



VOLUME 2

KIESO · WEYGANDT · WARFIELD · YOUNG · WIECEK · MCCONOMY

# INTERMEDIATE ACCOUNTING

ELEVENTH CANADIAN EDITION

WILEY

**Coverage of the CPA Competency Map Knowledge Supplement**—The following table maps the knowledge reference list from the CPA Competency Map Knowledge Supplement to *Intermediate Accounting, Eleventh Canadian Edition* (Volumes 1 and 2). The textbook in its entirety covers the knowledge component of the competencies as noted below.

**SECTION 1: FINANCIAL REPORTING**

<b>Introduction to Accounting</b>	
	<b>Chapters</b>
<ul style="list-style-type: none"> <li>Objectives and fundamental accounting concepts and principles (qualitative characteristics of accounting information, basic elements)</li> <li>Ethical professional judgement</li> <li>Objectives of financial reporting</li> <li>Methods of measurement</li> <li>Difference between accrual accounting and cash accounting</li> <li>Framework of standard setting (IFRS and ASPE)</li> <li>Financial statement users and their broad needs, standard setting, and requirement for accountability</li> <li>Accounting information systems</li> <li>The role of information technology in the reporting of information, including real-time access, remote access to information, dashboard, spreadsheet, report generator, and XBRL (eXtensible Business Reporting Language)</li> <li>Emerging trends in accounting standards and recent updates</li> <li>Legislation that has an impact on accounting (Sarbanes-Oxley Act, Bill 198)</li> </ul>	<p>1, 2</p> <p>2 and all chapters</p> <p>1, 2</p> <p>2, 3</p> <p>3, 4A</p> <p>1, 2</p> <p>1, 2</p> <p>3</p> <p>3</p> <p>All chapters</p> <p>1</p>
<b>Financial Statements—Process, Design, and Preparation</b>	
<ul style="list-style-type: none"> <li>The accounting cycle</li> <li>Internal control and cash (bank reconciliation, control over cash receipts and disbursements)</li> <li>Interim reporting</li> <li>Reportable segments</li> <li>Financial statements in accordance with applicable standards</li> <li>Routine disclosure requirements (notes to financial statements)</li> <li>Complex disclosure requirements (notes to financial statements)</li> <li>Role and composition of the MD&amp;A</li> </ul>	<p>3</p> <p>7, 7A</p> <p>23</p> <p>23</p> <p>All chapters</p> <p>All chapters</p> <p>All chapters</p> <p>23</p>
<b>Issues Regarding Items in Financial Statements (under various GAAPs)</b>	
<p>The appropriate accounting treatment for the following:</p> <ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>Receivables</li> <li>Inventories</li> <li>Property, plant, and equipment</li> <li>Goodwill and intangible assets</li> <li>Depreciation, amortization, impairment, and disposition/derecognition</li> <li>Provisions, contingencies, and current liabilities</li> <li>Long-term liabilities</li> <li>Owners'/shareholders' equity</li> <li>Earnings per share (basic, diluted)</li> <li>Financial instruments</li> <li>Investments in associates/significant influence</li> <li>Revenue recognition/revenue from contracts with customers, and accounting for revenue and related expenses</li> <li>Leases</li> <li>Changes in accounting policies and estimates, and errors</li> <li>Foreign currency transactions</li> <li>Accounting for income taxes</li> <li>Events after the reporting period</li> <li>Uncommon capital assets (e.g., natural resources, exchanges of assets, decommissioning costs)</li> <li>Pension plans and other employee future benefits</li> <li>Assets held for sale and discontinued operations</li> </ul>	<p>7</p> <p>7</p> <p>8</p> <p>10</p> <p>12</p> <p>11</p> <p>13</p> <p>14, 16</p> <p>15, 16</p> <p>4, 17</p> <p>7, 9, 14, 15, 16</p> <p>9</p> <p>6</p> <p>20</p> <p>21</p> <p>16</p> <p>18</p> <p>5, 23</p> <p>10, 11, 13</p> <p>19</p> <p>4</p>

<b>Issues Regarding Items in Financial Statements (under various GAAPs) (continued)</b>	<b>Chapters</b>
• Fair value and cash flow hedges	16
• Foreign currency translation	16
• Business combination	12
• Consolidated statements on date of acquisition	NA
• Consolidated financial statements subsequent to acquisition date	NA
• Joint ventures: proportionate consolidation or equity method	NA
• Complex financial instruments (e.g., perpetual debt, convertible debt, derivatives)	16
<b>Financial Statement Analysis</b>	
• Vertical and horizontal analysis	5A, 23, and all chapters
• Ratios and benchmarking	5A, 23, and all chapters
• Financial statement results for various users	5A, 23, and all chapters
• Pro forma statements	NA
• Impact of financial results on the whole organization	5A, 23, and all chapters

**Meeting Financial Reporting Technical Competencies in the CPA Competency Map**—The following table maps the Financial Reporting technical competencies from the CPA Competency Map to *Intermediate Accounting, Eleventh Canadian Edition* (Volume 2). The textbook covers the Financial Reporting competencies as noted below (see also Volume 1 for coverage of Chapters 1–12). Detailed mapping of specific CPA Financial Reporting competencies to specific textbook Learning Objectives is provided in the charts at the beginning of each chapter.

## FINANCIAL REPORTING

<b>1.1 Financial Reporting Needs and Systems</b>	<b>Chapters</b>
<b>1.1.1</b> Evaluates financial reporting needs	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23
<b>1.1.2</b> Evaluates the appropriateness of the basis of financial reporting	13, 14, 15, 16, 18, 19, 20, 22, 23
<b>1.1.3</b> Evaluates reporting processes to support reliable financial reporting	19, 20, 22, 23
<b>1.1.4</b> Explains implications of current trends and emerging issues in financial reporting	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23
<b>1.1.5</b> Identifies financial reporting needs for the public sector	NA
<b>1.1.6</b> Identifies specialized financial reporting requirements for specified regulatory and other filing requirements	NA
<b>1.2 Accounting Policies and Transactions</b>	
<b>1.2.1</b> Develops or evaluates appropriate accounting policies and procedures	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23
<b>1.2.2</b> Evaluates treatment for routine transactions	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23
<b>1.2.3</b> Evaluates treatment for non-routine transactions	13, 14, 15, 16, 18, 19, 20, 22, 23
<b>1.2.4</b> Analyzes treatment for complex events or transactions	14, 15, 16, 17, 18, 19
<b>1.3 Financial Report Preparation</b>	
<b>1.3.1</b> Prepares financial statements	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23
<b>1.3.2</b> Prepares routine financial statement note disclosure	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23
<b>1.4 Financial Statement Analysis</b>	
<b>1.4.1</b> Analyzes complex financial statement note disclosure	14, 15, 16, 18, 19, 20, 21, 23
<b>1.4.2</b> Evaluates financial statements including note disclosures	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23
<b>1.4.3</b> Analyzes and provides input in the preparation of the management communication (e.g., management discussion and analysis (MD&A))	15, 21, 23
<b>1.4.4</b> Interprets financial reporting results for stakeholders (external or internal)	13, 14, 15, 16, 17, 18, 19, 21, 22, 23
<b>1.4.5</b> Analyzes and predicts the impact of strategic and operational decisions on financial results	14, 15, 17, 22, 23

