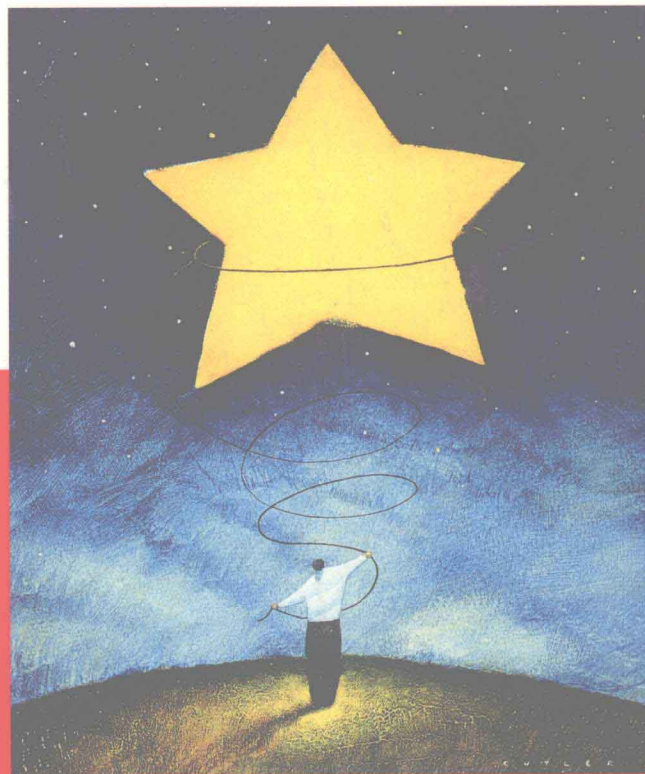


NINTH CANADIAN EDITION
VOLUME I

Fundamental Accounting Principles



LARSON | WILD | CHIAPPETTA | NELSON | CARROLL | ZIN

Fundamental Accounting Principles

Kermit D. Larson

University of Texas—Austin

John J. Wild

University of Wisconsin at Madison

Barbara Chiappetta

Nassau Community College

Morton Nelson

Wilfrid Laurier University

Ray F. Carroll

Dalhousie University

Michael Zin

Professor Emeritus

University of Windsor

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FUNDAMENTAL ACCOUNTING PRINCIPLES

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Developmental Editor: *Denise McGuinness*
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Preface

Let's Talk

Through extensive market-based surveys, focus groups, and reviews, we discovered several interests and needs in accounting education today. In a nutshell, these desires can be grouped into eight pedagogical areas: (1) motivation, (2) organization, (3) preparation, analysis, and use, (4) ethics, (5) technology, (6) real world, (7) active learning, and (8) flexibility. Our main goal in this edition of *Fundamental Accounting Principles* (F.A.P.) is to address these needs and create the most contemporary, exciting, relevant, and flexible principles book in the market. A quick summary of these areas follows.

Motivation. Motivation drives learning. From the chapter's opening article and its focus on young entrepreneurs to the decision-making prompted by You Make the Call, F.A.P. motivates readers. It brings accounting and business to life and demonstrates that this material can make a difference in your life.

Organization. Organization serves the learning process, and F.A.P.'s outstanding organization aids that process. From "Chapter Linkages" and learning objectives to chapter outlines and Flashbacks, F.A.P. is the leader in lending readers a helping hand in learning about accounting and business.

Preparation, Analysis, and Use. Accounting involves preparing, analyzing, and using information. F.A.P. balances each of these important roles in explaining and illustrating topics. From the unique Using the Information section to the creative Hitting the Road projects, F.A.P. shows all aspects of accounting.

Ethics. Ethics is fundamental to accounting. F.A.P. highlights the roles of ethics and social responsibility in modern businesses. From the Judgment and Ethics decision-making feature to its Ethics Challenge assignments, F.A.P. alerts readers to relevant and important ethical concerns.

Technology. Technology continues to change business and accounting, creating new and exciting accounting opportunities. F.A.P. is the leader in applying and showing technology in accounting. From the innovative Taking It to the Net projects to its Web-based assignments, F.A.P. pushes the accounting frontiers.

Real World. Accounting is important to the information age. From features and assignments that highlight companies like Alliance Communications Corporation, and Atlantis Communications Inc. to the Teamwork in Action and Communication in Practice activities, F.A.P. shows accounting in a modern, global context. It also engages both accountants and nonaccountants. From the exciting Did You Know? features to its Business Break, F.A.P. shows accounting is relevant to everyone.

Active Learning. Active learning implies active inquiry and interaction. The Teamwork in Action and Communicating in Practice are excellent starting points in developing an active learning environment.

