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ACCOUNTING PRINCIPLES

NINTH CANADIAN EDITION VOLUME 1



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Account Classification and Presentation

Account Title	Classification	Financial Statement	Normal Balance
A			
Accounts Payable	Current Liability	Balance Sheet	Credit
Accounts Receivable	Current Asset	Balance Sheet	Debit
Accumulated Depreciation—Building	PP&E—Contra	Balance Sheet	Credit
Accumulated Depreciation—Equipment	PP&E—Contra	Balance Sheet	Credit
Advertising Expense	Operating Expense	Income Statement	Debit
Allowance for Doubtful Accounts	Current Asset—Contra	Balance Sheet	Credit
Amortization Expense	Operating Expense	Income Statement	Debit
B			
Bad Debt Expense	Operating Expense	Income Statement	Debit
Bonds Payable	Long-Term Liability	Balance Sheet	Credit
Building	PP&E	Balance Sheet	Debit
C			
Cash	Current Asset	Balance Sheet	Debit
Cash Dividends	Temporary account closed to Retained Earnings	Statement of Retained Earnings	Debit
Common Shares	Shareholders' Equity	Balance Sheet	Credit
Copyrights	Intangible Asset	Balance Sheet	Debit
Cost of Goods Sold	Cost of Goods Sold	Income Statement	Debit
D			
Delivery Expense	Operating Expense	Income Statement	Debit
Depreciation Expense	Operating Expense	Income Statement	Debit
Dividend Revenue	Other Revenue	Income Statement	Credit
Dividends Payable	Current Liability	Balance Sheet	Credit
E			
Equipment	PP&E	Balance Sheet	Debit
F			
Freight In	Cost of Goods Sold	Income Statement	Debit
G			
Gain on Disposal	Other Revenue	Income Statement	Credit
Goodwill	Goodwill	Balance Sheet	Debit
I			
Impairment Loss	Operating Expense	Income Statement	Debit
Income Summary	Temporary account closed to Retained Earnings	Not Applicable	(1)
Income Tax Expense	Income Tax Expense	Income Statement	Debit
Income Tax Payable	Current Liability	Balance Sheet	Credit
Insurance Expense	Operating Expense	Income Statement	Debit
Interest Expense	Other Expenses	Income Statement	Debit
Interest Payable	Current Liability	Balance Sheet	Credit

(continued)

Account Classification and Presentation (continued)

Account Title	Classification	Financial Statement	Normal Balance
Interest Receivable	Current Asset	Balance Sheet	Debit
Interest Revenue	Other Revenue	Income Statement	Credit
Inventory	Current Asset	Balance Sheet	Debit
L			
Land	PP&E	Balance Sheet	Debit
Loss on Disposal	Other Expenses	Income Statement	Debit
M			
Mortgage Payable	Long-Term Liability	Balance Sheet	Credit
N			
Notes Payable	Current Liability/Long-Term Liability	Balance Sheet	Credit
O			
Office Expense	Operating Expense	Income Statement	Debit
Owner's Capital	Owner's Equity	Statement of Owner's Equity and Balance Sheet	Credit
Owner's Drawings	Temporary account closed to Owner's Equity	Statement of Owner's Equity	Debit
P			
Patents	Intangible Asset	Balance Sheet	Debit
Preferred Shares	Shareholders' Equity	Balance Sheet	Credit
Prepaid Insurance	Current Asset	Balance Sheet	Debit
Prepaid Rent	Current Asset	Balance Sheet	Debit
R			
Rent Expense	Operating Expense	Income Statement	Debit
Retained Earnings	Shareholders' Equity	Balance Sheet and Statement of Retained Earnings	Credit
S			
Salaries Expense	Operating Expense	Income Statement	Debit
Salaries Payable	Current Liability	Balance Sheet	Credit
Sales	Revenue	Income Statement	Credit
Sales Discounts	Revenue—Contra	Income Statement	Debit
Sales Returns and Allowances	Revenue—Contra	Income Statement	Debit
Service Revenue	Revenue	Income Statement	Credit
Supplies	Current Asset	Balance Sheet	Debit
Supplies Expense	Operating Expense	Income Statement	Debit
T			
Telephone Expense	Operating Expense	Income Statement	Debit
Trademarks	Intangible Asset	Balance Sheet	Debit
U			
Unearned Revenue	Current Liability	Balance Sheet	Credit
Utilities Expense	Operating Expense	Income Statement	Debit