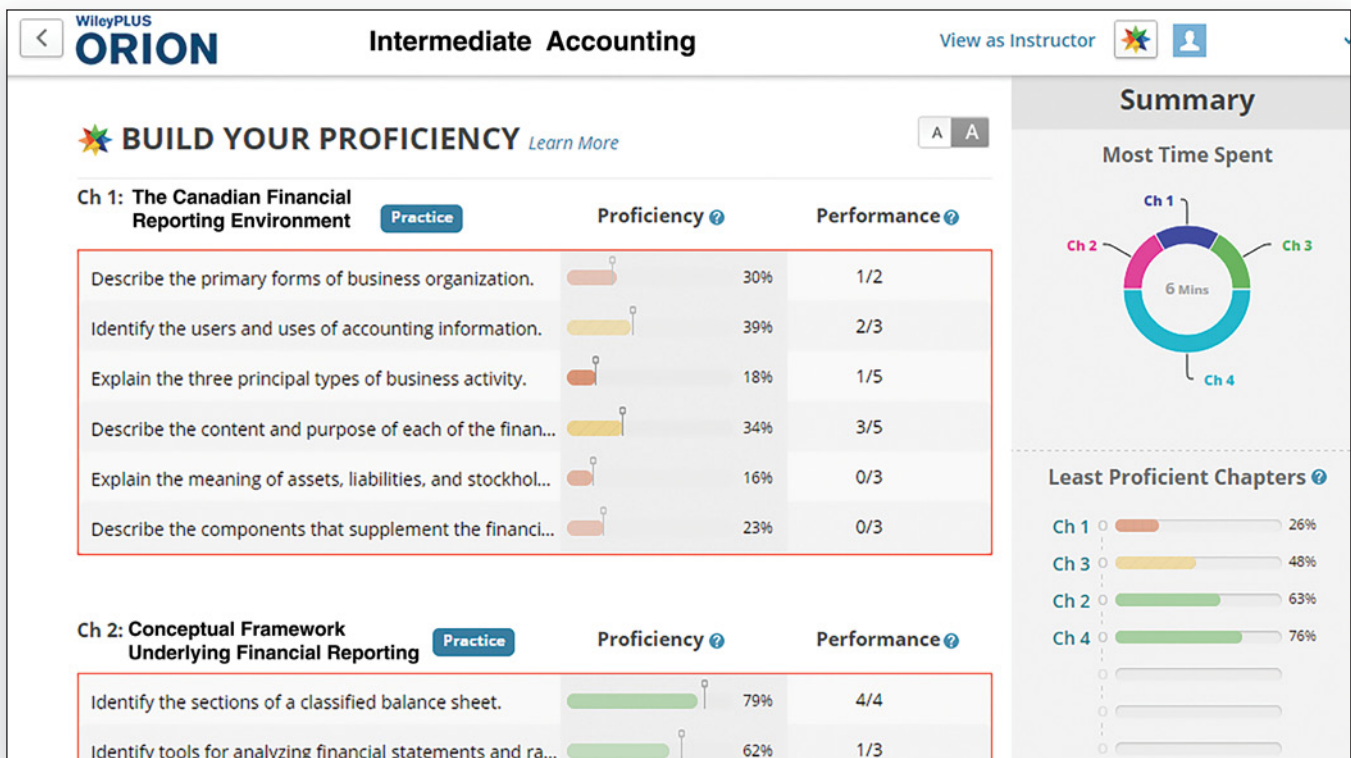
**Other Technical Competencies**—Coverage of other technical competencies (that is, Strategy and Governance, Management Accounting, Audit and Assurance, Finance, and Taxation competencies) is indicated here and has also been identified in the charts at the beginning of each chapter and in the end-of-chapter material. Selected enabling competencies have also been identified throughout.

2. Strategy and Governance	Chapters
2.1 Governance	16
2.3 Strategy Development	2, 4, 5, 9, 10, 15, 16, 20
2.4 Strategy Implementation	7
3. Management Accounting	
3.1 Management Reporting Needs and Systems	2, 7
3.2 Planning, Budgeting, and Forecasting	22
3.3 Cost Management	8, 16, 21
4. Audit and Assurance	
4.1 Internal Control	3, 7
4.3 Internal Audit Projects and External Assurance Engagements	2, 4, 8, 23
5. Finance	
5.1 Financial Analysis and Planning	4, 5, 7, 8, 9, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 22, 23
5.2 Treasury Management	1, 5, 7, 9, 13, 14, 15, 16, 17, 19, 20, 21, 22, 23
5.4 Valuation	3, 4, 11, 12, 16
5.5 Financial Risk Management	4, 16
5.6 Corporate Finance Transactions	14
6. Taxation	
6.1 Corporate Tax	2, 11, 18, 19, 20, 21
6.2 Personal Tax	2, 13, 15, 16

