

HORNGREN'S 10TH CANADIAN EDITION
ACCOUNTING
VOLUME ONE



HORNGREN'S 10TH CANADIAN EDITION **ACCOUNTING**

TRACIE L. MILLER-NOBLES

Austin Community College

BRENDA MATTISON

Tri-County Technical College

ELLA MAE MATSUMURA

University of Wisconsin—Madison

CAROL A. MEISSNER

Georgian College

JO-ANN L. JOHNSTON

British Columbia Institute of Technology

PETER R. NORWOOD

Langara College

VOLUME ONE

PEARSON

Toronto

Editorial Director: Claudine O'Donnell
Senior Acquisitions Editor: Megan Farrell
Senior Marketing Manager: Loula March
Program Manager: Patricia Ciardullo
Project Manager: Sarah Lukaweski
Manager of Content Development: Suzanne Schaan
Developmental Editor: Suzanne Simpson Millar
Production Editor: Leanne Rancourt
Media Editor: Anita Smale
Media Developer: Olga Avdyeyeva

Copyeditor: Leanne Rancourt
Proofreaders: Susan Broadhurst and
Bradley T. Smith
Permissions Project Manager: Joanne Tang
Photo and Text Permissions Research: Integra
Publishing Services
Interior and Cover Designer: Anthony Leung
Cover Image: © John Kuczala / Getty Images

Vice-President, Cross Media and Publishing Services: Gary Bennett

Credits and acknowledgments for material borrowed from other sources and reproduced, with permission, in this textbook appear on the appropriate page within the text.

Copyright © 2017, 2014, 2011, 2007, 2005, 2002, 1999, 1996, 1993, 1991 Pearson Canada Inc. All rights reserved.

Original edition published by Pearson Education, Inc., Upper Saddle River, New Jersey, USA. Copyright © 2014, 2012, 2009 by Pearson Education, Inc.

This edition is authorized for sale only in Canada.

Copyright © 2017 Pearson Canada Inc. All rights reserved. Manufactured in the United States of America. This publication is protected by copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission(s) to use material from this work, please submit a written request to Pearson Canada Inc., Permissions Department, 26 Prince Andrew Place, Don Mills, Ontario, M3C 2T8, or fax your request to 416-447-3126, or submit a request to Permissions Requests at www.pearsoncanada.ca.

10 9 8 7 6 5 4 3 2 1 [V0TX]

Library and Archives Canada Cataloguing in Publication

Miller-Nobles, Tracie L., author

Horgren's accounting / Tracie Nobles (Texas State University-San Marcos), Brenda Mattison (Tri-County Technical College), Ella Mae Matsumura (University of Wisconsin-Madison), Carol A. Meissner (Georgian College), Jo-Ann L. Johnston (British Columbia Institute of Technology), Peter R. Norwood (Langara College). -- Tenth Canadian edition.

Includes indexes.

Issued in print and electronic formats.

ISBN 978-0-13-385537-1 (volume 1 : paperback).—ISBN 978-0-13-414064-3 (volume 1 : loose leaf).—ISBN 978-0-13-385537-1 (volume 2 : paperback).—ISBN 978-0-13-418293-3 (volume 2 : loose leaf).—ISBN 978-0-13-418033-5 (volume 1 : html).—ISBN 978-0-13-418140-0 (volume 2 : html)

1. Accounting—Textbooks. I. Norwood, Peter R., author
II. Matsumura, Ella Mae, 1952-, author III. Johnston, Jo-Ann L., author
IV. Mattison, Brenda, author V. Meissner, Carol A., author VI. Title.
VII. Title: Accounting.

HF5636.M54 2016 657 C2015-904630-0
C2015-904631-9

PEARSON

ISBN 978-0-13-385537-1

In memory of Charles T. Horngren 1926–2011

Whose vast contributions to the teaching and learning of accounting impacted and will continue to impact generations of accounting students and professionals.

I would like to thank my students for keeping me on my toes. Hearing their new ideas and how they think about accounting makes teaching such a wonderful job.

Carol A. Meissner

I would like to thank my husband, Bill, and my family for their encouragement and support.

Jo-Ann L. Johnston

I would like to thank my wife, Helen, and my family very much for their support and encouragement.

Peter R. Norwood



BRIEF CONTENTS

Part 1 The Basic Structure of Accounting

- 1 Accounting and the Business Environment 2
- 2 Recording Business Transactions 58
- 3 Measuring Business Income: The Adjusting Process 116
- 4 Completing the Accounting Cycle 174
- 5 Merchandising Operations 244
- 6 Accounting for Merchandise Inventory 324
- 7 Accounting Information Systems 376

Part 2 Accounting for Assets and Liabilities

- 8 Internal Control and Cash 444
- 9 Receivables 504
- 10 Property, Plant, and Equipment; and Goodwill and Intangible Assets 558
- 11 Current Liabilities and Payroll 612

Part 3 Accounting for Partnerships and Corporate Transactions

- 12 Partnerships
- 13 Corporations: Share Capital and the Balance sheet
- 14 Corporations: Retained Earnings and the Income Statement
- 15 Long-Term Liabilities
- 16 Investments and International Operations

