

VOLUME ONE

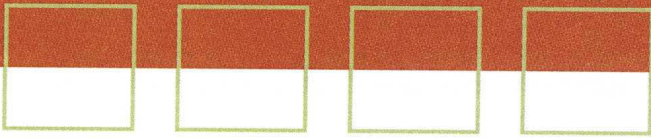
The background of the cover is a solid blue color. In the upper right corner, there is a small, detailed illustration of a butterfly with blue and purple wings and yellow markings. In the lower half, there is a larger illustration of a brown caterpillar hanging from a thin, brown branch. The caterpillar is positioned below the main title.

INTERMEDIATE ACCOUNTING

SEVENTH CANADIAN EDITION

KIESO • WEYGANDT • WARFIELD • YOUNG • WIECEK

SEVENTH CANADIAN EDITION



Intermediate Accounting

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CICA HANDBOOK

Accounting Recommendations

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Introduction to Accounting Recommendations

GENERAL ACCOUNTING

1000	Financial Statement Concepts	3030	Inventories
1100	Generally Accepted Accounting Principles	3040	Prepaid Expenses
1300	Differential Reporting	3050	Long-term Investments
1400	General Standards of Financial Statement Presentation	3055	Interests in Joint Ventures
1505	Disclosure of Accounting Policies	3061	Property, Plant and Equipment
1506	Accounting Changes	3062	Goodwill and Other Intangible Assets
1508	Measurement Uncertainty	3063	Impairment of Long-lived Assets
1510	Current Assets and Current Liabilities	3065	Leases
1520	Income Statement	3070	Deferred Charges
1540	Cash Flow Statements	3110	Asset Retirement Obligations
1581	Business Combinations	3210	Long-term Debt
1590	Subsidiaries	3240	Share Capital
1600	Consolidated Financial Statements	3250	Surplus
1625	Comprehensive Revaluation of Assets and Liabilities	3260	Reserves
1650	Foreign Currency Translation	3280	Contractual Obligations
1701	Segment Disclosures	3290	Contingencies
1751	Interim Financial Statements	3400	Revenue
1800	Unincorporated Businesses	3450	Research and Development Costs
		3461	Employee Future Benefits
		3465	Income Taxes
		3475	Disposal of Long-lived Assets and Discontinued Operations
		3480	Extraordinary Items
		3500	Earnings Per Share
		3610	Capital Transactions
		3800	Accounting for Government Assistance

SPECIFIC ITEMS

- 3805 Investment Tax Credits
- 3820 Subsequent Events
- 3830 Non-monetary Transactions
- 3840 Related Party Transactions
- 3841 Economic Dependence
- 3850 Interest Capitalized—Disclosure Considerations
- 3860 Financial Instruments—Disclosure and Presentation
- 3870 Stock-based Compensation and Other Stock-based Payments

SPECIALIZED AREAS [SECTIONS 4100–4250]

- 4100 Pension Plans
- 4210 Life Insurance Enterprises—Specific Items
- 4250 Future-oriented Financial Information

Introduction to Accounting Recommendations that Apply only to Not-for-profit Organizations

NOT-FOR-PROFIT ORGANIZATIONS

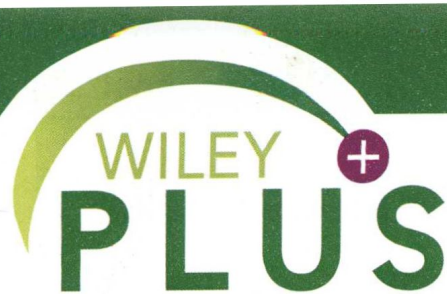
- 4400 Financial Statement Presentation by Not for-profit Organizations
- 4410 Contributions—Revenue Recognition
- 4420 Contributions Receivable
- 4430 Capital Assets Held by Not-for-profit Organizations
- 4440 Collections Held by Not-for-profit Organizations

