coach's Help

Instructors tell us how important decision-making skills are for students entering the accounting profession, and *Fundamentals of Financial Accounting, Canadian Edition* recognizes this through an innovative approach to problem-solving. Every chapter includes three problem sets: Coached Problems, Group A, and Group B problems. The Coached Problems go beyond the traditional check figures to advise students on the *process* of solving a problem rather than just its outcome. This feature will save students the inefficient and frustrating experience of having to work

L02 GROUP A PROBLEMS

PA1-1 Preparing an Income Statement and Balance Sheet
 Assume that you are the president of McClaren Corporation. At the end of the first year of operations (June 30, 2007), the following financial data for the company are available:

Cash	\$13,150
Accounts receivable from customers	9,500
Inventories	57,000
Equipment owned	36,000

backwards from solutions to develop their own (possibly erroneous) problem-solving rules. When students can solve the coached problems, they'll be ready to tackle the Group A or Group B problems, which echo the content without the advice offered by the Coached Problems.

HOW'S IT GOING? A Self-Study Quiz

The following transactions are typical monthly operating activities for your First Choice Haircutters Salon. Indicate the amount of revenue, if any, that should be reported in September's income statement.

Operating Activity	Amount of Revenue in September (if any)
(a) Provided haircut services in September to customers for \$15,000 cash.	
(b) Sold \$300 of gift certificates at the beginning of September.	
(c) Customers used \$100 of gift certificates to pay for haircuts in the third week of September.	
(d) Provided \$500 of hair styling services to employees of a local TV station, which is billed every month.	
(e) The TV station paid \$300 on its account.	

After you're done, check your answers with the solutions in the margin.

Quick Answers

(a) \$15,000—This revenue is earned during the month.
 (b) \$0—No revenue has been earned because no services have been provided.
 (c) \$0—No revenue has been earned because the revenue is earned when the gift certificate is used, not when it is sold.
 (d) \$500—No revenue has been earned because the revenue is earned when the gift certificate is used, not when it is sold.
 (e) \$0—The revenue is earned when services are provided.

"How's It Going?"

Nothing helps like a quiz for mastering tricky subjects, so *Fundamentals of Financial Accounting, Canadian Edition* provides plenty of these innovative review boxes throughout each chapter. "How's It Going?" boxes pose a review question about the recent material and provide the answer right there on the page, printed sideways so that students don't accidentally read it before answering the question.

ETHICAL ISSUES

L01-L04 C&DSS-4 Ethical Decision Making: A Real-Life Example

On February 18, 2000, the board of directors of Aurora Foods Inc.—the maker of Duncan Hines® and Mrs. Butterworth® products—issued a press release announcing that a special committee had been formed to conduct an investigation into the company's accounting practices. During the financial statement audit for the year ended December 31, 1999, Aurora's auditors had discovered documents that raised questions about how the company accounted for marketing costs incurred to entice grocery stores to promote Aurora's products. The company's stock price fell by 50 percent in the week following this announcement.

After nearly a year of investigation, Aurora filed revised quarterly reports with the Securities and Exchange Commission (SEC) in the United States, showing that the company had not accrued adequately for liabilities and expenses that had been incurred during the third and fourth quarter of 1998 and during the first three quarters of 1999. Key financial figures for these quarters as initially reported and as later restated are shown below.

(in millions of U.S. dollars)	1998 Q3 (September 30)		1998 Q4 (December 31)		1999 Q1 (March 31)		1999 Q2 (June 30)		1999 Q3 (September 30)	
	Initial Report	Restated Report	Initial Report	Restated Report	Initial Report	Restated Report	Initial Report	Restated Report	Initial Report	Restated Report
Assets	\$1,457	\$1,456	\$1,434	\$1,448	\$1,474	\$1,463	\$1,568	\$1,521	\$1,614	\$1,553
Liabilities	869	879	830	868	862	882	937	944	983	972
Revenues	220	219	280	277	261	254	222	214	238	231
Net income (loss)	1	(12)	16	5	8	0	8	(4)	11	4

The SEC also investigated and filed a legal claim alleging that Aurora's 36-year-old chief financial officer (CFO) had violated federal securities laws by instructing accounting staff to make false journal entries and prepare two sets of records—one for the company's internal use and another to be provided to the auditors. The SEC alleged that her actions allowed Aurora to meet

Ethics Cases

The last five years have seen controversies that brought the ethics of the accounting profession to the forefront of public debate. Young people entering the business world, whether as accountants or other business majors, simply must have a strong ethical grounding, so *Fundamentals of Financial Accounting, Canadian Edition* includes **two ethics cases in every chapter**.