Part 4 Analysis of Accounting Information

- 17 The Cash Flow Statement
- 18 Financial Statement Analysis



CONTENTS

Part 1 The Basic Structure of Accounting 2

1 Accounting and the Business Environment 2

Accounting: The Language of Business 4
Forms of Business Organizations 7
Accounting Concepts 9
The Accounting Equation 12
The Financial Statements 21
ASPE vs. IFRS 25

Summary Problem for Your Review 26

Summary 28

Assignment Material 33

Extending Your Knowledge 54

2 Recording Business Transactions 58

The Accounting Cycle 60
Chart of Accounts 61
Double-Entry Accounting 63
Source Documents—The Origin of Transactions 67
Recording Transactions in the Journal 67
Posting (Transferring Information) from the Journal to the Ledger 69
Accounting for Business Transactions 70
The Trial Balance 80

Summary Problem for Your Review 82

Summary 86

Assignment Material 89

Extending Your Knowledge 111

3 Measuring Business Income: The Adjusting Process 116

Time Period Assumption 119
Recognition Criteria for Revenues and Expenses 119
Accrual-Basis Accounting versus Cash-Basis Accounting 121
Adjusting the Accounts 122
The Adjusted Trial Balance 134
Preparing the Financial Statements from the Adjusted Trial Balance 134
Ethical Considerations in Accrual Accounting 136
Adjusting-Process Implications of IFRS 137

Summary Problem for Your Review 138

Chapter 3 Appendix: Alternative Treatment of Accounting for Prepaid Expenses and Unearned Revenues 142

Summary 144

Assignment Material 147

Extending Your Knowledge 171

4 Completing the Accounting Cycle 174

The Accounting Cycle 176
The Worksheet 177
Working through the Accounting Cycle 181
Closing the Accounts 185
Correcting Journal Entries 189
Classifying Assets and Liabilities 190
Accounting Ratios 194
Accounting Cycle and Financial Reporting Implications of IFRS 195

Summary Problem for Your Review 196

Chapter 4 Appendix: Reversing Entries: An Optional Step 202

Summary 205

Assignment Material 208

Extending Your Knowledge 236

5 Merchandising Operations 244

What Are Merchandising Operations? 247
Inventory Systems: Perpetual and Periodic 249
Accounting for Inventory Purchases in the Perpetual Inventory System 251
Selling Inventory and Recording Cost of Goods Sold 257
Adjusting and Closing the Accounts of a Merchandising Business 260
Preparing a Merchandiser's Financial Statements 264
Two Ratios for Decision Making 268
The Effects of IFRS on Merchandising Operations 270

Summary Problem for Your Review 270

Chapter 5 Appendix A: Accounting for Merchandise in a Periodic Inventory System 273

Summary Problem for Your Review:
Chapter 5 Appendix A 281

Chapter 5 Appendix B: Comparing the Perpetual and Periodic Inventory Systems 283

Summary 285

Assignment Material 289

Extending Your Knowledge 319

6 Accounting for Merchandise Inventory 324

Inventory Costing Methods 326
Inventory Costing in a Perpetual System 329
Comparing FIFO and Moving-Weighted-Average Cost 333
Inventory Costing in a Periodic System 334
Accounting Concepts and Inventories 336
Other Inventory Issues 337
Effects of Inventory Errors 339
Estimating Ending Inventory 342

Summary Problem for Your Review 344

Summary 345

Assignment Material 349

Extending Your Knowledge 370

7 Accounting Information Systems 376

Effective Accounting Information Systems 378
How Accounting Systems Work 380
Special Journals 385
The Purchases Journal 393
The Cash Payments Journal 395
The Role of the General Journal 397

Chapter 7 Appendix: Special Journals and Sales Taxes (available online)

Summary Problem for Your Review 401

Summary 405

Assignment Material 408

Extending Your Knowledge 436

Comprehensive Problem for Part 1 440

Part 2 Accounting for Assets and Liabilities 444

8 Internal Control and Cash 444

Internal Control 446
The Components of Internal Control 448
The Bank Account as a Control Device 454
Internal Control over Cash Receipts 463
Internal Control over Cash Payments 465
Internal Control over Petty Cash 467
Ethics and Accounting 470

Summary Problem for Your Review 472

Summary 474

Assignment Material 478

Extending Your Knowledge 501

9 Receivables 504

Receivables: An Introduction 506
Accounting for Uncollectible Accounts 508
The Direct Write-Off Method 515
Other Payment Methods 516
Accounting for Notes Receivable 518
Using Accounting Information for Decision Making 523
The Impact of IFRS on Accounts Receivable 525

Summary Problem for Your Review 526

Chapter 9 Appendix: Discounting (Selling) a
Note Receivable 527

Summary 528

Assignment Material 532

Extending Your Knowledge 554

10 Property, Plant, and Equipment; and Goodwill and Intangible Assets 558

Measuring the Cost of PPE 560
Lump-Sum Purchase of Assets 562
Betterments versus Repairs 563
Ethical Issues 564
Amortization 565
Other Issues in Accounting for PPE 571
Disposing of PPE 573
Accounting for Natural Resources 577
Intangible Assets and Goodwill 578
The Impact of IFRS on PPE, Intangibles, and Goodwill 582

