



KIMMEL | WEYGANDT | MITCHELL | TRENHOLM | IRVINE | BURNLEY

# FINANCIAL ACCOUNTING

TOOLS FOR BUSINESS DECISION-MAKING

NINTH CANADIAN EDITION

WILEY



# Financial Accounting: Tools for Business Decision-Making

**Ninth Canadian Edition**

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# DEDICATION

To our students—past, present, and future.

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# About the Authors

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**BARBARA TRENHOLM, FCPA, FCA, ICD.D**, is a professor emerita at the University of New Brunswick (UNB), where she has taught accounting and finance in the BBA and MBA programs both locally and internationally. Her teaching and educational leadership has been widely recognized with numerous provincial, national, and international teaching awards.

She has published widely in the field of accounting education and standard setting, including publications in *Accounting Horizons*, *Journal of the Academy of Business Education*, and the legacy editions of *Pivot Magazine—CAmagazine*, *CGA Magazine*, and *CMA Magazine*. She is also part of the Canadian author team of Weygandt, Kieso, Kimmel, Trenholm, Warren, and Novak, *Accounting Principles*, published by John Wiley & Sons Canada, Ltd.

Barbara has been active in the predecessor organizations of CPA Canada, CPA Atlantic School of Business, and CPA NB as they are currently known, in addition to the Canadian Academic Accounting Association. She also served as president of CPA NB and in leadership roles at the university and in the community.

She holds an ICD.D designation with the Institute of Corporate Directors and is an experienced board member. Barbara has served on boards of public companies, private companies, federal and provincial Crown corporations, and not-for-profits, including professional accounting organizations.

Courtesy Wayne Irvine



**WAYNE IRVINE, FCPA, FCA, CFA**, teaches accounting at the Haskayne School of Business, University of Calgary for undergraduates and students enrolled in executive MBA and executive education programs. Prior to his full-time academic career, Wayne worked for 12 years at Price Waterhouse in the firm's assurance practice as a senior audit manager and also coordinated the Calgary office's continuing education program.

Wayne has over 30 years of teaching experience with several professional accounting programs, most recently as a session leader for CPA Western School of Business in its Professional Education Program.

Wayne has, in addition to other publishing projects, authored several case exams for CPA legacy programs and published a case in *Accounting Perspectives*.

Wayne is a four-time recipient of the University of Calgary's Students' Union Teaching Excellence Award. He has also received over a dozen other teaching and service awards from other student organizations and from the CPA profession.

Image by Drik Heydemann of HA Photography



**CHRIS BURNLEY, FCPA, FCA**, is a professor in the accounting department at Vancouver Island University. Prior to his full-time academic career, Chris worked for 12 years in public practice and also audited government departments and United Nations agencies with the Office of the Auditor General of Canada. Chris also teaches in the CPA Professional Education Program for the CPA Western School of Business.

Chris teaches in the Master of Professional Accounting Program at the University of Saskatchewan, where he is a two-time recipient of the Chartered Professional Accountants of Alberta teaching excellence award. He is active internationally, teaching and delivering guest lectures at Vancouver Island University's partner institutions in Europe, Asia, and the South Pacific. Chris has received numerous internal and external grants in support of his academic work and has presented at national conferences. He has been awarded a number of prizes by the Canadian Academic Accounting Association as a result of his academic work, including awards for case authoring and developing innovative ideas in accounting education.

Chris is active in the accounting profession and has served on the boards of the Canadian Academic Accounting Association and the Chartered Professional Accountants of British Columbia (CPABC). He is past chair of CPABC's Education Foundation. He received the Ritchie W. McCloy Award for CA Volunteerism. Chris is also the author of the textbook *Understanding Financial Accounting*, published by John Wiley & Sons Canada, Ltd.



**PAUL D. KIMMEL, PH.D., CPA**, received his bachelor's degree from the University of Minnesota and his doctorate in accounting from the University of Wisconsin. He taught at U.W.—Milwaukee for over 25 years and now teaches at U.W.—Madison. He has public accounting experience with Deloitte & Touche (Minneapolis). He was the recipient of the UWM School of Business Advisory Council Teaching Award, the Reggie Taite Excellence in Teaching Award, and a three-time winner of the Outstanding Teaching Assistant Award at the University of Wisconsin. He is also a recipient of the Elijah Watts Sells Award for Honorary Distinction for his results on the CPA exam. He is a member of the American Accounting Association and the Institute of Management Accountants and has published articles in *Accounting Review*, *Accounting Horizons*, *Advances in Management Accounting*, *Managerial Finance*, *Issues in Accounting Education*, and *Journal of Accounting Education*, as well as other journals. His research interests include accounting for financial instruments and innovation in accounting education.



**JERRY J. WEYGANDT, PH.D., CPA**, is the 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. 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 *Accounting Review*; he has also 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 served on the FASB task force that examined the reporting issues related to accounting for income taxes and 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 Accounting Educator Award.



**JILL E. MITCHELL, M.S., M.ED., CIA**, is a Professor of Accounting at Northern Virginia Community College (NOVA), where she has taught face-to-face, hybrid, and online courses since 2008. Since 2009, she has been an adjunct instructor at George Mason University (GMU). She is a past president of the Washington, D.C. Chapter of the Accounting and Financial Women's Alliance (AFWA), and she served on the board of directors of the Virginia Society of CPAs (VSCPA). She is a member of the American Accounting Association (AAA) and the Institute of Internal Auditors. Jill serves on the AAA Education Committee and is the co-chair for the Conference on Teaching and Learning in Accounting (CTLA). Prior to joining the faculty at NOVA, Jill was a senior auditor with Ernst & Young's Business Risk Services practice in Miami, Florida. She is a certified internal auditor and earned an M.S. in Accountancy from the University of Virginia and a BBA in Management Information Systems from the University of Georgia honors program. Recently, she earned an M.Ed. in Instructional Design Technology from GMU. Jill is a recipient of the Outstanding Faculty Award, the Commonwealth's highest honour for faculty of Virginia's universities and colleges presented by the State Council of Higher Education for Virginia; the Virginia Community College System Chancellor's Award for Teaching Excellence; the AFWA's Women Who Count Award; the AAA Two-Year College Educator of the Year Award; and the AAA/J. Michael and Mary Anne Cook/Deloitte Foundation Prize, the foremost recognition of an individual who consistently demonstrates the attributes of a superior teacher in the discipline of accounting.

**Financial Accounting: Tools for Business Decision-Making**, 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. This new assignment type pinpoints learner knowledge gaps and offers personalized, just-in-time support, targeted instruction, and detailed answer explanations.

## Data Analytics and Excel Tools

The following resources help to meaningfully integrate data analytics and Excel within the course:

1. **Data Visualization assignments** encourage students to develop their analytical skills. These multiple-choice and short-answer 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.
2. **Data Analytics Problems** offer students the opportunity to analyze data using Excel or other data analytics software to solve realistic business problems.
3. **New Gradable Excel Questions** for each chapter provide students with an opportunity to practise Excel skills in the context of solving accounting problems.
4. **Excel Function Videos** provide students with step-by-step examples of how to use Excel functions.
5. **Excel Templates** in the online courseware enable students to work selected problems in Excel.
6. **Data Analytics with Excel videos** provide students with step-by-step guidance in executing the tasks in Excel they will need to solve these problems.

