

financial accounting

canadian
edition

a business process
approach

Jane L. Reimers

Leo T. Gallant

Kenneth E. MacAulay



Media Companion CD-ROM Inside
Includes Accounting Cycle Tutorial
and Other Value-Added Resources

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For my mom and my son—for always believing in me.

—J.L.R.

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Preface

To the Student:

Welcome to your first accounting course! In this course you will learn about the way a business works and how accounting fits into business processes. Our objective is for you to see how accounting relates to and interacts with business.

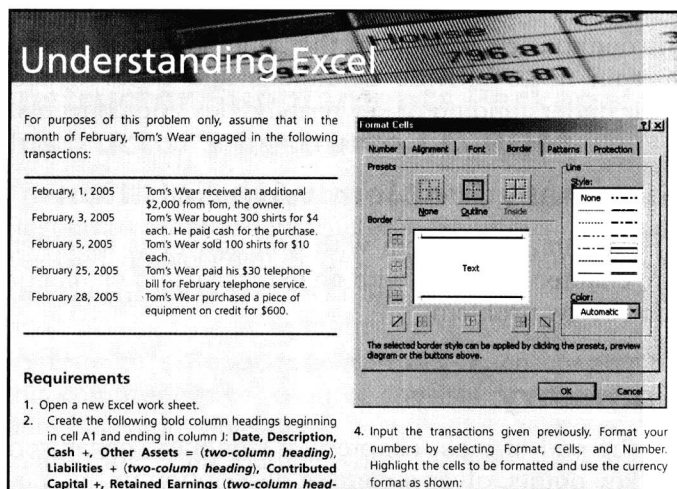
Financial Accounting: A Business Process Approach, Canadian Edition, attempts to bridge the gap between business and accounting. The text describes what business is all about and emphasizes the basic business processes. This provides a framework in which you can see how accounting relates to and reports on business activity.

This text follows a balanced approach that is useful for financial statement users and preparers. It covers the key concepts and the key procedures that both majors and non-majors in accounting need. You will learn how to record transactions, prepare financial statements, and use financial statements. In addition, you will learn the key accounting concepts underlying these financial statements. More importantly, though, **Financial Accounting: A Business Process Approach** allows you to understand what accounting is all about by letting you see how accounting fits into and relates to business processes.

To help you improve your understanding of accounting principles, practise your accounting skills, and see how accounting relates to and interacts with business, we have included the following pedagogical tools to support you.

Understanding Excel

In every chapter, you can see Tom's Wear's monthly transactions illustrated in Excel—a critical business tool for you to master.



Understanding Excel

For purposes of this problem only, assume that in the month of February, Tom's Wear engaged in the following transactions:

Date	Description
February 1, 2005	Tom's Wear received an additional \$2,000 from Tom, the owner.
February 3, 2005	Tom's Wear bought 300 shirts for \$4 each. He paid cash for the purchase.
February 5, 2005	Tom's Wear sold 100 shirts for \$10 each.
February 25, 2005	Tom's Wear paid his \$30 telephone bill for February telephone service.
February 28, 2005	Tom's Wear purchased a piece of equipment on credit for \$600.

Requirements

1. Open a new Excel work sheet.
2. Create the following bold column headings beginning in cell A1 and ending in column J: **Date**, **Description**, **Cash +, Other Assets = (two-column heading)**, **Liabilities + (two-column heading)**, **Contributed Capital +, Retained Earnings (two-column heading)**.
4. Input the transactions given previously. Format your numbers by selecting Format, Cells, and Number. Highlight the cells to be formatted and use the currency format as shown.

Understanding Business

Understanding Business boxes appear once in every chapter. Understanding Business boxes relate to the chapter topic and walk you through the various decisions that entrepreneurs make as they prepare to open their businesses. Topics covered include: starting with a business plan, managing cash, and cash flow.



Understanding Business

Starting a New Business: The Business Plan

Starting a new business? In Canada, both the federal and provincial governments are actively involved in supporting the creation of new businesses. Through BusinessGateway.ca the Government of Canada, in co-operation with the provincial governments and territories, makes available information that business owners would find useful.

It all starts with a business plan. A business plan is a recognized management tool used by successful and/or prospective businesses of all sizes to document business objectives and to propose how these objectives will be attained within a specific period of time. It is a written document that describes the nature of the business, the financial management plan, the management plan, and the marketing plan.