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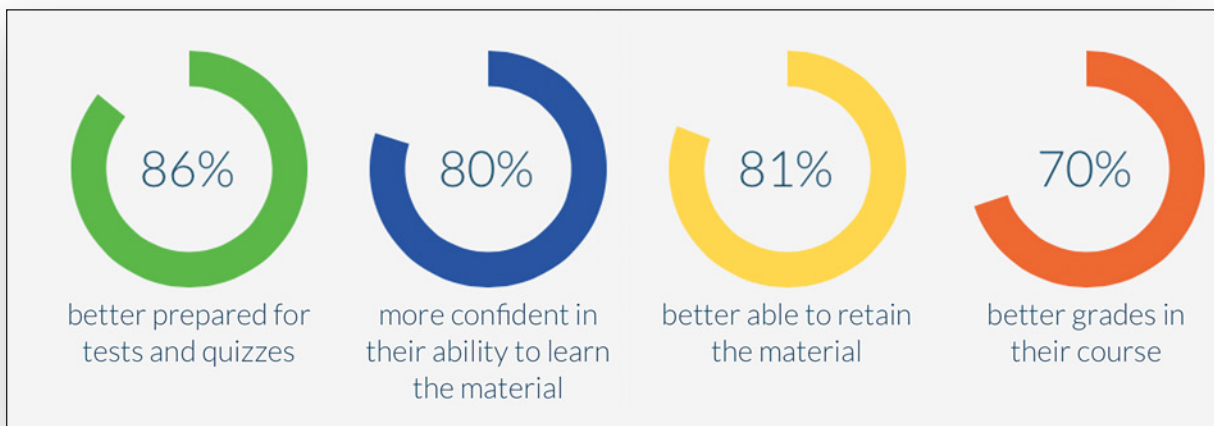


Quickly identify areas of strength and weakness before the first exam, and use the information to build a learning path to success.



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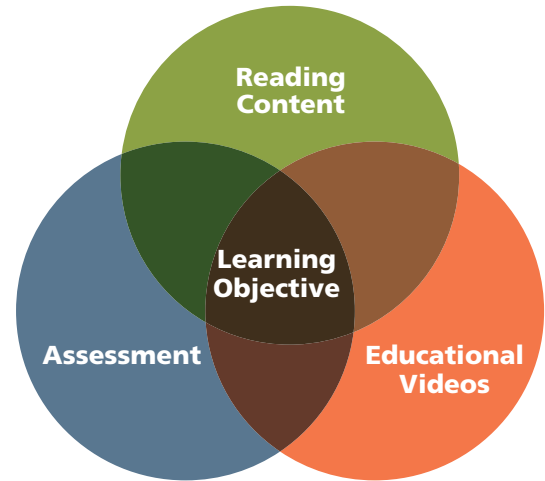




# Streamlined Learning Objectives

Easy to follow learning objectives help students make the best use of their time outside of class. Each learning objective is addressed by reading content, watching educational videos, and answering a variety of practice questions, so that no matter where students begin their work, the relevant resources and practice are readily accessible. Learning objectives include references to the CPA competency map. This lets students know which of the CPA competencies they are mastering when they study a particular topic.

REFERENCE TO THE CPA COMPETENCY MAP	LEARNING OBJECTIVES
	After studying this chapter, you should be able to:
1.1.1, 1.2.1, 1.2.2	1. Indicate the usefulness and describe the main components of a conceptual framework for financial reporting.
1.1.2, 1.2.1, 1.2.2, 3.1.3, 4.3.4	2. Identify the qualitative characteristics of accounting information.
1.2.1, 1.2.2	3. Define the basic elements of financial statements.
1.2.1, 1.2.2, 1.2.3, 6.1.1, 6.2.1	4. Describe the foundational principles of accounting.
1.2.1, 1.2.2, 2.3.2, 4.3.5	5. Explain the factors that contribute to choice and/or bias in financial reporting decisions.
1.1.4	6. Discuss current trends in standard setting for the conceptual framework.



## Review and Practice

Developing effective problem-solving skills requires practice, relevant feedback, and insightful examples with more opportunities for self-guided practice.

**ASSIGNMENT RESOURCES**

Before You Go On 3.1.1  
Brief Exercise 3-1  
Exercise 3-1 (Part Level Submission)

Review Score  
Review Results by Study Objective

**Exercise 3-1 (Part Level Submission)**

Cassist Enterprises began operations on January 1, 2013. During 2013 and 2014, the company entered into the following transactions:

	2013	2014
1. Cash collected from customers during the year for services provided that year.	\$48,820	\$55,770
2. Accounts receivable at year end for services provided on account during the year.	11,270	17,140
3. Cash collected from customers for services provided on account the previous year.	0	11,270
4. Cash collected from customers for services to be provided the following year.	4,480	1,630
5. Services provided to customers who had paid cash in advance the previous year.	0	4,480
6. Cash paid for operating expenses incurred during the year.	18,000	18,980
7. Accounts payable at year end for operating expenses incurred on account during the year.	2,097	2,503
8. Cash paid to creditors for operating expenses incurred on account during the previous year.	0	2,097

(a)  
Calculate revenue, operating expenses, and profit for 2013 and 2014 using cash basis accounting.

	2013	2014
Total Revenues	\$ 53,300	\$
Total Expenses	\$ 18,000	\$
Profit	\$ 35,300	\$

Click if you would like to Show Work for this question:  Open Show Work

SHOW SOLUTION SHOW ANSWER  
LINK TO TEXT

Attempts: 0 of 3 used

## Review and practice opportunities in the text and in WileyPLUS include:

- Summary of Learning Objectives
- Glossary Review
- Practice Exercises
- Demonstration Problems
- Applied Accounting Skills Videos
- Office Hour Videos Featuring Core Concept and Problem Walkthroughs

**Solution**

**Exercise 3-1 (Part Level Submission)**

	2013	2014
<b>Revenues</b>		
1. Cash collected from customers during the year for services provided that year.	\$48,820	\$55,770
3. Cash collected from customers for services provided on account the previous year.	-	11,270
4. Cash collected from customers for services to be provided the following year.	4,480	1,630
<b>Total Revenues</b>	<u>\$53,300</u>	<u>\$68,670</u>
<b>Expenses</b>		
6. Cash paid for operating expenses incurred during the year.	18,000	18,980
8. Cash paid to creditors for operating expense purchased on account during the previous year.	-	2,097
<b>Total Expenses</b>	<u>\$18,000</u>	<u>\$21,077</u>
<b>Profit (cash basis)</b>	<u>\$35,300</u>	<u>\$47,593</u>

A new bridge course in WileyPLUS includes reading content, ORION questions, and practice assignments from introductory accounting to help students refresh their knowledge of basic accounting concepts. A new filtering capability in the assignment area allows instructors to customize assignments by using different filters including criteria related to ASPE and IFRS, CPA competencies, Bloom's Taxonomy, level of difficulty and even learning objectives.

Create New Assignment

Select a different assignment type

What chapters will this Assignment cover?