Summary Problems for Your Review 583

Summary 584

Assignment Material 588

Extending Your Knowledge 607

11 Current Liabilities and Payroll 612

Current Liabilities of a Known Amount 614
Current Liabilities That Must Be Estimated 622
Contingent Liabilities 624
Ethical Issues in Accounting for Current and Contingent
Liabilities 626
Accounting for Payroll 627
Payroll Entries 633
The Payroll System 635
Reporting Current Liabilities 641
The Impact of IFRS on Current Liabilities 642

Summary Problem for Your Review 642

Summary 644

Assignment Material 648

Extending Your Knowledge 666

Comprehensive Problem for Part 2 670

Appendix A: Indigo Books and Music Inc. 2014 Annual
Report A-1

Appendix B: Typical Chart of Accounts for Service
Proprietorships (ASPE) A-37

Glossary G-1

Index I-1

ABOUT THE AUTHORS

TRACIE L. MILLER-NOBLES, CPA, received her bachelor's and master's degrees in accounting from Texas A&M University. She is an associate professor at Austin Community College. Previously she served as a senior lecturer at Texas State University, San Marcos, Texas, and has served as department chair of the Accounting, Business, Computer Information Systems, and Marketing/Management Department at Aims Community College, Greeley, Colorado. In addition, Tracie has taught as an adjunct professor at University of Texas and has public accounting experience with Deloitte Tax LLP and Sample & Bailey, CPAs.

Tracie is a recipient of the Texas Society of CPAs Outstanding Accounting Educator Award, NISOD Teaching Excellence Award, and the Aims Community College Excellence in Teaching Award. She is a member of the Teachers of Accounting at Two Year Colleges, the American Accounting Association, the American Institute of Certified Public Accountants, and the Texas State Society of Certified Public Accountants. She is currently serving on the board of directors as secretary/webmaster of Teachers of Accounting at Two Year Colleges, as chair of the American Institute of Certified Public Accountants Pre-certification Executive Education committee, and as program chair for the Teaching, Learning and Curriculum section of the American Accounting Association. In addition, Tracie served on the Commission on Accounting Higher Education: Pathways to a Profession.

Tracie has spoken on such topics as using technology in the classroom, motivating nonbusiness majors to learn accounting, and incorporating active learning in the classroom at numerous conferences. In her spare time she enjoys spending time with her friends and family, and camping, fishing, and quilting.

BRENDA L. MATTISON has a bachelor's degree in education and a master's degree in accounting, both from Clemson University. She is currently an accounting instructor at Tri-County Technical College (TCTC) in Pendleton, South Carolina. Brenda previously served as Accounting Program Coordinator at TCTC and has prior experience teaching accounting at Robeson Community College, Lumberton, North Carolina; University of South Carolina Upstate, Spartanburg, South Carolina; and Rasmussen Business College, Eagan, Minnesota. She also has accounting work experience in retail and manufacturing businesses.

Brenda is a member of Teachers of Accounting at Two Year Colleges and the American Accounting Association. She is currently serving on the board of directors as vice-president of registration of Teachers of Accounting at Two Year Colleges.

Brenda engages in the scholarship of teaching and learning (SOTL). While serving as Faculty Fellow at TCTC, her research project was Using Applied Linguistics in Teaching Accounting, the Language of Business. Brenda has presented her research findings. Other presentations include using active learning and manipulatives, such as building blocks and poker chips, in teaching accounting concepts.

In her spare time, Brenda enjoys reading and spending time with her family, especially touring the United States in their motorhome. She is also an active volunteer in the community, serving her church, local Girl Scouts, and other organizations.

ELLA MAE MATSUMURA is a professor in the Department of Accounting and Information Systems in the School of Business at the University of Wisconsin—Madison, and is affiliated with the university's Center for Quick Response Manufacturing. She received a Bachelor of Arts degree in mathematics from the University of California, Berkeley, and a Master of Science and PhD degree from the University of British Columbia. Ella Mae has won two teaching excellence awards at the University of Wisconsin—Madison and was elected as a lifetime fellow of the university's Teaching Academy, formed to promote effective teaching. She is a member of the university team awarded an IBM Total Quality Management Partnership grant to develop curriculum for total quality management education.

Ella Mae was a co-winner of the 2010 Notable Contributions to Management Accounting Literature Award. She has served in numerous leadership positions in the American Accounting Association (AAA). She was co-editor of *Accounting Horizons* and has chaired and served on numerous AAA committees. She has been secretary-treasurer and president of the AAA's Management Accounting Section. Her past and current research articles focus on decision making, performance evaluation, compensation, supply chain relationships, and sustainability. She co-authored a monograph on customer profitability analysis in credit unions.

CAROL A. MEISSNER is a professor in both the School of Business and the Automotive Business School of Canada at Georgian College in Barrie, Ontario. She teaches in the Accounting Diploma,

Automotive Business Diploma, and Bachelor of Business (Automotive Management) programs. Her favourite courses are introductory financial accounting and dealership financial statement analysis.