The **business description** is the foundation for the rest of the business plan. It should give the form of your

Once the business description is completed, the focus shifts to specific items for the next three sections.

A **financial management plan**, including a startup budget and an operating budget, must be prepared in detail. The financial statements are prepared on the basis of the budgets. The financial statements are a significant part of a business plan.

The **management plan** addresses the functioning of business operations. Strengths and weaknesses of the personnel and the business as a whole should be assessed. Once identified, potential problems can be addressed and solved. To succeed as a business, management's goal should be to keep the employees and customers happy.

Finally, the **marketing plan** must be created. The marketing plan is designed to attract and keep customers. By identifying and getting to know the sector of the mar-

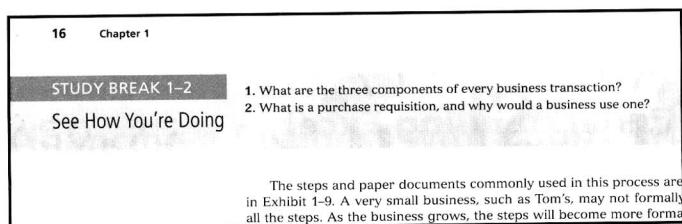


Tom's Wear: A Running Case Example

In Chapter 1, you are introduced to Tom, an entrepreneur who decides to create a T-shirt business. In subsequent chapters, you will learn financial accounting concepts through Tom's experiences as he grows and expands his business.

Study Breaks

Study Breaks appear at least once in every chapter and encourage you to pause from reading and immediately apply what you have just learned to solve specific problems.



Running Glossary and Margin Notes

Throughout each chapter, the running glossary and margin notes provide definitions and notes to aid your understanding of key terminology and concepts.

Summary Problem with Solution

The Summary Problem with Solution pulls together the chapter concepts with an extensive and challenging review problem.

Summary

At the end of most chapters, a summary, organized by key points, gives a concise description of the material covered in the chapter.

Answers to Study Break Questions

Each chapter provides responses to the Study Break questions that appear throughout the chapter, allowing you to check your understanding of the chapter content.

Questions

The questions at the end of each chapter require short, written answers, often on a single topic.

Short Exercises

We provide short exercises on single topics to allow you to practise what you have learned in the chapter; these exercises reference specific learning objectives.

Exercises

Exercises on single or multiple topics help you to apply in more detail what you have learned in the chapter.

Problems

The end-of-chapter problems, usually based on multiple topics, are presented in two groups that mirror each other, "A" and "B." Many instructors work through one group of problems in class and assign problems from the other group for homework or extra practice.

Recording Transactions

Chapters 5 through 10 include Recording Transactions, which allow you to practise making journal entries and preparing financial statements based on specific end-of-chapter exercises and problems.

Comprehensive Financial Statement Preparation Problem

Chapters 5 through 9 contain a Comprehensive Financial Statement Preparation Problem, which requires you to prepare various financial statements, such as income statements and balance sheets, using skills you have learned so far.

Issues for Discussion

The Issues for Discussion exercises ask you to analyze the financial statements of a company, consider the business risks of that company, and discuss the ethical issues that the business faces.

Internet Exercise

The Internet Exercises ask you to visit a company website and answer questions relating to financial information found on that site.

Media Companion CD-ROM

The Media Companion CD-ROM includes PowerPoint slides and the Accounting Cycle Tutorial, which helps you with concepts like transactions, adjustments, and closing entries. This interactive tool will guide you through every step of the accounting cycle process.

Companion Website

The Companion Website provides a wealth of resources for you and your instructor, including a Study Guide with quizzes and immediate feedback. Go to page xvii to learn more about *Financial Accounting: A Business Process Approach's* Companion Website.

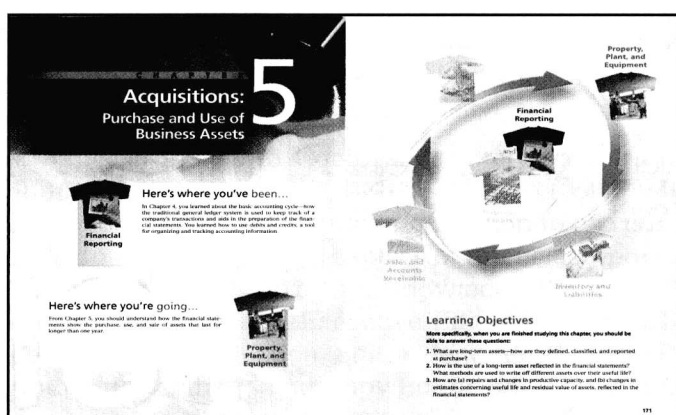
Good luck with your course!

