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About the Authors

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At the University of Toronto Mississauga, Catherine initiated, organized, and continues to run an internship course where fourth-year Bachelor of Commerce and Bachelor of Business Administration students are given an opportunity to gain practical business experience to complement their field of studies. She has organized, co-hosted, and chaired ongoing workshops that invite all University of Toronto Mississauga professors teaching first-year classes to discuss and learn what pedagogical and organizational issues they face. She serves as Dean’s Designate for academic offences in the Social Sciences.

In the business community, she has participated in the consultation of the reform of the Canada Corporations Act for not-for-profit organizations. In the past, she has served on several boards of not-for-profit organizations and has been a professional development speaker for CGA Ontario on the topic of not-for-profit accounting. Currently, she serves as Treasurer on the board of a small not-for-profit organization.
Preface

Helping Students Build a Solid Financial Accounting Foundation

Financial Accounting introduces the financial statements and the conceptual framework that underlies them in Chapter 1 and builds on this foundation throughout the remaining 12 chapters. The concepts and procedures that form the accounting cycle are also described and illustrated early in the text (Chapters 2 and 3) and are then applied consistently in the chapters that follow. By introducing financial accounting’s most critical concepts and procedures early in the book and then repeatedly applying them in the context of new material in later chapters, students will finish the textbook with a sound grasp of introductory financial accounting principles.

This book also features a new coauthor, Greg Berberich, from the University of Waterloo, who brings 25 years of experience practising and teaching accounting to the Fifth Canadian Edition textbook. Greg contributed to seven of the book’s 13 chapters and also suggested some of its new or revised pedagogical features.

Visual Walkthrough

UPDATED! Learning Objectives on the first page of every chapter clearly specify what students should be able to do once they have finished reading the chapter and completing the accompanying exercises, problems, and cases. Each objective also serves as the heading of the chapter section in which the related concepts are presented, providing students with a clear link between the objectives and the material that will help them achieve those objectives.

UPDATED! Chapter-Opening Vignettes provide students with clear links between chapter topics and the business decisions made by many familiar real-world companies. Some of the companies students will encounter include Apple, Le Château, WestJet, and TELUS.

UPDATED! User-Oriented Approach focuses students’ attention on the relevance and interpretation of information in the financial statements by adding coverage of several new ratios, which will enhance their ability to evaluate a company’s liquidity, turnover, and profitability. New end-of-chapter problems give students additional practice using these new ratios.
NEW! Focus on Analysis sections use the company TELUS Corporation, one of Canada’s largest and most successful telecommunications companies, to illustrate key concepts throughout the book. Each chapter also features two problems that require students to analyze TELUS’s financial statements, so they can clearly see how the concepts they are learning help them understand a real and well-known company’s financial situation.

UPDATED! Stop + Think problems offer students the opportunity to pause in their reading and apply what they’ve just read to basic but realistic problems. The solutions to these problems have been moved to the end of each chapter, so students can’t glance at them as they read the problems.

NEW! Decision Guidelines show students how managers, investors, and creditors would apply key financial accounting concepts to make critical business decisions.

NEW! Cooking the Books highlight real fraud cases in relevant sections throughout the text, giving students context to the material they are learning through real-life business situations.

NEW! IFRS-ASPE Differences are summarized at the end of several chapters to identify the differences that exist between these two sets of Canadian generally accepted accounting principles. Appendix B also contains a summary of all the IFRS-ASPE differences mentioned in the book.

UPDATED! End-of-Chapter Summaries clearly highlight the key concepts related to each learning objective so that students will finish each chapter with an overview of its most critical material.

UPDATED! Summary Problems and Solutions appear at the midpoint and end of the chapters, providing students with guidance on how to solve in-depth problems using concepts that have just been discussed in the text.

NEW! Microsoft Excel™ in MyAccountingLab

- Now students can get real-world Excel practice in their classes.
- Instructors have the option to assign students End-of-Chapter questions that can be completed in an Excel-simulated environment.
- Questions will be auto-graded, reported to, and visible in the grade book.
- Excel remediation will be available to students.
Changes to the Fifth Canadian Edition

Students and instructors will benefit from numerous changes incorporated into this latest edition of Financial Accounting. New student-friendly boxes called Decision Guidelines show students how managers, investors, and creditors would apply key financial accounting concepts to make critical business decisions. New topical Cooking the Books boxes highlight real fraud cases in relevant sections throughout the text, giving students context to the material they are learning through real-life business situations. New comprehensive IFRS-ASPE Differences tables summarized at the end of several chapters identify the differences that exist between these two sets of Canadian generally accepted accounting principles. Appendix B also contains a summary of all the IFRS-ASPE differences mentioned in the book. All material has been updated to reflect the IFRS and ASPE principles in effect at the time of writing (February 2013), or (in some cases) expected to be in effect by the time of the book’s publication in 2014. The following is a summary of other significant changes made to this edition:

Chapter 1
- The first chapter has been rewritten to present key concepts with greater clarity and to eliminate redundancies with material covered in detail in later chapters.
- The coverage of the main financial statements and their elements has been revised to incorporate formal IFRS terminology and definitions and to better highlight differences between IFRS and ASPE.
- Most of the accounting vocabulary terms have been rewritten so they are consistent with IFRS/ASPE definitions.