TEACHING ASSISTANT INCLUDED

exhibit 2.7 Transaction Analysis: The DECIDES Approach

1. **D**oes a transaction exist?
2. **E**xamine it for accounts affected.
3. **C**lassify each account affected.
4. **I**dentify direction and amount.
5. **D**ebit and credit the accounts affected.
6. **E**nsure the equation still balances and debits = credits.
7. **S**ummarize the transaction effects in T-accounts.

A Good Accountant DECIDES

The DECIDES decision model provides students the structure they need to tackle challenging topics. This model helps students to decide on the accounting effects of transactions by thinking through the following steps:

1. Does a transaction exist? Go to step 2 only if your answer is “yes.”
2. Examine it for the accounts affected. Put a name on what is given and received.
3. Classify each account as asset (A), liability (L), or shareholders’ equity (SE).
4. Identify the direction and amount of the effects. By how much does each asset, liability, and shareholders’ equity account increase or decrease?
5. Ensure the basic accounting equation still balances and that debits = credits.
6. Summarize the transaction effects in T-accounts.

The DECIDES model is introduced in Chapter 2, expanded in Chapter 3, and reinforced throughout the remaining chapters.

Understand key inventory management decisions.

LO1 Describe inventory management goals.

Study inventory costing and reporting decisions.

LO2 Describe the different types of inventory.

LO3 Compute costs using four inventory costing methods.

LO4 (Supplement A) Compute costs using a perpetual inventory system.

LO5 Explain why inventory is reported at the lower of cost or market.

LO6 (Supplement B) Compute the effects of inventory errors.

Evaluate inventory management practices.

LO7 Compute and interpret the inventory turnover ratio.

Reconsider how inventory reporting decisions affect analyses.

LO8 Explain how accounting methods affect evaluations of inventory management.

The USER Framework

The USER framework uses the cover illustration as a “roadmap” to each chapter, delineating how accounting functions work at all levels of the firm. Students learn to Understand the business decisions that managers make, Study the accounting methods used, Evaluate the reported results from the viewpoint of financial statement users, and Reconsider how the accounting methods affect the evaluation of results, which indicate the quality of managers’ decisions.

THE FINEST END-OF-CHAPTER MATERIAL TO BE FOUND.

The end-of-chapter material is traditionally where students go from reading to doing: answering review questions, solving problems, and wrestling with issues that help them to assimilate the material and apply it in a realistic context. While *Fundamentals of Financial Accounting, Canadian Edition* doesn't see reading as a passive process—our pedagogy does more to maintain student interest and engagement than any competing book—the end-of-chapter material offers a wealth of opportunities for students to connect to the material, and for you to enliven your class with a variety of assignments and discussion questions.

CASES & DISCUSSION STARTERS

FINANCIAL REPORTING AND ANALYSIS CASES

C&DS-1 Finding Financial Information

Refer to the financial statements of High Liner's financing in Appendix A at the end of this book, or download the annual report from the Cases section of the text's website at www.mcgrawhill.ca/college/philips.

Required:

- Calculate the debt-to-assets ratio for 2004 and 2003. Based on these calculations, has High Liner financing become more or less risky in 2004 than in 2003?
- Calculate the asset turnover ratio for 2004 and 2003. (Total assets at December 31, 2002 were \$207 million.) Based on these calculations, has High Liner used its assets more or less efficiently in 2004 than in 2003?
- Calculate the net profit margin ratio for 2004 and 2003. Based on these calculations, has High Liner generated more or less profit per dollar of sales in 2004 than in 2003?

C&DS-2 Comparing Financial Information

Refer to the financial statements of Sam Rippe by downloading the annual report from the Cases section of the text's website at www.mcgrawhill.ca/college/philips.

Required:

Annual Report Cases

There's no substitute for working on real-world data, so FFA comes complete with an annual report for High Liner Foods reproduced in Appendix A. The end-of-chapter cases make extensive use of these data, showing students how to draw information from an annual report and providing them with a valuable perspective on how financial accounting information is used in decision making.

Team Cases

Every chapter also includes a team case that directs groups to search the Internet for companies to analyze, using the tools covered in that chapter. Students not only learn useful research skills but gain valuable practice solving accounting problems in group settings.