- 4450 Reporting Controlled and Related Entities by Not-for-profit Organizations
- 4460 Disclosure of Related Party Transactions by Not-for-profit Organizations

Introduction to Accounting Guidelines

ACCOUNTING GUIDELINES

- AcG-2 Franchise Fee Revenue
- AcG-3 Financial Reporting by Property and Casualty Insurance Companies
- AcG-4 Fees and Costs Associated with Lending Activities
- AcG-5 Full Cost Accounting in the Oil and Gas Industry
- AcG-7 The Management Report
- AcG-8 Actuarial Liabilities of Life Insurance Enterprises—Disclosure
- AcG-9 Financial Reporting by Life Insurance Enterprises
- AcG-11 Enterprises in the Development Stage
- AcG-12 Transfers of Receivables
- AcG-13 Hedging Relationships
- AcG-14 Disclosure of Guarantees
- AcG-15 Consolidation of Variable Interest Entities
- AcG-16 Oil and Gas Accounting—Full Cost
- AcG-17 Equity-linked Deposit Contracts
- AcG-18 Investment Companies



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Kieso, Intermediate Accounting, 7th Canadian Edition
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Chapter 16: Shareholders' Equity
Standard View | Printer version | < Back | Next >
Reading content
Shareholders' Equity
The Corporate Form
Share Capital System
Share Capital
Issuance of Shares
Reacquisition of Shares
Retirement of Acquired Shares
Types of Dividends
Effects of Dividend Preferences
Stock Splits
Other Components of Shareholders' Equity
Presentation and Disclosure
Additional Disclosures
Chapter 16 Demonstration Problem
Appendix 16B: Financial Reporting
Brief Exercises
Exercises
Problems
Writing Assignments
Cases
Integrated Case
Research and Financial Analysis
Abbreviations
Additional Disclosures
Chapter 16 Demonstration Problem
Appendix 16B: Financial Reporting
Chapter 16 Checklist of Key Points
Chapter 16 Self-Test
References
PERSPECTIVES
Financial Analysis Primer
12 Objective
Analyse shareholders' equity.
Financial Statement Analysis Primer
Several ratios use shareholders' equity-related amounts to evaluate a company's **profitability** and **liquidity**. The following four ratios are discussed and illustrated below: (1) rate of return on common equity, (2) payout ratio, (3) price earnings ratio, and (4) book value per share.
Rate of Return on Common Shareholders' Equity
A widely used ratio that measures profitability from the common shareholders' viewpoint is **rate of return on common shareholders' equity**. This ratio shows how many dollars of net income were earned for each dollar of common equity. It is calculated by dividing net income less preferred dividends by average common equity. For example, assume that Garber Inc. had net income of \$360,000, declared

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Digital TOOL
Financial Statement Analysis Primer
Introduction
After studying this in-depth discussion, you should be able to:
1. Understand the approach to financial statement analysis.
2. Identify major analytic ratios and describe their calculation.
3. Explain the limitations of ratio analysis.
4. Describe techniques of comparative analysis.
5. Describe techniques of percentage analysis.
What would be important to you in studying a company's financial statements? The answer depends on your particular interest—whether you are a creditor, shareholder, potential investor, manager, government agency, or labour leader. For example, short-term creditors, such as banks, are primarily interested in the ability of the firm to pay its currently maturing obligations. In that case, you would examine the current assets and their relation to short-