In 2014, Carol was awarded the Georgian College Board of Governors' Award of Excellence Academic for outstanding contributions to the college and an ongoing commitment to excellence.

Carol has broad experience in curriculum development. She has been a curriculum chair, program coordinator, member of several curriculum committees, and has been involved in writing and renewing degree, diploma, and graduate certificate programs. She is currently helping to launch the new Automotive Dealership Management graduate certificate program for automotive industry executives.

A self-professed "learning junkie," Carol holds a Bachelor of Commerce degree, a Master of Business Administration degree, a Master of Arts degree in Education (Community College concentration), and a CPA designation. She has also earned Georgian College's Professional Development Teaching Practice Credential and is a graduate of Georgian's Aspiring Leaders program. She is a regular attendee at conferences related to teaching, accounting, and the automotive industry.

Carol has always been a teacher. She started as a part-time college instructor when she completed her first degree and has taught full time since 2005. Her "real world" experience includes car dealership controllership and self-employment as a part-time controller and consultant for a wide variety of businesses. Carol recently worked on several online projects for publishers and OMVIC as a subject matter expert. She is a trustee for OPSEU Local 35 and a member of the Secretary Treasurers Association of Ontario.

JO-ANN JOHNSTON is an instructor in the Accounting, Finance and Insurance Department at the British Columbia Institute of Technology (BCIT). She obtained her Diploma of Technology

in Financial Management from BCIT, her Bachelor in Administrative Studies degree from British Columbia Open University, and her Master of Business Administration degree from Simon Fraser University. She is also a certified general accountant and completed the Canadian securities course.

Prior to entering the field of education, Jo-Ann worked in public practice and industry for over 10 years. She is a past member of the board of governors of the Certified General Accountants Association of British Columbia and has served on various committees for the association. She was also a member of the board of directors for the BCIT Faculty and Staff Association, and served as treasurer during that tenure.

In addition to teaching duties and committee work for BCIT, Jo-Ann is the financial officer for a family-owned business.

PETER R. NORWOOD is an instructor in accounting and coordinator of the Accounting program at Langara College in Vancouver. A graduate of the University of Alberta, he received his Master of Business Administration from the University of Western Ontario. He is a CPA, a fellow of the Institute of Chartered Accountants of British Columbia, a certified management accountant, and a fellow of the Society of Management Accountants of Canada.

Before entering the academic community, Peter worked in public practice and industry for over 15 years. He is a past president of the Institute of Chartered Accountants of British Columbia and chair of the Chartered Accountants School of Business (CASB). He is also the chair of the Chartered Accountants Education Foundation for the British Columbia Institute of Chartered Accountants and has been active on many provincial and national committees, including the Board of Evaluators of the Canadian Institute of Chartered Accountants. Peter is also a sessional lecturer in the Sauder School of Business at the University of British Columbia.



HORNGREN'S ACCOUNTING ... REDEFINING TRADITION

MAKING CONNECTIONS

CONNECTING CHAPTER boxes appear at the beginning of each chapter. These features combine the chapter outline with the learning objectives, key questions, and page references.

4 COMPLETING THE ACCOUNTING CYCLE

CONNECTING CHAPTER 4

LEARNING OBJECTIVE Prepare an accounting worksheet
How can we summarize data to prepare the financial statements?
The Worksheet, page 177

LEARNING OBJECTIVE Completing the accounting cycle
Remind me: How does this all fit together?
Working Through the Accounting Cycle, page 181
Preparing the Financial Statements
Recording the Adjusting Entries

LEARNING OBJECTIVE Close the revenue, expense, and withdrawal accounts
What are closing entries, and how do we record them?
Closing the Accounts, page 185
Post-Closing Trial Balance

LEARNING OBJECTIVE Correct typical accounting errors
How do we fix accounting errors?
Correcting Journal Entries, page 189

LEARNING OBJECTIVE Classify assets and liabilities as current or long term, and prepare a classified balance sheet
How can assets and liabilities be classified for a more informative balance sheet?
Classifying Assets and Liabilities, page 190
Assets
Liabilities
The Classified Balance Sheet

LEARNING OBJECTIVE Use the current ratio and the debt ratio to evaluate a company
How do decision makers evaluate a company using the current ratio and debt ratio?
Accounting Ratios, page 194
Current Ratio
Debt Ratio
Interpreting Ratios

LEARNING OBJECTIVE Describe the accounting cycle and financial reporting implications of International Financial Reporting Standards (IFRS)
How does IFRS apply to the accounting cycle and financial reporting?
Accounting Cycle and Financial Reporting Implications of IFRS, page 195

LEARNING OBJECTIVE Describe and prepare reversing entries
What are reversing entries, and how do we record them?
Reversing Entries: An Optional Step, page 202

MyAccountingLab The Summary for Chapter 4 appears on page 205. This lists all of the MyAccountingLab resources. Accounting Vocabulary with definitions for this chapter's material appears on page 206.

174

LEARNING OBJECTIVES provide a roadmap showing what will be covered and what is especially important in each chapter.