TEAM CASE

L01-L03 C&DS1-3 Internet-Based Team Research: Examining an Annual Report

As a team, select an industry to analyze. Go to the website for the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com to search for information about Canadian public companies. The Canadian Securities Administrators (CSA) and CDS INC., a subsidiary of The Canadian Depository for Securities Limited, have operated the SEDAR website since 1997 to make Canadian public securities filings easily accessible. Click on Search Database and Public Company and run your search by industry group to find companies in your chosen industry. Each group member should acquire the annual report for one Canadian publicly traded company in the industry, with each member selecting a different company. In addition to SEDAR's and the company's own websites, corporate and industry information can be found on a number of other websites, such as www.bever.com and www.fis-int.com. The United States runs a service similar to SEDAR called EDGAR. For American company data, go to www.edgar.com.

Required:

- On an individual basis, each team member should write a short report that lists the following information:
 - What type of business organization is it?
 - What types of products or services does it sell?
 - On what day of the year does it fiscal year end?
 - For how many years does it present complete balance sheets? Income statements? Cash flow statements?
 - Are its financial statements audited by independent auditors? If so, by whom?
 - Did its total assets increase or decrease over the last year?
 - Did its net income increase or decrease over the last year?
- Then, as a team, write a short report comparing and contrasting your companies using these attributes. Discuss any patterns across the companies that you as a team observe and, in particular, compare the level of reporting detail. Provide potential explanations for any differences discovered.

Simplify with Spreadsheets

Why do the same calculations over and over again when you can enter them once, and then just copy and paste? Every chapter includes at least one spreadsheet problem that allows students to skip the tedium of repetitious number-crunching and focus instead on "what if" analyses and interpretations. And don't worry if your students haven't had formal training with spreadsheets: each problem includes relaxed, student-friendly advice on the steps needed to perform basic spreadsheet calculations.

Chapter 3 Reporting Investing and Financing Results on the Balance Sheet

SIMPLIFY WITH SPREADSHEETS

SS2-1 Analyzing Transactions and Preparing a Balance Sheet

Assume you recently obtained a post-transaction system at the corporate headquarters of CHEM Limited in Toronto. CHEM is one of Canada's leading media companies. It owns more than 40 radio and television stations and operates channels, serving the popular Citytv in Toronto, Montreal, and Vancouver. The following table represents selected and final balances in thousands of dollars for CHEM as of August 31, 2004.

Cash	11,200	Accounts Payable	61,204
Accounts Receivable	95,202	Other Current Liabilities	83,214
Other Current Assets	79,206	Long-Term Debt	131,261
Property, Plant, and Equipment	182,247	Other Long-Term Liabilities	81,292
Other Noncurrent Assets	300,677	Contributed Capital	128,242
		Retained Earnings	200,009

Discontinue from the balance sheet of CHEM would change if the company were to enter into the following transaction (assume no discount) during September:

- Purchase an additional broadcasting facility at a cost of \$12,000, by issuing a promissory note that becomes payable in three years.
- Use \$4,000 cash to repay a short-term loan.
- Issue additional shares for \$40,000 cash.
- Use cash to buy back \$40,000.

Required:

- There are no transactions on CHEM's list of accounts. Explain why not.
- The controller at CHEM has asked you to create a spreadsheet in which to display (a) the account balances in August 31, 2004 of the first September transactions, and (b) total that combine the August 31 balances with the September transactions. You feel like you might be asked to make this assignment, but just to be sure you understand the steps for advice. Here's his reply:

From: Billy The Boss@che.com
 To: Oneofthemidlevelmanagers
 CC: Oneofthemidlevelmanagers
 Subject: Excel Help

Wow, I can't believe you landed that great job at CHEM.

My thinking is that you'll really impress your boss if you set up the spreadsheet to look like a bunch of transactions, open books, spreadsheets. So do this, use the first column for date, the second column for the debiting account, the third column for the crediting account, the fourth column for the account name, and the fifth column for the amount. The amount should be in the right column. If you're not sure, just use the cell range command to make a header that looks like, right? Well, check the last several times you have a command of those and part of the left-hand side of your worksheet right look just before you enter the September transactions.

Use the following information to complete the spreadsheet. The spreadsheet should be able to calculate the ending balances for the September transactions, and the ending balances for the September 30, 2004. The spreadsheet should also be able to calculate the ending balances for the September 30, 2004. The spreadsheet should also be able to calculate the ending balances for the September 30, 2004. The spreadsheet should also be able to calculate the ending balances for the September 30, 2004.