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Chapter 7: Cash, Temporary Investments
Standard View | Printer version | < Back | Next >
Reading content
Cash, Temporary Investments
Section 1 - Cash
Reporting Cash
Section 2 - Temporary Investments
Section 3 - Receivables
Recognition and Measurement
Valuation of Accounts Receivable
Recognition, Measurement, and Disclosure
Presentation and Disclosure
Summary of Learning Objectives
Appendix 7A: Cash and Cash Equivalents
Brief Exercises
Exercises
Problems
Writing Assignments
Cases
Integrated Case
Research and Financial Analysis
Abbreviations
Additional Disclosures
Animated Tutorial
Appendix 7B: Specimen Financial Statements
Chapter 7 Demonstration Problem
Chapter 7 Checklist of Key Points
Chapter 7 Self-Test
References
Tutorial on the Transfer of Receivables
In this case, Crest Textiles recognizes a loss of \$21,000. In addition, a liability of \$6,000 is recorded to indicate the probable payment to Commercial Factors for uncollectible receivables. If all the receivables are collected, Crest Textiles would eliminate its recourse liability and increase income. Commercial Factors' net income is the financing revenue of \$15,000 because it will have no bad debts related to these receivables.
Servicing and Other Components Often, the transferor in a securitization will retain the responsibility for servicing the receivables. This usually includes collecting principal and interest, monitoring slow paying accounts, and remitting cash to those who hold beneficial interests in the receivables, but may include other specified services. If the transferor receives no reimbursement for these activities or receives less than the estimated cost of carrying them out, a **servicing liability component** will be recorded. This decreases the net proceeds on disposal. Alternatively, a **servicing asset component** is recognized if the benefits of servicing (servicing fees under contract, late charges, etc.) are greater than the estimated cost of the obligation. Accounting for this latter case is beyond the purview of this text.
Other financial components identified and recognized in a securitization might include:
Interest-only strip receivable The contractual right to receive some or all of the interest due on an interest-bearing receivable.
Call option The right of the transferor to repurchase similar loans or receivables from the transferee.
Disclosure
Accounting Guideline 12 requires considerable disclosure related to securitized receivables accounted for as sales. The are designed to inform the reader about fair value measurements used, key assumptions and some sensitivity analysis characteristics of the securitizations, information about cash flows between the special purpose entity and the transferor and detail about balances of and risk associated with servicing assets and liabilities.
Illustration 7-18 provides an example of the main securitization disclosures made by Sears Canada Inc. for its year

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Finally, billing and collecting are often time-consuming and costly.
Disposition of Receivables
Seller: Andrea Computer Corp.
Purchaser: Maple Leaf Bank
Reasons for selling receivables:
1. Money is tight and access to normal credit is very expensive
2. avoid violating lending agreements
3. billing and collecting are often time-consuming and costly

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Chapter 19 Quiz

BE19-14
BE19-15
BE19-16
P19-2
E19-13 (Three Differences, Classification of Future Taxes)

Review Score

E19-13 (Three Differences, Classification of Future Taxes)

At December 31, 2005, Surya Corporation had a net future tax liability of \$380,000. An explanation of the items that make up this balance follows.

Temporary Differences	Resulting Balances in Future Tax Account
1. Accumulated excess of tax amortization over book amortization	\$235,000
2. Accrual, for book purposes, of estimated loss contingency from pending lawsuit that is expected to be settled in 2006. The loss will be deducted on the tax return when paid	(65,000)
3. Accrual method used for book purposes and instalment method used for tax purposes for an isolated instalment sale of an investment	210,000
	<u>\$380,000</u>

Instructions

Indicate the manner in which future taxes should be presented on Surya Corporation's December 31, 2005 balance sheet.

Do not use a decimal in your answer (round all entries to nearest whole number).

Current assets

Long-term liabilities

Link to Text | Link to Text

Question Attempts: 0 of 3 used | Submit Answer

Your instructor can assign homework online for automatic grading and you can keep up-to-date on your assignments with your assignment list.

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Assignment

Your instructor has created the following assignments for this class. To get started, click on the assignment name below. Assignments whose due dates have passed are shown in red. Assignments that are no longer accessible to you are grayed out. For assistance, go to [Assignment Help](#).

