

FINANCIAL ACCOUNTING

SECOND CANADIAN EDITION

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SPOKANE COMMUNITY COLLEGE

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PEARSON

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PEARSON

Dedication

My family—I couldn't have done this without their support and encouragement.

Jim Kahl—Jim has been a mentor, a colleague, and above all, a tremendous friend for my entire teaching career.

My students, past, present, and future—without them I would not be doing that which I love to do, teaching accounting.

Jeffrey Waybright

I dedicate this book to my beloved children: Adam, Meg, and Sarah. I also dedicate this book to their spouses and children. They give meaning to my life and are my dream come true.

Robert Kemp

My wife and daughter—I cannot find the words to describe their sacrifice and encouragement.

To the memory of my parents—My role models in life.

My students—Without their feedback and inspiration, I would not be able to sharpen my teaching skills.

Sherif Elbarrad

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Professor Kemp is likewise an accomplished teacher, to both university students and executives throughout the world. During his 30 years at the University of Virginia, he has taught numerous undergraduate and graduate courses. He has taught classes using lectures, case studies, discussion groups, and distance learning. His consistently high evaluations by students reflect his devotion to the classroom. This high quality is likewise seen in his teaching of business executives. He has worked with and taught for organizations such as Bank of America, the FDIC, Navigant-Tucker Alan, the Siberian Banking Institute, the Barents Group, KPMG, Gerson Lehrman, Wellington Management, the Russian Bankers Association, the Central Asian American Enterprise Fund, the American Institute of Certified Public Accountants, and the Consumer Bankers Association.





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Preface

Financial Accounting, Second Canadian Edition, in combination with MyAccountingLab, translates the essentials of accounting to students so they understand “why” and “when” financially sound decisions are made in business today. *Financial Accounting* and MyAccountingLab work together to solidify students’ understanding of the language of business, leading them to success.

Financial Accounting, Second Canadian Edition, was originally adapted from an innovative text published in the United States. We took on the project of adapting this book for a Canadian audience because we found in the original text a solid foundation on which to build a Canadian financial accounting textbook. The features of the text, such as its focus on decision making, the clarity of its writing style, its innovative pedagogical features and approach to the visuals, and, of course, MyAccountingLab, provided an excellent starting point for the Canadian edition.

Improvements made to the second Canadian edition have been focused on satisfying the differing needs and abilities of students. This edition has been enhanced with new pedagogical features designed to help students approach the material from different perspectives. This new edition also boasts enhanced coverage of the International Financial Reporting Standards (IFRS) and the Accounting Standards for Private Enterprise (ASPE), clearly distinguishing between these two approaches throughout the text.

We have been teaching financial accounting for many years and have prepared this text so that it highlights the relevance of accounting to all students, whether or not they are planning a career in accounting. The text is written in a way that provides students with coverage of the essential financial accounting concepts and in a way that will help them relate these concepts to their everyday lives:

- **Focus on Decision Making**

Beginning with Chapter 1, an emphasis is placed on the importance of making financially sound business decisions. This emphasis helps students determine how much risk and impact is involved in the types of decisions they may encounter in their future careers. Ethics and ratio coverage are also woven throughout the text to continually support this decision-making focus.

- **Coverage of IFRS and ASPE**

IFRS and Canadian ASPE are used in Canada for different business sectors—publicly accountable entities and private enterprises. There are many similarities in IFRS and Canadian ASPE; therefore, this textbook focuses its discussion on IFRS. There are a few specific topics that are treated differently in IFRS and Canadian ASPE, and in these situations, the differences are described and highlighted. Where relevant, we have included a new table at the end of each chapter outlining the differences between IFRS and ASPE as they relate to the topic at hand.

- **Balanced Coverage**

It is important for students to understand how financial accounting applies in small business scenarios as well as corporate ones. *Financial Accounting*, Second Canadian Edition, provides a straightforward look at the way many different types of organizations use accounting to ensure students are equipped with the knowledge they need.