Flexibility. F.A.P. is the undisputed leader in offering a strong pedagogical support package. Also, the MHLA service is a new, special addition to our support package.

This is just a sneak preview of F.A.P.'s new and exciting features. From communication, interpersonal, and critical thinking skills to the development of ethical and global awareness, F.A.P. is the leader. We invite you to take a complete look at these and other special features in the remainder of this preface to see why F.A.P. is the *first choice* in accounting principles books.

To Instructor

F.A.P. gives Web addresses for current follow-ups to articles, excerpts, and financial statements, and for a real world flavour.

To Student

The chapter's opening article and its *You Make the Call* features drive home the relevance of accounting and business.

Motivation

Motivation is a main goal of **F.A.P.** We know information retention is selective—if it does not apply to the lives of readers, they typically are not motivated to learn. **F.A.P.** explains and illustrates how accounting applies to the reader. Here is a sampling of materials that motivate the reader.

The **Chapter Opening Article** sets the stage and shows how the chapter's contents are relevant to the reader. Articles often focus on young entrepreneurs in business who benefit from preparing, analyzing, and using accounting information. These articles bring the material to life in concrete terms.

Fizzling Inventory

Toronto, ON—By June 1997, 27-year-old Rob Stavos was living his dream. He'd just opened **Liquid Nectar**, a small retail outlet devoted to serving the quirky tastes of young and old alike. But within months, this young entrepreneur's dream had become a nightmare.

Liquid Nectar started out with a bang. Customers raved about its stock of exotic and unique beverage products. Profit margins on successful drinks far outweighed the costs of unsold products. "We were ready to take on the large producers," boasts Rob. Within two months, however, Rob lost control of inventory and margins were being squeezed. What happened? Was Liquid Nectar soon to be another flash-in-the-pan?

You Make the Call features develop critical thinking and decision-making skills by requiring decisions using accounting information. Each chapter contains two to four of these features. They are purposely chosen to reflect different kinds of users. Examples are investors, consultants, programmers, financial planners, engineers, appraisers, and political and community activists. Guidance answers are provided.

Entrepreneur

You are the owner of a small retail store. You are considering allowing customers to purchase merchandise using credit cards. Until now, your store only accepted cash and cheques. What form of analysis do you use to make this decision?

You Make the Call

Company Excerpts call attention to well-known organizations to illustrate accounting topics. These excerpts are often accompanied by text describing the nature of the business and its relevance to readers.

...the Company announced it was proceeding with the construction of a 375,000-tonne smelter at Alma, Quebec. Total cost is estimated at \$1,600 [million], most of which will be incurred over the next three years. Approximately \$220 [million] is expected to be spent in 1998.

ALCAN

	1997	1996	1995
REVENUES	\$ 282,599	\$ 268,945	\$ 233,811
DIRECT OPERATING EXPENSES	213,816	209,789	183,685
GROSS PROFIT	68,783	59,156	50,126
OTHER EXPENSES			
Other operating expenses	42,037	40,363	28,643
Amortization	5,160	5,038	5,164
Interest (note 10)	1,296	87	—

Financial Statements of familiar companies are used to acquaint readers with the format, content, and use of accounting information. The financial statements for Alliance, and Atlantis are reproduced in an appendix at the end of the book and referenced often.

Organization

Organization is crucial to effective learning. If it is not well-organized or linked with previous knowledge, learning is less effective. **F.A.P.** helps readers organize and link accounting concepts, procedures, and analyses. A **Preview** kicks off each chapter. It introduces the importance and relevance of the materials. It also links these materials to the opening article to further motivate the reader. Here are some additional materials to enhance learning effectiveness.

A Look Back

Chapter 1 began our study of accounting by considering its role in the information age. We described accounting for different organizations and identified users and uses of accounting. We saw that ethics and social responsibility are crucial to accounting.

A Look at This Chapter

In this chapter we describe financial statements and the accounting principles guiding their preparation. An important part of this chapter is transaction analysis using the accounting equation. We prepare and analyze financial statements based on transaction analysis.

A Look Forward

Chapter 3 explains the recording of transactions. We introduce the double-entry accounting system and show how T-accounts are helpful in analyzing transactions. Journals and trial balances are also identified and explained.

Learning Objectives

LO 1 Identify and explain the content and reporting aims of financial statements.

LO 2 Describe differences in financial statements across forms of business organization.

LO 3 Explain the roles of preparers, auditors and users of financial statements.

LO 4 Identify those responsible for setting accounting and auditing principles.

LO 5 Identify, explain and apply accounting principles.

LO 6 Analyze business transactions using the accounting equation.

Learning Objectives are shown at the beginning of the chapter to help focus and organize the materials. Each objective is repeated in the chapter at the point it is described and illustrated. Self-contained summaries for learning objectives are provided at the end of the chapter.