PAGE REFERENCES give students the ability to quickly connect to the topic they are seeking within the chapter.

KEY QUESTIONS are questions about the important concepts in the chapter, expressed in everyday language.

CHAPTER OPENERS set up the concepts to be covered in the chapter using stories students can relate to. They show why the topics in the chapter are important in the business world. These vignettes are now 100 percent Canadian content.

NEW INSTRUCTOR TIPS RIGHT IN THE CHAPTER

Found throughout the text, these handwritten notes mimic the experience of having an experienced teacher walk a student through concepts on the board. Many include mnemonic devices or examples to help students remember the rules of accounting.

The entry to record each year's amortization is:

Dec. 31	Amortization Expense—Delivery Truck	12,000	
	Accumulated Amortization—Delivery Truck		12,000

Assume that this truck was purchased on January 1, 2017, and the business's fiscal year ends on December 31. A straight-line amortization schedule is presented in Exhibit 10-5. Spreadsheets are usually used to prepare these schedules.

Notice that when there is more than one asset being amortized in a business, we update the account names to include the specific asset information.



Kowartha Dairy Limited is a 100% Canadian-owned ice cream and dairy processor located in Bobovayson, Ontario, and is still operated by the same family that started it back in 1937. As a business, it is different from many in the food industry because it not only operates its own production facility, but also runs a chain of eight of its own retail stores. It also wholesales its Kowartha Dairy-branded products to other businesses, who in turn offer the products in their own stores. In addition to ice cream and milk, it produces specialized products like buttermilk for the baking industry and private-label items for other companies.

A firm like this has a huge investment in assets. Kowartha Dairy owns buildings, land, production equipment, and office furniture that it uses to run the business. It also has a fleet of trucks to deliver its goods to its own retail outlets, independent specialty shops, grocery stores, and institutional customers.

How does the company record the purchase of these trucks in their accounting records? Do they expense them or set them up as assets? Because they help the company earn revenue over several periods, they are reported as assets.

How should Kowartha Dairy account for the use of the trucks? They record amortization over each truck's useful life. Managers estimate how long they can use the truck and how much they can sell it for when it is taken out of service. They don't amortize this last amount because they get it back when they sell the truck or trade it in for a new one.

Because most companies keep assets for as long as they can, they also need to make repairs and maintain the trucks. How do you decide when work done on the truck is part of the cost or considered a repair? Professional judgment is just as important in these decisions as are the generally accepted accounting principles. Managers at Kowartha and other companies need to know how to account for these assets.

This chapter covers these and other matters about property, plant, and equipment, the long-term tangible assets that a business uses to operate, such as airplanes for Air Canada and automobiles for Discount Car and Truck Rentals. It also looks at intangibles—those assets with no physical form, such as trademarks and copyrights, and finally, this chapter shows how to account for natural resources such as oil and timber.

559

ADJUSTING-PROCESS IMPLICATIONS OF IFRS

ASPE **IFRS**

The concept of accrual accounting is accepted around the world. The accounting guidelines for all countries recommend the use of accrual accounting, so there are no process differences. There are differences in terminology, though.

Amortization is the term used for the allocation of the cost of plant and equipment over its estimated useful life:*

- Amortization Expense
- Accumulated Amortization

Businesses may choose to use the term *depreciation* or *depletion* to be consistent with other companies in their industry.

Depreciation is the term used for amortization of tangible assets:

- Depreciation Expense
- Accumulated Depreciation

Amortization is the term used for intangible assets.

* This is the term used in Part II (ASPE), Section 3061, CPA Canada Handbook.

NEW IFRS/ASPE COMPARISON Each applicable chapter ends with a table comparing how concepts in that chapter are dealt with for those using IFRS and ASPE.

EXHIBIT 1-14 | Balance Sheet

HUNTER ENVIRONMENTAL CONSULTING
Balance Sheet
April 30, 2016

Assets		Liabilities	
Cash	\$172,000	Accounts payable	\$ 2,000
Accounts receivable	10,000		
Office supplies	7,000	Owner's Equity	
Land	100,000	Lisa Hunter, capital	287,000
		Total liabilities and owner's equity	\$289,000
Total assets	\$289,000		

Each asset account is listed separately and then totaled. Cash is always listed first. Pay attention to the order of the other accounts, too.

The heading again shows the name of the business and the title of the financial statement. Notice that the date is different. The balance sheet shows the date as a specific date, not a period of time.

Liabilities are listed separately and then totaled. Liabilities that are to be paid first are listed first.

The ending owner's capital is taken directly from the statement of owner's equity.

The balance sheet must always balance. Assets = Liabilities + Owner's Equity. Notice that the total of this document also shows assets on the left and liabilities and equity on the right. This is no coincidence.

NEW ANNOTATED EXHIBITS More annotated exhibits have been developed for this edition to improve clarity and reduce related explanations in the text.

Try It!

5. Check Yes or No in the following tables to indicate whether each of the accounts would usually require an adjusting entry to be made to the specific account listed.