Multiple-Choice Questions

Students are likely to see these kinds of questions on tests and exams, so give them some practice with these quick checks of basic concepts.

MULTIPLE CHOICE

Select the one alternative that best answers the question or completes the sentence.

- If total assets increase but total liabilities remain the same, what is the impact on the debt-to-assets ratio?
 - Increases.
 - Decreases.
 - Remains the same.
 - Cannot be determined without additional information.

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brief contents

Chapter 1

Reporting and Interpreting the Financial Results of Business Activities 2
Focus Company: Mattel, Inc.

Chapter 2

Reporting Investing and Financing Results on the Balance Sheet 42
Focus Company: First Choice Haircutters

Chapter 3

Reporting Operating Results on the Income Statement 88
Focus Company: First Choice Haircutters

Chapter 4

Adjustments, Financial Statements, and the Quality of Financial Reporting 134
Focus Company: First Choice Haircutters

Chapter 5

Understanding Financial Statements and the Financial Reporting Environment 190
Focus Company: Hudson Bay Company

Chapter 6

Internal Control and Financial Reporting for Merchandising Operations 232
Focus Company: Shoppers Drug Mart

Chapter 7

Reporting and Interpreting Receivables, Bad Debt Expense, and Interest Revenue 286
Focus Company: Sony Corporation

Chapter 8

Reporting and Interpreting Inventories and Cost of Goods Sold 328
Focus Company: Oakley, Inc.

Chapter 9

Reporting and Interpreting Long-Lived Tangible and Intangible Assets 374
Focus Company: ClubLink

Chapter 10

Reporting and Interpreting Liabilities 422
Focus Company: Rogers Communications

Chapter 11

Reporting and Interpreting Shareholders' Equity 476
Focus Company: Danier Leather Inc.

Chapter 12

Reporting and Interpreting the Statement of Cash Flows 520
Focus Company: Magnotta Winery Corporation

Chapter 13

Measuring and Evaluating Financial Performance 572
Focus Company: High Liner Foods Inc.

Appendix A

High Liner Foods Inc., 2004 Annual Report 611

Appendix B

Present and Future Value Concepts xxx

Appendix C

Reporting and Interpreting Investments in Other Corporations xxx

Glossary xxx

Photo Credits xxx

Index xxx

table of contents

Chapter 1

Reporting and Interpreting the Financial Results of Business Activities 2

Mattel, Inc. 3

Understand the Basic Activities of Businesses 4

The Development of Mattel's Business 4

Study How Financial Results Are Reported in Financial Statements 6

Financial Statements 6

Generally Accepted Accounting

Principles (GAAP) 18

Evaluate Results from the Perspective of Financial Statement Users 19

Who Cares? 19

Reconsider How Financial Statement Reporting Informs Users 22

The Glimpse Inside 22

A Glance Outside 22

What's Coming Up 22

For Your Review 23

Demonstration Case 23

Chapter Summary 25

Key Terms to Know 25

For Your Practice 26

Questions 26

Multiple Choice 26

Mini-Exercises 27

Exercises 31

Simplify with Spreadsheets 36

Coached Problems 37

Group A Problems 38

Group B Problems 39

Cases and Discussion Starters 39

Financial Reporting and Analysis Cases 39

Ethics and Critical Thinking Cases 40

Chapter 2

Reporting Investing and Financing Results on the Balance Sheet 42

First Choice Haircutters 43

Understand What a Balance Sheet Presents for Users 44

Business Activities and Common Balance Sheet Accounts 44

Study How to Analyze Transactions 46

Transaction Analysis 46

The Ideas Behind Transaction Analysis 48

DECIDE: A Systematic Approach to Transaction Analysis 50

Evaluate Transactions Using the Debit/Credit Framework 54

T-Accounts: Separating Increases and Decreases in the Basic Accounting Equation 55