Chapter linkages launch a chapter and establish bridges between prior, current, and upcoming chapters. Linkages greatly assist readers in effectively learning the materials and help them link concepts across topics.

Chapter Outline

► Communicating with Financial Statements

- Previewing Financial Statements
- Financial Statements and Forms of Organization

► Transactions and the Accounting Equation

- Transaction Analysis—Part I
- Transaction Analysis—Part II
- Summary of Transactions

To Instructor

Use the learning objectives to help structure the course and assignment material to your instructional style.

To Student

Study each of these helpful organizational aids to increase your understanding and learning of accounting and business.

Flash back

- 10.** Identify seven internal operating functions in organizations.
- 11.** Why are internal controls important?

A series of **Flashbacks** in the chapter reinforce the immediately preceding materials. Flashbacks allow the reader to momentarily stop and reflect on the topics described. They give immediate feedback on the reader's comprehension before going on to new topics. Answers are provided.

A colour-coded **Chapter Outline** is provided for the chapter. This gives a mental and visual framework to help readers learn the material.

To Instructor

A focus on Using the Information section is a great way to develop analytical thinking.

To Student

Learning accounting principles greatly increases your understanding of articles such as those in *Canadian Business* and other business magazines.

Preparation, Analysis, and Use

Accounting is a service focused on preparing, analyzing, and using information. **F.A.P.** presents a balanced approach to those three crucial aspects of accounting. The preparation aspect of **F.A.P.** is well established and highly regarded. A new progressive emphasis and use continues to put **F.A.P.** in the frontier of practice. Here's a sampling of new or revised textual materials on analysis and use:

The **Accounting Equation** (Assets = Liabilities + Equity) is used as a tool to evaluate each journal entry. The accounting equation is especially useful in learning and understanding the impacts of business transactions and events on financial statements. **F.A.P.** is a pioneer in showing this additional analysis tool.

Aug. 31	Cash	6,300			
	Sales		6,000		
	Sales Taxes Payable (\$6,000 × 0.05) ..		300		
	To record cash sales and 5% sales tax.				
				Assets = Liabilities + Equity	
				+6,300 +300 +6,000	

The **Using the Information** section wraps up each chapter and emphasizes critical-thinking and decision-making skills. Each section introduces one or more tools of analysis. It applies these tools to actual companies and interprets the results. The section often focuses on use of ratio analyses to study and compare the performance and financial condition of competitors.

Return on Investment

USING THE INFORMATION

LO 10 Compute and interpret return on investment.

We introduced return on investment in assessing return and risk earlier in the chapter. Return on investment is also useful in evaluating management, analyzing and forecasting profits, and planning future activities. **Dell Computer** has its marketing department compute return on investment for every mailing. "We spent 15 months educating people about return on invested capital," says Dell's Chief Financial Offi-

Hitting the Road is a unique addition to the chapter's assignment material. This activity requires readers to work outside the book and often requires application of interpersonal and communication skills. Tasks range from visits to local merchandisers and government offices to conducting phone interviews and Web searches. These activities help readers understand and appreciate the relevance of accounting.

Select a company in your community which you may visit in person or interview on the telephone. Call ahead to the company to arrange a time when you can interview a member of the accounting department who helps in the preparation of the annual financial statements for the company. During the interview inquire about the following aspects of the company's accounting cycle:

Hitting the Road

LO 5

Business Break requires the reader to apply the chapter's material to read and interpret a business article. It also aids in developing reading comprehension skills and gives exposure to business happenings.

Read the article, "Car and Strive," in the September 1996 issue of *Canadian Business*.

Required

1. Contrast the profitability of **Magna** in the early 1990s to 1996.
2. What is the amount of revenue for Magna in the 1996 fiscal year?
3. What is the reason for Magna's success?
4. Despite its recent profitability what does the article identify as a possible problem for Magna?

Business Break

LO 11

Ethics

Ethics is the most fundamental accounting principle. Without ethics, information and accounting cease to be useful. **F.A.P.** is the leader in bringing ethics into accounting and demonstrating its importance. From the first chapter's article to the ethics codes at the end of the book, **F.A.P.** sets the standard in emphasizing ethical behaviour and its consequences. Here's a sampling of how we sensitize readers to ethical concerns and decision making:

The **Judgment and Ethics** feature requires readers to make accounting and business decisions with ethical consequences. It uses role-playing to show the interaction of judgment and ethics, the need for ethical awareness, and the impact of ethics. Guidance answers are provided.

To Instructor

The Judgment and Ethics feature raises the role of ethics in accounting and develops critical thinking skills.

To Student

Use these features and book materials to remind us that accounting and business decisions affect peoples' lives.