Students also need to understand both the “how” and the “why” of accounting. This text offers an appropriate blend of two perspectives—the preparer of accounting information and

the user of accounting information—and uses this balanced approach to provide students with a solid grasp of accounting fundamentals and a clear understanding of how accounting information is used to make good business decisions. By demonstrating not only how to create information that communicates the activities of an organization but also why this information is important to a wide variety of users, the reader will see the relevance of financial accounting for anyone in society.

This text would be appropriate for any introductory financial accounting course. The book covers the concepts needed for accounting majors pursuing an accounting designation, but it is also appropriate for non-accounting students due to the interactive and user-friendly approach. The end-of-chapter problems cover a range of levels of difficulty, which, when combined with the Demo Doc problems in each chapter and the unlimited problems available in MyAccountingLab, will enable students who have never been exposed to accounting to work their way up to the more challenging problems, and ensure that those students who excel in the concepts will still be able to work on challenging problems.

This adaptation started with an American text that had many of the necessary elements for a Canadian market. We made a number of important changes to make the text relevant to a Canadian audience. Most importantly, coverage in the Canadian text is based on the IFRS and ASPE. Concepts that were not relevant to Canada, such as LIFO, were replaced with complete coverage of concepts that are relevant. Chapter 1 now incorporates an introduction to the careers in accounting that are available in Canada, both IFRS and ASPE are described and introduced, and terminology changes (for example, from stockholder to shareholder) are implemented. Chapter 4, which details the relationship between ethics and accounting, required significant adaptations to make the material relevant to Canadian students. Canadian accounting scandals and the impact of international accounting scandals on the Canadian accounting system are presented. The perpetual inventory system is illustrated in detail, while the periodic inventory system is presented in the appendix to Chapter 5. The LIFO cost flow assumption is removed from Chapter 6. A new appendix to cover accounting for leases is added to Chapter 8. The concept of par value shares is removed from the discussion of shares in Chapter 10. The Canadian edition is also full of Canadian examples and stories, which will help to create an interest among students in the Canadian business environment.

ORGANIZATION

The second Canadian edition of *Financial Accounting* takes a cumulative approach to the concepts. Each topic builds on the knowledge of the previous chapters. The placement of a brief look at the financial statements in the first chapter helps to tie each of the following chapters together. The text also incorporates a blend of theory and application. Readers are provided with the tools necessary for understanding the creation of the financial statements through technical details and resources such as the Demo Doc problems and end-of-chapter questions. At the same time, readers are able to see how the concepts are relevant to all users of financial statements through examples, the presentation of various perspectives, and features such as the Focus on Users box.

Financial Accounting, Second Canadian Edition, begins with the introduction of accounting as the language of organizations. This is followed by what a career in accounting might be like, then a brief description of financial statements. This description of the financial statements is used to link the chapters together as each chapter delves deeper into specific elements of the financial statements.

Next, the text demonstrates the accounting equation and works through the accounting cycle, continuously referring back to the accounting equation. Concepts are built one on top of the other in layers that will eventually result in a complete picture of the financial statements, including a wide breadth of knowledge along with significant depth of detail.

Once the fundamentals have been presented, a full chapter is devoted to examining how ethics and accounting merge together. This chapter is filled with real-life examples that will ground the discussion and provide students with an idea of how significant an issue ethics can be.

Chapters 5 through 10 tackle the various groups of accounts (assets, liabilities, shareholders' equity). Each chapter covers the most important concepts for each type of account in enough depth to prepare students for subsequent financial and managerial accounting courses.

The text then returns to the financial statements by demonstrating the creation of the statement of cash flows and its uses, followed by an in-depth look at financial statement analysis in the final chapter. This brings the text full circle from starting with the financial statements, then breaking them down into their various elements, and returning back to the statements in full detail with a view to describing what the financial statements tell us, the users.