sort by column

Assignment Name	Assignment Type	Due Date	Accessible	Progress
Questions Assignment Name	Questions	10.13.2005 at 05 PM	Yes	Saved to Gradebook
Chapter 16 Homework Assignment	Questions	10.15.2005 at 11 AM	Yes	Saved to Gradebook
Chapter 19 Quiz	Questions	11.07.2005 at 04 PM	Yes	Not Attempted
Chapter 21 Homework Assignment	Questions	11.29.2005 at 03 PM	Yes	Saved to Gradebook
Chapter 17 Quiz	Questions	11.30.2005 at 03 PM	Yes	Not Attempted
Chapter 07 Homework Assignment	Questions	Unlimited	Yes	Not Attempted
Chapter 20 Reading Assignment	Resources	Unlimited	Yes	100% Read

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Gradebook

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sort by column

Assignment Name	Assignment Type	Due Date	Progress	Score	Details	Accessible
Chapter 07 Homework Assignment	Questions	Unlimited	-	-/64	Not Attempted; Due Date Not Reached	Yes
Chapter 16 Homework Assignment	Questions	10.15.2005 11:00 AM	-	33/35	Attempted; Due Date Reached	Yes
Questions Assignment Name	Questions	10.13.2005 05:00 PM	-	2/2	Attempted; Due Date Reached	Yes
Chapter 20 Reading Assignment	Resources	Unlimited	100%	-		Yes
Chapter 21 Homework Assignment	Questions	11.29.2005 03:00 PM	-	48/48	Attempted; Due Date Not Reached	Yes
Chapter 17 Quiz	Questions	11.30.2005 03:00 PM	-	-/4	Not Attempted; Due Date Not Reached	Yes
Chapter 19 Quiz	Questions	11.07.2005 04:00 PM	-	-/10	Not Attempted; Due Date Not Reached	Yes
			Total	100%	83/163	

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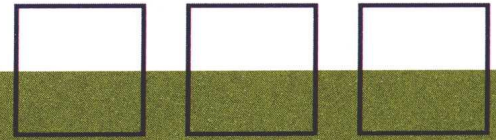
Megan

Nicholas, and

Katherine

*for their support, encouragement, and
tolerance throughout the writing of this book;
and to the many wonderful students who have
passed through our Intermediate Accounting
classrooms. We, too, have learned from you.*

About the Authors



Canadian Edition

Nicola M. Young, MBA, FCA is a Professor of Accounting in the Sobey School of Business at Saint Mary's University in Halifax, Nova Scotia where her teaching responsibilities have varied from the introductory offering to final year advanced financial courses to the survey course in the Executive MBA program. She is the recipient of teaching awards, and has contributed to the academic and administrative life of the university through chairing the Department of Accounting, membership on the Board of Governors, the Pension and other Committees. Professor Young has been associated with the Atlantic School of Chartered Accountancy for over twenty-five years in a variety of roles, including program and course development, teaching, and program reform. In addition to contributions to the accounting profession at the provincial level, Professor Young has served on national boards of the Canadian Institute of Chartered Accountants (CICA) dealing with licensure and education. For the last twelve years, she has worked with the CICA's Public Sector Accounting Board (PSAB) as an Associate, as a member and chair of the Board, and as chair and member of PSAB Task Forces.

Irene M. Wiecek, CA is a faculty member of the Joseph L. Rotman School of Management at the University of Toronto where she teaches accounting courses at all levels in various programs including the Commerce Program, the Master of Management & Professional Accounting Program (MMPA) and the MBA Program. The Associate Director of the MMPA Program for many years, she was recently appointed Co-Director of the ICAO/Rotman Centre for Innovation in Accounting Education. Irene is involved in professional accounting education both at the Institute of Chartered Accountants of Ontario and the CICA, teaching and developing case/program material in various programs including the ICAO School of Accountancy and the CICA In-depth GAAP course. In the area of standard setting, she is Chair of the Canadian Academic Accounting Association Financial Accounting Exposure Draft Response Committee. Irene is a member of the CICA Qualifications Committee which provides leadership, direction and standards for admission into the CA profession.