Judgment and Ethics

Accountant

You are a public accountant consulting with a client. This client's business has grown to the point where its accounting system must be updated to handle both the volume of transactions and management's needs for information. Your client requests your advice in purchasing new software for its accounting system. You have been offered a 10% commission by a software company for each purchase of its system by one of your clients. Do you think your evaluation of software is affected by this commission arrangement? Do you think this commission arrangement is appropriate? Do you tell your client about the commission arrangement before making a recommendation?

A new **Ethics Challenge** is provided in the *Beyond the Numbers* section. It confronts ethical concerns based on material from the chapter. Many of these challenges involve actions where the ethical path is blurred.

Ethics Challenge

LO 2, 3

Randy Meyer is the chief executive officer of a medium-sized company in Regina, Saskatchewan. Several years ago Randy persuaded the board of directors of his company to base a percent of his compensation on the net income the company earns each year. Each December Randy estimates year-end financial figures in anticipation of the bonus he will receive. If the bonus is not as high as he would like he offers several accounting recommendations to his controller for year-end adjustments. One of his favourite recommendations is for the controller to reduce the estimate of doubtful accounts. Randy has used this

Social Responsibility is a major emphasis of progressive organizations. **F.A.P.** is unique in introducing this important topic in Chapter 1. We describe social responsibility and accounting's role in both reporting on and assessing its impact. **F.A.P.** also introduces social audits and reports on social responsibility.

Did You Know?

In Pursuit of Profit

How far can companies go in pursuing profit? Converse proposed to name a new footwear product Run N' Gun. This sparked debate on ethics, social responsibility and profits. Converse said Run N' Gun was a basketball and football term. Critics claimed it invited youth violence and links with the gun culture. To the credit of Converse, it changed the name from Run N' Gun to Run N' Slam prior to its sale to consumers.

To Instructor

PowerPoint presentation slides can be customized for your instructional style and are great visual aids to lecture materials.

To Student

Use **F.A.P.**'s Home Page for current updates, hot links to important sites, and much more . . .

Student Software provides several technology-assisted educational activities. These include (1) *Tutorial*—interactive review of topics, and (2) *SPATS*—instructional software to solve problems.

Technology

Technology and innovation can be exciting and fun. **F.A.P.** makes the transition to new technologies easy. It is the leader in demonstrating the relevance of technology and showing readers how to use it. To ensure easy access, all technology offerings are linked to the Larson booksite. The address is www.mcgrawhill.ca/college/larson. Here's a sampling of items pushing the technology frontier:

Accounting Web Community

The Financial Accounting Web Community is a place on the Internet designed and built with our adopters in mind. It is a place where instructors can quickly access teaching resources directly related to the text they are using. It is also a place where instructors can share ideas and information with each other.

The Financial Accounting Web Community is the starting point for accessing accounting and business resources on the Web. The book's Web site harnesses technology resources to provide the most up-to-date and powerful Web services available.

Taking It to the Net requires accessing a Web site and obtaining information relevant to the chapter. It aims to make readers comfortable with Web technology, familiar with information available, and aware of the power of Web technology.

Taking It to the Net

LO 1.7

There is extensive accounting and business information available on the Internet. This includes the **TSE**'s on-line address at <http://www.tse.com> and the Depository for Canadian Securities' database referred to as **SEDAR** (<http://www.sedar.com>) and numerous other Web sites offering access to financial statement information or related data.

Required

Access at least one of the Web sites selected by either you or your instructor and answer the following:

- a. Write a brief report describing the types of relevant information available at this Web site.
- b. How would you rate the importance of the information available at this Web site for accounting and business?

PowerPoint® Presentations and Supplements augment each chapter with colorful graphics, interesting charts, innovative presentations, and interactive activities. The PowerPoint® materials are flexible and can be customized for any use.

Real World

Showing readers that accounting matters is part of an effective learning package. **F.A.P.** is the leader in real world instructional materials. It offers unique assignments challenging the reader to apply knowledge learned in practical and diverse ways. These challenges include analytical problems, research requirements, comparative analysis, teamwork assignments, and communication exercises. They also allow greater emphasis on conceptual, analytical, communication, and interpersonal skills. Here's a sampling of these materials:

Questions

13. Refer to Alliance's financial statements in Appendix I. On March 31, what percentage of Alliance's assets was represented by what would be Alliance's inventory?
14. Refer to Atlantis' financial statements in Appendix I. Is it possible to determine a cost of sales figure for Atlantis?
15. Refer to the Wired scenario at the beginning of the chapter. What does Russo need to know about Wired to be able to calculate gross margin and inventory turnover?



To Instructor and Student

The **glossary** gives complete and accurate definitions of key terms. A key term is set in bold in the chapter, and the glossary references this page number. It also gives synonyms for key terms.