NEW TO THE SECOND CANADIAN EDITION

In addition to a thoroughly revised and updated text, the second Canadian edition boasts a number of new features and enhancements.

- 1. Conceptual Framework:** The conceptual framework has been enhanced in Chapter 1 and throughout the book.
- 2. Coverage of IFRS and ASPE:** Coverage of IFRS and ASPE has been thoroughly updated and enhanced throughout the book. Marginal icons indicate where IFRS and ASPE are mentioned in the main text, and the end of each chapter boasts a table summarizing how IFRS and ASPE approach the key concepts covered in the chapter.
- 3. Transaction Analysis:** Transaction analysis has been incorporated in the margins throughout the book, in equation format.
- 4. Investments Appendix:** In response to instructor needs, we have added an appendix at the end of the book dealing with accounting for investments.
- 5. Increased Coverage of Canadian Companies:** Wherever possible, Canadian companies have been used as examples throughout the text.
- 6. Student-Friendly Pedagogy:** In addition to the incorporation of transaction analysis, we have also made a number of student-friendly pedagogical enhancements to the book. These include
 - a. Memory Tips:** Found in the margin, these features provide students with helpful tips related to the concept discussed in the main text.
 - b. Still Don't Get It?:** These features assist students with accounting concepts that they tend to struggle with. These marginal icons direct students to MyAccountingLab where they will find an alternate explanation of the concept being discussed in the main text.
 - c. Colour Coding:** To enhance support of visual learners, we have implemented a colour coding strategy across the visuals in the text.
 - **A** ssets: Dark Blue
 - **L** iabilities: Peach
 - **O** wners' Equity: Dark Green
 - **D** ividends: Purple
 - **E** xpenses: Light Green
 - **R** evenues: Red

Changes to Each Chapter

Chapter 1 has been updated to include learning objectives that stress the importance of identifying the needs of different users of accounting information. We have also streamlined and simplified the conceptual framework, adding visuals to represent the different components of the conceptual framework and how they relate to each other.

Chapter 2 boasts new illustrations designed to help students understand how accounts are organized.

Chapter 3 includes new illustrations of the period assumption, as well as several new diagrams that illustrate accrual versus cash basis accounting. We have reclassified the adjusting entries as adjusting expenses and adjusting revenues versus accruals and deferrals, and added an alternate method for adjusting prepaid expenses and unearned revenue. This chapter also includes new adjusting examples.

Chapter 4 includes updates to the petty cash fund appendix with new examples and illustrations for clarity.

Chapter 5 has been updated to focus on the perpetual inventory system. We have moved the periodic inventory system to an appendix for reference. This chapter has been reorganized to divide freight-related activities between purchasing and selling.

Chapter 6 includes a new example of the specific identification method, and a more in-depth illustration and numerical example of lower of cost or net realizable value (LCNRV). We have also added a numerical example related to damaged goods.

Chapter 7 includes a new section dealing with the need for judgment in recognizing revenue. We have also added an exhibit that illustrates how the direct write-off method violates the matching principle. This chapter also includes a new section, entitled “The Adequacy of the Allowance for Doubtful Accounts,” which includes an example that illustrates the case of having a debit AFDA balance at the end of the period.

Chapter 8 has been updated to include a new learning objective on ratio analysis. We have added real-life examples from Canadian companies’ financial statements, as well as a CCA explanation with accompanying end-of-chapter questions. We have also added a new appendix on accounting for leases.

Chapter 9 has been enhanced with more real-life examples drawn from the financial statements of Canadian companies. We have also enhanced the coverage of the effective interest method.

Chapter 10 has been enhanced with more real-life examples drawn from the financial statements of Canadian companies.

Chapter 11 includes an introduction to the statement of cash flows using iconic illustrations. We have also added components of the statement of cash flows and an example of loss on sale of assets.

Chapter 12 has been thoroughly updated and includes new illustrations.