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 students develop the professional competencies needed for

the Common Final Examination (CFE) and the changing workforce.

## Videos

Short videos help students to quickly grasp new concepts, apply concepts to real-world scenarios, and solve problems from the text.

1. **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.
2. **Accounting skills videos** accompany selected chapters and provide a quick review of a variety of broader accounting concepts.
3. **Small business videos** go beyond day-to-day accounting and include candid discussions with small business owners about the issues they deal with on a daily basis.
4. **Ask an Expert Videos** showcase questions from students that are answered by professionals in the field.

## Other Learning Tools

Other useful resources for students include:

- Concept walkthroughs are narrated PowerPoint slides that provide a quick review of specific accounting skills with exercises at the end of the tutorial for practice.
- Checklists of key figures provide answers to significant parts of a multipart question and lets students know if they are on the right track as they solve these longer problems.
- A primer on financial statement analysis.
- Multimedia tutorials present a broad overview of a particular topic like depreciation, bonds, etc.
- Demonstration Problems show students how to solve problems like the ones they will encounter in the end-of-chapter material.
- Wiley Accounting Updates ([wileyaccountingupdates.ca](http://wileyaccountingupdates.ca)) provide faculty and students with weekly curated news articles and suggested discussion questions.
- Student Practice quickly and effectively assesses students' understanding of the material they have just covered.

# What's New?

## Helping Students Learn Accounting Concepts

We have carefully scrutinized all the chapter material to find new ways to engage students and help them learn accounting concepts. This edition has 102 DO IT! exercises embedded in the chapter material that have been updated where necessary, providing opportunities for students to test their understanding before moving on to the next topic. We highlight accounting concepts that are useful for management decision-making throughout the text by including a summary of Decision Tools in each chapter as well as a practice exercise called Using the Decision Tools with a solution provided within the textbook.

## Improved Presentation of Visual and Text Content

In each chapter, new illustrations were added, and existing ones were reimaged as we carefully considered how each illustration might best help students understand difficult concepts. We continued the use of techniques that increase understanding and faster review of material, including headings and subheadings, highlighting key words, and chapter summaries. Major revisions were made to the chapter content to enhance readability for students:

1. Content is presented in easy-to-understand chunks through the use of shorter paragraphs.
2. More bulleted and numbered lists are used to highlight key information.

We also added and revised a significant number of explanations and examples throughout the text to better facilitate student learning.

## Real-World Contexts

One of the goals of the financial accounting course is to orient students to the application of accounting principles and techniques in practice. Accordingly, we have expanded our practice of using current examples from real companies throughout the textbook by adding even more high-interest companies such as Cargojet, Shopify, Farmer's Edge, Boardwalk, and Vermilion Energy. We hope that these will increase student engagement. This edition includes more than 340 references to real-world companies of interest to students. Some of the chapter-opening feature stories were replaced with new stories, while the remainder were updated. **Accounting Matters** insight boxes that

feature real companies were also updated. The feature companies for this edition are The North West Company and Sobeys, two well-known companies in the grocery industry. References to these companies have been included throughout the textbook in a variety of ways—in simplified financial statements in the chapter material, ratio analyses, Using the Decision Toolkit, end-of-chapter cases, and financial statements in Appendices A and B at the end of the textbook. Other features that were updated include **Keeping an Eye on Cash**, which explains the significance of cash, and the **Missing in Action** features, which show how a missing control can result in errors and misstatements. In addition, our author team is active in delivering the CPA Professional Education Program and incorporated this real-world perspective when writing each chapter, including the end-of-chapter material. International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE) were also revised to reflect current and pending changes to standards.

## Indigenous Perspectives

The Truth and Reconciliation Commission of Canada identified the significance of education to the process of reconciliation, including its role in building intercultural understanding, empathy, and mutual respect. Examples of Indigenous success stories, presented from an Indigenous voice, have not been included in most business texts. To begin to address this issue, we are very pleased to introduce a new Indigenous Perspectives feature in this edition. Importantly, these have been authored by Tasha Brooks, an Indigenous educator with Vancouver Island University. Vancouver Island University Elder Randy Fred also advised on these features. Seven features have been added in five chapters. Some of them highlight Indigenous leaders, communities, and organizations. Others introduce students to Indigenous knowledge, including the Seventh Generation Principle and Two-Eyed Seeing. Our hope is that these features help our Indigenous students see themselves in the text's content and, in turn, perhaps in the larger accounting profession. We also hope that they will provide all students with an increased awareness of some amazing Indigenous success stories from across the country and spark their interest to learn more. Presenting these as box features gives them prominence and provides faculty with flexibility in how this material is used.

## Data Analytics

We have added a new **Analytics in Action** feature in four chapters. This feature provides examples of accounting data visualizations that are linked to chapter content and illustrate how these visualizations are interpreted. We have also updated



a feature box on data analytics, called **Analytics Mindset**; these are included in nine chapters. These features are focused on helping students develop the ability to ask the right questions and identify the internal and external data that could be captured to help answer these questions. Related end-of-chapter material, in the form of questions and critical thinking problems, which include new data visualization cases in six chapters, have also been created for faculty wanting to expand the discussion of this material. We have also introduced more data visualizations in chapter feature stories.

## Accounting and the Environment

We have introduced a new feature called **Accounting and the Environment** in three chapters to highlight how climate change affects the risks that companies face and how they disclose, measure, and react to this risk. For example, in Chapter 6, students will learn that lululemon monitors changing weather patterns to assess how this will affect cotton production and cotton prices—two factors that are critical to the company's success.

## IFRS Content

Chapters 4, 5, and 8 include expanded IFRS 15 content related to the five-step model of revenue recognition. The material has been presented in a graduated manner, exposing students to situations involving only a single performance obligation, before moving on to multiple performance obligations. Content on variable consideration and refund liabilities has also been included. These discussions are well supported with related DO IT! exercises. Chapter 8 also reflects the expected credit loss model from IFRS 9, and the terminology has been updated, ensuring consistency with the leading intermediate accounting text. Finally, the lease content in Chapter 9 reflects IFRS 16.

## Review and Practice

The review and practice section at the end of each chapter continues to be important. This area includes, in one place, an overview of the learning objectives, key terms, differences (if any) between IFRS and ASPE, and decision tools, in addition to practice opportunities using the Decision Toolkit and a comprehensive DO IT! The review and practice section also includes objective-format questions that allow students to self-assess their understanding of the topics in each chapter. These questions are comprehensive in their coverage, with detailed feedback provided at the end of the chapter to help students analyze their results. Additional practice objective-format questions are available in the test bank for instructor use. These questions are similar to ones that CPA Canada may

introduce to the Professional Education Program, providing students with an early opportunity to learn how to approach and develop a level of comfort with this style of question.