To the Instructor:

Welcome to *Financial Accounting: A Business Process Approach*, Canadian Edition.

How Is the Business Process Approach Applied Throughout the Text?

Financial Accounting: A Business Process Approach, Canadian Edition, begins with a description of what a business is all about. This description provides a framework in which students can see how accounting relates to and reports on business activities. We then emphasize how accounting fits into the framework of basic business processes.



Each chapter offers a quick review of what students have just learned (*Here's Where You've Been...*) and a preview of where they're headed (*Here's Where You're Going...*) so that they are prepared to tackle new concepts throughout the rest of the text.

Business Process Model

Every chapter opens with the same image of the business process model. Different parts of the model are highlighted so students can see which part of the model will be discussed in each chapter. The Business Process Icon will appear in the margin whenever the text material refers specifically to the Business Process Model.

Structure of the Text

Chapters 1 through 4 introduce students to business and accounting. In Chapters 5 through 9, business and accounting details are explored in greater depth.

Although the text is written in such a way that debits and credits are optional, in these chapters debits and credits are part of the transactions. Study Break questions are designed for solution using debits and credits. The summary problem for Tom's Wear is given in debits and credits. The end-of-chapter material includes a separate section of problems identified to require completion by recording debits and credits. These chapters represent the heart of the business process approach. Chapters 10 and 11 introduce other financial reporting topics. In addition to the integration of cash flows into each chapter (starting with Chapter 1), Chapter 10, "Cash Flow Statement: Preparation and Use," acts as a "wrap-up" chapter at the end of the book.

Instructor Supplements Package: Instructor's Resource CD-ROM

The IRCD includes the following: Instructor's Resource Manual; Instructor's Solutions Manual; TestGen; PowerPoint Slides; and Accounting Cycle Tutorial. (ISBN 0-13-129472-5)

Instructor's Resource Manual Each chapter of this comprehensive resource consists of a list of student learning objectives, a narrative overview of main topics, an outline with teaching tips interspersed, a 10-problem multiple choice quiz cross-referenced to the outline and arranged for easy copying (answers are at the end of the outline and solutions for all quizzes are on separate pages at the end of the manual), suggested readings, examples of ways to integrate the supplements, and transparency masters. (ISBN 0-13-129471-7)

Instructor's Solutions Manual In addition to fully worked-out solutions that have been carefully checked for accuracy for every question, exercise, and problem in the text, the Instructor's Solutions Manual provides suggestions for alternative chapter sequences, a categorization of assignment material, and check figures. (ISBN 0-13-129470-9)

TestGen This test bank consists of over 1,800 questions, including true/false questions, conceptual and quantitative multiple-choice questions, critical thinking problems, and exercises. Each question will identify the difficulty level and the corresponding learning objective. TestGen can create exams and evaluate and track student results. It also provides online testing capabilities. (ISBN 0-13-129469-5)

PowerPoint Slides Each chapter includes dozens of slides that highlight key points and provide the framework for in-class or online lectures. (ISBN 0-13-129468-7)

Accounting Cycle Tutorial An excellent resource for classroom presentation! The Accounting Cycle Tutorial is a six-module interactive CD that guides students through every step of the accounting cycle process.

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Leo Gallant
Ken MacAulay
Antigonish, Nova Scotia

Brief Contents

	<i>Preface</i>	<i>xi</i>
Chapter 1	Business: What's It All About?	2
Chapter 2	Qualities of Accounting Information	44
Chapter 3	Accruals and Deferrals: Timing Is Everything in Accounting	82
Chapter 4	Keeping the Books: The Mechanics of an Accounting System	124
Chapter 5	Purchase and Use of Capital Assets	170
Chapter 6	Purchases and Payments Cycle: Inventory and Liabilities	222
Chapter 7	Sales and Collection Cycle	280
Chapter 8	Financing a Business with Debt	332
Chapter 9	Financing a Business with Equity	394
Chapter 10	Cash Flow Statement: Preparation and Use	436
Chapter 11	Financial Statement Analysis	476
	 Appendix A	
	Annual Report of CoolBrands	A-1
	 Appendix B	
	Present and Future Value Tables	B-1
	 Appendix C	
	Check Figures for End-of-Chapter Problems	C-1
	 <i>Glossary</i>	<i>G-1</i>
	 <i>Index</i>	<i>I-1</i>