ENHANCEMENTS FOR LEARNING

Presenting Concepts with Clarity and Purpose

The first thing that will distract students is jargon and difficult language, especially when it comes to understanding accounting concepts. Waybright, Kemp, and Elbarrad have crafted a text that is written the way a great teacher would speak in class, with both clarity and purpose. Engaging, easy-to-understand examples are used throughout, facilitating the reader-friendly style of the text.

Question and Answer Format

Some of the most teachable moments happen when a student asks a key question that gets straight to the heart of a topic. This text mirrors that approach by providing key questions in the headers, followed by clear, direct, and detailed explanations.

So why is this important to you? Whether you want to be an accountant or a manager, you need to understand how business transactions are recorded. The final report card for your company, good or bad, is a result of this recording process. Would you want to play a game where you do not understand how the score is recorded and ultimately reported? Probably not. Understanding how accountants record business transactions is important.

HOW ARE ACCOUNTS USED TO KEEP BUSINESS TRANSACTIONS ORGANIZED?

L.O. 1 Define accounts and understand how they are used in accounting

As we discussed in Chapter 1, accounting provides useful information to various users. For the information to be useful for decision makers, it has to be detailed, which has four qualitative characteristics: (1) understandability, (2) relevance, (3) reliability, and (4) comparability. Therefore, to facilitate the detail required, accountants will create many categories to track information in. These categories are referred to as **accounts**. We have already seen accounts in use: When recording transactions in the accounting equation in Chapter 1, we created accounts such as Cash, Equipment, and Accounts Payable.

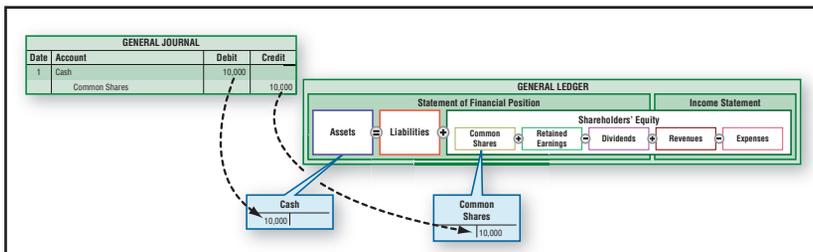
ORGANIZING ACCOUNTS

Accounts of similar types are usually grouped together. To make it easier for accountants and managers, each account is given a unique number (a code), which helps keep the accounts organized. Account numbers usually have two or more digits. The first digit indicates the type of account, while the remaining digits in an account number are used to specify the exact account. Generally, accounts are classified in the following order and start with the following numbers:

- A Asset Accounts 1
- L Liability Accounts 2
- OE Owners' Equity (Shareholders' Accounts) 3
- R Revenue Accounts 4
- E Expense Accounts 5

Seeing It All Together

Waybright, Kemp, and Elbarrad effectively illustrate the connection between accounting equations and big picture concepts by introducing a slight twist on the visuals used in the text. Instead of presenting the details of the journal entries, general ledger, and T-accounts in isolation, *Financial Accounting*, Second Canadian Edition, shows these details within the context of the accounting equation and financial statements. This approach helps students appreciate the steps involved in preparing and interpreting financial statements, which is critical to their understanding of the material and success in the course.



Transaction Analysis

Presented in the margin, transaction analysis has been linked to financial statements throughout the text to illustrate the impact of each transaction on the financial statement, and support the development of a basic understanding of the impact of everyday activities on the business.

Assets = Liabilities + Shareholders' Equity

+1,000 = +1,000

DATE	ACCOUNTS	POST REF.	DR.	CR.
Mar 15	Cash		1,000	
	Consulting Revenue			1,000
Received cash for consulting services.				

3.3 STILL DON'T GET IT?
Visit MyAccountingLab for an alternate explanation of this important accounting concept.

Assets = Liabilities + Shareholders' Equity

= +400 = -400

DATE	ACCOUNTS	POST REF.	DR.	CR.
Mar 15	Consulting Revenue			400
	Unearned revenue		400	
Decreasing the consulting revenue by the value of services that are provided and recognizing it as a liability.				