## End-of-Chapter Material

The end-of-chapter material underwent a comprehensive update to ensure that it continues to be relevant and fresh. One-third of the questions, brief exercises, exercises, problems, and cases in the end-of-chapter material are either new or significantly updated. Four new problems in each chapter were developed. Over 20 critical thinking cases that use public company information have been updated. A new type of critical thinking problem focused on interpreting data visualizations has been added to six chapters. We continue to provide cases that deal with financial reporting, financial statement analysis, professional judgement, and ethical reasoning. The serial case, which has been an important continuing feature in each chapter in past editions, continues to follow the evolution of a hypothetical computer consulting company from a small private firm to a large publicly traded company. The serial case includes the application of the five-step revenue recognition model. In total, this textbook has a wide variety of over 1,400 end-of-chapter questions, including over 112 longer problems/cases that enhance critical thinking. This is also the first time that Set B of the problem material has been programmed for the online course, which adds over 180 questions, most of which are algorithmic, to the repository of end-of-chapter material in the course.

## Key Features of Each Chapter

### Chapter 1: The Purpose and Use of Financial Statements

- Feature story is about The North West Company and how accounting aids decision-making
- Identifies the users and uses of financial accounting information and forms of business organization—proprietorship, partnership, private corporation, and public corporation
- Describes the business activities—financing, investing, and operating activities—that affect companies
- Explains the content, purpose, and interrelationships of each of the financial statements—income statement, statement of changes in equity, statement of financial position, and statement of cash flows
- Uses financial statements of a hypothetical company (to keep it simple), followed by those for a real company, The North West Company (to make it relevant)

- **Key changes:** Updated feature story on The North West Company. Updated the business activities and financial statements discussions to reflect the most recent financial information of The North West Company. Added two Indigenous Perspectives features. The first explains these features and the second is related to women in Indigenous leadership. Added an illustration and context on data analytics. Noted the inclusion of social responsibility and sustainability information in the MD&A discussion. Added a new question, brief exercise, and four new problems, and updated information relating to public companies referenced in the end-of-chapter material.

## Chapter 2: A Further Look at Financial Statements

- Feature story is about Aritzia, its users, and use of accounting standards
- Presents the classified statement of financial position and the items typically found in each section
- Explains how ratio analysis is used to analyze a company's liquidity, solvency, and profitability
- Applies ratio analysis to two years for retailers including Aritzia, Canada Goose, and their industry (working capital, debt to total assets, basic earnings per share, and price-earnings ratios)
- Describes the conceptual framework of accounting
- **Key changes:** Updated feature company story on Aritzia with inclusion of visuals showing the relationship between the company's EPS and share price. Updated extracts of financial statements from seven companies covered in this chapter. Expanded coverage of DO IT! 2.1b to include preparation of the statement of financial position. Updated amounts included in the Practice Using the Decision Tools. Added a new question, two new brief exercises, and four new problems, and updated information relating to public companies referenced in the end-of-chapter material.

## Chapter 3: The Accounting Information System

- Feature story is about True Büch Kombucha's experiences with an accounting information system
- Covers transaction analysis, explaining how accounts, debits, and credits are used to record transactions
- Explains the first four steps in the accounting cycle, including analyzing, journalizing, and posting transactions, and preparing the trial balance
- **Key changes:** Updated feature story on True Büch Kombucha. Added discussion of ERP systems. Added numerous illustrations related to normal balances. Deleted content related to financial statement relationships and

identifying trial balance errors. Added a new DO IT! related to transaction analysis. Added a new illustration related to the recording process. Added two new questions and four new problems, and updated information relating to public companies referenced in the end-of-chapter material.

## Chapter 4: Accrual Accounting Concepts

- Feature story is about Western University's application of accrual accounting
- Explains revenue recognition, including the five-step model as it applies to both single and multiple performance obligations
- Explains expense recognition
- Emphasizes the difference between cash and accrual accounting
- Completes the accounting cycle, from adjusting entries to the closing process
- **Key changes:** Added an Indigenous Perspective feature related to revenue generation and the Osoyoos Indian Band Development Corporation. Added an illustration outlining the five-step model of revenue recognition. Revised and replaced multiple illustrations. Added three new questions, one new exercise, and five new problems, and updated information relating to public companies referenced in the end-of-chapter material.

## Chapter 5: Merchandising Operations

- Feature story is about Loblaw Companies Limited's initiatives to improve its process of getting products from its suppliers to its shelves
- Identifies the key differences between service and merchandising companies
- Introduces inventory systems using the perpetual inventory system (the periodic inventory system is presented in an appendix)
- Explains how to record purchases of merchandise
- Explains revenue recognition, including the five-step model as it applies to both single and multiple performance obligations related to the sale of merchandise
- Presents single-step and multiple-step income statements
- Applies ratio analysis to Loblaw, Metro, and their industry (gross profit margin and profit margin)
- **Key changes:** Added a new Analytics in Action feature that uses visualization to compare pricing strategies using gross profit. Revised and replaced multiple illustrations. Updated the gross profit margin and profit margin discussions to reflect the most recent financial results of Loblaw and Metro. Added one new question, one new brief exercise, one new exercise, six new problems, and updated

information relating to public companies referenced in the end-of-chapter material. Also added a data visualization case in which students analyze gross margin information to determine which product should be replaced.

## Chapter 6: Reporting and Analyzing Inventory

- Feature story is about lululemon athletica inc.'s inventory management, with an added visualization on how the company was managing inventory levels during COVID-related store closures
- Explains how inventory quantities and ownership are determined
- Covers cost formulas and their financial statement effects using the perpetual inventory system (the periodic inventory system is presented in an appendix)
- Discusses effects of two major types of inventory errors on financial statements
- Outlines how to value and record inventory at the lower of cost and net realizable value
- Applies ratio analysis to lululemon, Limited Brands, and their industry (inventory turnover and days in inventory)
- **Key changes:** Added a new Analytics in Action feature that uses visualization to compare inventory turnover between products relative to their percentage of cost of goods sold and inventory on hand. Also added a new Accounting and the Environment feature that explains how lululemon's ability to obtain and manage inventory is affected by climate-related risks. Added new illustrations on specific identification cost flow. In the end-of-chapter material, there are two new questions, one new brief exercise, four new problems, and one new data analytics case; all questions using public company data have been updated.

## Chapter 7: Internal Control and Cash

- Feature story is about internal controls at White Sails Brewing.
- Explains the components of an internal control system, including its control activities and limitations
- Identifies the key control activities over cash receipts and payments
- Discusses bank reconciliations in detail as a control feature
- Explains how cash is reported and managed
- **Key changes:** New feature story on White Sails Brewing. Added content related to control activities related to electronic payments. Also added content about online banking to the discussion of bank reconciliations. Revised and replaced multiple illustrations. Added four new problems and updated information relating to public companies referenced in the end-of-chapter material.

## Chapter 8: Reporting and Analyzing Receivables

- Feature story is about NFI Group's receivables
- Presents the basic types of receivables and how to record accounts receivable transactions, including the use of subsidiary ledgers
- Explains how to account for credit losses, write-offs, and recovery of uncollectible accounts using the allowance method
- Outlines how to account for notes receivable, interest income, and derecognizing notes
- Explains statement presentation of receivables
- Identifies the principles of accounts receivable management
- Applies ratio analysis to NFI, Vicinity Motor Group, and their industry (receivables turnover and average collection period)
- **Key changes:** Added data visualizations to the feature story on NFI Group. Added an Analytics in Action feature related to assessing credit policies in the context of expected credit losses and average collection periods. Revised the text to reflect the language of IFRS 9 (credit losses and allowance for expected credit losses). Added content about credit risk factors other than age of the receivable. Added an illustration on the similarities and differences of accounts receivable and notes receivable. Revised and replaced multiple illustrations. Added four new problems and updated information relating to public companies referenced in end-of-chapter material. Also added a data analytics case related to assessing expected credit losses across multiple sales channels.