U.S. Edition

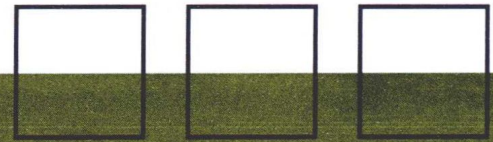
Donald E. Kieso, Ph.D., C.P.A., received his bachelor's degree from Aurora University and his doctorate in accounting from the University of Illinois. He has served as chairman of the Department of Accountancy and is currently the KPMG Peat Marwick Emeritus Professor of Accountancy at Northern Illinois University. He has done postdoctorate work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and four Golden Apple Teaching Awards. Professor Kieso has served as a member of the Board of Directors of the Illinois CPA Society, the AACSB's Accounting Accreditation Committees, the State of Illinois Comptroller's Commission, as Secretary-Treasurer of the Federation of Schools of Accountancy, and as Secretary-Treasurer of the American Accounting Association. He served as a charter member of the

national Accounting Education Change Commission. He received the Outstanding Accounting Educator Award from the Illinois CPA Society, in 1992 he received the FSA's Joseph A. Silvos Award of Merit, and the NIU Foundation's Humanitarian Award for Service to Higher Education.

Jerry J. Weygandt, Ph.D., C.P.A., is Arthur Andersen Alumni Professor of Accounting at the University of Wisconsin-Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in the *Accounting Review*, *Journal of Accounting Research*, *Accounting Horizons*, *Journal of Accountancy*, and other academic and professional journals. These articles have examined such financial reporting issues as accounting for price-level adjustments, pensions, convertible securities, stock option contracts, and interim reports. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of the *Accounting Review*; he also has served as President and Secretary-Treasurer of the American Accounting Association. In addition, he has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He has served on the FASB task force that examined the reporting issues related to accounting for income taxes and is presently 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 and the Dean Foundation. He is the recipient of the Wisconsin Institute of CPA's Outstanding Educator's Award and the Lifetime Achievement Award. In 2001, he received the American Accounting Association's Outstanding Accounting Educator Award.

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Preface



The first Canadian edition of *Intermediate Accounting* made its appearance over twenty years ago. Over the years it has changed, as have the many students who have used it. This edition represents another step in the metamorphosis of the textbook, with changes that reflect the way accounting is currently practised and the way in which students come to understand these concepts and procedures.

As always, we have aimed for a balanced discussion of the concepts and the procedures so that these elements reinforce one another. We have focused on the rationale behind transactions before discussing the accounting and reporting for those transactions. As with previous editions, we have thoroughly updated and revised every chapter to include coverage of all of the latest developments in the accounting profession and practice. In addition, we have included features to make all of this coverage even more understandable and relevant to today's accounting student. We have completely updated the look of the text, added new pedagogical features, enhanced the technology package that accompanies the text, and we continue to emphasize the use of company data and examples so that students easily relate what they are learning to the real world of business.

Based on extensive reviews and interactions with intermediate accounting instructors and students from across the country, we have introduced new features to help students learn and made content changes to ensure that Kieso, Weygandt, Warfield, Young, Wiecek, *Intermediate Accounting* sets the standard for currency, continuing to reflect the most up-to-date standards and reasons for their evolution.

NEW FEATURES

Student-friendly Design

We are pleased to present the concepts of intermediate accounting in an all-new four-colour design. We believe this student-friendly look will help to ease the transition into this more complex course. The use of colour also allows us to better highlight the pedagogical features and provide clear scans of the financial statements we use to illustrate the concepts presented thereby enhancing the realism even further and ensuring accuracy.

Enhanced Pedagogical Structure

Four new features have been introduced to the text's already solid pedagogical structure. We have enhanced our chapter openings even further with the introduction of new feature stories that introduce students to the concepts about to be discussed through real Canadian business situations. Throughout each chapter students are asked "What do the Numbers Mean?" and are presented with discussions applying accounting concepts to business contexts. These short breaks in the text will help students fully appreciate, from a business perspective, the impact of accounting on decision-making. In addition, a "Perspectives" section has been added to most chapters. This section discusses the effect on the financial statements of many of the accounting choices made by corporate management, alerting students to look behind the numbers. Finally, the accounting equation has been inserted in the margin next to key journal entries to help students understand the impact of each transaction on the financial position and cash flows of the company.