PP&E: Property, Plant, and Equipment

(1) The normal balance for Income Summary will be credit when there is profit, debit when there is a loss. The Income Summary account does not appear on any financial statement.

Chart of Accounts

The following is a sample chart of accounts. It does not represent a comprehensive chart of all the accounts used in this text but rather those accounts that are most commonly used. This sample chart of accounts is for a company that generates both service revenue and sales revenue. It uses the perpetual approach to inventory. If a periodic system was used, the following temporary accounts would be needed to record inventory purchases: Purchases, Freight In, Purchase Returns and Allowances, and Purchase Discounts

Assets	Liabilities	Owner's/ Shareholders' Equity	Revenues	Expenses
Cash	Accounts Payable	Owner's Capital	Service Revenue	Advertising Expense
Accounts Receivable	Notes Payable	Owner's Drawings	Sales	Amortization Expense
Allowance for Doubtful Accounts	Unearned Revenue	Common Shares	Sales Discounts	Bad Debt Expense
Interest Receivable	Salaries Payable	Preferred Shares	Sales Returns and Allowances	Cost of Goods Sold
Inventory	Interest Payable	Retained Earnings	Interest Revenue	Delivery Expense
Supplies	Dividends Payable	Cash Dividends	Gain on Disposal	Depreciation Expense
Prepaid Insurance	Income Tax Payable	Income Summary	Dividend Revenue	Freight In
Prepaid Rent	Mortgage Payable			Impairment Loss
Land	Bonds Payable			Income Tax Expense
Equipment				Insurance Expense
Accumulated Depreciation— Equipment				Interest Expense
Building				Loss on Disposal
Accumulated Depreciation— Building				Office Expense
Copyrights				Rent Expense
Patents				Salaries Expense
Trademarks				Supplies Expense
Goodwill				Telephone Expense
				Utilities Expense

Accounting Principles

Ninth Canadian Edition

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Ninth Canadian Edition

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

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U.S. Edition

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

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

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

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The Use of Bloom's Taxonomy

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

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

(K) Knowledge (Remembering)

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

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

Keyword clues: define, identify, label, name, etc.

(C) Comprehension (Understanding)

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

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

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

(AP) Application (Solving the Problem)

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

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

Keyword clues: calculate, illustrate, prepare, complete, use, produce, etc.

(AN) Analysis (Detecting)

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

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

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

(S) Synthesis (Creating)

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

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

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

(E) Evaluation (Appraisal)

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

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

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

What TYPE of learner are you?

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

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

Visit www.vark-learn.com and complete the Questionnaire to determine what type of learning style you have.

To the Instructor

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

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

Preparing the Ninth Canadian Edition

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

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

Engaging Digitally

Accounting Principles, Ninth Canadian Edition, is completely integrated with Wiley's online courseware featuring a suite of teaching and learning resources. The courseware allows students to create a personalized study plan, assess their progress along the way, and access the content and resources needed to master the material.

It includes integrated adaptive practice that helps students build proficiency and use their study time most effectively. Additional features of the course include:

Videos

Concept walkthrough videos using lightboard technology explain core accounting concepts to students.

Lightboard solution walkthrough videos and solution walkthrough videos offer students just-in-time homework assistance and problem-solving techniques. Students can watch these multiple times to master the material. The videos are identified throughout the text by a VIDEO word mark and are great for students to preview before class or to use for review afterwards.

Applied skills videos accompany selected chapters and provide a quick review of a variety of broader accounting concepts.