Contents

<i>Preface</i>	<i>xi</i>	Qualitative Characteristics of Accounting Information	48
<i>Acknowledgments</i>	<i>xv</i>	Elements of the Financial Statements	50
Chapter 1		Transactions for the Second Month of Business	50
Business: What's It All About?	2	Assets	55
Purpose of a Business	4	Liabilities	56
The Nature of Business Operations	5	Equity	56
Ownership Structure of a Business	6	Measurement and Recognition in Financial Statements	57
Sole Proprietorships	6	Measuring Assets	57
■ UNDERSTANDING BUSINESS		Recognizing Revenue and Expenses	57
Starting a New Business: The Business Plan	7	Accruals and Deferrals	59
Partnerships	7	Accrual Basis Accounting	59
Corporations	8	Cash Basis versus Accrual Basis Accounting	60
Business Activities and the Flow of		Accounting Periods and Cutoff Issues	60
Goods and Services	11	More about the Financial Statements	61
An Entrepreneur	11	Investors—Owners and Creditors	61
The Acquisition/Payment Process	15	■ UNDERSTANDING BUSINESS	
The Sales/Collection Process	16	Managing Cash—Planning Inflows and Outflows	62
Information Needs for Decision Making in Business	17	An Example to Illustrate the Kind of Information Financial Statements Provide	63
Flow of Information	18	Putting It All Together—The Objectives of Financial Statements and the Information in Statements of Clean Sweep and Maids-R-Us	66
Who Needs Information about Transactions of the Business?	18	Applying Our Knowledge: Ratio Analysis	67
Accounting Information: A Part of the Information System	20	Business Risks	69
The Role of the Information System	20	Internal Controls—Definition and Objectives	69
Overview of the Financial Statements	20	Special Internal Control Issues Related to Financial Statements	69
Balance Sheet	20	■ UNDERSTANDING EXCEL	71
Income Statement	25	Summary of Chapters 1 and 2	72
Statement of Retained Earnings	27	Answers to Study Break Questions 73 / Questions 73 / Short Exercises 73 / Exercises 75 / Problems—Set A 76 / Problems—Set B 78 / Issues for Discussion 80 / Internet Exercise: Globeinvestor.com and High Liner Foods Inc. 81	
Cash Flow Statement	27		
Flow of Information and the Financial Statements	28		
Business Risks	29		
No More Nerd Accountants	30		
■ UNDERSTANDING EXCEL	32		
Answers to Study Break Questions 33 / Questions 33 / Short Exercises 33 / Exercises 35 / Problems—Set A 37 / Problems—Set B 40 / Issues for Discussion 43 / Internet Exercise: Disney Corporation 43			
Chapter 2		Chapter 3	
Qualities of Accounting Information	44	Accruals and Deferrals: Timing Is Everything in Accounting	82
Information for Decision Making	46	Measuring Income	84
Financial Statement Concepts	47	Accruals	85
Objective of Financial Statements	48	Accruals for Interest Expense and Interest Revenue	85
		Receivables with Interest	87
		Accruals for Other Revenues and Expenses	88

Deferrals	91
Deferrals Related to Revenue	91
Deferrals Related to Expenses	92
■ UNDERSTANDING BUSINESS	
Recognizing Revenue: When Is It the Right Time?	99
Summing Up	99
Applying Our Knowledge: Ratio Analysis	100
Business Risks	101
■ UNDERSTANDING EXCEL	103
Summary Problem	104
Answers to Study Break Questions 111 / Questions 111 / Short Exercises 112 / Exercises 113 / Problems—Set A 114 / Problems—Set B 118 / Issues for Discussion 122 / Internet Exercise: Fairmont Hotels and Resorts 123	

Chapter 4

Keeping the Books: The Mechanics of an Accounting System 124

The General Ledger Accounting System	126
Debits and Credits	129
The Accounting Cycle	131
Step 1: Recording Journal Entries	131
Step 2: Posting Journal Entries to the General Ledger	134
Step 3: Preparing an Unadjusted Trial Balance	134
Step 4: Adjusting Journal Entries	134
Steps 5 and 6: Preparing the Adjusted Trial Balance and the Financial Statements	138
Step 7: Closing the Revenue and Expense Accounts	139
Step 8: Preparing a Postclosing Trial Balance	143
Review and Summary of the Accounting Cycle	143
What's Next? The General Ledger System versus Integrated Information Systems	145
■ UNDERSTANDING BUSINESS	
Enterprise Resource Planning Systems	146
Business Risks	147
■ UNDERSTANDING EXCEL	148
Summary Problem	149
Answers to Study Break Questions 156 / Questions 157 / Short Exercises 157 / Exercises 159 / Problems—Set A 161 / Problems—Set B 164 / Issues for Discussion 167 / Internet Exercise: Hoover's and Intuit Inc. 168	