**What
do the
Numbers
Mean?**

New Cases



New case material has been incorporated to reinforce the importance of in-context, applied decision-making. In addition to understanding the mechanics and theory of accounting, students also need to be sensitized to the fact that accounting decisions are not made in a vacuum. They involve businesses and people with biases, problems, and complexities. The cases feature both real companies and fictitious scenarios. The former allows us to expose students to reading and interpreting real financial statement excerpts. The latter allows us to develop the financial reporting environment scenario more fully, giving students insight into the thought processes that might occur behind the scenes in financial reporting. The “Integrative Cases” that appear in many of the chapters incorporate several issues in each case. These issues draw from material in other chapters in order to help students build issue identification skills. Finally, we have added a “Case Primer” on the Digital Tool which provides a framework for case analysis.

Integration of Ethics Coverage



Rather than featuring ethics coverage and problem material in isolation, we have introduced a new ethics icon to highlight ethical issues as they are discussed within each chapter. This icon also appears beside each exercise, problem, or case where ethical issues must be dealt with in relation to all kinds of accounting situations.

Increased Technology



Interactive Homework

Kieso continues to provide the most comprehensive and useful technology package available for the intermediate course. With this edition, there are three key components to the technology package.

Interactive Homework is available to all students at the text website. This new feature allows them to work the problems indicated in the text with the Interactive Homework icon on-line. They will be able to try the questions an unlimited number of times as the variables presented will change with each try. They will also get instant feedback so they know how they are doing.



eGrade is an expanded version of Interactive Homework that provides instructors with all of the end-of-chapter exercises and problems, allowing them to create the assignments they want. With this added instructor involvement, attempts at completing the assignments are recorded in a gradebook where the progress of each student can be tracked.



We have enhanced the *Digital Tool*. This collection of useful tools is now accessed from the text website using the password provided in the back of each text. New to this edition are interactive tutorials on the accounting cycle, interest capitalization, and more. Also featured are a case primer, demonstration problems, and expanded ethics coverage.

CONTINUING FEATURES

Many things have contributed to the success of Kieso over the last twenty years. Chief among these are its real-world emphasis and its currency and accuracy.

Real-World Emphasis



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

Currency and Accuracy

Accounting changes at a rapid pace—a pace that has increased in recent years. An up-to-date book is more important than ever. As in past editions, we have endeavored to make this edition the most up-to-date and accurate text available.

The following list outlines the revision and improvements made in the chapters of this volume.

Chapter 1

- New *Handbook* material on GAAP hierarchy acknowledging the vastly expanded accounting body of knowledge.
- Coverage of the impact of SOX and new CSA draft requirements.
- Update on global harmonization of accounting standards.

Chapter 2

- New *Handbook*/Exposure Draft material on Comprehensive Income, Financial Instruments, MD&A Guidance on Preparation and Disclosure, and Consolidation of Variable Interest Entities (discussed under the economic entity concept).
- New focus on the historical cost principle as a valuation principle in transition. The new standards on Financial Instruments advocate fair value as a valuation method of choice.
- Introduction of sections on Making Accounting Choices and Issue Identification to help students with case analysis as well as real-life decision-making.
- Sections on Financial Engineering and Fraudulent Financial Reporting and the slippery slope that financial preparers find themselves on once they begin to let financial statement outcomes affect financial reporting decisions.

Chapter 3

- Former Appendix 3B (cash based versus accrual based accounting) moved to chapter 4 to allow a tie in with earnings from operations.

Chapter 4

- New *Handbook*/Exposure Draft material on Comprehensive Income and Disposal of Long-lived Assets and Discontinued Operations.
- Appendix 4A (accounting for discontinued operations) has been eliminated based on the new *Handbook* Section 3475 which simplifies the accounting.
- Inclusion of new material on understanding a company's business model. Transparent financial statements must present the underlying business of the company in an understandable way and therefore, students must understand how a company earns its income.
- Material on quality of earnings updated with a stronger link to the conceptual framework material in chapter 2.