Basic math skills for accounting videos explain basic math concepts like rounding, percentages, decimals, and ratios.

Small business videos go beyond day-to-day accounting and include candid discussions with small business owners about the issues that they deal with on a daily basis.

Multimedia Resources

Concept basic tutorials are narrated PowerPoint slides that provide a quick review of specific accounting skills with exercises at the end of the tutorial for practice.

Interactive tutorials present a broad overview of a particular topic like depreciation, bonds, etc.

Interactive demonstration problems show students how to solve problems like the ones that they will encounter in the end-of-chapter material. These problems have an interactive component requiring students to enter answers at various steps of the problem.

Demonstration problems are like the interactive demonstration problems but without the interactive component. These problems cover several learning objectives per chapter.

Included in the online course is a new feature called the Heritage Home Furniture Practice Set. This practice set exposes students to a real-world simulation that involves maintaining a complete set of books for the accounting information system of a retail business organized as a proprietorship. Students are provided with opportunities to analyze and record a variety of business transactions generally covered in a financial accounting course using journals, ledgers, and other key documents included with the practice set.

Data Analytics and Excel

The authors carefully considered how to integrate data analytics thoughtfully and meaningfully into their accounting course and are pleased to provide the following data analytics and Excel resources.

Data Analytics Insight features provide real-world examples of situations where companies use both internal and external data for decision-making.

Chapters 6, 9, 14, and 17 offer **Data Analytics in Action problems** that offer students the opportunity to see how they might use data analytics to solve realistic business problems.

To encourage students to develop their analytic skills, additional **PowerBI and Tableau** questions accompanied by visualizations are available with most chapters in the online courseware. Students are required to interpret the visualizations and think critically about data.

In addition to these resources, an **accounting-specific data analytics module** with interactive lessons, case studies, and videos is part of the online courseware. The module has been prepared using industry-validated content to help the students develop the professional competencies needed for the Common Final Examination (CFE) and the changing workforce.

Data Analytics in Excel videos provide students with step-by-step guidance in executing the tasks in Excel they will need to solve these problems.

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

Gradable Excel Questions for each chapter give students an opportunity to practise Excel skills in the context of solving accounting problems.

Continuing Features

Unparalleled Pedagogical Features

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

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

Accounting in Action insight boxes give the student glimpses into how companies make decisions. These high-interest boxes are classified by five different points of view—Across the Organization, Business Insight, Ethics, People, Planet, and Profit Insight, and All About You. Suggested answers appear in the online instructor's manual accompanying the text.

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

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

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

Relevance for Users

It has always been our goal to motivate both accounting and non-accounting majors to learn accounting. In order to illustrate the importance of financial accounting to non-accounting

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

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

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

Topical and Organization Changes

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

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

- **Chapter 1:** Accounting in Action introduces our feature company Aritzia Inc., one of Canada's leading women's clothing retailers. The chapter has been refreshed and includes more visually appealing summary boxes with revised content. A new introductory discussion on how financial statements use data analytics to improve decision-making, along with a new Data Analytics Insight feature on how Netflix uses data analytics to help estimate the cost of future projects.

End-of-chapter material has been refreshed to reflect the changes in the chapter.