Any Chapter

Optional Filters

Any Standards

Any Study Objective

Any Question Type

Any Difficulty level

Any Source

Strategy and Governance (2)  
 Management Accounting (4)  
 Audit and Assurance (13)  
 Finance (44)  
 Taxation (0)

#RS ASPE Select all

IFRS (21)  
 ASPE (13)  
 IFRS and ASPE (0)

Find

# INTERMEDIATE ACCOUNTING





ELEVENTH CANADIAN EDITION

# INTERMEDIATE ACCOUNTING

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*Dedicated to accounting educators in Canada  
who, as mentors, are helping the next generation of accountants  
develop ethical and integrative frameworks for decision-making.*

# About the Authors

## Canadian Edition

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**Irene M. Wiecek, FCPA, FCA**, is an Associate Professor, Teaching Stream at the University of Toronto, where she is cross-appointed to the Joseph L. Rotman School of Management. She teaches financial reporting in various programs, including the Commerce Program (Accounting Specialist) and the CPA-accredited Master of Management & Professional Accounting Program (MMPA). Currently the Director and previously the Associate Director of the MMPA Program for many years, she co-founded and is Director of the CPA/Rotman Centre for Innovation in Accounting Education, which supports and facilitates innovation in accounting education. Irene has been involved in professional accounting education for over 25 years, sitting on various provincial and national professional accounting organization committees as well as developing and directing the CICA IFRS Immersion Programs for practising accountants. She was appointed a member of the E&Y Academic Resource Center, where she helped to author a new IFRS curriculum for the Americas. In the area of standard setting, she has chaired the CAAA Financial Reporting Exposure Draft Response Committee and is currently a member of the IFRS Discussion Group (IDG). Irene co-authored the *IFRS Primer: International GAAP Basics* (Canadian and U.S. editions) and was the co-editor and contributor for the books *Leveraging Change—The New Pillars of Accounting Education* and *Educating Professionals: Ethics and Judgment in a Changing Learning Environment*. Currently, she co-authors the *Guide to IFRS in Canada* series, which is published by CPA Canada.

**Bruce J. McConomy, Ph.D., CPA, CA**, is a Professor of Accounting at Wilfrid Laurier University in Waterloo, Ontario. He was a Senior Audit Manager with Deloitte and Touche before returning to Queen's University to obtain his Ph.D. in accounting. Bruce has been the Director of the CPA/Laurier Centre for the Advancement of Accounting Research and Education since it was created in 2005, and is the CPA Ontario Professor of Accounting at Laurier. He has been teaching intermediate financial accounting since the mid-1990s to undergraduates, and since the start of Laurier's CPA Accredited CPA/M.B.A. program (and its predecessor the CMA/M.B.A.) to graduate students. He also teaches in Laurier's Ph.D. in Management program. Bruce has published articles in *Contemporary Accounting Research*, *Journal of Accounting, Auditing and Finance*, *Journal of Business, Finance and Accounting*, and *Accounting, Auditing & Accountability Journal*. He has also published cases in *Accounting Perspectives*, *Issues in Accounting Education*, and *Journal of Accounting Case Research*. Bruce was elected to and served on Council at the Institute of Chartered Accountants of Ontario from 2006 to 2010. Bruce is an Associate Editor of *Accounting Perspectives*.

## U.S. Edition

**Donald E. Kieso, Ph.D., CPA**, received his bachelor's degree from Aurora University and his doctorate in accounting from the University of Illinois. He has served as chair of the Department of Accountancy and is currently the KPMG Emeritus Professor of Accountancy at Northern Illinois University. He has public accounting experience with Price Waterhouse & Co. (San Francisco and Chicago) and Arthur Andersen & Co. (Chicago) and research experience with the Research Division of the American Institute of Certified Public Accountants (New York). He has done post-doctorate work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and four Golden Apple Teaching Awards. Professor Kieso is the author of other accounting and business books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Illinois CPA Society. He is the recipient of the Outstanding Accounting Educator Award from the Illinois CPA Society, the FSA's Joseph A. Silviso Award of Merit, the NIU Foundation's Humanitarian Award for Service to Higher Education, the Distinguished Service Award from the Illinois CPA Society, and in 2003 received an honorary doctorate from Aurora University.

**Jerry J. Weygandt, Ph.D., CPA**, is Arthur Andersen Alumni Professor of Accounting at the University of Wisconsin-Madison. He holds a Ph.D. in accounting from the University of Illinois. His articles have appeared in *Accounting Review*, *Journal of Accounting Research*, *Accounting Horizons*, *Journal of Accountancy*, and other academic and professional journals. Professor Weygandt is the author of other accounting and financial reporting books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He also served on the FASB task force that examined the reporting issues related to accounting for income taxes. He is the recipient of the Wisconsin Institute of CPAs' Outstanding Educator's Award and the Lifetime Achievement Award. In 2001, he received the American Accounting Association's Outstanding Accounting Educator Award.

**Terry D. Warfield, Ph.D.**, is the PWC Professor in Accounting at the University of Wisconsin-Madison. He received a B.S. and M.B.A. from Indiana University and a Ph.D. in accounting from the University of Iowa. Professor Warfield's area of expertise is financial reporting, and prior to his academic career, he worked for five years in the banking industry. He served as the Academic Accounting Fellow in the Office of the Chief Accountant at the U.S. Securities and Exchange Commission in Washington, D.C., from 1995–1996. Professor Warfield's primary research interests concern financial accounting standards and disclosure policies. He has published scholarly articles in *The Accounting Review*, *Journal of Accounting and Economics*, *Research in Accounting Regulation*, and *Accounting Horizons*, and he has served on the editorial boards of *The Accounting Review*, *Accounting Horizons*, and *Issues in Accounting Education*. Professor Warfield has served on the Financial Accounting Standards Committee of the American Accounting Association (Chair 1995–1996) and the AAA-FASB Research Conference Committee. He currently serves on the Financial Accounting Standards Advisory Council of the Financial Accounting Standards Board. Professor Warfield has received teaching awards at both the University of Iowa and the University of Wisconsin, and he was named to the Teaching Academy at the University of Wisconsin in 1995. Professor Warfield has developed and published several case studies based on his research for use in accounting classes. These cases have been selected for the AICPA Professor-Practitioner Case Development Program and have been published in *Issues in Accounting Education*.

# Preface

In the last decade, we have come through a period of unprecedented change in accounting standards. More recently, in Canada, we have witnessed the evolution of the accounting profession from three main accounting bodies (representing Chartered Accountants, Certified Management Accountants, and Certified General Accountants) into one unified group: Chartered Professional Accountants Canada (CPA Canada). We now have a freshly minted CPA education program, a new CPA Competency Map (CM), a new CPA Knowledge Supplement (KS), and new CPA Common Final Examinations. Many of us have remapped our curricula to the CPA CM and created new courses and programs (some of which have been accredited by the CPA profession). The pace of change for standard setting and related educational requirements for professional accountants sometimes seems staggering! Change has become the new norm for us and things don't seem to be slowing down.