Journal Entries 57

Transaction Analysis Revisited 57

Unadjusted Trial Balance 62

Preparing a Balance Sheet 63

Reconsider the Balance Sheet Concepts That Users Rely On 64

The Effects of a Transaction Focus 64

What's Coming Up 66

For Your Review 66

Demonstration Case 66

Chapter Summary 68

Key Terms to Know 69

For Your Practice 70

Questions 70

Multiple Choice 70

Mini-Exercises 71

Exercises 74

Simplify with Spreadsheets 79

Coached Problems 80

Group A Problems 81

Group B Problems 82

Cases and Discussion Starters 84

Financial Reporting and Analysis Cases 84

Ethics and Critical Thinking Cases 85

Chapter 3

Reporting Operating Results on the Income Statement 88

First Choice Haircutters 89

Understand What an Income Statement Presents for Users 90

Revenues and Expenses 90

Study How to Analyze Operating Transactions 92

Cash-Based Measurements 92

Accrual-Based Measurement of Revenues 94

Accrual-Based Measurement of Expenses 96

Evaluate Transactions Using the Debit/Credit Framework 98

Including Revenues and Expenses in the Transaction Analysis Model 98

Using the DECIDES Approach with Revenues and Expenses 98

Calculating Account Balances	104
Preparing the Unadjusted Trial Balance	104
Summarizing How to Account for Revenues and Expenses	105
Reconsider the Income Statement Concepts that Users Rely On	107
The Revenue Principle	108
The Matching Principle	108
Unethical Violations of the Revenue Principle and the Matching Principle	108
What's Coming Up	109
For Your Review	109
<i>Demonstration Case</i>	109
<i>Chapter Summary</i>	113
<i>Key Terms to Know</i>	114
For Your Practice	114
<i>Questions</i>	114
<i>Multiple Choice</i>	115
<i>Mini-Exercises</i>	116
<i>Exercises</i>	118
<i>Simplify with Spreadsheets</i>	123
<i>Coached Problems</i>	125
<i>Group A Problems</i>	126
<i>Group B Problems</i>	128
Cases and Discussion Starters	130
<i>Financial Reporting and Analysis Cases</i>	130
<i>Ethics and Critical Thinking Cases</i>	131
Chapter 4	
Adjustments, Financial Statements, and the Quality of Financial Reporting	134
First Choice Haircutters	135
<hr/>	
Understand Why Adjustments Are Needed	136
1. Deferral Adjustments	136
2. Accrual Adjustments	137
Study How Adjustments Are Made	137
Examples of Deferral Adjustments	138
Examples of Accrual Adjustments	144
Evaluate the Quality of Adjusted Financial Statements	147
Adjustments for Good, Not Evil	147
Reconsider the Accounting Process	148
Preparing the Adjusted Trial Balance	150
Preparing the Income Statement and Statement of Retained Earnings	151
Preparing the Balance Sheet	152
Preparing the Statement of Cash Flows and Notes to the Financial Statements	152
Closing the Income Statement and Dividend Accounts	153

Post-Closing Trial Balance	154
What's Coming Up	154
For Your Review	156
<i>Demonstration Case</i>	156
<i>Chapter Summary</i>	162
<i>Key Terms to Know</i>	163
For Your Practice	163
<i>Questions</i>	163
<i>Multiple Choice</i>	163
<i>Mini-Exercises</i>	165
<i>Exercises</i>	168
<i>Simplify with Spreadsheets</i>	176
<i>Coached Problems</i>	177
<i>Group A Problems</i>	180
<i>Group B Problems</i>	184
Cases and Discussion Starters	187
<i>Financial Reporting and Analysis Cases</i>	187
<i>Ethics and Critical Thinking Cases</i>	187

Chapter 5

Understanding Financial Statements and the Financial Reporting Environment 190 Hudson Bay Company 191

Understand How Accounting Helps Users	192
Who Are the Main Users and What Do They Need?	192
What Do Users Get?	193
The Role of Auditors and Analysts	194
Study How to Analyze Financial Statements	195
A Model of HBC's Business	195
Analyzing Financial Statement Levels	196
Analyzing Financial Statement Ratios	198
Evaluate Sources of Information Other than Annual Financial Statements	202
Financial News	203
Annual and Quarterly Reports	204
Canadian Securities Administrators (CSA) Filings	205
Investor Information Websites	205
Reconsider the Financial Reporting Environment	206
Why Would Management Misrepresent the Financial Results?	206
Why Would Management <i>Not</i> Misrepresent the Financial Results?	207
How Could Misreporting Occur?	208
For Your Review	209
<i>Demonstration Case</i>	209
<i>Chapter Summary</i>	211
<i>Financial Statement Analysis Tips</i>	212
<i>Key Terms to Know</i>	212

For Your Practice 212

- Questions 212
- Multiple Choice 213
- Mini-Exercises 213
- Exercises 215
- Simplify with Spreadsheets 219
- Coached Problems 220
- Group A Problems 222
- Group B Problems 225