Chapter 2
- The chapter title and learning objectives have been revised to better reflect the main purpose of the chapter and the outcomes to be achieved.
- Much of the chapter has been rewritten to present key concepts and related examples more clearly.
- This chapter now includes a Decision Guidelines section that summarizes the flow of accounting information from the transaction stage through to the financial statements.

Chapter 3
- The material on revenue and expense recognition has been rewritten to thoroughly reflect the IFRS/ASPE criteria that guide the recognition of these items. The accompanying examples have also been revised to clearly illustrate the application of each recognition principle to different scenarios.
- The coverage of adjusting entries has been revised to eliminate redundancies and to describe each major type of adjusting entry using terminology that is consistent with the rewritten revenue and expense recognition principles described above.
- Detailed coverage of the current ratio and debt ratio has been added, including illustrations of the impacts of transactions on the ratios, accompanied by a Decision Guidelines section that summarizes the use of these ratios.

Chapter 6
- More detailed explanations of how to apply the weighted-average and FIFO costing methods under both perpetual and periodic inventory systems are provided in this chapter.
The end-of-chapter material includes several new problems on applying the weighted-average costing method under a perpetual inventory system.

Chapter 7
This chapter now includes coverage of the return on assets, asset turnover, and net profit margin ratios, along with coverage of how to interpret these ratios using DuPont analysis.
The end-of-chapter material has several new problems that require students to use these new ratios.

Chapter 8
The coverage of long-term investments has been moved up several chapters to immediately follow the chapters that discuss the asset side of the balance sheet.
Coverage of the time value of money has been moved from the appendix to this chapter, and end-of-chapter problems on this topic have been added.

Chapter 9
This chapter now has coverage of the accounts payable turnover and leverage ratios, along with new end-of-chapter problems requiring the use of these ratios.
Material on short-term borrowings, such as bank overdrafts and lines of credit, as well as term loans, has been added.

Chapter 10
Much of this chapter has been rewritten to present key concepts with greater clarity and to eliminate redundancies with material covered in detail in other chapters.
Coverage of the DuPont analysis has been added, which provides a more detailed and useful way of analyzing a company’s return on equity.

Chapter 11
Information on the statements of comprehensive income and changes in shareholders’ equity has been updated to reflect proper terminology and presentation of these statements.
Coverage of the auditor’s report has also been updated to reflect new standards and wording for this report.
Many of the accounting vocabulary terms have been rewritten so they are consistent with IFRS/ASPE definitions.

Chapter 12
Most of this chapter has been rewritten to provide additional guidance and to improve clarity on difficult concepts, especially regarding the classification of operating, investing, and financing activities, and the treatment of changes in non-cash operating working capital accounts. Related terminology and definitions are now consistent with IFRS and ASPE.
A mid-chapter summary problem with a focus on the operating activities section has been added, as well as a Stop + Think box with a focus on using information in the statement of cash flows.
Most of the accounting vocabulary terms have been revised to be consistent with IFRS/ASPE definitions.

Chapter 13
Coverage of accounts payable turnover, leverage, and the cash conversion cycle has been added to this chapter, along with end-of-chapter problems related to this new material.
Student Resources

MyAccountingLab is a powerful online learning tool that not only provides opportunities for limitless practice, but recreates the “I get it” moments from the classroom. MyAccountingLab provides a rich suite of learning tools, including:

- Static and algorithmic versions of exercises and problems from the textbook
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- Mini-Cases
- Help Me Solve It question-specific interactive coaching
- A dynamic eText with links to media assets
- Accounting videos, animations, and DemoDocs

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Instructor’s Teaching Tips Digital eText Resource

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The following instructor resources are available to all adopters of this textbook:

- **Instructor’s Solutions Manual**: This manual contains full solutions for all end-of-chapter material.
- **Instructor’s Resource Manual**: This manual contains valuable resources, including chapter outlines, teaching tips, and assignment grids. The Instructor’s Resource Manual is available in the eText via the MyAccountingLab.
- **Pearson TestGen**: Over 1,500 test questions, including multiple-choice, true-or-false, and essay questions, are provided in TestGen format. TestGen is a testing software that enables instructors to view and edit the existing questions, add questions, generate tests, and distribute the tests in a variety of formats.
Powerful search and sort functions make it easy to locate questions and arrange them in any order desired. TestGen also enables instructors to administer tests on a local area network, have the tests graded electronically, and have the results prepared in electronic or printed reports. TestGen is compatible with Microsoft and Apple operating systems and can be downloaded from the TestGen website located at www.pearsoned.com/testgen. Contact your local sales representative for details and access.