This state of flux has made many of us rethink our learning environments. Some fundamental questions are being revisited. How can we and our students keep up with the changing standards? What does it mean to be a competent accountant? How much do we emphasize the use of technology as a learning platform? And finally, how does what we do fit with the changing professional landscape?

From our perspective, we see the need for

- increased emphasis on helping faculty and students understand how to cope with changes in standards,
- a broadened perspective on what it means to be competent,
- increased use of a variety of technologies to promote learning, and
- renewed acknowledgement that what we do in our classrooms is only part of the journey that students embark on to become professional accountants.

In our roles as educators, many of us increasingly see ourselves as facilitators as opposed to purveyors of knowledge. At the heart of things, we still want to produce good, ethical decision-makers as well as to encourage thoughtfulness and reflection. We also want our graduates to be competent and skilled. Our students have to at least begin to master our complex body of knowledge and also to be competent in applying it. This is a lot to ask, especially when things keep shifting.

This edition is about learning to live with a constantly changing body of knowledge. To this end, we have incorporated new accounting standards where the standards have already been issued (even if they are not yet mandatory). In addition, we have included the “Looking Ahead” section again at the end of each chapter, which signals changes in accounting standards coming down the pipe. We are committed to helping our accounting faculty and students steer their way through standards changes that are issued between editions of this text. To this end, we will continue to issue supplements and updates between editions as we have done for the past few years.

This edition is also about integration along the following dimensions:

- integration of financial reporting with other areas (such as assurance and finance);
- integration of our learning environments and frameworks with those of the accounting profession, including a competency-based framework; and
- increased integration with a learning environment that features technology, including *WileyPLUS* and our new Office Hour Videos.

We have also included charts showing how the textbook integrates with the CPA Competency Map and Knowledge Supplement throughout the text and within *WileyPLUS*. This is discussed in the New Features section that follows. We encourage you to have a quick look. Below is a brief overview that highlights the new features of this edition.

## New Features

As noted above, several new features have been added to this edition.

### Emphasis on Integration with Related Areas



We have included integration icons in each chapter to help identify key areas of integration (in addition to our existing finance and law icons). Many of our end-of-chapter questions have an integration aspect. For those problems that most directly focus on integration, we also include integration icons so that they are easily identified. We have added an Office Hour Video feature, which provides a short video discussion of selected end-of-chapter questions per chapter, and an additional integration-related topic in most chapters.

### Augmented End-of-Chapter Material



End-of-chapter material has been expanded to include questions that provide students with Excel spreadsheets to help them prepare solutions. We also continued our emphasis on having students evaluate the differences in solutions prepared using IFRS versus ASPE. Our new Office Hour Video feature provides a short walkthrough of select questions and solutions.

### CPA Competency Map Integration

At the start of each chapter, we now provide a chart linking that chapter's Learning Objectives with the related requirements of the CPA Competency Map. This information will help students planning to obtain their Advanced Certificate in Accounting and Finance (ACAF) or write the Common Final Evaluation (CFE) to link the coverage of intermediate accounting topics to the CPA educational requirements. We have also mapped the content of the book against the Competency Map and Knowledge Supplement. These appear on the inside front cover of the text. In addition, the material in *WileyPLUS* has been more comprehensively mapped.

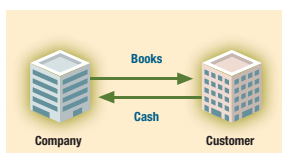
### Task-Based Simulations

We have added a new type of question to our end-of-chapter material that is in a format similar to questions used in the CPA Professional Education program. Task-Based Simulations after Chapters 5, 9, 12, 15, 17, and 23 combine material from the current chapter with previous chapters and present it in this new hands-on format. This allows students to become familiar with the new exam format while getting a sense of how the various concepts fit together.

## Continuing Features

Many features have contributed to the success of this textbook over the years. The following points outline just a few.

### Emphasis on Business



The focus of the feature story that starts each chapter in this edition is on the business models of various companies and industries, along with accounting issues that affect them. The first section of most chapters focuses on **Understanding the Business**, which introduces the accounting topic in the context of everyday business. Many chapters have a **business transactions example box**. In most business transactions, you give something up and receive something. These boxes are meant to help you understand what has been given up and what has been received in the transaction. This is tremendously helpful when you are trying to decide how to account for a transaction or economic event.

## Emphasis on IFRS and ASPE



**Icons:** Individual IFRS and ASPE icons call attention to items treated differently by the two sets of standards. The joint IFRS-ASPE icon indicates a direct comparison between the two approaches.

**Side-by-side journal entries:** These journal entries illustrate differences in treatment between IFRS and ASPE.

**Enhanced comparison charts:** The end-of-chapter charts that identify the major differences between IFRS and ASPE include a column with cross-references to relevant illustrations and brief exercises that describe the differences outlined in the comparison chart. As before, where there is a new standard being proposed, we have added a column to the end-of-chapter charts so that you understand what may be in store in the near future, or provided a discussion within the chapter's Looking Ahead feature to alert you to upcoming changes expected.

## Emphasis on Professional and Ethical Behaviour



Rather than featuring ethics coverage and problem material in isolation, we use an ethics icon to highlight ethical issues as they are discussed within each chapter. This icon also appears beside exercises, problems, or cases where ethical issues must be dealt with in relation to all kinds of accounting situations.

## Emphasis on Readability

The readability of the text has been improved by using fewer abbreviations, plainer language, shorter sentences, numbered lists, and clearer headings. An **end-of-book glossary** provides definitions of key terms highlighted in the text. **Alternative Terminology** notes within the chapter familiarize students with other commonly used terms.

## Grounding in Accounting Research and Theory



We have always emphasized concepts and principles, including those that span other disciplines, such as law and finance. In addition to this, the **Accounting Theory** icon calls attention to accounting theory that underpins much of the accounting body of knowledge, introducing students to an accounting research perspective.

## Real World Emphasis



Because intermediate accounting is a course in which students must understand the application of accounting principles and techniques in practice, we strive to include as many real-world examples as possible.