## Chapter 9: Reporting and Analyzing Long-Lived Assets

- New feature story on Cargojet with data visualization
- Covers the acquisition and derecognition of property, plant, and equipment
- Reviews buy or lease decisions
- Explains the calculation and implications of using different depreciation methods
- Discusses, at the appropriate level for an introductory accounting course, the treatment of significant components, capital cost allowance, impairments, the revaluation model, depreciation revisions, and natural resources and depletion
- Discusses the accounting for intangible assets and goodwill
- Reviews the reporting of long-lived assets
- Applies ratio analysis to Cargojet, Air Canada, and their industry (return on assets, asset turnover, and profit margin)
- **Key changes:** In addition to the new feature company mentioned above, expanded coverage of revisions to

depreciation inputs and added a DO IT! exercise on this topic. Updated information pertaining to Transat AT in the Practice Using the Decision Tool Kit. Introduced three new features: the first pertaining to Indigenous Perspectives on the Mi'kmaq Nation, the second relating to fracking in an Accounting and the Environment feature, and the third dealing with visualizations of key ratio data in an Analytics in Action feature. We also added more graphs to the chapter to illustrate depreciation patterns, and introduced an Accounting Matters story on investing in the metaverse. Updated financial data pertaining to over a dozen questions and problems using public companies in the end-of-chapter material, and created a new question, four new brief exercises, and four new problems. Added a data analytics case using several visualizations.

## Chapter 10: Reporting and Analyzing Liabilities

- Feature story is about Interfor's liabilities
- Covers current liabilities, including operating lines of credit, sales taxes, property taxes, payroll, provisions, and contingencies
- Covers interest-bearing liabilities, both current and non-current, and how to record loan payments and interest accruals
- Reviews reporting and analysis of liabilities
- Applies ratio analysis to Interfor, Canfor, and their industry (debt to total assets and times interest earned)
- Appendix covers accounting for bond liability transactions, future and present value concepts, and how to calculate bond prices
- **Key changes:** Added data visualizations to the feature story on Interfor. Deleted coverage of property taxes as it was covered in earlier chapters in appropriate depth. Expanded coverage of operating lines of credit due to their increased use in Canada, including coverage of this topic in a related DO IT! Updated examples related to payroll to incorporate recent changes to deduction limits. Changed the Analytics Mindset feature to deal with warranties. Introduced a new feature on Indigenous Perspectives dealing with Aboriginal financial institutions and a new Accounting and the Environment feature pertaining to green and blue bonds. Added three new questions, two new brief exercises, and three new problems, and updated over 35 end-of-chapter questions and problems, many of which relate to public companies.

## Chapter 11: Reporting and Analyzing Shareholders' Equity

- Feature story is about Leon's Furniture Limited
- Discusses corporate form of organization and its advantages and disadvantages

- Covers issues related to common and preferred shares, including reasons why companies repurchase their own shares
- Explains cash dividends, stock dividends, stock splits, and implications for analysis
- Describes the presentation of equity items in the statement of financial position and statement of changes in equity (IFRS) or statement of retained earnings (ASPE)
- Applies ratio analysis to Leon's Furniture, BMTC, and their industry (payout ratio, dividend yield, earnings per share, and return on common shareholders' equity)
- **Key changes:** Expanded discussion on the ability of corporations to access capital. Added illustrations related to a typical organizational structure and shareholder rights. Added content on the volatility of preferred shares relative to common shares. Added an illustration on the advantages of debt and equity financing. Updated the shareholders' equity discussion to reflect Leon's most recent financial information. Updated the financial statement analysis section using the most recent financial information for Leon's and BMTC Group. Added four new problems and updated information relating to public companies referenced in the end-of-chapter material.

## Chapter 12: Reporting and Analyzing Investments

- Feature story is about Scotiabank's management of investments
- Explains why companies purchase debt and equity securities as strategic or non-strategic investments
- Describes the various valuation models for non-strategic investments: fair value through profit or loss, fair value through other comprehensive income, amortized cost, and cost
- Describes the accounting for strategic investments, including the use of the equity and cost valuation models
- Discusses other comprehensive income, including the statement of comprehensive income, and accumulated other comprehensive income
- Explains how investments are reported on the financial statements under each of the valuation models used for non-strategic and strategic investments, including the different reporting requirements under IFRS and ASPE
- Introduces consolidation accounting for financial reporting purposes at a conceptual level
- Discusses the accounting for investments in bonds and compares it with bonds payable in a chapter appendix
- **Key changes:** Reduced coverage of fair value through OCI model due to its complexity for an introductory accounting textbook. Replaced the topics covered in the Analytics Mindset and Accounting Matters features to make them more current. Created two new questions and five new

problems, and revised and updated 16 other exercises and problems.

## Chapter 13: Statement of Cash Flows

- Feature story is about Cineplex's cash flows
- Explains the purpose and content of the statement of cash flows
- Describes the preparation of the operating, investing, and financing activities of the statement of cash flows
- Shows the use of the indirect method within the chapter and the direct method in the appendix to provide greater flexibility when determining which of these topics will be covered
- Applies ratio analysis to Cineplex, AMC, and their industry (free cash flow)
- **Key changes:** Added a data visualization to the feature story on Cineplex. Created one new question, two brief exercises, six new problems, and a new data analytics case. Updated 18 other end-of-chapter exercises and problems to include current data from public companies.

## Chapter 14: Performance Measurement

- Feature story is about Sobeys' business strategy, including its acquisitions and divestitures
- Demonstrates horizontal analysis, vertical analysis, and ratio analysis
- Applies ratio analysis to Sobeys, North West, and their industry (comprehensive analysis of all ratios)
- Discusses factors that can limit the usefulness of financial analysis, including the diversification of the company's operations, the use of alternative accounting policies, the use of estimates, and the impact of other comprehensive income items, discontinued operations, and nonrecurring items
- Discusses the use of non-GAAP measures
- **Key changes:** Added data visualization to the feature story on Sobeys. Updated one of the Accounting Matters features to deal with Netflix's gross profit. Created one new exercise, four new problems, and a data analytics case with visualizations.

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We have tried our best to produce a text and supplements package that is error-free and that meets your specific needs. Suggestions and comments from users are encouraged and appreciated. Please consider for subsequent printings or editions. You can send us your thoughts and ideas by emailing [KimmelAuthors@gmail.com](mailto:KimmelAuthors@gmail.com).