Account	Yes	No	Account	Yes	No
Accounts Receivable			Supplies		
Building			Cash		
Interest Payable			Prepaid Insurance		

6. At the beginning of the month, Supplies were \$500. During the month, the company purchased \$600 of supplies. At month's end, November 30, \$400 of supplies were still on hand.

- What was the cost of supplies used during the month? Where is this item reported?
- What is the ending balance of Supplies? Where is this item reported?
- Make the adjusting entry to update the Supplies account at the end of the month.

Solutions appear at the end of this chapter and on MyAccountingLab

132 Part 1 The Basic Structure of Accounting

NEW TRY IT! BOXES Found at the end of each learning objective section in the text, **Try It!** features (formerly Just Checking) give students the opportunity to apply the concepts they just learned to an accounting problem. For this edition, care was taken to streamline this feature to include fewer questions to avoid interrupting the flow of student learning. Deep linking in the eText will allow students to practise in MyAccountingLab without interrupting their interaction with the eText. **Try It! Solutions** are provided at the end of each chapter.

> Why It's Done This Way



The top level of the accounting framework reminds us that financial statements are prepared to provide interested external users with information about the financial health of the company. These users have a variety of relationships with the company—some may be creditors who have lent money to the company, others may be shareholders or investors in the company. These groups want to

understand how well the company has done in the past year. As well, they may want to predict how the company will do in the future.

The classified format of the balance sheet is an example of how liquidity information can be provided to help users get a better understanding about the financial condition of a business, which they can use as they calculate and interpret financial ratios.

••••• REVISED WHY IT'S DONE THIS WAY BOXES

Descriptions in these boxes have been shortened to focus on the key new points in the chapter, without referencing levels. For instructors who want longer and more technical notes, these are included in the instructor's material.

REVISED END-OF-CHAPTER MATERIAL

The number of Starters and Exercises provided in each chapter has been increased, while maintaining both A and B Problem sets.

All learning objectives now have consistent coverage in end-of-chapter questions.

There is now more variety of questions provided.

ENGAGING REDESIGN The redesign of this text throughout includes clean and consistent art for T-accounts, journal entries, financial statements, and the accounting equation.

New art types include clear explanations and connection arrows to help students follow the transaction process. Illustrations are updated to be more modern and clean.

Margins have been decluttered, ensuring a smoother, more open and approachable look, while keeping the most important content visible.

Closing entry ③ would then credit Income Summary to close its debit balance and transfer the net loss to Lisa Hunter, Capital:

③ May 31	Lisa Hunter, Capital	1,000	
	Income Summary		1,000
	To close the Income Summary account and transfer net loss to the Capital account.		

After posting, these two accounts would appear as follows:

Income Summary		Lisa Hunter, Capital	
Clo. ② 27,500	Clo. ① 26,500	Clo. ③ 1,000	120,100
Bal. 1,000	Clo. ③ 1,000	Bal.	119,100

Changes to the Tenth Canadian Edition

Additional Starters and Exercises have been added to *all* chapters in Volume 1. Instructors wanted more of these types of questions and more variety in the questions, so the Tenth Canadian Edition has been updated to reflect this.

Chapter 1—Accounting and the Business Environment

- Chapter 1 has been completely reworked and refreshed. The explanation of accounts has been moved from Chapter 2, thus removing duplication and ensuring students have all the information they need to create financial statements.
- Updates to this chapter include information reflecting the changing professional landscape of accountants in Canada, and the history of accounting material has been removed.
- Annotated exhibits for the balance sheet and income statement have been provided to strengthen explanations of the financial statements.

Chapter 2—Recording Business Transactions

- The introduction of the accounting cycle has been moved from Chapter 4 to the start of this chapter because this is where the topic is first introduced.
- The demonstration of posting to a T-account is now covered before introducing a more formal ledger account.
- Exhibits relating to the rules of debits and credits have been improved.
- The explanation of journal entries and calculating the balance of a T-account has been improved with new annotated exhibits.

Chapter 3—Measuring Business Income: The Adjusting Process

- The discussion on cash-basis versus accrual-basis accounting has been reduced since instructors told us that the accrual basis needed to be the focus of the lesson. We moved some cash-basis information to MyAccountingLab for those instructors who still want to cover this topic in more detail.
- There is an expanded alternative presentation example of property, plant, and equipment (where we show rather than tell).
- Again because of instructor requests, we added an additional example of partial pay periods to support student learning of a very difficult concept.
- The flow of the chapter has been improved by moving the order of adjusting entry topics so that they are in the same order as presented in the exhibit.
- The learning objective about using the worksheet to prepare the adjusted trial balance has been removed to make it easier for some schools to skip the topic of worksheets.

Chapter 4—Completing the Accounting Cycle

- Duplicate information about worksheets and the accounting cycle has been removed.
- The complexity of the classified balance sheet example has been reduced.

Chapter 5—Merchandising Operations

- The summary problem has been updated to cover more of the key learning objectives. The Ninth Canadian Edition solved problem, which included a merchandiser's worksheet and closing entries, has been moved to MyAccountingLab, so it is still available for those instructors who teach those topics.
- The information about sales taxes, which was included as Appendix C to this chapter, has been moved to Chapter 11 (Current Liabilities) to remove the additional complexity this adds to the chapter and avoid duplication of topics in the book.