Cases and Discussion Starters 227

- Financial Reporting and Analysis Cases 227
- Ethics and Critical Thinking Cases 228

Chapter 6**Internal Control and Financial Reporting for Merchandising Operations 232****Shoppers Drug Mart 233****Understand Operating Cycles and Internal Control 234**

Service, Merchandising, and Manufacturing Operating Activities 234

Internal Control: To Protect and to Serve 234

Study Control and Accounting for Cash, Purchases, and Sales 237

Cash Control and Reporting 237

Inventory Controls and Tracking Systems 242

Purchases, Purchase Returns and Allowances, and Purchase Discounts 244

Sales, Sales Returns and Allowances, and Sales Discounts 247

A Final Word on Internal Control 250

Evaluate the Operating Results of Merchandisers 251

Drilling Down in a Multistep Income Statement 251

Gross Profit Percentage 252

Reconsider the Impact of Operating Cycles on Financial Results 253

Comparing Operating Results Across Companies and Industries 254

Be on the Alert 254

What's Coming Up 255

For Your Review 255

Demonstration Case A 255

Demonstration Case B 256

Chapter Summary 257

Financial Statement Analysis Tip 258

Key Terms to Know 258

Supplement A: Periodic Inventory Systems 258

For Your Practice 260

- Questions 260
- Multiple Choice 260

Mini-Exercises 262

Exercises 263

Simplify with Spreadsheets 271

Coached Problems 272

Group A Problems 275

Group B Problems 279

Cases and Discussion Starters 282

Financial Reporting and Analysis Cases 282

Ethics and Critical Thinking Cases 283

Chapter 7**Reporting and Interpreting Receivables, Bad Debt Expense, and Interest Revenue 286****Sony Corporation 287****Understand Key Receivables Management Decisions 288**

Cash Management 288

The Pros and Cons of Extending Credit to Customers 288

Study How to Account for Receivables 289

The Allowance Method of Accounting for Accounts Receivable and Bad Debts 290

Other Methods of Accounting for Accounts Receivable and Bad Debts 295

Accounting for Notes Receivable 296

Evaluate Receivables Management Practices 298

Speeding Up the Collection Process 298

Receivables Turnover Analysis 299

Reconsider How Receivables Reporting Affects Analyses 302

The Impact of Estimation 302

What's Coming Up 305

For Your Review 305

Demonstration Case 305

Chapter Summary 307

Financial Statement Analysis Tips 307

Key Terms to Know 308

Supplement: Direct Write-Off Method 308

For Your Practice 309

Questions 309

Multiple Choice 309

Mini-Exercises 310

Exercises 312

Simplify with Spreadsheets 316

Coached Problems 317

Group A Problems 319

Group B Problems 321

Cases and Discussion Starters 324

Financial Reporting and Analysis Cases 324

Ethics and Critical Thinking Cases 325

Chapter 8

Reporting and Interpreting Inventories and Cost of Goods Sold 328

Oakley, Inc. 329

Understand Key Inventory Management Decisions 330

The Business of Inventory Management 330

Study Inventory Costing and Reporting Decisions 330

Items Included in Inventory 330

Cost of Goods Sold 332

Inventory Costing Methods 334

Additional Inventory Cost Flow Computations 340

Reporting Inventory at the Lower of Cost or Market 342

Evaluate Inventory Management Practices 343

Interpreting Changes in Inventory Levels 343

Reconsider How Inventory Reporting Decisions Affect Analyses 345

The Impact of Inventory Costing Methods 345

What's Coming Up 346

For Your Review 346

Demonstration Case 346

Chapter Summary 348

Financial Statement Analysis Tips 349

Key Terms to Know 349

Supplement A: Applying FIFO, LIFO, and Weighted Average in a Perpetual Inventory System 349