- **Chapter 2:** The chapter begins with a new feature story about Happy Planet organic beverages, which are manufactured by Agrifoods International Cooperative Ltd., and how accounting information has supported its growth. The Recording Process includes updated visuals of the accounting cycle throughout the chapter to remind students of the cyclical nature of the accounting process and to provide a roadmap for Chapters 2 to 4. It also includes a new illustration that summarizes the three steps of the recording process. Transaction analysis illustrations have been updated to include equation analysis to help students build upon the knowledge obtained in Chapter 1.
- **Chapter 3:** This chapter begins with an updated feature story about the Toronto Raptors and examines how sports teams deal with advance ticket sales. The chapter now includes a new discussion and illustration of the five-step revenue recognition process. It also includes a discussion of revenue recognition under ASPE.
- **Chapter 4:** The discussion of the classified balance sheet is demonstrated with updated excerpts from the financial statements of Canadian public companies. Students are also now introduced to the concept of visualizations using Arizia's current ratio. A People, Planet, and Profit Insight box has been added examining the dimensions used to measure a business's corporate reputation and how consumers, employees, and investors care about how businesses engage with society. The worksheet visualization have been refreshed and appear in spreadsheet format.
- **Chapter 5:** Accounting for Merchandising Operations begins with a new feature story about Roots Canada along with a new insight box titled People, Planet, and Profit, on how PepsiCo developed and marketed a compostable chip package. A new section has been added called "Data Analytics and Credit Sales" that discusses how companies use data analytics to improve business decision-making, specifically for policies on credit sales, sales returns and allowances, and sale discounts. The formula for cost of goods sold has been refreshed to show a two-step formula. The account name "Freight Out" has been replaced by "Delivery Expense." The introductory revenue recognition discussion in the previous version has been moved to Chapter 3, and Appendix 5B, which illustrates revenue recognition for a merchandising operation using *IFRS 15 Revenue from Contracts with Customers*, has been refreshed. End-of-chapter materials have been expanded and include additional brief exercises and exercises using both perpetual and periodic inventory systems with the earnings approach to provide more practice on these important concepts.
- **Chapter 6:** Inventory Costing begins with a new feature story about SportChek and its approach to minimizing inventory obsolescence. The chapter has been refreshed and spreadsheet illustrations have been revised. The Business Insight Box has been updated to include Walmart's use of Big Data to improve operations, and the Ethics Insight Box includes a new story about falsifying inventory at Logitech and Craig Electronics. We have included a short discussion on using data analytics in the analysis section. The formula for cost of goods sold has been refreshed to show a two-step formula. We chose to feature the earnings approach in this chapter to maintain consistency with the use of ASPE by a proprietorship. The differences between ASPE and IFRS in relation to inventory costing are minor and do not change the key concepts discussed in this chapter. The end-of-chapter materials have been expanded to include additional questions incorporating financial statement preparation and a new Data Visualization problem.
- **Chapter 7:** Internal Control and Cash now begins with a new feature company story on Second Cup. A new section on how data analytics help to improve internal controls has been added. The petty cash presentation and end-of-chapter material have been simplified and no longer include changing the size of the fund. An updated section on electronic banking, with more detailed discussion of EFTs, and mobile banking has been added. There is a new illustration of an electronic cheque, with callouts for improved student understanding. The feature boxes in the chapter have been updated to maintain relevance. The Ethics Insight box has been revised and focuses on employee theft. The Business Insight box has been updated to explore Canadian trends in payment practices, including a discussion of cryptocurrencies. A new People, Planet, and Profit Insight box has been added, which explores how internal controls improve sustainability reporting.
- **Chapter 8:** Accounting for Receivables begins with a new feature story about Bell Canada and its approach to customer accounts receivable management. The percentage of sales approach for estimating uncollectible accounts has been de-emphasized in the chapter and additional brief exercises, exercises, and problems have been added to practise the percentage of receivables approach. A new discussion has been added on how data analytics software packages are improving operational performance in relation to receivables management. Merchandising sales transactions are presented using the earnings approach to revenue recognition. We chose to feature the earnings approach in this chapter to maintain consistency with the use of ASPE by a proprietorship. The differences between ASPE and IFRS in relation to accounts receivable are minor and do not change the key concepts discussed in this chapter. The end-of-chapter materials have been expanded to include additional practice with financial statements as well.
- **Chapter 9:** Long-Lived Assets has been refreshed. A new illustration has been added to highlight the differences in the patterns of depreciation expense. A new People, Planet, and Profit Insight box has been added, which discusses sustainability, environmental, and social reporting in Canada's oil and gas industry. End-of-chapter materials have been expanded to include new brief exercises, exercises, and problems for additional practice using the

diminishing-balance method of depreciation, and financial statement preparation. A data analytics visualization problem is included in the end-of-chapter materials as well.