A **summary** describes the chapter in terms of its learning objectives. It assists in assessing one's understanding of key concepts, procedures, and analyses.

Questions give readers quick feedback on their understanding of key chapter topics.

Quick studies are effective checks on concepts, procedures, and analyses. They help build the reader's confidence with the material. Each are keyed to usually one learning objective.

Exercises focus on one or more learning objectives. They are mildly challenging and are an effective way to launch into more challenging problems.

Check Figures serve as an aid to readers.

Reporting in Action requires analysis and use of Alliance's annual report information.

Alliance Communication produces, markets and sells movies and television programs. Key financial figures for Alliance Communication's fiscal year ended March 31, 1997, are:

Key Figure	\$ millions
Financing (liabilities + equity)	\$353.7
Profit	18.2
Sales	282.6

Required

1. What is the total amount of assets invested in Alliance Communication?
2. What is Alliance Communication's return on investment? Alliance Communication's assets at March 31, 1996, equal \$238.9 (in millions).
3. How much are total expenses for Alliance Communication?

Analysis component:

4. Does Alliance Communication's return on investment seem satisfactory if competitors average a 5% return?

Reporting in Action

LO 2, 6, 10



Comparative Analysis compares the performance and financial condition of Alliance and Atlantis using the accounting knowledge obtained from the chapter. These activities help develop analytical skills.

Both Alliance Communications and Atlantis Communications produce, market and sell movies and television programs. Key comparative figures (\$ millions) for these two organizations follow:

	Alliance	Atlantis
Financing (liabilities + equity)	\$353.7	\$333.5
Profit	18.2	5.6
Sales	282.6	178.0

Source: Alliance figures are from its annual report for fiscal year-end March 31, 1997. Atlantis figures are from its annual report for fiscal year-end December 31, 1997.

Comparative Analysis

LO 2, 6, 10



Note: In September 1998 shareholders of Alliance Communications Corp. and Atlantis Communications Inc. approved a merger of the two companies. The new company will be known as Alliance Atlantis Communications Inc. and will "be far more effective around the world and . . . will be positioned for further growth" according to Michael MacMillan, the newly appointed chairman and chief executive officer. Although it will not be possible to compare the Alliance and Atlantis results past 1997, it will be interesting to compare the new company's results to the previous individual entities. Here is an opportunity to see if expected synergies are realized.

Comprehensive and Serial Problems are included in several chapters and focus on multiple learning objectives from multiple chapters. They help integrate and summarize key principles.

Comprehensive Problem

Alpine Company

LO 1

(If the Working Papers that accompany this text are not available, omit this comprehensive problem.)

Assume it is Monday, May 1, the first business day of the month, and you have just been hired as the accountant for Alpine Company, which operates with monthly accounting periods. All of the company's accounting work has been completed through the end of April and its ledgers show April 30 balances. During your first month on the job, you record the following transactions:

- May 1 Issued Cheque No. 3410 to S&M Management Co. in payment of the May rent, \$3,710. (Use two lines to record the transaction. Charge 80% of the rent to Rent Expense, Selling Space and the balance to Rent Expense, Office Space.)
- 2 Sold merchandise on credit to Essex Company, Invoice No. 8785, \$6,100. (The terms of all credit sales are 2/10, n/30.)
- 2 Issued a \$175 credit memorandum to Nabors, Inc., for defective merchandise sold on April 28 and returned for credit. The total selling price (gross) was \$4,725.

Problems often cover multiple learning objectives and usually require preparing, analyzing, and using information. They are paired with **Alternate Problems** for further review of the same topics. Problems are supported with software and other technology options. Many include an **Analytical Component** focusing on financial statement consequences and interpretations.

Problem 7-3A

Income statement comparisons and cost flow assumptions

LO 4, 9

The Denney Company sold 2,500 units of its product at \$98 per unit during 19X1. Incurring operating expenses of \$14 per unit in selling the units, it began the year with, and made successive purchases of, units of the product as follows:

January 1 beginning inventory . . .	740 units costing \$58 per unit
Purchases:	
April 2	700 units @ \$59 per unit
June 14	600 units @ \$61 per unit
August 29	500 units @ \$64 per unit
November 18	800 units @ \$65 per unit
	3,340 units

Required

Preparation component:

Check Figure Net income (LIFO), \$69,020

1. Prepare a comparative income statement for the company, showing in adjacent columns the net incomes earned from the sale of the product, assuming the company uses a periodic inventory system and prices its ending inventory on the basis of (a) FIFO, (b) LIFO, and (c) weighted-average cost.