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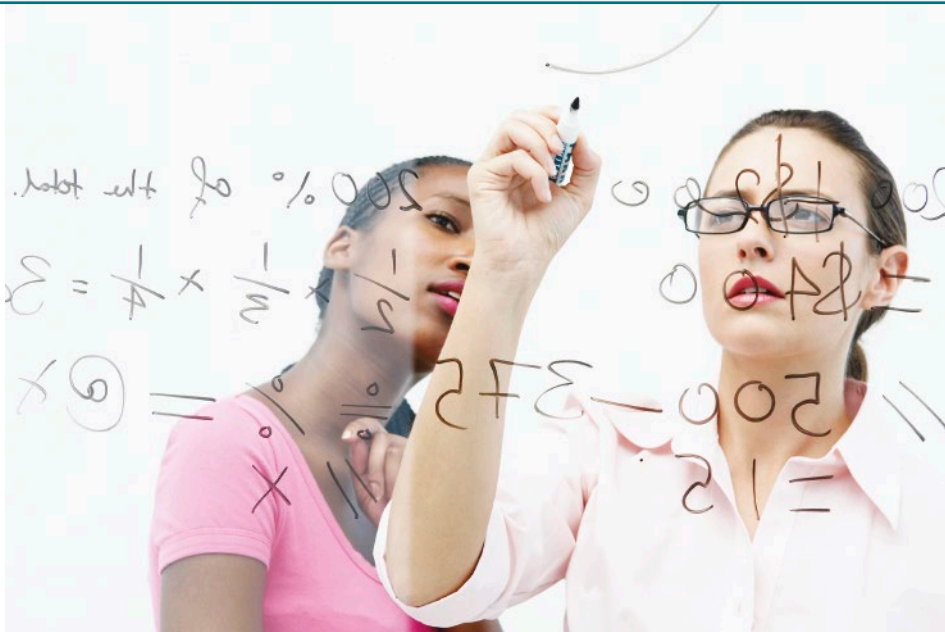
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**APPENDIX B\*** Specimen Financial Statements:  
Sobeys Inc. **B-1**

**COMPANY INDEX / SUBJECT INDEX** **I-1**

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Simon Porter/Getty Images

# The Purpose and Use of Financial Statements

## Feature Story

**Trading on a Long Tradition** The North West Company Inc. is one of the world's longest-running retail enterprises. It was established in Montreal in 1668 by European fur traders who helped map Canada's North. It was merged with the rival Hudson's Bay Company in 1821 and became the Northern Stores Division. A group of investors purchased the division in 1987 and, in 1992, the company began trading on the Toronto Stock Exchange as The North West Company Inc.

The North West Company is still a fixture in Canada's North. It is the largest private employer of Indigenous peoples in Canada and serves communities ranging from 300 to 8,000 people—many of them former trading posts. Its stores carry food, clothing, housewares, appliances, and outdoor gear. Many of the stores also provide services such as fuel, a post office, pharmacy, and income tax return preparation. The challenges and costs of operating in the far North are significant, including the fact that about 95% of the company's 117 Canadian stores cannot be accessed by all-weather roads. The company owns and operates its own airline, North Star Air Ltd., as well as 50% of Transport Nanuk Inc., a shipping company. Both of these help North West transport passengers, cargo, and fuel to communities in northern Canada, Alaska, and the eastern Arctic.

In 1992, North West began operating internationally when it acquired stores in Alaska. This was followed by a 2007 acquisition of stores in the South Pacific and Caribbean. As at January 31, 2022, North West operated 161 stores in Canada, 34 in Alaska, and 21 in the South Pacific and Caribbean. These stores are operated under a number of banners, including Northern, NorthMart, Quickstop, Giant Tiger, Alaska Commercial, Riteway, and Cost-U-Less. Staying true to its roots, North West still has operations that purchase furs from trappers. For the fiscal year ending January 31, 2022, North West had sales of more than \$2.2 billion and profits of about \$157 million. The company's international operations generated 43% of its total revenues.

The *Feature Story* helps you picture how the chapter relates to the real world of accounting and business. You will find references to the story throughout the chapter.

How does a company like The North West Company decide whether to expand into a new market, change its product categories, or operate as a franchise? How are decisions made regarding what types and quantities of inventory should be carried at each store? How are pricing decisions made, given the significance of transportation costs and changing foreign currency values? How does the company track consumer demands in the disparate markets it serves? Management relies on accounting as its key decision-making tool. And it's not just the company that needs financial information for making decisions. External audiences, such as banks, potential shareholders, and suppliers, also need to see the company's financial information before deciding whether to lend to, invest in, or sell to the retailer. The way The North West Company and other businesses communicate their financial information is through financial statements.<sup>1</sup>

*The Chapter Preview describes the purpose of the chapter and highlights major topics.*

*The Chapter Outline presents the chapter's learning objectives, topics, and practice opportunities to give you a framework for learning the specific concepts covered in the chapter.*

## Chapter Preview

To be successful in business, countless decisions must be made—and many decisions require accounting information. The purpose of this chapter is to show you accounting's role in providing useful financial information for decision-making. The material in this chapter will help you answer many questions, including: Who uses accounting information and how do they use it? How are businesses formed? What are the main types of business activities and how are they reported in a business's financial statements? How can you begin to interpret the information in the financial statements and use it to make decisions?

## Chapter Outline

### LEARNING OBJECTIVES

### READ

### PRACTICE

1. Identify the uses and users of accounting information.

#### Uses and Users of Accounting Information

- Internal users
- External users
- Ethics in financial reporting
- Data analytics

**DO IT! 1.1** Users of accounting information

2. Describe the primary forms of business organization.

#### Forms of Business Organization

- Proprietorships
- Partnerships
- Corporations
- Generally accepted accounting principles for business organizations

**DO IT! 1.2** Business organizations

3. Explain the three main types of business activity.

#### Types of Business Activity

- Financing activities
- Investing activities
- Operating activities
- Summary of business activities

**DO IT! 1.3** Business activities

4. Describe the purpose and content of each of the financial statements.

#### Financial Statements

- The financial statements
- North West's financial statements
- Elements of an annual report

**DO IT! 1.4a** Accounting equation

**DO IT! 1.4b** Financial statement relationships

**DO IT! 1.4c** Preparing financial statements

Go to the **Review and Practice** section at the end of the chapter for a targeted summary and practice questions with solutions. Visit Wiley's course resources for more practice opportunities.

# 1.1 Uses and Users of Accounting Information

## LEARNING OBJECTIVE 1

Identify the uses and users of accounting information.

**Accounting** is the information system that identifies and records the economic events of an organization, and then communicates them to a wide variety of interested users. Why does accounting matter to these users? The world's economic systems depend on highly transparent, reliable, and accurate financial reporting. Because of this, accounting has long been labelled “the language of business.”

That's one of the reasons why many Canadians, even those who do not plan on becoming accountants, study accounting. For example, Mike Cassidy, president of **Maritime Bus**; Sabrina Geremia, VP & Country Manager Canada of **Google Canada**; Monique Leroux, a member of the board of **Alimentation Couche-Tard Inc.** and **BCE Inc.**; Craig Reynolds, CEO of the **Saskatchewan Roughriders**; Elizabeth Marshall, a senator; George Melville, chair and owner of **Boston Pizza International**; Terry Goodtrack, CEO of **AFOA (Aboriginal Financial Officers Association) Canada**; and Joe Resnick, NHL hockey player agent, have all studied accounting in depth.

Whether you plan to become an accountant or not, a working knowledge of accounting will be relevant and useful in whatever role you assume as a user of accounting information—as an owner of your own business, working for someone else in their business, investing in a business, or simply understanding your own personal finances.

Users of accounting information can be divided broadly into two types: internal users and external users.