- **Chapter 10:** Current Liabilities and Payroll has a new feature story about Shopify and its payroll. The chapter and end-of-chapter material have been refreshed to reflect the most recent tax and payroll rates. A new discussion of internal control and payroll has been added that includes the objectives of internal controls over payroll, and a visual of the key functions that should be segregated to maintain effective internal controls over payroll.
- **Chapter 11:** Financial Reporting Concepts includes an updated feature story about the going concern assumption. The chapter and chapter illustrations have been refreshed throughout. A new Data Analytics Insight box has been added that discusses how auditors use data analytics for revenue analysis. A new discussion has been added of multiple-element arrangements under ASPE. End-of-chapter materials have been refreshed and a new question added on multiple-element arrangements.
- **Chapter 12:** Accounting for Partnerships now has been refreshed. End-of-chapter materials include additional questions related to the division of profit and liquidation of a partnership.
- **Chapter 13:** Introduction to Corporations begins with a new feature story about Big Rock Brewery and the advantages of incorporation, along with a new People, Planet, and Profit Insight box that discusses corporate social responsibility reporting. The chapter has been refreshed and end-of-chapter materials have been updated.
- **Chapter 14:** Corporations: Additional Topics and IFRS has been refreshed. The end-of-chapter materials have been updated and a new data visualization problem has been added.
- **Chapter 15:** The feature story for this chapter has been updated with Bombardier. The bond amortization schedules have been updated and are now presented as spreadsheet illustrations. Non-Current Liabilities has been updated with expanded coverage of accounting for leases. The feature box on green bonds has been updated to reflect investor interest in green investing.
- **Chapter 16:** Investments has been refreshed and revised. All chapter insight boxes have been updated based on the latest developments in business and technology. The end-of-chapter materials have been updated and revised.
- **Chapter 17:** This chapter begins with a new feature story about the Stingray Group and how it generates and uses cash. This chapter now includes a new Data Analytics in Action problem allowing students to perform basic data analysis and create and interpret simple data visualizations.
- **Chapter 18:** The financial statements analysis has been refreshed. The chapter now includes a new section on financial statement analysis and data analytics.

Unparalleled End-of-Chapter Material

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

Using Bloom's Taxonomy of Learning, all of the end-of-chapter material was carefully reviewed.

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

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

Each **Problem** helps students pull together and apply several concepts of the chapter. Two sets of problems—Set A and Set B—are usually keyed to the same learning objectives and cognitive level. These provide additional opportunities to apply concepts learned in the chapter.

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

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

The **Santé Smoothie Saga**, a serial problem in each chapter, follows the life of a simulated student-owned company. This edition continues to include moving the business into a family-owned corporation. The conceptual material in each problem attempts to integrate real-life experience and examples with the changing demands of financial accounting and reporting requirements.

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

The All About You boxes mentioned earlier are mirrored in the **Broadening Your Perspective** section. The All About You activities have been designed to help students appreciate that learning accounting is helpful for everyone, regardless of their current and future career plans.

In total, we have over 1,850 end-of-chapter items for students to test their understanding of accounting.

Special Student Supplements

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

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

Acknowledgements

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

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Accuracy

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

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

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Patti McConville/Alamy Stock Photo

Accounting in Action

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

Chapter Preview

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

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

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

Feature Story

Accounting Keeps Aritzia Fashionably in the Black

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

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

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

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

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

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

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

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

What kinds of things does Aritzia need to keep track of in its accounts? Like any company, Aritzia records revenues (sales), which totalled \$980 million in 2020, and expenses, which were \$890 million, resulting in a profit of \$90 million. It also records assets (the value of what it owns at a certain point in time) and liabilities (the value of what it owes to others).

Companies such as Aritzia need to boost revenues and reduce expenses. This was probably never more important than when the COVID-19 pandemic in early 2020 forced the company to temporarily close its stores. Aritzia had to lay off some staff, and shift its spending to its e-commerce platform. In the first few months of the lockdown, its online sales grew by 150%. But even in the middle of the pandemic, Mr. Hill was committed to in-person shopping, saying he wanted to open more stores: "There are some big, big cities in big, big markets in North America that we have zero exposure to."