Supplement B: The Effects of Errors in Ending Inventory 350

For Your Practice 352

Questions 352

Multiple Choice 352

Mini-Exercises 353

Exercises 355

Simplify with Spreadsheets 361

Coached Problems 362

Group A Problems 364

Group B Problems 367

Cases and Discussion Starters 370

Financial Reporting and Analysis Cases 370

Ethics and Critical Thinking Cases 372

Chapter 9

Reporting and Interpreting Long-Lived Tangible and Intangible Assets 374

ClubLink 375

Understand the Types of Long-Lived Assets Used in Business 376

Defining and Classifying Long-Lived Assets 376

Study How to Account for Long-Lived Assets 377

Acquisition of Tangible Assets 377

Use of Tangible Assets 380

Asset Impairment Losses 386

Disposal of Tangible Assets 387

Types of Intangible Assets 389

Acquisition, Use, and Disposal of Intangible Assets 390

Bricks and Clicks 392

Natural Resources 392

Evaluate the Effectiveness of Long-Lived Asset Management Decisions 392

What's an Optimal Level of Investment? 392

To Lease or Buy? 393

Evaluating the Use of Long-Lived Tangible Assets 393

Amortization and Cash Flow 395

Reconsider How Reporting Decisions Affect Analyses 395

The Impact of Amortization Differences 395

The Role for Judgment 397

What's Coming Up 398

For Your Review 398

Demonstration Case 398

Chapter Summary 400

Financial Statement Analysis Tip 402

Key Terms to Know 402

Supplement A: Change in Amortization Estimates 402

For Your Practice 403

Questions 403

Multiple Choice 404

Mini-Exercises 405

Exercises 407

Simplify with Spreadsheets 412

Coached Problems 414

Group A Problems 415

Group B Problems 416

Cases and Discussion Starters 418

Financial Reporting and Analysis Cases 418

Ethics and Critical Thinking Cases 420

Chapter 10

Reporting and Interpreting Liabilities 422

Rogers Communications 423

Understand Decisions that Involve Liabilities 424

Classification of Liabilities 425

Study How to Account for and Report Liabilities 425

Measurement of Liabilities 425

Current Liabilities 425

Long-Term Liabilities 432

Financial Instruments 440

Evaluate the Likelihood that Liabilities Will Be Repaid in Full 440

- Analyzing the Ability to Pay Amounts Currently Owed 440
- Analyzing the Ability to Generate Resources to Pay Future Amounts Owed 442
- Understanding Common Features of Debt 444

Reconsider How Liability Decisions Can Be Affected by Unrecorded Debt 444

- Unrecorded Liabilities 444
- What's Coming Up 446

For Your Review 447

- Demonstration Case A* 447
- Demonstration Case B* 448
- Chapter Summary* 448
- Financial Statement Analysis Tips* 449
- Key Terms to Know* 450

Supplement A: Straight-Line Amortization of Bond Discount and Premium 450

Supplement B: Effective-Interest Amortization of Bond Discount and Premium 451

Supplement C: A Simplified Approach to Bond Accounting Using Effective-Interest Amortization (See the Online Learning Centre)

For Your Practice 456

- Questions* 456
- Multiple Choice* 457
- Mini-Exercises* 458
- Exercises* 460
- Simplify with Spreadsheets* 464
- Coached Problems* 464
- Group A Problems* 468
- Group B Problems* 470

Cases and Discussion Starters 472

- Financial Reporting and Analysis Cases* 472
- Ethics and Critical Thinking Cases* 473

Chapter 11**Reporting and Interpreting Shareholders' Equity 476**
Danier Leather Inc. 477**Understand the Characteristics of Corporate Equity 478**

- Understanding Corporations 478
- Ownership of a Corporation 479

Study How to Account for Equity Transactions 481

- Common Share Transactions 481
- Dividends on Common Shares 483
- Stock Dividends and Stock Splits 485
- Preferred Shares 487

Evaluate the Return to Shareholders 489

- Earnings per Share (EPS) 489

Return on Equity (ROE) 490

Equity Versus Debt 492

Reconsider Decisions that Affect Measures of Shareholder Returns 493

- Retained Earnings Restrictions 493
- Stock Options and Diluted Earnings per Share 493
- Be on the Alert for Stock Repurchases 494
- What's Coming Up 494

For Your Review 494

- Demonstration Case A* 494
- Demonstration Case B* 495
- Chapter Summary* 496
- Financial Statement Analysis Tips* 497
- Key Terms to Know* 497
- Supplement: Accounting for Equity in Sole Proprietorships and Partnerships* 497

For Your Practice 502

- Questions* 502
- Multiple Choice* 502
- Mini-Exercises* 503
- Exercises* 505
- Simplify with Spreadsheets* 511
- Coached Problems* 511
- Group A Problems* 513
- Group B Problems* 515

Cases and Discussion Starters 517

- Financial Reporting and Analysis Cases* 517
- Ethics and Critical Thinking Cases* 518