If at the end of March the accountant found that all the services had been provided, and since revenue is already credited when the cash was collected, nothing further is required to be done. However, let's assume that only \$600 worth of services is provided and the rest will be provided next month. In such a case an adjusting entry is needed to reduce March's revenue and to recognize a liability of \$400. The following entry would be required:

Demo Docs

The **Demo Doc** examples consist of entire problems, worked through step by step, from start to finish, narrated with the kind of comments that instructors would make in class. The Demo Docs are available in most chapters of the text. In addition to the printed Demo Docs, Flash-animated versions are available so that students can watch the problems as they are worked through while listening to the explanations and details. Demo Docs will aid students when they are trying to solve exercises and problems on their own, duplicating the classroom experience outside of class.

102 CHAPTER 3

DEMO DOC
MyAccountingLab Visit MyAccountingLab to watch animated versions of similar Demo Docs.

PREPARATION OF ADJUSTING ENTRIES, ADJUSTED TRIAL BALANCE, FINANCIAL STATEMENTS, CLOSING ENTRIES, AND POST-CLOSING TRIAL BALANCE

LEARNING OBJECTIVE 3-1 Apex Architects, Inc. has the following unadjusted trial balance at December 31, 2015:

Apex Architects, Inc. Unadjusted Trial Balance December 31, 2015		
ACCOUNT	DEBIT	CREDIT
Cash	\$124,000	
Accounts Receivable	96,000	
Supplies	3,500	
Prepaid Rent	24,000	
Land	68,000	
Building	270,000	
Accumulated Depreciation, Building		118,000
Accounts Payable		118,000
Unearned Service Revenue		38,000
Common Shares		50,000
Retained Earnings		64,700
Dividends	48,000	
Service Revenue		488,000
Salaries Expense	245,000	
Rent Expense	32,000	
Miscellaneous Expense	1,200	
Total	\$893,700	\$893,700

Apex Architects, Inc. must make adjusting entries related to the following items:

- Supplies on hand at year-end, \$800.
- Six months of rent (\$24,000) was paid in advance on September 1, 2015. No rent expense has been recorded since that date.
- Depreciation expense has not been recorded on the warehouse for 2015. The building has a useful life of 30 years.
- Employees work Monday through Friday. The weekly payroll is \$3,500 and is paid every Friday. December 31, 2015, is a Wednesday.
- Service revenue of \$18,000 must be accrued.
- A client paid \$38,000 in advance on August 1, 2015, for services to be provided evenly from August 1, 2015, through January 31, 2016. None of the revenue from this client has been recorded.
- Apex's tax rate is 30%.

Decision Guidelines

Decision Guidelines summarize the chapter's key terms, concepts, and formulas in the context of business decisions. Found throughout and at the end of each chapter, Decision Guidelines show each decision and how to evaluate it so students can readily see the value in, and for, a business. Overall, these guidelines continue to reinforce how accounting information is used to make decisions in business.

DECISION GUIDELINES

Completing the Accounting Cycle
In completing the accounting cycle for your business, you might encounter the following decisions:

DECISION	GUIDELINE	ANALYZE
As the bookkeeper for a company, how do I ensure that my accounting records are ready to start a new period?	Prepare closing entries for the temporary accounts: <ul style="list-style-type: none"> Revenues Expenses Dividends 	The temporary accounts have balances that relate only to one accounting period and need to be reset to \$0 before accounting for the next period can begin. To reset the temporary accounts, closing entries are made that close the account balances into Retained Earnings. This ensures that the net income for the following period can be tracked accurately. <p>Assets, Liabilities, Common Shares, and Retained Earnings do not get closed. These accounts are referred to as permanent accounts. Their balances are carried forward into the next period.</p> <p>After temporary accounts have been closed, a post-closing trial balance is prepared to ensure that all of the temporary accounts were properly closed.</p>

ACCOUNTING IN YOUR WORLD



Who Says There's No Free Lunch?