## Internal Users

Internal users of accounting information manage companies, whether for-profit or not-for-profit, or government organizations. Company officers (senior management), as well as managers and directors in finance, marketing, human resources, production, and other functional areas within a company, are all internal users.

- As managers, **internal users** have access to internal accounting information to help them make the decisions required to run the company. This information is much more detailed than the information available to external users.
- Internal users are also able to access this information as required, whereas external users receive accounting information only when it is periodically made publicly available.

As shown in **Illustration 1.1**, internal users must answer many important questions as part of managing a company.

**accounting** The information system that identifies, records, and communicates the economic events of an organization to users interested in that information.

The names of real companies are shown in red when first referenced in the chapter and end-of-chapter material.

Key terms are printed in blue when they first appear. They are defined at the end of each chapter. There are many new terms in the first few chapters of the book to help you learn common business terminology.

**internal users** Users of accounting information, including company officers, managers, and directors, who have access to an organization's internal accounting information.



**ILLUSTRATION 1.1** Questions asked by internal users

*Alternative Terminology notes give synonyms for key terms that you may hear or see in the real world, as well as in this text.*

For internal users, accounting provides a variety of internal reports, such as financial comparisons of operating alternatives, projections of income from new sales campaigns, analyses of sales costs, and forecasts of cash needs. In addition, companies present summarized financial information in the form of financial statements for both internal and external use.

**ALTERNATIVE TERMINOLOGY**

*Investors are also known as shareholders. Creditors are also known as lenders.*

**External Users**

**External users** are not involved in managing a company and do not have access to accounting information other than that which is available to the general public. There are several types of external users of accounting information, but the primary external users are as follows:

- **Investors** (owners) use accounting information to make decisions to buy, hold, or sell their ownership interest (see **Alternative Terminology**).
- **Creditors**, such as bankers (also known as **lenders**) and suppliers, use accounting information to evaluate the risks of lending money or of selling on credit.

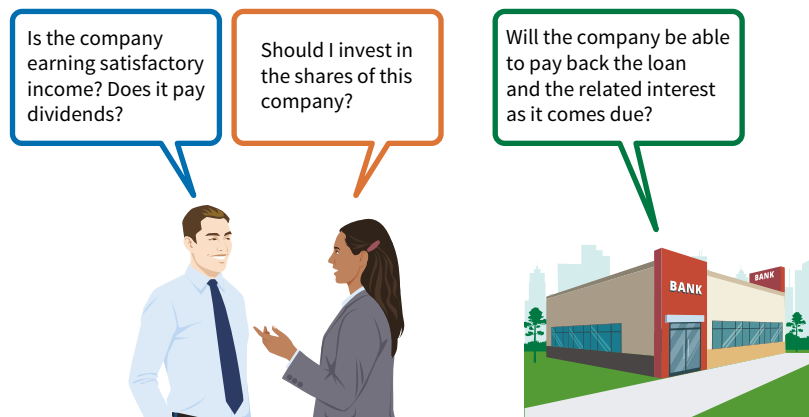
Some questions that external users, such as investors and creditors, may ask about a company are shown in **Illustration 1.2**.

**external users** Users of accounting information that are not involved in managing the organization and do not have access to accounting information other than that which is publicly available, including investors, lenders, and other creditors.

**investors** Users of accounting information that have an ownership interest (own debt or equity securities) in the organization.

**creditors** Users of accounting information, including suppliers, that grant credit (sell on account) to a customer.

**lenders** Users of accounting information, including bankers, that extend credit to borrowers.



**ILLUSTRATION 1.2** Questions asked by external users



In addition to investors and creditors, there are many other external users with a variety of information needs and questions. These include the following:

- Non-management employees (and any union that represents them)—Use financial information to bargain for better salaries and benefits.
- Potential employees—Use both financial and non-financial information to learn about the company and evaluate job prospects.
- Taxing authorities (such as the Canada Revenue Agency)—Use information from a company's financial statements in assessing its income tax return.
- Regulatory authorities (such as the Ontario Securities Commission)—Use financial statements to ensure compliance with regulations.
- Customers—Use financial statements to assess the company's ability to honour product warranties.

**The Indigenous Perspectives features will give you a glimpse into the knowledge and world views of some of the diverse Indigenous populations of Canada as they relate to content covered in this course.**

## Indigenous Perspectives

### Introduction

Our world views, experiences, and perspectives shape how we view and understand knowledge. The diversity of Indigenous peoples in Canada is vast. Three groups make up the Indigenous population: Inuit, Métis, and First Nations, each with many tribes, nations, traditions, and differing cultures. Indigenous perspectives are based on the distinct world view of Indigenous cultures. This textbook incorporates Indigenous knowledge by featuring individuals, organizations, and nations across Canada as a means of exploring their diverse experiences, perspectives, and ways of being and knowing.

Accounting can play a pivotal role in reconciliation. The Truth and Reconciliation Commission of Canada identified 94 calls to action to assist and advance the process of reconciliation. Though the role accountants and accounting practices play

is not explicitly called upon as an action, accounting does play a vital role in reconciliation and can assist the implementation of the calls to action, specifically Calls 44 (Canadian Governments and the *United Nations Declaration on the Rights of Indigenous People*), 62i (Education and Reconciliation), and 92 (Business and Reconciliation), and the *United Nations Declaration on the Rights of Indigenous People*.

The features in the textbook serve as a starting point; each feature has links to additional information to deepen your learning experience of the topic. We invite you to read further on the feature topic and share what you have learned to enrich your learning and continue together on the journey of truth and reconciliation. Broadening our perspectives will benefit the greater good. *Huy ch q' u* (thank you) for reading them with an open heart and an open mind.<sup>2</sup>

—Tasha Brooks

In Canada, women hold 36% of senior leadership roles in management.<sup>3</sup> The Indigenous Perspectives feature shows how Indigenous women are once again at the forefront of Indigenous societies and businesses after barriers introduced by colonization were removed.

## Indigenous Perspectives

### Women in Leadership



Source: Helen Bobiwash

Many Indigenous traditions lift women up as the matriarchs of their societies and have done so for centuries. In traditional Indigenous societies, women were integral to government, family, and ceremony and honoured for their wisdom and contributions. Women maintained these vital roles until colonization. The absence of women in leadership roles today can be linked to colonization. The Indian Act, implemented in 1876, was disproportionately discriminatory toward First Nations women, ultimately abolishing their ability to participate in society as they had done historically. Throughout the various iterations of the Indian Act, First Nations women were not allowed to vote or participate in the band council system and lost their Indian status if they married non-First Nations men; the Act privileged the male birth line of descendants.

There has been a resurgence of Indigenous women reclaiming leadership roles. Since 2008, the proportion of women on First Nations band councils has increased by 31%, and there has been a slow and steady increase in the number of women chiefs since 1992. In 2016, 22,245 Indigenous women were self-employed. In 2022, the Government of Canada made significant contributions to remove barriers that Indigenous women face and support projects aiming to increase Indigenous women in senior leadership positions.

Often Indigenous women seek employment opportunities that enable them to contribute to the larger Indigenous community. Helen Bobiwash has done precisely that. She is Anishinabekwe from the Thessalon First Nation. She is a Chartered Professional Accountant working with Indigenous communities. She was honoured with a Fellow designation (FCPA) in 2019 by CPA Ontario for her exceptional leadership in business and in the communities she serves. She has made significant contributions to her community as the Fiscal Negotiator for the Kinoomaadziwin Education Body, supporting the

largest self-government agreement in Canada: the Anishinabek Nation Education Agreement. Bobiwash's deep understanding of financial accounting and her understanding of First Nations communities have been vital to this work.