Chapter 6—Accounting for Merchandise Inventory

- The main change to this chapter is the removal of the learning objective, chapter section, and problem material related to the assessment of the impact of IFRS on inventory recording and reporting.

Chapter 7—Accounting Information Systems

- The learning objective that covered special journals with sales taxes (Learning Objective 6 in the Ninth Canadian Edition) has been moved to MyAccountingLab to reduce complexity, since sales taxes are not covered in detail until Chapter 11. Instructors who cover this topic still have the information they need.
- Information has been added on the use of new technology and security, such as the cloud.

Chapter 8—Internal Control and Cash

- All of the internal control information has been merged into one learning objective to streamline the content and reduce duplication.
- The Sarbanes-Oxley Act (SOX) discussion has been updated to include the Frank Dodd Act.

Chapter 9—Receivables

- Duplication of statement presentation information has been removed.
- Online payments have been added to keep the text material current.
- Internal control topics have been removed to keep the chapter focus on the most important topics in the chapter.
- Annotated T-account explanations about how to calculate the Allowance for Doubtful Accounts balance have been added to clarify a difficult topic for students.

Chapter 10—Property, Plant, and Equipment; and Goodwill and Intangible Assets

- The discussions of “construction in progress” and internal control have been removed to focus on key chapter concepts.
- The discussion about operating leases has been removed because this topic is covered in Volume 2.

Chapter 11—Current Liabilities and Payroll

- In order to reduce duplication, information about the presentation of liabilities has been consolidated.
- Payroll and sales tax rates have been updated for consistency with legislation at the time of writing.
- The concept of crowdfunding has been introduced to keep the text current.
- Internal control topics have been removed to keep the chapter focus on the most important topics in the chapter.
- The flow of recording payroll journal entries has been reworked to reduce duplication and improve clarity.

Student and Instructor Resources

The primary goal of the supplements that accompany *Hornsgren's Accounting*, Tenth Canadian Edition, is to help instructors deliver their course with ease using any delivery method—traditional, self-paced, or online—and for students to learn and practise accounting in a variety of ways that meet their learning needs and study preferences.

MyAccountingLab

MyAccountingLab delivers proven results in helping individual students succeed. It provides engaging experiences that personalize, stimulate, and measure learning for each student, including a personalized study plan, mini-cases, and videos. MyAccountingLab is the portal to an array of learning tools for all learning styles—algorithmic practice questions with guided solutions are only the beginning!

For Students

The following features are **NEW** to MyAccountingLab for the Tenth Canadian Edition:

NEW!

Assignable Accounting Cycle Tutorial—MyAccountingLab's new interactive tutorial helps students master the accounting cycle for early and continued success in the introduction to accounting course. The tutorial, accessed by computer, smartphone, or tablet, provides students with brief explanations of each concept of the accounting cycle through engaging videos and/or animations. Students are immediately assessed on their understanding, and their performance is recorded in the MyAccountingLab gradebook. Whether the Accounting Cycle Tutorial is used as a remediation self-study tool or course assignment, students have yet another resource within MyAccountingLab to help them be successful with the accounting cycle.

NEW!

Enhanced Pearson eText—The Enhanced eText keeps students engaged in learning on their own time, while helping them achieve greater conceptual understanding of course material. The worked examples bring learning to life, and algorithmic practice allows students to apply the concepts they are reading about. Combining resources that illuminate content with accessible self-assessment, MyAccountingLab with Enhanced eText provides students with a complete digital learning experience—all in one place.

NEW!

Dynamic Study Modules—Canadian study modules allow students to work through groups of questions and check their understanding of foundational accounting topics. As students work through questions, the Dynamic Study Modules assess their knowledge and only show questions that still require practice. Fully Assignable, flowing through the Gradebook, or Self-Directed Dynamic Study Modules can be completed online using a computer, tablet, or mobile device.

Learning Catalytics—A “bring your own device” assessment and classroom activity system that expands the possibilities for student engagement. Using Learning Catalytics, you can deliver a wide range of auto-gradable or open-ended questions that test content knowledge and build critical thinking skills. Eighteen different answer types provide great flexibility, including graphical, numerical, textual input, and more.

NEW!

Audio Lecture Videos—These pre-class learning aids are available for every learning objective and are professor-narrated PowerPoint summaries that will help students prepare for class. These can be used in an online or flipped classroom experience or simply to get students ready for the lecture.

NEW!

Adaptive Assessment—Integrated directly into the MyAccountingLab Study Plan, Pearson’s adaptive assessment is the latest technology for individualized learning and mastery. As students work through each question, they are provided with a custom learning path tailored specifically to the concepts they need to practise and master.

REVISED!