Have you ever eaten at a food court in a mall and seen a sign that says "If you do not get a receipt, your meal is free"? Why would the business care if you get a receipt? This is actually part of the business's internal control activities. You see, the company doesn't really care if you get a receipt, they just care that a receipt is printed. This practice prevents an employee from taking your money and pocketing it because once the receipt is printed, the sale is recorded. If the employee pockets your payment, the daily cash count will not match the daily record of sales and the theft will be detected. This example is just one of many control activities that businesses utilize as part of their internal control systems.

Stephen H. Brook/Shutterstock

CRITICAL THINKING

Take a minute to think about the impact of the following errors on the trial balance. What are the correct debit and credit balances? Does each error change the overall debit and credit balance? What is the impact on each of the assets, liabilities, and shareholders' equity accounts due to the errors?

Mehta Company's trial balance shows \$116,000 on both the debit and credit sides. Mehta's accountant found the following three mistakes:

1. Cash dividends of \$2,000 were incorrectly recorded as salaries expense.
2. A \$3,000 deposit from a customer for services to be delivered in the following month was incorrectly recorded as revenue.
3. Cash paid for equipment of \$1,000 was incorrectly recorded as purchase on account.

Solution:

Corrections needed:			Impact on Accounts:		
	DR	CR	Assets =	Liabilities +	SE
1. Dividends	\$2,000				+2000
Salaries Expense	\$2,000				-2000
2. Revenue	\$3,000				-3000
Unearned Revenue	\$3,000			+3000	
3. Accounts Payable	\$1,000			+1000	
Cash	\$1,000		-1000		

CONCEPT CHECK...

Jung just completed a problem that was assigned in her accounting class. She told Alan, one of her classmates, that she was confident that she did the problem correctly because the debits equal the credits on the trial balance. According to Alan, just because the debits equal the credits on the trial balance does not mean that everything was done correctly. Who is right, Jung or Alan?

Answer: Alan is correct. The following are some of the errors that can occur and yet the trial balance will still be in balance:

- A transaction can be recorded for the wrong amount in a journal entry.
- An entire journal entry can be recorded twice, or not recorded at all.
- The wrong accounts can be debited or credited in a journal entry. For example, when recording a payment on an account payable it is possible to debit Accounts Receivable instead of Accounts Payable.

FOCUS ON USERS

Concept	User	Why is This Important to This User?
Recording and Posting Transactions	Bookkeepers	Bookkeepers need to understand the process of accounting to be able to complete their jobs. The analysis of transactions is an important element of what they do. Even in a computerized environment it is important to understand the process because if something goes wrong technically, you need to be able to continue, fix the problem, and understand any hidden issues.
Trial Balance	Managers	Managers need to understand the process of accounting particularly for internal auditing and control purposes. For example, management needs to be able to verify the accuracy of what is recorded to be able to have confidence in what the financial statements are presenting.
	Government and regulatory agencies	Regulators are interested in the ways in which transactions are recorded and the impact of the choices made in recording transactions on the financial statements to make any necessary changes to regulations and guidelines.
	Bookkeepers	A bookkeeper will use the trial balance as a tool to double-check that the transactions in the general journal have been recorded properly. A balanced trial balance does not guarantee that the transactions are error-free, but it does provide a check-point where the accounting department can assess the transactions prior to creating the financial statements.

Accounting in Your World

Found in every chapter, the **Accounting in Your World** boxed feature personalizes accounting challenges, issues, and ethical situations for students to evaluate from their own perspective.

Critical Thinking

Critical Thinking questions appear throughout each chapter, providing students with the opportunity to think about the impact of the accounting treatment on the accounts, the financial statements, as well as on the company's financial objectives and shareholders' objectives. Critical thinking reinforces how accounting information is used to impact decision makers and their respective objectives.