Chapter 5

Purchase and Use of Capital Assets 170

Acquisition of Long-Term Assets: The Business Process	173
-------------------------------------------------------	-----

Allocating the Cost of Long-Term Assets	174
Acquisition Costs	175
Basket Purchase Allocation	176
Recording Acquisition Costs	177
Amortization	177
Amortization and the Financial Statements	178
Straight-Line Amortization	178
Recording Straight-Line Method Amortization Expense	180
Units-of-Production Amortization	181
Recording Units-of-Production Method Amortization Expense	181
Declining Balance Method	182
Recording Declining Balance Method Amortization Expense	183
Specific Amortization Formulas	183
Capital Expenditures versus Revenue Expenditures	185
Revising Estimates of Useful Life and Residual Value	187
Depletion of Natural Resources and	
Amortization of Intangible Assets	188
Depletion of Natural Resources	188
Amortization of Intangible Assets	188
Selling a Long-Term Asset	189
Amortization and Taxes	191
Finding and Using Amortization Information	192
■ UNDERSTANDING BUSINESS	
Lease or Buy?	193
Applying Our Knowledge: Ratio Analysis	193
Business Risks	194
■ UNDERSTANDING EXCEL	195
Summary Problem	196
Answers to Study Break Questions 199 / Solution to Summary Problem 201 / Questions 206 / Short Exercises 206 / Exercises 208 / Problems—Set A 209 / Problems—Set B 212 / Recording Transactions 216 / Chapter 5: Comprehensive Financial Statement Preparation Problem 219 / Issues for Discussion 220 / Internet Exercise: Van Houtte Inc. 220	

Chapter 6

Purchases and Payments Cycle: Inventory and Liabilities 222

Acquiring Merchandise for Sale	224
Procedures for Acquisition of Goods	224
Merchandise Inventory	225
Purchases	225
Selecting and Accounting for Goods Sold: Inventory Cost Flow	227
Keeping Track of the Inventory: Four Cost Flow Assumptions	228
Record Keeping for the Inventory	229
■ UNDERSTANDING BUSINESS	
Selecting Inventory Cost Flow Assumption	229

Example of Cost Flow Assumptions and Timing of	
Record Keeping	230
Perpetual Inventory	230
Periodic Inventory	231
FIFO Periodic	232
FIFO Perpetual	233
LIFO Periodic	234
Accounting Choices Make a Difference	234
Average Cost Periodic	234
Conclusions about Inventory Cost Flow Assumptions	235
Recording Inventory Purchases and Freight Costs	235
Purchases and Purchase Discounts	235
Purchase Returns and Purchase Allowances	237
Freight-In	237
Inventory and Cost of Goods Sold in Merchandising Operations	237
Recording Inventory and Cost of Goods Sold Transactions	238
Adjustments and Closing under a Perpetual Inventory System	238
Adjustments and Closing under a Periodic Inventory System	239
Inventory Errors	240
Ending Inventory Errors	240
Beginning Inventory Errors	241
Gross Profit Method of Estimating Ending Inventory	242
Valuing Inventory: Lower-of-Cost-or-Market	243
Finding and Using Inventory Information	244
Applying Our Knowledge: Ratio Analysis	244
Paying for Acquisitions: Liabilities	245
Common Types of Liabilities	246
Acquisition of Human Resources and Payroll Liabilities	247
Business Risks	249
Inventory: Risks and Controls	249
Liabilities: Risks and Controls	250
■ UNDERSTANDING EXCEL	250
Summary Problem	251
Answers to Study Break Questions 252 / Solution to Summary Problem 254 / Questions 261 / Short Exercises 261 / Exercises 263 / Problems—Set A 266 / Problems—Set B 270 / Recording Transactions 274 / Chapter 6: Comprehensive Financial Statement Preparation Problem 277 / Issues for Discussion 278 / Internet Exercise: Coca-Cola Company 278	