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

Sources: Susan Krashinsky Robertson, "Aritzia Weathers the COVID-19 Storm with Increase in E-commerce Sales," *Globe and Mail*, June 7, 2020; "Fashion Retailer Aritzia Files to Go Public," CBC.ca, August 18, 2016; Imran Amed, "CEO Talk: Brian Hill, Chief Executive Officer, Aritzia," *Businessoffashion.com*, August 25, 2009; Aritzia 2020 annual report; Aritzia corporate website, www.aritzia.com.

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

Chapter Outline

LEARNING OBJECTIVES

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

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

1.1 Why Is Accounting Important?

LEARNING OBJECTIVE 1

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

Accounting consistently ranks as one of the top career opportunities in business. Students looking for these opportunities find that the best path into the world of finance and business is to pursue a professional accounting credential. Why? Accountants work in every industry and level of business and their skills in accounting and management make them highly attractive to employers and recruiters. Accountants can be CEOs, CFOs, managers, and entrepreneurs, to name a few. Accountants also hold high-level positions in governments and not-for-profit organizations. So, what is accounting?

Accounting is the system that **identifies, records, and communicates** the economic events of an organization to a wide variety of interested users. The world's economic systems depend on highly transparent and relevant financial reporting that provides a true representation of economic events. Accounting is the system that provides relevant, reliable financial information. Let's examine accounting activities in more detail.

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

Accounting Activities

As a starting point to the accounting process, a company **identifies** the economic events relevant to its business. Examples of economic events are the sale of apparel and accessories by Aritzia Inc., the sale of coffee and doughnuts by Tim Hortons, and the payment of wages by Rogers Communications.

Once a company like Aritzia identifies economic events, it records those events in order to provide a history of its financial activities. **Recording** consists of keeping a systematic, chronological diary of events, measured in dollars and cents.

The systematic collection of these data allows Aritzia to prepare financial statements that are then used to **communicate** financial information to interested users. Financial statements report the recorded data in a standardized way to make the information meaningful. For example, Aritzia accumulates all sales transactions over a certain period of time and reports the data as a single amount in the company's financial statements. Such data are said to be reported in the *aggregate*. By presenting the recorded data in the aggregate, the accounting process simplifies the multitude of transactions and makes a series of economic events understandable and meaningful. Appendix A at the end of this text shows the financial statements of Aritzia Inc. We refer to these statements at various places throughout the textbook. At this point, these financial statements probably strike you as complex and confusing. By the end of this course, you'll be surprised at your ability to understand, analyze, and interpret them.

A vital element in communicating economic events is the accountant's ability to **analyze and interpret** the reported information.

- **Analysis** involves using ratios, percentages, and data visualization (graphs and charts) to highlight significant financial trends and relationships.
- **Interpretation** involves explaining the uses, meaning, and limitations of reported data.

Illustration 1.1 summarizes the activities of the accounting process.