Concept Checks

Concept Checks appear throughout the chapters so that students can review their understanding and interpretation of the material. By showing "what it is" and "why and when it matters" together, these checks allow students a place to pause and interpret what they've just learned.

Focus on Users

The **Focus on Users** feature shows the links between the concepts covered in each chapter and how that accounting information is used by a wide variety of individuals, whether they are inside an organization or outside, accountants or not. The main concepts of each chapter are examined from the viewpoints of various users, such as shareholders and investors, management, competitors, and unions. By demonstrating not only how to create information that communicates the activities of an organization, but also why this information is important to a wide variety of users, the reader will see the relevance of financial accounting for anyone in society. By highlighting these

differing viewpoints, the reader also gets a sense of the difficulty in pleasing all users with one set of financial accounting statements and the challenges that arise during the preparation of these statements.

PRACTICE MAKES PERFECT

Accounting Practice

Waybright, Kemp, and Elbarrad understand that the key to students' accounting success is in the practice and work completed in the end-of-chapter problem material. With this in mind, this text presents the material so that students progress from simple calculative exercises, to a mixture of calculative and conceptual exercises, and finally on to more complex, conceptual analysis problems and cases. This progression allows students to build confidence and achieve mastery of the material.

- **Self Check** questions quickly audit the students’ understanding of the chapter concepts by presenting them with a series of multiple choice questions.
- **Discussion Questions** help students make the connections between the “how” and the “why” of financial accounting information through a guided series of in-class discussion questions.
- **“A” and “B” sets of Exercises and Problems** provide students and instructors with two sets of exercises and problems in the text. Three sets of alternative exercises and problems are also available in MyAccountingLab to give students more practice opportunities.
- The **Continuing Exercise** highlights the same small business from chapter to chapter, allowing students to apply their understanding of chapter concepts in a business context. As students move through the text, they complete additional steps in this comprehensive exercise. Students are able to see the big picture and learn how the topics build on one another. The Continuing Exercise can be assigned and completed within MyAccountingLab.
- The **Continuing Problem** is a more comprehensive version of the Continuing Exercise, featuring a different small business. Once again, students learn how accounting is a process and the Continuing Problem helps them put it all together.

The questions in the **Know Your Business** section demonstrate how accounting is applicable in real life. Featuring **Financial Analysis**, **Industry Analysis**, and **Small Business Analysis** questions, students learn how to apply the concepts of each chapter to help them understand the significance of financial statement and industry analysis as a means to evaluate the financial health of a company. The financial and industry analysis questions feature one company, Bombardier, allowing students to see how chapter concepts are connected. The financial statements for Bombardier can be found in MyAccountingLab.

STUDENT RESOURCES

MyAccountingLab is a powerful online learning tool that not only provides opportunities for limitless practice, but re-creates 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
- An online, interactive Accounting Cycle Tutorial
- Mini-Cases
- Help Me Solve It question-specific interactive coaching
- A dynamic eText with links to media assets
- Accounting videos, animations, and DemoDocs
- “Still Don’t Get It?” features that provide alternate explanations to challenging concepts covered in the book

PREMIUM ONLINE COURSEWARE

Pearson’s MyAccountingCourse is a premium online course solution that combines fully customizable course lessons and tutorials with the personalized homework and assessment features of MyAccountingLab. Designed to be used in fully online or blended learning environments, MyAccountingCourse can accommodate various term lengths and includes an integrated eText and comprehensive Instructor Resource Guide.

102 CHAPTER 2

ACCOUNTING PRACTICE

DISCUSSION QUESTIONS

MyAccountingLab
The exercises and problems in this chapter can be found on MyAccountingLab. You can practice them as often as you want, and they feature step-by-step guided solutions to help you find the right answer.