## Reinforcement of the Concepts



Throughout each chapter, you are asked What Do the Numbers Mean? and are presented with discussions applying accounting concepts to business contexts. This feature builds on the opening feature stories in making the accounting concepts relevant to you. Through current examples of how accounting is applied, you will be better able to relate to and understand the material. The underlying concepts icons in each chapter alert you to remember that the issue under discussion draws on concepts identified in Chapter 2 as part of the conceptual framework. More emphasis has been placed on measuring fair values using the new IFRS 13 standard. In addition, an Analysis section is present in most chapters. This section discusses the effect on the financial statements of many of the accounting choices made by corporate management, alerting you to look behind the numbers. Finally, the accounting equation appears in the margin next to key journal entries to help you understand the impact of each transaction on the company's financial position and cash flows.





## Helping Students Practise

The end-of-chapter material is comprehensive. Brief exercises, exercises, and problems focus on quantitative material. Case material allows you to analyze business transactions and apply both IFRS and ASPE, with particular attention to integration being provided by Integrated Case questions. Research and Analysis questions allow you to explore the nature of GAAP differences and understand how different accounting standard setters can arrive at different solutions in terms of standards.

A summary of the Case Primer guiding you through the case study method appears inside the back cover of this text. This is in addition to the full Case Study Primer available on *WileyPLUS* and the Student Website.

Analysis doesn't have to be just part of the cases. Our Digging Deeper feature asks you to look more closely at the results you obtain in the problems and exercises. For instance, you might be asked to comment on results or determine how things might be different if one of the original variables were to change. Digging Deeper questions are identified using the icon shown here.



**WileyPLUS**

*WileyPLUS* is an innovative, research-based on-line environment for effective teaching and learning. *WileyPLUS* builds students' confidence because it takes the guesswork out of studying by providing students with a clear roadmap: **what to do, how to do it, and if they did it right**. Students will take more initiative so you'll have a greater impact on their achievement in the classroom and beyond.

Among its many features, this on-line learning interface allows students to study and practise using the digital textbook, quizzes, and algorithmic exercises. The immediate feedback helps students understand where they need to focus their study efforts. We have standardized the chart of accounts to reduce complexity and to facilitate on-line practice.

Based on cognitive science, **WileyPLUS with Orion** is a personalized adaptive learning experience that gives students the practice they need to build proficiency on topics while using their study time more effectively. The adaptive engine is powered by hundreds of unique questions per chapter, giving students endless opportunities for practice throughout the course. Orion is available with this text.

## Currency and Accuracy



As in past editions, we have endeavoured to make this edition the most current and accurate text available. Where there has been a significant change in the accounting standard or how it is applied, it has been highlighted with a significant change icon. Where change is on the horizon, we have noted this at the end of each chapter under the Looking Ahead section. We are also committed to issuing brief update supplements on *WileyPLUS* when new standards are issued.

The following list outlines the revisions and improvements made to the chapters in Volume Two of this text.

### Chapter 13 Non-Financial and Current Liabilities

- The impact of IFRS 15 (*Revenue from Contracts with Customers*) on items such as accounting for assurance-type and service-type warranties is discussed.
- An overview of the impact of the new IASB Exposure Draft entitled “Conceptual Framework for Financial Reporting” that was issued in May 2015, and a new IASB Staff Paper on Research—provisions, contingent liabilities, and contingent assets (IAS 37) issued in June 2015 is provided.

### Chapter 14 Long-Term Financial Liabilities

- The chapter has been updated for IFRS 9 requirements relating to impairments as they relate to troubled debt situations.
- The discussion relating to off-balance-sheet financing has been updated for changes in IFRS relating to leases.
- The Looking Ahead section provides an update on where the IASB stands with respect to how to present liabilities and also the different characteristics of debt and equity.

- A note disclosure example has been added.
- The end-of-chapter material has been linked to Chapter 3 methods for calculating present values.

### **Chapter 15 Shareholders' Equity**

- Excerpts have been updated emphasizing statement of changes in shareholders' equity and capital disclosures under IFRS.

### **Chapter 16 Complex Financial Instruments**

- A section has been added to Appendix 16C on fair value disclosures.
- The IFRS versus ASPE difference in accounting for induced early conversions has been highlighted.
- A five-step approach to hedge accounting has been added.
- More side-by-side IFRS and ASPE journal entries have been added for hedge accounting.
- The discussion on hedge accounting and ASPE has been streamlined.
- A brief update on the IASB's macro hedging project has been provided.

### **Chapter 17 Earnings per Share**

- The chapter has been updated and streamlined.
- A learning objective relating to analysis has been added.

### **Chapter 18 Income Taxes**

- A discussion of the impact of the trend to lower international and Canadian corporate tax rates is provided.
- Real World Emphasis illustrations have been added that focus on the impact of IFRS on Canadian-based companies.
- The Looking Ahead section discusses proposed amendments to IAS 12 being considered by the IASB with a proposed January 1, 2017 effective date. A related research project launched by the IASB in July 2015 and a draft IFRIC interpretation titled "Uncertainty over Income Tax Treatments" are also discussed.

### **Chapter 19 Pensions and Other Post-Employment Benefits**

- Changes to ASPE requirements to eliminate the deferral and amortization approach and to require only one approach (consistent with what used to be called the immediate recognition approach) have now been integrated throughout the chapter.
- The worksheet approach has been updated to take into account changes to ASPE requirements.
- Extensive new end-of-chapter material comparing and contrasting the IFRS and ASPE requirements has been included in the chapter and in *WileyPLUS*.
- The defer and amortize approach that had been provided in the former Appendix 19B has been eliminated.

### **Chapter 20 Leases**

- The chapter has been updated to incorporate the impact of IFRS 16, the new accounting standard for lease accounting introduced by the IASB in January 2016.
- The ASPE requirements are retained, pending any updates from the Accounting Standards Board. If a new ASPE standard is issued, an update will be provided on the companion website and in *WileyPLUS*.
- Extensive new end-of-chapter material has been included providing examples using the new IFRS 16 requirements.

- IAS 17 *Leases* accounting requirements are provided in a new Appendix 20B, as the IASB intends to eliminate IAS 17 effective January 1, 2019. Related end-of-chapter material has been retained for those who choose to cover both IAS 17 and IFRS 16 requirements.

## Chapter 21 Accounting Changes and Error Analysis

- The chapter has been refreshed and updated.
- Material has been added on estimation uncertainty and required disclosures including sensitivity analysis.

## Chapter 22 Statement of Cash Flows

- The chapter builds on Chapter 5 and provides more comprehensive examples of the preparation of the statement of cash flows under the indirect method, followed by the direct method.
- Examples comparing and contrasting the direct and indirect approach for the statement of cash flows are provided based on Stantec Inc.'s 2014 and 2013 financial statements, including a detailed discussion and analysis of the company's 2014 operating, investing, and financing activities.