In addition to her FCPA designation, Bobiwash is also a Certified Aboriginal Financial Manager (CAFM). The CAFM designation is granted by AFOA Canada. AFOA's mission is to build a community of professionals by respecting and supporting individuals, organizations, and communities on their journey to management proficiency, professional certification, and self-reliance. AFOA focuses on building capacity in Indigenous communities by awarding designations, including CAFM, Certified Aboriginal Professional Administrator, Certified Indigenous Leadership, and Certified Indigenous Human Resource Professional. As of 2022, AFOA has awarded nearly 1,000 professional designations. Eighty percent of AFOA board members and staff are women leaders.<sup>4</sup>

**Miigwetch, Anushiik, Wela'lin, Nia:wen Nakurmiik Marsi (Thank you) —Tasha Brooks**

## Ethics in Financial Reporting

In order for financial information to have value to its users, whether internal or external, it must be prepared by individuals with high standards of ethical behaviour. Ethical decision-making is critical in the preparation of accounting information and to the decision-makers who rely on this information.

Fortunately, most individuals in business are ethical. Their actions are both legal and responsible. They consider the organization's interests when they make decisions. Accountants and other professionals have extensive rules of professional conduct to guide their behaviour with each other and the public. In addition, most companies are required to have codes of conduct and ethics that outline their commitment to ethical behaviour in their internal and external relationships.

## Data Analytics

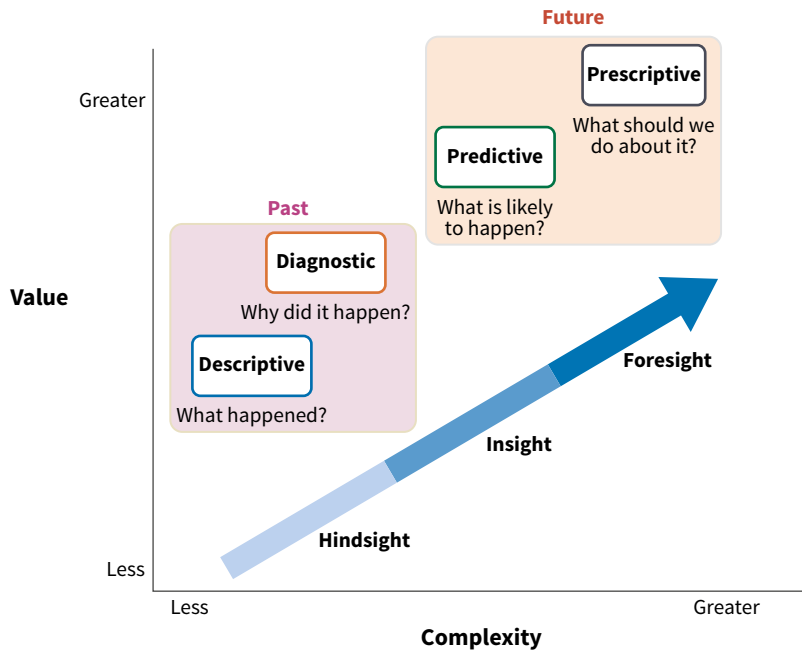
Accounting systems collect vast amounts of data about the economic events experienced by a company and about the users with whom the company engages, such as suppliers and customers. Business decision-makers take advantage of this wealth of data by using data analytics to make more informed business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

**data analytics** The process of analyzing data to find patterns and correlations, trends, and other valuable insights to enhance decision-making.

- **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 decisions is becoming increasingly common at virtually all types of companies.

**Illustration 1.3** shows the four most common types of data analytics that help answer questions ranging from what happened (descriptive) and why it happened (diagnostic), to what is likely to happen (predictive) and what we should do about it (prescriptive). Analytics range from simple analyses that can be performed using spreadsheets with tools like pivot tables and graphs, to complex statistical software and even artificial intelligence. More complex analysis provides greater value to the business.

**ILLUSTRATION 1.3**  
Four types of data analytics



### DO IT! 1.1 Users of Accounting Information

The following is a list of questions that may be asked by different users of accounting information:

1. Will I be able to obtain enough cash to finance this month's cash shortfall?
2. Will the company be able to repay the money we lend it when the loan comes due?
3. What was the labour cost for the production of 1,000 board feet of lumber?
4. Will the company stay in business long enough to service the products I buy from it?
5. Will the company's share price go up or down in the near future?
6. In which geographical areas and age demographics are our sales increasing?
  - a. Identify the type of user who would most likely ask each of the above questions from the following list of possible users: chief financial officer, customers, investors, creditors, production manager, or marketing manager.
  - b. Indicate whether the user you chose is an internal or external user.

#### ACTION PLAN

- Understand the difference between internal and external users: Internal users work for the company at a management level and require access to internal accounting information to help manage and operate the company. External users are not involved in running the company and do not have access to accounting information other than that which is available to the general public.
- Understand the types of information internal and external users require to make decisions.

#### Solution

(a) Type of User	(b) Internal or External User
1. Chief financial officer	Internal
2. Creditors	External
3. Production manager	Internal
4. Customers	External
5. Investors	External
6. Marketing manager	Internal

*DO IT!* exercises prompt you to stop and practise the key points you have just studied. The Action Plan offers you tips on how to approach the exercise. Attempt the exercise, then review the solution.

## 1.2 Forms of Business Organization

### LEARNING OBJECTIVE 2

Describe the primary forms of business organization.

Businesses can be organized in different ways and the accounting standards they use can vary depending on the type of organization. There are three common forms of business organization: proprietorships, partnerships, and corporations.

### Proprietorships

**proprietorship** A business owned by one person.

A **proprietorship** is a business owned by one person, known as a proprietor. It is often called a “sole” proprietorship because there is a single owner.

- Proprietorships are simple to set up and give the owner control over the business. Often only a relatively small amount of money (capital) is needed to start in business.
- The owner receives any income and suffers any losses from the business. The owner 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, so the life of the proprietorship is limited to the life of the owner and the business income is reported and taxed on the owner’s personal income tax return.

**reporting entity concept** The concept that economic activity that can be identified with a particular company must be kept separate and distinct from the activities of the owner(s) and of all other economic entities.

For accounting purposes, the business records of the proprietorship must be kept separate from those related to the owner’s personal activities. The separation of business and personal records is the simplest form of the reporting entity concept. The **reporting entity concept** requires that the economic activity that can be identified with a particular business be kept separate and distinct from the personal or non-business activities of the owner and of all other economic entities. The objective of the reporting entity concept is to ensure that the entity’s financial statements faithfully represent only its economic activities. This enables the profitability and financial position of just that entity to be assessed. This concept applies not only to proprietorships but also to partnerships and corporations, which are discussed in the next sections.

Small owner-operated businesses such as hair salons, plumbers, and mechanics are often proprietorships, as are many small-scale farms and small retail stores.