- **Microsoft PowerPoint Presentations**: PowerPoint presentations offer an outline of the key points for each chapter. A new template is utilized and new content is added for this edition of the PowerPoint program.

  All of these instructor supplements, except for the Instructor’s Resource Manual, are also available for download from a password-protected section of Pearson Canada’s online catalogue (vig.pearsoned.ca). Navigate to your book’s catalogue page to view a list of those supplements that are available. See your local sales representative for details and access.

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Accounting Careers: Much More Than Counting Things

What kind of career can you have in accounting? Almost any kind you want. A career in accounting lets you use your analytical skills in a variety of ways, and it brings both monetary and personal rewards. Professional accountants work as executives for public companies, partners at professional services firms, and analysts at investment banks, among many other exciting positions.

Accounting as an art is widely believed to have been invented by Fra Luca Bartolomeo de Pacioli, an Italian mathematician and Franciscan friar in the sixteenth century. Pacioli was a close friend of Leonardo da Vinci and collaborated with him on many projects.

Accounting as the profession we know today has its roots in the Industrial Revolution during the eighteenth and nineteenth centuries, mostly in England. However, accounting did not attain the stature of other professions such as law, medicine, or engineering until early in the twentieth century. Professions are distinguished from trades by the following characteristics: (1) a unifying body of technical literature, (2) standards of competence, (3) codes of professional conduct, and (4) dedication to service to the public.

An aspiring accountant must obtain a university degree, pass several professional examinations, and gain two or three years of on-the-job training before they can receive a professional accounting designation. Historically, the most common accounting designations in Canada were the CA (Chartered Accountant), CMA (Certified Management Accountant), and CGA (Certified General Accountant) designations. Recently, however, the Canadian accounting profession has become more unified, so now the most prevalent designation is the CPA, which stands for Chartered Professional Accountant, although the three legacy designations are still used in some jurisdictions.

When you hold one of these designations, employers know what to expect about your education, knowledge, abilities, and personal attributes. They value your analytical skills and extensive training. Your professional designation gives you a distinct advantage in the job market, and instant credibility and respect in the workplace. It’s a plus when dealing with other professionals, such as bankers, lawyers, auditors, and federal regulators. In addition, your colleagues in private industry tend to defer to you when dealing with complex business matters, particularly those involving financial management.

Where Accountants Work

Where can you work as an accountant? There are four main types of employers.
Professional Accounting Firms

You can work for a professional accounting firm, which could range in size from a small local firm to a large international firm such as KPMG or Ernst & Young. These firms provide assurance, tax, and consulting services to a variety of clients, allowing you to gain a broad range of experience if you so choose. Many accountants begin their careers at a professional accounting firm and then move into more senior positions in one of the job categories described below. Others may stay on, or join one of these firms after working elsewhere, to take advantage of the many rewarding careers these firms offer.

Public or Private Companies

Rather than work for an accounting firm and provide your expertise to a variety of clients, you can work for a single company that requires your professional knowledge. Your role may be to analyze financial information and communicate that information to managers who use it to plot strategy and make decisions. Or you may be called upon to help allocate corporate resources or improve financial performance. For example, you might do a cost-benefit analysis to help decide whether to acquire a company or build a factory. Or you might describe the financial implications of choosing one business strategy over another. You might work in areas such as internal auditing, financial management, financial reporting, treasury management, and tax planning. The most senior financial position in these companies is the chief financial officer (CFO) role; some CFOs rise further to become chief executive officers (CEOs) of their companies.

Government and Not-for-Profit Entities

Federal, provincial, and local governmental bodies also require accounting expertise. You could be helping to evaluate how government agencies are being managed, or advise politicians on how to allocate resources to promote efficiency. The RCMP hires accountants to investigate the financial aspects of white-collar crime. You might find yourself working for the Canadian Revenue Agency, one of the provincial securities commissions, or a federal or provincial Auditor General.

As an accountant, you might also decide to work in the not-for-profit sector. Colleges, universities, public and private primary and secondary schools, hospitals, and charitable organizations such as churches and the United Way all have accounting functions. Accountants in the not-for-profit sector provide many of the same services as those in the for-profit sector, but their focus is less on turning a profit than on making sure the organizations spend their money wisely and operate efficiently and effectively.

Education

Finally, you can work at a college or university, advancing the thought and theory of accounting and teaching future generations of new accountants. On the research side of education, you might study how companies use accounting information. You might develop new ways of categorizing financial data, or study accounting practices in different countries. You then publish your ideas in journals and books and present
them to colleagues at meetings around the world. On the education side, you can help others learn about accounting and give them the tools they need to be their best.

Regardless of which type of organization you work for, as an accountant, your knowledge will be highly valued by your clients, colleagues, and other important stakeholders. As the economy becomes increasingly global in scope, accounting standards, tax laws, and business strategies will grow more complex, so it’s safe to say that the expertise provided by professional accountants will continue to be in high demand. This book could serve as the first step on your path to a challenging and rewarding career as a professional accountant!
FINANCIAL ACCOUNTING