Chapter 7

Sales and Collection Cycle 280

Sales Cycle	282
Timing of Revenue Recognition	283
■ UNDERSTANDING BUSINESS	
Managing Accounts Receivable	283
Revenue Recognition: Some Examples	284
Sales Discounts	285

Sales Returns and Allowances	287
Payment for Goods and Services	287
Accounting for Cash	288
Accounts Receivable: Collecting Payment for Sales Made on Account	291
Direct Write-Off Method	291
Allowance Method	292
Credit Card Sales	298
Warranties	299
Finding and Using Information About Sales and Accounts Receivable	300
Using the Financial Statement Information for Analysis	300
Business Risks	302
■ UNDERSTANDING EXCEL	304
Summary Problem	305
Answers to Study Break Questions 306 / Solution to Summary Problem 308 / Questions 316 / Short Exercises 316 / Exercises 319 / Problems—Set A 322 / Problems—Set B 324 / Recording Transactions 327 / Chapter 7: Comprehensive Financial Statement Preparation Problem 330 / Issues for Discussion 330 / Internet Exercise: Intel Corporation 331	

Chapter 8

Financing a Business with Debt 332

Long-Term Notes Payable and Mortgages	334
■ UNDERSTANDING BUSINESS	
Financing Your Business: Using a Line of Credit	335
Time Value of Money	339
Simple versus Compound Interest	340
Future Value	340
Future Value of an Annuity	343
Present Value	345
Long-Term Liabilities: Raising Money by Issuing Bonds	349
What Is a Bond?	349
More about Bonds	350
Issuing Bonds Payable	351
Getting the Money	351
Paying the Bondholders	352
Accounting for Bonds Payable	353
Issuing Bonds at a Discount or a Premium	353
Amortizing Bond Discounts and Premiums: Effective Interest Method	356
Straight-Line Amortization of Bond Discounts and Premiums	361
Zero-Coupon Bonds	362
Callable and Convertible Bonds	363
Callable Bonds	363
Convertible Bonds	364
Financial Statement Analysis	364
Business Risk	366
■ UNDERSTANDING EXCEL	367

Summary Problem	368
Answers to Study Break Questions 369 / Solution to Summary Problem 372 / Questions 380 / Short Exercises 380 / Exercises 382 / Problems—Set A 383 / Problems—Set B 387 / Recording Transactions 389 / Chapter 8: Comprehensive Financial Statement Preparation Problem 391 / Issues for Discussion 392 / Internet Exercise: Sobeys Inc. and Loblaw Companies Limited 393	

Chapter 9

Financing a Business with Equity 394

Owners of a Business	396
Components of Shareholders' Equity in a Corporation: Share Capital	396
Shares: Authorized, Issued, and Outstanding	397
■ UNDERSTANDING BUSINESS	
Why Do Companies Have Preferred Shares?	401
Repurchase of Shares	404
Company Buys Its Own Shares	404
Selling Treasury Shares	406
Stock Dividends	407
Stock Splits	408
Components of Shareholders' Equity in a Corporation:	
Retained Earnings	408
Analysis of Shareholders' Equity	409
Business Risks	411
■ UNDERSTANDING EXCEL	412
Summary Problem	412
Answers to Study Break Questions 415 / Questions 425 / Short Exercises 425 / Exercises 427 / Problems—Set A 428 / Problems—Set B 429 / Recording Transactions 431 / Chapter 9: Comprehensive Financial Statement Preparation Problem 433 / Issues for Discussion 434 / Internet Exercise: Van Houtte Inc. 434	

Chapter 10

Cash Flow Statement: Preparation and Use 436

Importance of the Cash Flow Statement	438
■ UNDERSTANDING BUSINESS	
It's All about Cash Flow	439
Two Methods of Preparing and Presenting the Cash Flow Statement	440
Review of the Three Sections of the Cash Flow Statement	441
Accrual Accounting versus Cash	442
Preparing the Cash Flow Statement	444

Direct Method of Computing Cash from Operations	444
Indirect Method of Computing Cash from Operations	448
Cash from Investing and Financing Activities	450
Summary of Direct and Indirect Methods	451
Financial Statement Analysis	452
■ UNDERSTANDING EXCEL	455
Summary Problem	456

Answers to Study Break Questions 457 / Solution to Summary Problem 457 / Questions 460 / Short Exercises 460 / Exercises 461 / Problems—Set A 464 / Problems—Set B 467 / Recording Transactions 471 / Issues for Discussion 474 / Internet Exercise: Carnival Corp. 474