Chapter 12**Reporting and Interpreting the Statement of Cash Flows 520****Magnotta Winery Corporation 521****Understand What a Statement of Cash Flows Reports 522**

- The Need for a Statement of Cash Flows 522
- Classifications in the Statement of Cash Flows 523

Study How to Prepare a Statement of Cash Flows 526

- Relationships to the Balance Sheet and Income Statement 526
- Reporting Cash Flows from Operating Activities 527
- Reporting Cash Flows from Investing Activities 536
- Reporting Cash Flows from Financing Activities 537
- Summarizing Cash Flows from Operating, Investing, and Financing Activities 539
- Additional SCF Information 539

Evaluate Financial Results Reported in a Statement of Cash Flows 540

- Interpreting Cash Flows from Operating Activities 540
- Interpreting Cash Flows from Investing Activities 540
- Interpreting Cash Flows from Financing Activities 542

Reconsider Financial Performance in the Light of Cash Flows 542

Using Net Operating Cash Flows to Evaluate Net Income 542

What's Coming Up 544

For Your Review 544

Demonstration Case A 544

Demonstration Case B 545

Chapter Summary 546

Financial Statement Analysis Tips 548

Key Terms to Know 548

Supplement A: Reporting Sales of Property, Plant, and Equipment 548

Supplement B: Spreadsheet Approach-Indirect Method (See the Online Learning Centre)

For Your Practice 550

Questions 550

Multiple Choice 550

Mini-Exercises 551

Exercises 554

Simplify with Spreadsheets 560

Coached Problems 561

Group A Problems 563

Group B Problems 567

Cases and Discussion Starters 571

Financial Reporting and Analysis Cases 571

Ethics and Critical Thinking Cases 572

Chapter 13

Measuring and Evaluating Financial Performance 574

High Liner Foods Inc. 575

Understand Techniques Used to Evaluate Financial Performance 576

Study How to Evaluate Financial Performance (Using High Liner) 577

Trend Analyses of High Liner's Financial Statements 577

Ratio Analyses Using High Liner's Financial Statements 581

Other Considerations 587

Evaluate Financial Results in Relation to Stock Price 588

The Relationship Between Earnings and Stock Prices 588

Reconsider the Conceptual Framework for Financial Accounting 589

The Objective of Financial Reporting 589

For Your Review 592

Demonstration Case 592

Chapter Summary 592

Financial Statement Analysis Tips 593

Key Terms to Know 594

Supplement: Nonrecurring and Other Items 594

For Your Practice 595

Questions 595

Multiple Choice 595

Mini-Exercises 596

Exercises 597

Simplify with Spreadsheets 601

Coached Problems 601

Group A Problems 604

Group B Problems 608

Cases and Discussion Starters 611

Financial Reporting and Analysis Cases 611

Ethics and Critical Thinking Cases 612

Appendix A

High Liner Foods Inc., 2004 Annual Report 613

Appendix B

Present and Future Value Concepts 627

Computing Future and Present Values of a Single Amount 628

Future Value of a Single Amount 628

Present Value of a Single Amount 629

Computing Future and Present Values of an Annuity 630

Future Value of an Annuity 630

Present Value of an Annuity 631

Interest Rates and Interest Periods 632

Accounting Applications of Present Values 632

Case A-Present Value of a Single Amount 632

Case B-Present Value of an Annuity 634

Case C-Present Value of a Single Amount and an Annuity 635

For Your Review 641

Key Terms to Know 641

For Your Practice 641

Questions 641

Multiple Choice 641

Mini-Exercises 642

Exercises 643

Coached Problem 644

Group A Problem 644

Group B Problem 644

Appendix C**Reporting and Interpreting Investments in Other Corporations 645**

Why Does a Company Invest in Other Corporations? 645

Consolidation Method for Investments Involving Control 646

Equity Method for Investments Involving Significant Influence 647

Market Value Methods for Passive Investments 650
For Your Review 654

Demonstration Case A-Equity Method for Significant Influence Investments 654

Demonstration Case B-Market Value Method for Securities Available for Sale 654

Demonstration Case C-Market Value Method for Trading Securities 656

Key Terms to Know 657

For Your Practice 657*Questions 657**Multiple Choice 657**Mini-Exercises 658**Exercises 660**Coached Problems 661**Group A Problems 662*

See the Online Learning Centre for Sun-Rype's 2004 Financial Statements

Glossary 664**Photo Credits ???****Index 684**



Fundamentals of

FINANCIAL ACCOUNTING