A **Demonstration Problem** is at the end of the chapter. It illustrates important topics and shows how to apply concepts in preparing, analyzing, and using information. A problem-solving strategy helps guide the reader. Most chapters also have a **Mid-Chapter Demonstration Problem** with solution.

Demonstration Problem

On July 14, 19X1, Truro Company paid \$600,000 to acquire a fully equipped factory. The purchase included the following:

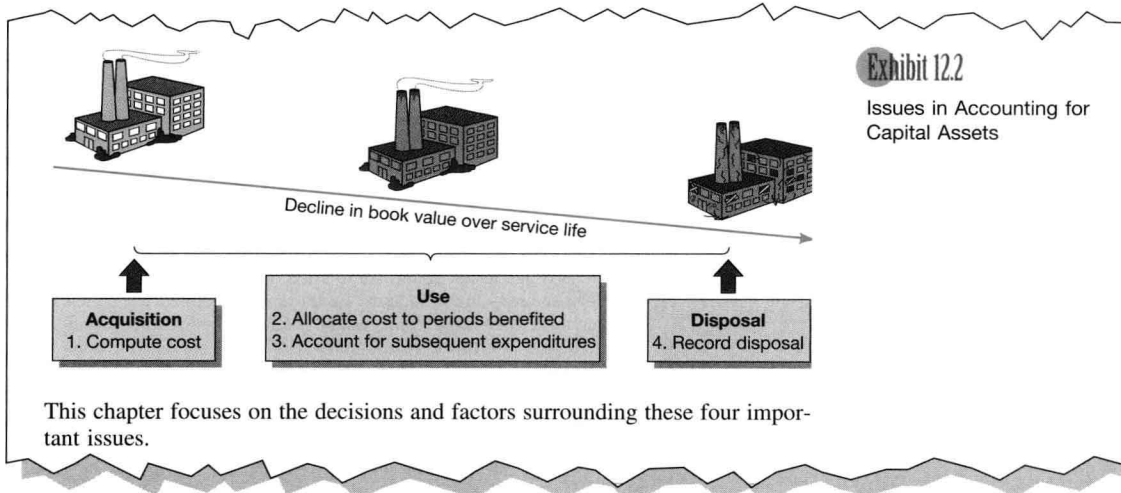
Asset	Appraised Value	Estimated Salvage Value	Estimated Useful Life	Amortization Method
Land	\$160,000			Not amortized
Land improvements ..	80,000	\$ -0-	10 years	Straight line
Building	320,000	100,000	10 years	Double-declining balance
Machinery	240,000	20,000	10,000 units	Units of production*
Total	<u>\$800,000</u>			

*The machinery is used to produce 700 units in 19X1 and 1,800 units in 19X2.

Required

1. Allocate the total \$600,000 cost among the separate assets.

Infographics and Artwork aid in visual learning of key accounting and business topics. Photos, colour, highlighting, and authentic documents all help with visual learning.



To Instructor

Teamwork in Action and Communicating in Practice are excellent starting points in developing an active learning environment. Both develop communication and interpersonal skills.

To Student

Team-building, collaborative effort skills are usually crucial to career success.

Active Learning

Active learning requires effective assignments. **F.A.P.** is the student-proven and instructor-tested leader in assignment materials. Proven and thoughtful assignments not only facilitate but motivate effective and active learning. Many assignments include writing components. Here's a sampling of relevant assignment materials:

Teamwork in Action assignments require preparing, analyzing, and using information in teams. They can be completed in or outside of class. These active learning activities reinforce understanding of key topics and develop interpersonal skills.

Teamwork in Action

LO 5

A team will be called upon to personify the operation of a voucher system. Yet all teams must prepare for the potential to be selected by doing the following:

1. Each team is to identify the documents in a voucher system. The team leader will play the voucher, and each team member is to assume "the role" of one or more documents.
2. To prepare for your individual role you are to:
 - a. Find an illustration for the document within the chapter.
 - b. Write down your document function, where you originate, and how you flow through the voucher system.
3. Rehearse the role playing of operating the system. You may use text illustrations as props, and for visual effort you may wear a nametag identifying the part you play.

Communicating in Practice exercises aim at applying accounting knowledge to develop written and verbal communication skills.

Communicating in Practice

LO 12

The classroom should be divided into teams. Teams are to select an industry, and each team member is to select a different company in that industry. Each team member is to acquire the annual report of the company selected. Annual reports can be obtained in many ways including accessing this book's Web page or <http://www.sedar.com>. Use the annual report to compute total asset turnover. Communicate with teammates via a meeting, e-mail or telephone to discuss the meaning of this ratio, how different companies compare to each other, and the industry norm. The team must prepare a single memo reporting the ratios for each company and identify the conclusions or consensus of opinion reached during the team's discussion. The memo is to be duplicated and distributed to the instructor and all classmates.