Chapter 11

Financial Statement Analysis 476

Financial Information: Looking beneath the Surface	478
A Closer Look at the Income Statement	478
Discontinued Operations	478
Extraordinary Items	479
Changes in Accounting Policy	480
■ UNDERSTANDING BUSINESS	
Ordinary Extraordinary Items?	480
Other Financial Statement Items	481
Unusual Items	481
Analysis of Financial Information	482
Horizontal Analysis	482
Vertical Analysis	484
Ratio Analysis	484
Conclusion	489
■ UNDERSTANDING EXCEL	494
Summary Problem	495

Answers to Study Break Questions 497 / Questions 497 / Short Exercises 497 / Exercises 499 / Problems—Set A 501 / Problems—Set B 505 / Issues for Discussion 508 / Internet Exercise: Papa John's International, Inc. 508

Appendix A	
Annual Report of CoolBrands	A-1
Appendix B	
Present and Future Value Tables	B-1
Appendix C	
Check Figures for End-of-Chapter Problems	C-1
Glossary	G-1
Index	I-1

A Great Way to Learn and Instruct Online

The Pearson Education Canada Companion Website is easy to navigate and is organized to correspond to the chapters in this textbook. Whether you are a student in the classroom or a distance learner you will discover helpful resources for in-depth study and research that empower you in your quest for greater knowledge and maximize your potential for success in the course.



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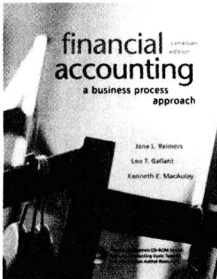
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Student Resources

The modules in this section provide students with tools for learning course material. These modules include:

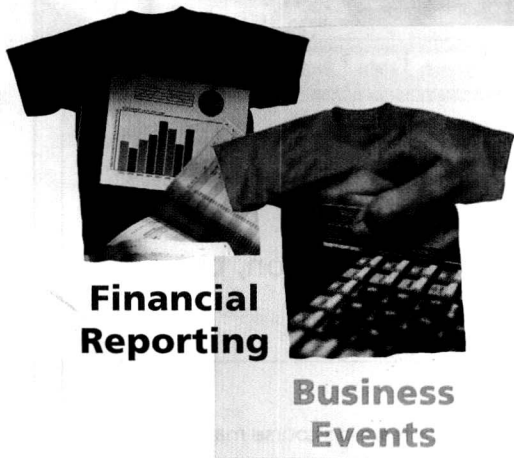
- Study Guide
- Company URLs
- Glossary

In the Study Guide modules, students can send answers to the grader and receive instant feedback on their progress through the Results Reporter. Coaching comments and references to the textbook may be available to ensure that students take advantage of all available resources to enhance their learning experience.

Instructor Resources

A link to this book on the Pearson online catalogue (vig.pearsoned.ca) provides instructors with additional teaching tools. Downloadable PowerPoint Presentations and an Instructor's Manual are just some of the materials that may be available. The catalogue is password protected. To get a password, simply contact your Pearson Education Canada Representative or call Faculty Sales and Services at 1-800-850-5813.

Business: What's It All About?



**Financial
Reporting**

**Business
Events**

Here's where you're going...

When you are finished studying Chapter 1, you should understand what a business does and understand that the financial statements reflect information about the major business processes—the acquisition/payment process and the sales/collection process.