ILLUSTRATION 1.1 The activities of the accounting process

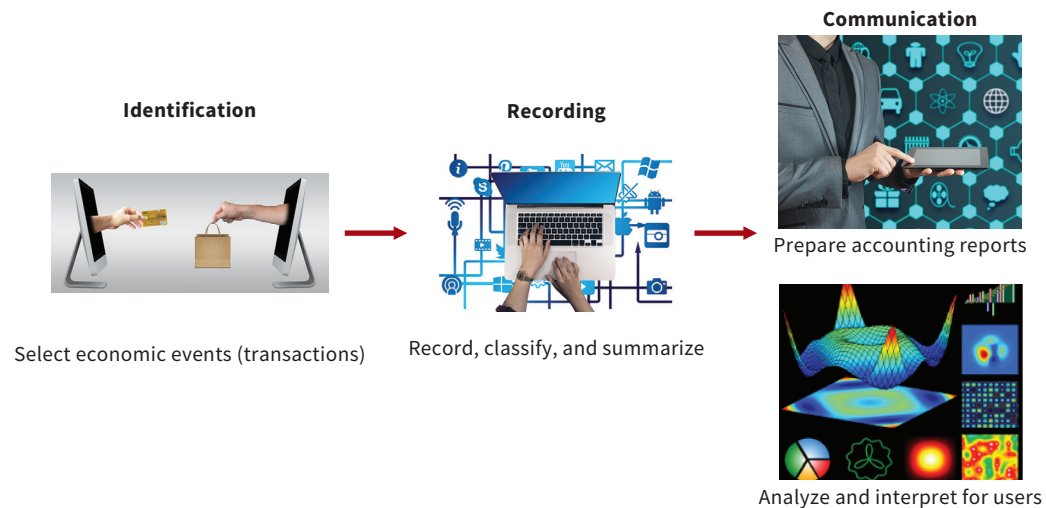


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The accounting process includes the bookkeeping function. Bookkeeping usually involves only the recording of economic events. It is therefore just one part of the accounting process. In total, accounting involves the entire process of identifying,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

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

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

When you study accounting, you will also learn a lot about management, finance, and marketing, which will give you a solid foundation for your future studies. For example, you

will learn how making a sale is meaningless unless it is a profitable sale and the money can eventually be collected from the customer. Marketing managers must also be able to decide pricing strategies based on costs. Accounting is what quantifies these costs and explains why a product or service costs what it does. So think of this textbook as your introduction to accounting across the organization.

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

Accounting in Action Insight features give examples of accounting situations from different perspectives: All About You, Across the Organization, and in terms of business and ethics.

All About You



Fotografías de Rodolfo Velasco/ Getty Images

We all know the importance of literacy. But what about financial literacy—the ability to understand and manage your finances? It seems Canadians don't place the same importance on financial literacy—but with rising household debt levels, falling savings levels, increasing personal bankruptcies, and continuing economic uncertainty, they

should. According to the most recent Statistics Canada survey on financial literacy, in 2014 only 7.1% of adult Canadians considered themselves “very knowledgeable” about their finances.

There is movement on several fronts to improve financial literacy. For example, the federal government in 2014 launched a national financial literacy strategy, and it appears to be working: Canada ranked third (tied with Norway) out of 30 countries in a survey conducted by the Organisation for Economic Co-operation and Development on overall adult financial literacy. One of the strategy's activities was partnering in a pilot project with the United Way of Ottawa to create an app to encourage people to save. More than 1,000 signed up for the Small Change app. Over four months in 2016, they saved a total of \$46,716 by doing things such as bringing their lunch to work and brewing their own coffee. Some financial gurus are also spreading the word about the need to get a grip on personal finance. Gail Vaz-Oxlade, for

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

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

Sources: “Implementing the National Strategy for Financial Literacy—Count Me in, Canada: Progress Report 2015–2019,” Financial Consumer Agency of Canada, 2019; “Improving Financial Literacy through Mobile Technology: Small Change Pilot Program Outcomes,” Financial Consumer Agency of Canada, January 2018; “Canadian Financial Capability Survey, 2014,” Statistics Canada, *The Daily*, November 6, 2014.

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

Using Accounting Information

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

Internal Users

Internal users of accounting information plan, organize, and run companies. They work for the company. They include finance directors, marketing managers, human resources personnel, production supervisors, and company officers. In running a business, internal users must answer many important questions, as shown in **Illustration 1.2**.

ILLUSTRATION 1.2

Questions asked by internal users



Finance

Is there enough cash to pay the bills?



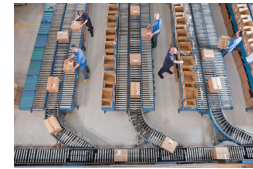
Marketing

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



Human Resources

How many employees can we afford to hire this year?



Production

Which product line is the most profitable?