Flexibility

Learning and instructing requires flexibility **F.A.P.** offers flexibility in meeting the unique demands of individual students and teachers. From the conventional classroom to the active learning environment, **F.A.P.**'s new edition and its pedagogical package give more flexibility and options for innovation in learning and instruction. It does this while maintaining the rich content that has made it the market-leading book in accounting principles.

Packaging Options

Unique **packaging options** support **F.A.P.** flexibility. Nobody matches McGraw-Hill Ryerson when it comes to packaging options for accounting principles. Discuss the flexible packaging options with your McGraw-Hill Ryerson sales representative.

To Instructor

F.A.P. supports all instructional and learning styles.

Additional Supporting Materials

Instructor's Resource Manual

Solutions Manual

Test Bank

Solutions Acetates

Teaching Acetates

PowerPoint Slides

Tutorial Software

SPATs

Videos (U.S.)

To Student

F.A.P. provides learning aids.

Additional materials that may be helpful in your accounting course include

Working Papers

Study Guide

GLAS (General Ledger

Applications Software)

Essentials of Financial

Accounting: A Multimedia

Approach

Innovations and Enhancements

In preparing this edition, we asked questions of instructors and students. We asked what topics to add, or change in emphasis. We asked what pedagogical aids would help in teaching and learning. We wanted to know what innovations and enhancements would help them and maintain **F.A.P.** leadership in accounting principles. From these questions came several requests. We listened, and this edition is the result. We have already described major content and pedagogical changes. This section identifies many other chapter-by-chapter innovations and enhancements:

Chapter 1

- New focus on the information age and the relevance of accounting.
- Early introduction to income, revenues, and expenses using Alliance Communications.
- New discussion of return and risk as part of all business decisions.
- New descriptions of business activities: financing, investing, and operating.
- New and unique presentation of ethics and social responsibility.

Chapter 2

- **FASTForward**, an athletic service company, introduced as the new focus company for Chapters 2–5.
- New company transactions to add realism and interest.
- Revised discussion and presentation of accounting principles.
- Added analysis of each transaction using the accounting equation.
- New presentation and integration of cash flow statement with other financial statements.
- New description of reporting differences between proprietorships, partnerships, and corporations.

Chapter 3

- Revised presentation of transactions and source documents.
- New exhibits on the accounting equation and double-entry accounting.
- New exhibits and discussion linking transactions to financial statements, including the statement of cash flows.
- Revised discussion and exhibits for recording transactions.
- Expanded discussion of debt ratio with new comparative analysis.

Chapter 4

- New discussion of the accounting period and the motivation for adjusting accounts.

- New framework for preparing and analyzing adjustments.
- Several new exhibits and graphics illustrating adjusting accounts.
- New presentation linking adjustments to financial statements.
- Several new features highlighting current happenings in revenue recognition and the role of technology.
- Revised discussion of profit margin using Loblaw along with comparative analysis.

Chapter 5

- Revised presentation and new exhibits for the closing process.
- Revised presentation and discussion of the statement of cash flow as an integral part of the full set of financial statements.
- New exhibits presenting the accounting cycle.
- New presentation of the classified balance sheet.
- Revised current ratio discussion using Canadian Tire and industry analyses.

Chapter 6

- New discussion comparing a service company and a merchandiser.
- New presentation of the operating cycle of a merchandiser with credit or cash sales.
- New design of source documents including an invoice and debit and credit memoranda.
- Revised presentation of merchandising sales and purchases using the perpetual inventory system.
- Revised discussion on the transfer of ownership for inventory.
- New discussion and presentation of merchandising cost flows across periods.
- New comparison of cash and accrual measures of sales and costs.
- Revised acid-test ratio and gross margin discussion using Mitel and industry analyses.
- New appendix on accounting for merchandise sales and purchases under both the periodic and perpetual inventory systems.

Chapter 7

- Revised presentation of assigning costs to inventory using the perpetual inventory system.
- Revised discussion of inventoriable items and costs.
- New exhibits illustrating statements effects of inventory errors.
- Revised presentation of alternative inventory valuation methods.
- New appendix presentation assigning costs to inventory using the periodic system.
- Expanded merchandise turnover and days' sales in inventory ratio discussion and industry analyses.

Chapter 8

- New section on fundamental system principles.
- Contemporary and streamlined presentation on components of accounting systems.
- Revised discussion of hardware and software for systems.
- Contemporary presentation of Special Journals.
- Revised discussion of technology-based accounting systems.
- Revised layout for Special Journals reflecting current practice.
- New discussion of *enterprise-application software*, including SAP and Oracle.
- New analysis of business segments using a contribution matrix and Bombardier data.