Chapter 5

- New *Handbook*/Exposure Draft material on Financial Instruments and Comprehensive Income.
- Discussion of classifications in the balance sheet expanded to include discussions on monetary versus nonmonetary and financial versus non-financial assets and liabilities.

- Decreased emphasis on the mechanics of the preparation of cash flow statements since this is covered in a later chapter. Increased emphasis on interpretation of the cash flow statement.
- Expansion of Appendix 5A to tie back to business model established in chapter 4. This section links the business model with the cash flow statement, tying it into the operating, investing and financing activities framework. The discussion emphasizes business risks and the importance of full disclosure of risks. It also links the concepts of business model and risks to ratio analysis.

Chapter 6

- New *EIC Abstract* material on revenue recognition.
- Incorporation of more material on complex transactions such as bundled and barter sales and sales where the seller is acting as an agent as opposed to a principal.

Chapter 7

- New *Handbook/Exposure Draft* material on Financial Instruments (parts related to Trading Securities).
- Temporary investments transferred to chapter 7 from chapter 10.
- Long-term accounts and notes receivable, including notes with unrealistic interest rates and imputed interest, transferred to chapter 10.
- Calculator and spreadsheet methods of calculating present values moved to the Digital Tool.
- Reduced coverage on compensating balances
- Section on secured borrowing downplayed on basis that the accounting is the same as for any asset used as security.
- Section on securitization of receivables expanded, but kept at an elementary level—significantly increased use of this by business.

Chapter 8

- More emphasis on the steps needed to get to the inventory number reported on the balance sheet.
- Basket purchases transferred to this chapter from chapter 9 as it deals with a cost issue.

Chapter 9

- Disclosures added for companies using the retail method.
- Expanded discussion of inventory turnover and effect of choices in accounting for inventories.

Chapter 10

- New *Handbook/Exposure Draft* Material on Financial Instruments (recognition and measurement and comprehensive income) and Differential Reporting.
- Chapter restructured to cover only long-term investments, including long-term accounts and notes receivable previously covered in chapter 7.

- Coverage in chapter in line with the Exposure Draft on Financial Instruments. A summary of the existing standards for investments, with a description of the major upcoming changes now forms the appendix.

Chapter 11

- New *Handbook* material on Asset Retirement Obligations and Exposure Draft material on Nonmonetary Exchanges.
- Coverage of the cost of natural resource assets transferred here from Chapter 12.
- All calculations dealing with interest capitalization now in the appendix to the chapter. The emphasis in the chapter material is the choice available and the difference it could make to financial statements.
- New section on asset retirement costs included in the original cost of an asset with the details of calculation in chapter 14.
- The whole area of asset exchanges rewritten in order to condense it and make it clearer.
- Increased emphasis on the managing of income by capitalizing instead of expensing.
- The dispositions coverage is now in chapter 12.

Chapter 12

- New *Handbook* material on Impairment of Long-lived Assets and Disposal of long-lived Assets and Discontinued Operations.
- The capitalization of costs into the depletion base moved to chapter 11.
- Updated coverage of asset impairment standards and the rules for subsequent measurement.
- Disposals now covered in this chapter, rather than chapter 11.

Chapter 13

- New *Handbook* material on Impairment of Long-lived Assets, and EICs on Identification of Reporting Units, and Unit of accounting for testing impairment
- Structure of chapter changed to categorize intangibles by the classifications used in the Handbook.
- Improved discussion of what “indefinite life” means.
- Expansion of discussion of what factors should be considered in determining useful life.
- Discussion of technology-related intangibles provided.
- Discussion on the effect of companies’ changing from old standards to new standards, especially with goodwill.
- Perspectives section on intellectual capital and knowledge assets plus warnings about financial statement analysis when comparing companies with significant intangibles.

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

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