## Chapter 23 Other Measurement and Disclosure Issues

- The new section on financial statement analysis incorporated into the tenth edition has been updated and tied in to CPA Competency Map requirements.
- The chapter also addresses a wide variety of smaller topics, such as segmented reporting and interim reporting requirements. These have been updated to the extent that standards have evolved over the past few years (for example, to incorporate new terminology being used for auditor's reports and changes to IAS 1.31 regarding materiality within note disclosures).
- A new learning objective identifying the major considerations relating to bankruptcy and receivership has been provided, including a discussion of the use of the Companies' Creditors Arrangement Act by insolvent companies.

## Special Student Supplements

The *Study Guide to Accompany Intermediate Accounting*, Eleventh Canadian Edition, provides a solid review of the concepts presented in the intermediate accounting course, and gives students strategies for dealing with the complexities of applying those concepts. The following are included in this guide to help you make your way through each chapter.

### To Help Gain a Solid Understanding of the Concepts

- A chapter **Overview** introduces the reader to the topics covered and their importance.
- **Study Steps** review the business transaction under discussion; show how to recognize, measure, and disclose issues related to that transaction; and demonstrate how to then make the appropriate calculations and apply the appropriate accounting methods.
- **Tips** alert learners to common pitfalls and misconceptions and to remind students of important terminology, concepts, and relationships.
- A **Toolkit** printed on cards can be detached from the guide and referred to throughout the course. These cards present material such as a review of the conceptual triangle from the book, a glossary of definitions, and summary of key ratios.

### To Aid in Applying Concepts Successfully

- **Exercises and Multiple-Choice Questions** allow students to practise using material that is representative of homework assignments and exam questions they are likely to encounter.
- **Purposes** identify the essence of each exercise or question and link it to the text material.

- **Solutions** show students the appropriate worked-out solutions for each exercise and multiple-choice question.
- **Explanations** give users the details of how selected solutions were derived and explain why things are done as shown.
- **Approaches** coach students on the particular model, computational format, or other strategy to be used to solve particular problems.

**The Intermediate Accounting Simulation Practice Set** by Fred Pries will help students see how the individual topics they study in intermediate accounting are related to the accounting systems of an organization and to the financial statements as a whole. Students play the role of a newly hired accountant for Woodlawn Engineering, an owner-managed company, and prepare a full set of financial statements starting from an unadjusted trial balance. Each module of the simulation is linked to a particular topic covered in the intermediate accounting course and introduces new information. Students analyze this information, recommend what adjustments are needed to the books and financial statements of the company, and write reports to the chief financial officer explaining the basis for their recommendations.

*Canadian Financial Accounting Cases* by Camillo Lento and Jo-Anne Ryan provides additional cases at the intermediate level that may be used either for assignment purposes or for in-class discussion. The cases are keyed to various topics covered by the two volumes of *Intermediate Accounting* and have been developed using IFRS and ASPE.

# Acknowledgements

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We thank CPA Canada and the IFRS Foundation for allowing us to quote from their materials and Brookfield Asset Management for permitting us to use its 2014 financial statements for our specimen financial statements.

We appreciate the opportunity to reach out to so many colleagues and students through this book. Your conversations and input have greatly helped shape the book and make it all it can be. We are thankful to be part of a group of such dedicated educators! Let's keep the conversation going.

Suggestions and comments are always appreciated. We have striven to produce an error-free text, but if anything has slipped through the variety of checks undertaken, please let us know so that corrections can be made to subsequent printings.

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# CHAPTER 13

## NON-FINANCIAL AND CURRENT LIABILITIES

### REFERENCE TO THE CPA COMPETENCY MAP

### LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- |                                   |  |
|-----------------------------------|--|
| 1.1.1, 1.1.2, 1.1.4, 5.2.1        | 1. Understand the importance of non-financial and current liabilities from a business perspective.   |
| 1.2.1, 1.2.2                      | 2. Define liabilities, distinguish financial liabilities from other liabilities, and identify how they are measured.                                       |
| 1.2.1, 1.2.2, 5.2.1, 6.2.1        | 3. Define current liabilities and identify and account for common types of current liabilities.  |
| 1.2.1, 1.2.2                      | 4. Identify and account for the major types of employee-related liabilities.   |
| 1.2.1, 1.2.2, 1.2.3               | 5. Explain the recognition, measurement, and disclosure requirements for decommissioning and restoration obligations.                                      |
| 1.2.1, 1.2.2                      | 6. Explain the issues and account for unearned revenues.   |
| 1.2.1, 1.2.2                      | 7. Explain the issues and account for product guarantees and other customer program obligations.   |
| 1.1.1, 1.2.1, 1.2.2, 1.3.1, 1.3.2 | 8. Explain and account for contingencies and uncertain commitments, and identify the accounting and reporting requirements for guarantees and commitments. |
| 1.4.2, 1.4.4, 5.1.1               | 9. Indicate how non-financial and current liabilities are presented and analyzed.  |
| 1.1.4                             | 10. Identify differences in accounting between IFRS and ASPE and what changes are expected in the near future.   |

## GETTING A CHARGE OUT OF WARRANTY ACCOUNTING

**THE CAR BUSINESS** is cutthroat, and one way that auto manufacturers compete is by offering better warranties than their competitors. That's one reason why Tesla Motors, makers of luxury electric vehicles, decided to extend the warranty on its Model S sedan, which sells for an average of around U.S. \$113,000. In late 2014, Tesla announced that it was extending the warranty on the Model S drive unit from four to eight years, and on the vehicle's battery from four to eight years or 125,000 miles (about 200,000 kilometres) or unlimited miles, depending on the battery size.

Including a warranty on products sold represents a liability to companies because eventually they will have to honour the warranty on some of their products. A warranty is a guarantee by the company that a product will be free of defects for a certain period. Tesla records a warranty reserve—money it sets aside as an estimate of the costs it will incur to honour the warranty by repairing or replacing any defective items. Extending the warranty on its Model S vehicle caused Tesla to increase its warranty reserve by U.S. \$14.0 million in 2014.

The estimated cost that Tesla will incur in honouring its warranties is recorded as warranty expense, which is included as part of its cost of automotive sales. "Warranty



Teddy Leung/Shutterstock

expense is recorded as a component of cost of revenues in the consolidated statements of operations. The portion of the warranty provision which is expected to be incurred within 12 months from the balance sheet date is classified as current, while the remaining amount is classified as long-term,” the company said in its 2014 annual report. In 2014, Tesla’s warranty expense was U.S. \$6.9 million.