Financing



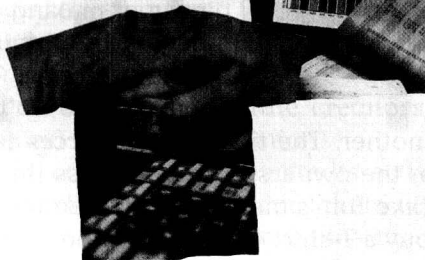
**Property,
Plant, and
Equipment**



**Financial
Reporting**



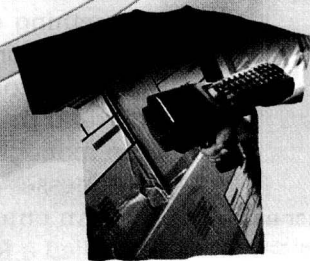
**Business
Events**



**Sales and
Accounts
Receivable**



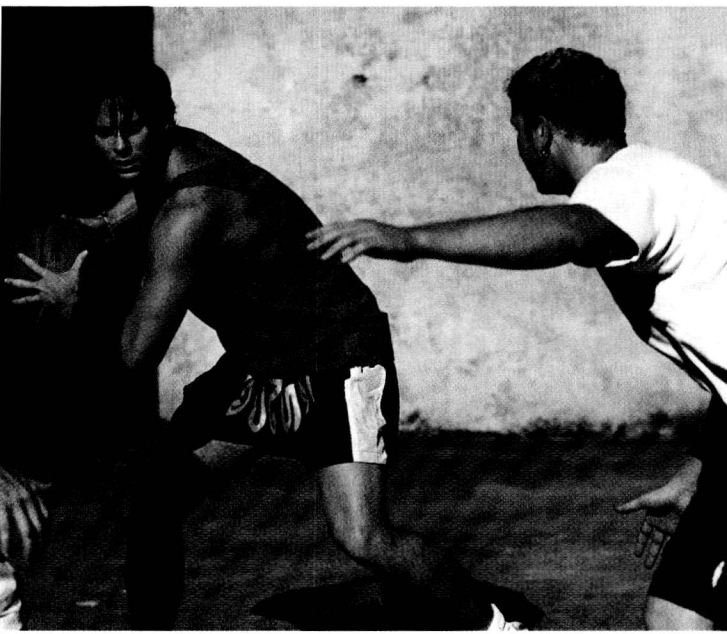
**Inventory and
Liabilities**



Learning Objectives

More specifically, when you are finished studying this chapter, you should be able to answer these questions:

1. What does a business do, and how is it organized?
2. What are the common business processes?
3. Who needs accounting information, and why?
4. What are the four basic financial statements, and what information does each contain?



Purpose of a Business

Tom Phillips loved to play basketball. He also wanted to start his own business. One day, he had an inspiration that put both ideas together—T-shirts for casual players, like him, not for players on a team. Tom polled the friends he played with regularly; they all liked the idea, agreeing that they would buy such a T-shirt, perhaps with a “no-look” pass on it, if it were available. Ten years after Tom had this idea, he is president of a successful company, Tom’s Wear, with sales last year of \$12 million.

How does a business get started, and once started, how does it succeed? Generally, a business is formed to provide goods or services for the purpose of making a profit for its owner or owners. It begins by obtaining financial resources—and that means money. Tom’s Wear began as a business with \$5,000 of Tom’s own money and a \$500 loan

from his mother. The financial resources to start a business—called **capital**—come from the owners of the business (like Tom), who are investors, or from creditors (like Tom’s mom), who are lenders.

Why buy a T-shirt from Tom, rather than from the manufacturer of plain T-shirts? For the same reason we order clothes from Sears Canada Inc. (Sears)—added value. Sears provides a product to its customers with a certain quality and the convenience of mail-order delivery. Its customers find value in this service. What all businesses have in common is that they provide us with something of value. A business may start from scratch and create something of value, or it may simply add value to an existing product or service. For some customers, the value that Sears adds to the product may be its easy order and delivery procedures. For other customers, the added value may be in the monogram the company will put on shirts or towels to personalize them. Businesses create or add value to earn money for the owners.

An **enterprise**—another name for a business organization—with this goal is called a **for-profit firm**. A business firm that provides goods or services for the sole purpose of helping people instead of making a profit is called a **not-for-profit organization**. A not-for-profit organization is more likely to be called an organization, agency, or society than a business. Even though it is called *not-for-profit*, this type of organization does not mind making a profit. What is different is what a not-for-profit organization does with any profit it makes. Instead of distributing it to owners, a not-for-profit organization uses any profit to provide more goods and services to the people it serves. Both for-profit organizations and not-for-profit organizations provide value. Throughout this book, we will be dealing primarily with for-profit organizations—businesses.

To be a viable business, Tom’s Wear needed to provide customers with something of value. Tom purchased T-shirts with his special logo and then provided them to his customers at a convenient time and place.

What is business all about?

Adding Value → To Make a Profit

A simple model of the firm is shown in Exhibit 1–1. The inputs in a firm include capital, equipment, inventory, supplies, and labour. The business process of acquiring goods and services and paying for them is called the acquisition/payment process. The firm then does something to add value—that is called

L.O. 1

Describe what a business does.

Capital is the name for the resources used to start and run a business.

An **enterprise** is another name for a business organization.

A **for-profit firm** is in business to make a profit—that is, when revenues exceed expenses. A **not-for-profit organization** exists to provide goods and services to some target group at a reduced cost or no cost.