Chapter 9

- New sections on the purpose of internal control and its limitations.
- Revised discussion on the principles of internal control.
- New feature boxes involving current technological developments.
- Revised discussion on control of cash.
- New presentation and exhibits on the voucher system of control.
- New depictions of important source documents.
- New presentation on using banking activities as controls, including the bank reconciliation.
- Revised discussion of days' sales uncollected using comparative analyses of Oshawa Group and George Weston.

Chapter 10

- New organization focuses on receivables first and short-term investments second.
- Revised discussion of credit sales, including use of credit cards.

- New presentation on accounting for accounts receivables.
- New ordering of (simpler) write-off method before (more complex) allowance method.
- New presentation and exhibits for estimating bad debts.
- Revised presentation and exhibits for notes receivable.
- Streamline accounting for investments including unrealized lower of cost and market.
- Revised discussion of accounts receivable turnover using comparative analyses of Imperial Oil and Ocelot Energy.

Chapter 11

- New exhibits including introducing computerized payroll systems.
- Excerpts from Revenue Canada forms.

Chapter 12

- New introduction and motivation on accounting for capital assets.
- New discussion to describe and illustrate amortization.
- Revised presentation and exhibits for disposals of capital assets.
- New discussion on natural resources and intangible assets.
- New discussion on the cash flow impacts of long-term assets.
- Revised total asset turnover illustration using George Weston and Oshawa Group.

Chapter 13

- New introduction on accounting for liabilities.
- Revised presentation of known (determinable) liabilities.
- New exhibits and discussion on promissory notes.
- Revised discussion of accounting for long-term liabilities.
- Transfer of present value discussion of liabilities to Chapter 16.
- Revised presentation of times interest earned with application to Best Buy.

Chapter 14

- New discussion of partnerships, including financial statements, admission/withdrawal, and liquidation.

Chapter 15

- Revised corporation coverage to focus on its characteristics and both common and preferred shares.
- New summary exhibit highlighting differences across alternative forms of organization.

- New exhibits including share certificate.
- Streamlined coverage of share subscriptions.
- Transfer of cash dividends discussions to Chapter 16.
- Revised book value per share discussion with references to Royal Bank.

Chapter 16

- Reorganization into four main sections: dividends; treasury shares; reporting income; and retained earnings.
- New dividends presentation with new exhibits.
- Revised and streamlined discussion on treasury shares.
- Streamlined presentation on reporting income information.
- Revised earnings per share discussion.
- New section on accounting for share options.
- Revised presentation of reporting retained earnings.
- New presentation of dividends yield and price-earnings ratios using Viceroy Homes, Nova Scotia Power, Noranda and CIBC.

Chapter 17

- New introduction to bond (long-term debt) financing.
- Revised bond presentation with new exhibits.
- New layout for effective interest amortization tables.
- Revised presentation of accounting for bond retirements.
- Revised presentation for notes payable.
- New explanation of present value concepts.
- New discussion of present values using interest tables.
- New discussion of collateral agreements for bonds and notes.
- Revised presentation of pledged assets to secured liabilities.

Chapter 18

- Streamlined coverage of investments and international accounting.
- Reorganized into three sections: Classification of investments; long-term investments in securities; and international investments.
- New presentation on the components of return on total assets with real company application.

Chapter 19

- New presentation on the motivation for cash flow reporting.
- New exhibits on the format of the statement of cash flows replacing the statement of changes in financial position.

- Revised discussion on cash from operating activities—both direct and indirect methods.
- New flexible presentation allows coverage of either or both direct or indirect methods.
- New exhibits summarize adjustments for both the direct and indirect methods.
- Revised discussion of cash flows from investing activities.
- Revised discussion of cash flows from financing activities.
- Revised presentation of analysis of cash sources and uses.

Chapter 20

- New discussion on the basics of financial statement analysis.
- New explanation of the building blocks of analysis.
- Revised discussion on analysis tools and standards for comparisons.
- Revised presentation of horizontal and vertical analysis.
- Revised summary exhibit of financial statement analysis ratios.
- New section on analysis reporting.

Chapter 21

- New introduction to managerial accounting.
- New section and exhibit on the purpose of managerial accounting.
- Revised presentation of reporting manufacturing activities.
- New section on cost accounting concepts emphasizing cost identification and classification.
- New discussion of manufacturing management principles.
- New introduction to important managerial topics including prime, conversion, product, and period costs.
- New infographics augment many new and revised topics.
- Transfer of discussion of a manufacturing statement and a general accounting system to Chapter 22.
- New presentation on unit contribution margin with illustrations using a bike manufacturer.

Chapter 22

- New focus on manufacturing and job order cost accounting.
- Revised presentation of manufacturing activities and reporting.