If car buyers want to extend their warranties, they can usually pay an extra fee. Tesla offers extended warranties, known as service plans, on its vehicles. For example, it had been charging U.S. \$4,000 to extend the warranty on its Model S by an additional four years or 50,000 miles (about 80,000 kilometres). When customers buy service plans, Tesla records the money it receives for these plans as deferred revenues, which it then allocates over the service coverage

periods. For the year ended December 31, 2014, Tesla had deferred revenues of \$24.9 million from the sale of service plans. Tesla recognized U.S. \$3.0 million of revenue related to these service plans in 2014.

While Tesla can calculate how much it earns from service plans and spends on honouring warranties, it can’t know for certain how much its warranties influence car buyers. One thing is for sure: demand for its Model S was so strong that the company had to ramp up production in 2014.

Sources: Maria Armental, “Tesla Motors Extends Model S Warranty Retroactively,” *The Wall Street Journal*, August 15, 2014; Chuck Jones, “How Much Could Tesla’s ‘Infinite Mile Warranty’ Cost the Company?,” *Forbes.com*, August 18, 2014; Tesla Motors, Inc. 2014 annual report; Tesla Motors, Inc. corporate website, [www.teslamotors.com/](http://www.teslamotors.com/).

## PREVIEW OF CHAPTER 13

This chapter explains the basic principles underlying the accounting and reporting for many common current liabilities and for a variety of non-financial liabilities, such as unearned revenues, product warranty and other customer obligations, and asset retirement obligations. It also addresses contingencies, commitments, and guarantees. We explain issues related to long-term financial liabilities in Chapter 14.

The chapter is organized as follows:

NON-FINANCIAL AND CURRENT LIABILITIES						
Understanding Non-Financial and Current Liabilities	Recognition and Measurement	Common Current Liabilities	Employee-Related Liabilities	Non-Financial Liabilities	Presentation, Disclosure, and Analysis	IFRS/ASPE Comparison
	<ul style="list-style-type: none"> <li>▪ Liability definition and characteristics</li> <li>▪ Financial liabilities and non-financial liabilities</li> <li>▪ Measurement</li> </ul>	<ul style="list-style-type: none"> <li>▪ What is a current liability?</li> <li>▪ Bank indebtedness and credit facilities</li> <li>▪ Accounts payable</li> <li>▪ Notes payable</li> <li>▪ Current maturities of long-term debt</li> <li>▪ Short-term debt expected to be refinanced</li> <li>▪ Dividends payable</li> <li>▪ Rents and royalties payable</li> <li>▪ Customer advances and deposits</li> <li>▪ Taxes payable</li> </ul>	<ul style="list-style-type: none"> <li>▪ Payroll deductions</li> <li>▪ Short-term compensated absences</li> <li>▪ Profit-sharing and bonus agreements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decommissioning and restoration obligations</li> <li>▪ Unearned revenues</li> <li>▪ Product guarantees and customer programs</li> <li>▪ Contingencies, uncertain commitments, and requirements for guarantees and other commitments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Presentation and disclosure of current liabilities</li> <li>▪ Presentation and disclosure of contingencies, guarantees, and commitments</li> <li>▪ Analysis</li> </ul>	<ul style="list-style-type: none"> <li>▪ A comparison of IFRS and ASPE</li> <li>▪ Looking ahead</li> </ul>

# UNDERSTANDING NON-FINANCIAL AND CURRENT LIABILITIES

## Objective 1

Understand the importance of non-financial and current liabilities from a business perspective.

The asset and liability approach to accounting, as summarized in the conceptual framework, includes asset and liability definitions that relate to the statement of financial position, but that also affect the statement of comprehensive income. For example, the recognition of an expense often occurs at the same time as the recognition of an increase in a liability or a decrease in an asset. Volume 1 of this text concentrated on the recognition and measurement of a variety of assets. Volume 2 continues by beginning with a closer look at liabilities in general and then several specific types of common liabilities.

The explanations in this chapter about non-financial liabilities under international standards are based on current IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. We provide an overview of potential future revisions to this standard in the Looking Ahead section at the end of the chapter.<sup>1</sup>

There are many kinds of liabilities. As a consumer, a common one you're familiar with is a warranty. When you purchase a new automobile or computer, one major consideration is the length of the warranty provided by the manufacturer or retailer, and whether you should pay an additional amount to extend the warranty. As shown in our feature story about Tesla Motors, from the seller's perspective, the warranty provided to customers represents a liability to be reported on the statement of financial position. It's considered a liability because the manufacturer or retailer has an obligation to repair or replace any defects that are covered in the warranty, usually for no additional charge. A typical warranty on a new automobile is three years or 60,000 kilometres. As a consumer, you might choose to extend the warranty to five or six years. As a manufacturer or retailer, the warranty you offer will affect your competitive advantage relative to other vendors, and will complicate your accounting over the life of the warranty. We will explore several alternatives for accounting for warranty transactions in this chapter.

It is important for businesses to properly account for their liabilities so they can keep an eye on their cash flow. Cash flow management is a key control factor for most businesses. Taking advantage of supplier discounts for prompt payment is one step companies can take to control their cash flows. Control of expenses and related accounts payable can improve the efficiency of a business, and can be particularly important during economic downturns.

In this chapter, we focus on current liabilities and non-financial liabilities. As we will see, companies need to account for typical items such as trade accounts payable and less obvious liabilities including constructive obligations that arise based on past practice. We will look at the related definitions under IFRS and ASPE next before examining the detailed accounting requirements.



## RECOGNITION AND MEASUREMENT

### Liability Definition and Characteristics

## Objective 2

Define liabilities, distinguish financial liabilities from other liabilities, and identify how they are measured.

Chapter 2 of this text presented the elements of financial statements and their definitions. It explained that the IASB is developing revised definitions of terms such as assets and **liabilities** as part of its conceptual framework project. For example, proposed new definitions are included as part of a May 2015 Exposure Draft entitled *Conceptual Framework for Financial Reporting*. In this text, we apply the definitions as they were being used when the text went to press. In the Looking Ahead section of the chapter, we briefly discuss the changes under consideration by the IASB as it moves toward updated standards. Illustration 13-1 provides the definition of liabilities in the existing IFRS, and under ASPE in the *CPA Canada Handbook*, Part II.<sup>2</sup>