Photo Credits: Finance: ADragan/Shutterstock.com; Marketing: rasslava/123 RF; Human Resources: solarseven/Shutterstock.com; Production: Juice Flair/Shutterstock.com

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

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

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

External Users

External users are individuals or organizations outside of a company who want financial information about the company. There are several types of external users of accounting information, but the two most common are:

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

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

- Labour unions want to know whether the owners can afford to pay increased salaries and benefits to their members.
- Customers are interested in whether a company will continue to honour its product warranties and support its product lines.
- Taxing authorities, such as the Canada Revenue Agency, want to know whether the company respects the tax laws.

- Regulatory agencies, such as provincial securities commissions that regulate companies that sell shares to the public, want to know whether the company is respecting established rules.
- Economic planners use accounting information to forecast economic activity.

Some questions that external users may ask about a company are shown in **Illustration 1.3**.



Investors

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



Creditors

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



Labour Unions

Can the company afford to increase our members' benefits?



Customers

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

Photo Credits: Investors: Ariel Skelley/Getty Images; Creditors: bagraphix/123 RF; Labour Unions: Ivan Karpov/123 RF; Customers: KLH49/Getty Images

ILLUSTRATION 1.3

Questions asked by external users

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

Computerized accounting information systems collect vast amounts of data about the economic events in a company and about the parties with whom the company engages, such as suppliers and customers. Business decision-makers take advantage of this wealth of data by using **data analytics** to make more informed business decisions.

- Data analytics involves analyzing data, often employing both software and statistics, to draw inferences.
- As both data access and analytical software improve, the use of data analytics to support decision-making is becoming increasingly common at virtually all types of companies (see **Helpful Hint**).

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

HELPFUL HINT

Throughout the text, we will highlight examples where accounting information is used to support business decisions using data analytics.

Data Analytics Insight



Bogdan Glisik/Shutterstock.com

Using Data Science to Create Art

Technology provides decision-makers and problem-solvers with access to a large volume of information called “big data.” And **Netflix**, the world’s leading subscription streaming entertainment service, is tapping into this big data as part of its efforts to ramp up its original content production.

In a recent year, Netflix planned to spend \$8 billion on content creation. Producing content involves a blend of creativity, technology, and business decisions, all of which result in costs. And by analyzing the large amounts of data from past

productions, such as filming locations and production schedules, Netflix can more precisely estimate costs for future productions. Further, consider that the production of a TV show or film involves hundreds of tasks. Here again, Netflix uses data science, in this case to visualize where bottlenecks might occur or where opportunities might exist to increase the efficiency of the production process.

Source: Ritwik Kumar et al., “Data Science and the Art of Producing Entertainment at Netflix,” *The Netflix Tech Blog*, March 26, 2018.

How can “big data” improve decision-making?

Objective of Financial Reporting

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

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

1. The business's economic resources. What resources does the business have that it can use to carry out its business activities?
2. The claims to the business's economic resources. What are the amounts owed by the business and the owner's rights to the business's resources?
3. Economic performance. Is the business generating a profit and enough cash to pay its debts, and provide a return to its owners?
4. Management's stewardship. Is management using the economic resources efficiently and effectively in order to provide future net cash flows?

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

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

ACTION PLAN

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

DO IT! 1.1 | Users of Accounting Information

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

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

Solution

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

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

1.2 Forms of Business Organization

LEARNING OBJECTIVE 2

Compare the different forms of business organization.

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

Proprietorship

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

- Often only a relatively small amount of money (capital) is needed to start in business as a proprietorship.
- The owner (the proprietor) receives any profits, suffers any losses, and is personally liable (responsible) for all debts of the business. This is known as **unlimited liability**.
- There is no legal distinction between the business as an economic unit and the owner. Thus the life of a proprietorship is limited to the life of the owner. This also means that the profits of the business are reported and taxed on the owner's personal income tax return.
- For accounting purposes, the records of the proprietorship's business activities are kept separate from the personal records and activities of the owner.

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

Partnership

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

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