1. The order in which assets were listed and described in the text is the order in which you will see them listed on the statement of financial position. What is the organizing principle behind the order in which assets are listed?
2. What type of transaction would result in the recording of a prepaid asset? What do you think will happen to that prepaid asset eventually?
3. How is revenue related to retained earnings?
4. Distinguish between an event and a transaction. Are all transactions events? Are all events transactions? Why or why not? What are the implications of your answers with respect to journal entries?
5. What is a “normal balance”? What are normal balances for the following accounts?
 - a. Accounts Receivable
 - b. Prepaid Expenses
 - c. Notes Payable
 - d. Retained Earnings
 - e. Salaries Expense
6. You learned in this chapter that cash is increased with a debit. When you deposit your paycheck in your account, however, the teller might say that he or she is going to credit your account. Why?
7. What would be the implications of a credit balance in the cash account?
8. Distinguish between journalizing and posting.
9. True or false: If the trial balance is in balance, the financial statements will be accurate. Why or why not?
10. When it comes time to prepare the financial statements, from where do the financial statement numbers come?

SELF CHECK

1. Which sequence of actions correctly summarizes the accounting process?
 - a. Prepare a trial balance, journalize transactions, post to the accounts
 - b. Post to the accounts, journalize transactions, prepare a trial balance
 - c. Journalize transactions, post to the accounts, prepare a trial balance
 - d. Journalize transactions, prepare a trial balance, post to the accounts
2. The left side of an account is used to record
 - a. debits.
 - b. credits.
 - c. debits or credits, depending on the type of account.
 - d. increases.
3. Suppose Sunshine Florists, Inc. has cash of \$40,000, receivables of \$30,000, and furniture and fixtures totaling \$170,000. Sunshine Florists, Inc. owes \$60,000 on account and has a \$120,000 note payable. How much is the shareholders’ equity?
 - a. \$240,000
 - b. \$120,000
 - c. \$180,000
 - d. \$60,000

MyAccountingLab

MyAccountingCourse

Features of MyAccountingCourse include:

- A flexible, customizable solution where an instructor may add, delete, and reorganize content. Each topic-based MyAccountingCourse module is built to specific learning outcomes, and MyAccountingCourse includes a comprehensive Instructor Resource Guide complete with course outcomes, lesson objectives, and teaching tips.
- Interactive lesson presentations with a proven learning model, robust content, and relevant video, audio, eText, downloadable MP3 lectures, and other rich media assets.
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INSTRUCTOR'S RESOURCES

Instructor's Teaching Tips Digital eText Resource



Instructors can easily locate useful teaching tips and resources throughout the eText located in MyAccountingLab. Easily identified by an apple icon throughout each chapter, instructors will find Chapter Overviews and Outlines, Assignment Grids, Ten-Minute Quizzes, and other valuable teaching resources, including how to integrate MyAccountingLab into their courses. Collated versions of this resource can also be downloaded from the Instructor Resources page at MyAccountingLab.

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

- **Instructor's Solutions Manual:** This manual contains thoroughly worked-through solutions to every question, exercise, problem, and case in the text. All solutions were prepared by the authors and technically checked twice by professional accountants.

- **Pearson TestGen:** Over 1,400 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.

- **Test Item File:** The test questions in the Pearson TestGen are also available as a Test Item File in Microsoft Word format.
- **Microsoft PowerPoint Presentations:** PowerPoint presentations offer an outline of the key points for each chapter. The PowerPoint presentations for this edition also include the same useful teaching tips and resources found in the eText. These tips include such helpful resources as illustrative real-life examples, analogies to facilitate learning, examples of problems for in-class use, discussion questions for in-class use, and tips and traps.
- **Image Bank:** The image bank contains digital copies of all of the exhibits and photos in the textbook. Instructors may use these JPEGs to create or enhance their own PowerPoint presentations.

All of these instructor supplements are available for download from a password-protected section of Pearson Canada's online catalogue (www.pearsoncanada.ca/highered). 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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