In addition, students will find the following assets to help improve their learning experience:

- Help Me Solve This Guides
- Worked Solutions
- Videos
- DemoDocs
- Check Figures
- Student PowerPoint Presentations
- Audio Chapter Summaries
- Accounting Cycle Tutorial Animations
- Excel Spreadsheet Templates
- General Ledger (**NEW!**)
- Open-Response Questions (**NEW!**)

For Instructors

The following resources are available for Instructors at the Instructor’s Resource Centre on the catalogue, at catalogue.pearsoned.ca:

- **Instructor’s Solutions Manual.** This manual provides instructors with a complete set of solutions to all the end-of-chapter material in the text. Available in both Word and PDF formats.
- **Computerized Testbank.** The Testbank for *Horngren’s Accounting* offers a comprehensive suite of tools for testing and assessment. TestGen allows educators to easily create and distribute tests for their courses, either by printing and distributing through traditional methods or by online delivery. The more than 100 questions per chapter can be sorted by the chapter’s Learning Objectives, difficulty ranking, Bloom’s Taxonomy, and—new to this edition—applicable Canadian Professional Accounting Standards. Types of questions included are Multiple Choice, True/False, Short Answer, and Essay. One NEW Essay question has been created for each chapter, building on cumulative learning across all previous chapters.
- **Test Item File.** All the test questions from the TestGen testbank are available in Microsoft Word format.
- **Instructor’s Teaching Tips in Digital eText Resource:** Instructors can easily locate useful teaching tips and resources throughout the eText, which is annotated by apple icons throughout the chapters. This eText is located in MyAccountingLab.

- **PowerPoint Presentations.** Prepared for each chapter of the text, these presentations offer helpful graphics that illustrate key figures and concepts from the text.
- **Image Library.** We are pleased to provide the exhibits from the text in .jpg format for use in the classroom or for building your own lectures or PowerPoint presentations.

Pearson Custom Library

For enrolments of at least 25 students, you can create your own textbook by choosing the chapters that best suit your own course needs. To begin building your custom text, visit www.pearsoncustomlibrary.com. You may also work with a dedicated Pearson Custom editor to create your ideal text—publishing your own original content or mixing and matching Pearson content. Contact your local Pearson sales representative to get started.

Learning Solutions Managers

Pearson’s Learning Solutions Managers work with faculty and campus course designers to ensure that Pearson technology products, assessment tools, and online course materials are tailored to meet your specific needs. This highly qualified team is dedicated to helping schools take full advantage of a wide range of educational resources by assisting in the integration of a variety of instructional materials and media formats. Your local Pearson sales representative can provide you with more details on this service program.

Acknowledgements for *Horngren’s Accounting*, Tenth Canadian Edition

Horngren’s Accounting, Tenth Canadian Edition, is the product of a rigorous research process that included multiple reviews in the various stages of development to ensure the revision meets the needs of Canadian students and instructors. The extensive feedback from the following reviewers helped shape this edition into a clearer, more readable and streamlined textbook in both the chapter content and assignment material:

- Bharat Aggarwal, Seneca College
- Ionela Bacain, Humber College
- Maria Belanger, Algonquin College
- Robin Day, British Columbia Institute of Technology
- Meredith Delaney, Seneca College
- Denise Dodson, Nova Scotia Community College
- Stanley Faria, Humber College
- Carol Fearon, Seneca College
- Darla Lutness, Northern Alberta Institute of Technology
- Michael Malkoun, St. Clair College
- Vnit Nath, British Columbia Institute of Technology
- Dal Pirot, MacEwan University
- Raymond Sungaila, Humber College
- Selina Tang, Douglas College
- Dan Wong, Southern Alberta Institute of Technology

Special thanks to Brad Witt at Humber College for being a “super reviewer” of this manuscript—his comments helped us improve the end-of-chapter material.

We would also like to thank the late Charles Horngren and Tom Harrison for their support in writing the original material.

We would like to give special thanks to Chris Deresh, CPA, Manager, Curriculum Content, at Chartered Professional Accountants of Canada for his guidance and technical support. His willingness to review and discuss portions of the manuscript was generous and insightful, and it is gratefully acknowledged.

The Chartered Professional Accountants, as the official administrator of generally accepted accounting principles in Canada, and the *CPA Canada Handbook*, are vital to the conduct of business and accounting in Canada. We have made every effort to incorporate the most current *Handbook* recommendations in this new edition of *Accounting* for both private enterprises (ASPE) and for publicly accountable enterprises subject to International Financial Reporting Standards (IFRS).

Thanks are extended to Indigo Books & Music Inc. and TELUS Corporation for permission to use their annual reports in Volumes I and II of this text and on MyAccountingLab. We acknowledge the support provided by the websites of various news organizations and by the annual reports of a large number of public companies.

We would like to acknowledge the people of Pearson Canada, in particular Senior Acquisitions Editor Megan Farrell, who put together a great team for this project, and Marketing Manager Loula March. Special thanks to Suzanne Simpson Millar, Queen Bee at Simpson Editorial Services, who was an awesome Developmental Editor on this edition. Leanne Rancourt as Production Editor also added her many talents as the project neared completion.

We would like to thank Media Editor Anita Smale for her excellent work on the MyAccountingLab that accompanies this textbook.

Our task is to provide educational material in the area of accounting to instructors and students to aid in the understanding of this subject area. We welcome your suggestions and comments on how to serve you better.