### Partnerships

**partnership** A business owned by more than one person that is not incorporated.

A **partnership** is a business owned by more than one person. In most respects, a partnership is similar to a proprietorship except that there is more than one owner. Partnerships are often formed because one person does not have enough economic resources to start or expand the business, or because partners bring unique skills or other resources to the partnership.

- Partnerships are normally formalized in a written partnership agreement that outlines the formation of the partnership, partners’ contributions, how net income and losses are shared, provisions for withdrawals of assets and/or partners, dispute resolution, and partnership liquidation. The need to develop a partnership agreement makes establishing a partnership more complex and costly than establishing a proprietorship.
- Each partner generally has unlimited liability for all debts of the partnership, even if one of the other partners created the debt. There are certain situations where partnerships can be formed with limited liability for selected partners.
- Similar to a proprietorship, the portion of income that each partner is entitled to of the total partnership income is reported and taxed on each partner’s personal income tax return.
- The reporting entity concept requires that partnership records be kept separate from each partner’s personal activities.

Partnerships are typically used to organize professional service businesses, such as the practices of lawyers, doctors, architects, engineers, and accountants.

## Corporations

A **corporation** is a business organized as a separate legal entity owned by shareholders and is the most complex and costly form of business to establish. The **North West Company** in our opening feature story is a corporation. Investors in a corporation such as The North West Company receive shares (normally in electronic form) to indicate their ownership claim (see **Alternative Terminology**). It is often possible for individuals to become owners of shares (shareholders) by investing relatively small amounts of money.

- Unlike unincorporated businesses, a corporation is a legal entity separate from its shareholders, and consequently the life of a corporation is indefinite. That means it continues on regardless of who owns its shares. It is not affected by the withdrawal, death, or incapacity of an owner, as is the case in a proprietorship or partnership. In fact, North America's oldest corporation, the **Hudson's Bay Company**, was formed in 1670.
- The ownership of a corporation may be easily transferred through the sale of shares, depending on its size, whereas selling a proprietorship or partnership can be more complicated.
- Shareholders of corporations typically have limited liability as they are not responsible for corporate debts. This means that the risk of loss for shareholders is limited to the amount they have invested in the company's shares. This limited liability is a significant advantage for the corporate form of organization. However, it is possible that shareholders have provided personal guarantees to lenders for the debts of a corporation, which would mean their liability would extend beyond the amount of their investment.
- Similar to proprietorships and partnerships, the company is a separate reporting entity under the reporting entity concept.

All of these advantages taken together—indefinite life, ease of transferring ownership when selling shares, and limited liability—can make it easier for corporations, especially large corporations, to raise capital (cash) compared with proprietorships and partnerships. Another potential advantage is that corporations may receive a more favourable income tax treatment than other forms of business organization such as proprietorships and partnerships. Because of the wide variety of income tax issues that apply to different companies in different jurisdictions, you would be wise to seek professional advice on taxation matters before choosing any form of business organization.

Although the combined number of proprietorships and partnerships in Canada is more than the number of corporations, the revenue produced by corporations is far greater. Most of the largest businesses in Canada—for example, **Alimentation Couche-Tard**, **Royal Bank of Canada**, **Power Corporation of Canada**, **Loblaw Companies**, **Great-West Life**, **Suncor**, **Imperial Oil**, and **Empire Company**—are corporations. Recently, the top 15 of Canada's largest corporations each reported annual revenues ranging from \$26.6 billion to \$82.1 billion.<sup>5</sup>

Corporations such as the large corporations mentioned above are known as **public corporations** because their shares are publicly traded on stock exchanges such as the Toronto Stock Exchange (TSX). Smaller emerging public companies in Canada list their shares on the TSX Venture Exchange (TSXV).

- Large public companies have thousands of shareholders and, as such, their shares are said to be “widely held.” For example, shareholders have purchased more than 1.4 billion shares of Royal Bank of Canada, while Alimentation Couche-Tard has issued 815 million shares. As a result, public corporations are able to raise large amounts of capital. Millions of shares are also bought and sold on stock exchanges each day, meaning that ownership of these companies is constantly changing. These transactions are between the shareholders that are selling and purchasing these shares. They do not involve the corporation or impact its financial statements.
- Shareholders who invest in public corporations are not involved in the management of the company. Instead, they manage it indirectly through a board of directors they elect.

**corporation** A company organized as a separate legal entity, with most of the rights and privileges of a person. Shares are evidence of ownership.

### ALTERNATIVE TERMINOLOGY

*Shares are also known as stock.*

**public corporation** A corporation whose shares are publicly traded on a stock exchange.

The board, in turn, sets the broad strategic objectives for the company and hires the company's officers, such as the chief executive officer (CEO), to execute policy and perform the daily management functions.

- Public corporations are required to make their financial statements available to the public on a quarterly (every three months) and annual basis. These are published on their own websites, as well as that of the System for Electronic Document Analysis and Retrieval (SEDAR), which posts financial statements for all public corporations in Canada. While you could access North West's financial statements on SEDAR, we have reproduced them in Appendix A. The appendix can also be found in Wiley's course resources.

**private corporation** A corporation whose shares are not traded on a public stock exchange.

In addition to public corporations like North West, there are private corporations. A **private corporation** also issues shares, but they are not traded on a public stock exchange. There are some very large private corporations, however, such as the **Irving Group of Companies**, the **Jim Pattison Group**, and **McCain Foods**. Some of these private corporations are equal in size to or larger than many public corporations. For example, the Pattison Group reported annual revenue of \$12.7 billion in 2020, which would have put it in the top 50 of Canada's largest public corporations by annual revenue.<sup>6</sup>

- Private corporations normally have a limited number of shareholders, and their shares are said to be "closely held." Consequently, many private corporations, especially small ones, do not have the same advantages of raising capital as do large corporations. For example, a small, local incorporated business with a few family shareholders would likely have as much difficulty raising funds as a proprietorship or partnership would.
- Unlike public corporations, private corporations are under no obligation to distribute their financial statements publicly. Most private corporations do not wish to disclose financial information to their competitors and the public.

The form used to initially organize a business is not permanent and can be changed as the needs of the business and its owners change. Many businesses start as proprietorships or partnerships and eventually incorporate. Some major Canadian companies, including **George Weston**, **Sobeys**, **Bombardier**, and **Dollarama**, started as proprietorships and eventually incorporated as the businesses grew.

Because most Canadian business is transacted by corporations, this book focuses on the corporate form of organization. We will discuss the accounting for both publicly traded and private corporations in this textbook.

**Illustration 1.4** provides a summary of the important characteristics of each organizational form a business can take.

**ILLUSTRATION 1.4**  
Characteristics of business organizations

Characteristic	Proprietorship	Partnership	Corporation
<b>Owners</b>	Proprietor: one	Partners: two or more	Shareholders: one or more
<b>Owner's liability</b>	Unlimited	Unlimited	Limited
<b>Separate legal entity</b>	No	No	Yes
<b>Taxation of profits</b>	Paid by the owner	Paid by the partners	Paid by the corporation
<b>Life of organization</b>	Limited	Limited	Unlimited

## Generally Accepted Accounting Principles for Business Organizations

How do businesses decide on the amount of financial information to disclose? In what format should financial information be presented? The answers to these questions can be found in accounting rules and practices that are recognized as a general guide for financial reporting purposes.