

Solution Manual for Financial Accounting A Critical
Approach CANADIAN Canadian 4th Edition by John Friedlan
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Chapter 2

Financial Statements: A Window on an Entity

Introduction

Key points from this section include:

- ◆ The section builds on some of the ideas from Chapter 1's discussion of the accounting environment. Chapter 1 introduced the existence of many different stakeholders with different information requirements and decisions to make. In this section the fact that entities provide a single set of general purpose financial statements for use by many stakeholders is explained. Students should recognize that there is a contradiction. There is one set of general purpose financial statements but many users with different information requirements and decisions. Thus the general purpose statements cannot satisfy the needs of all stakeholders. From this students should recognize that they have to assess the usefulness of the accounting information they receive and not just assume that it is useful.
- ◆ The situation for private companies is a little different because none of their accounting information is publicly disclosed. As result it is possible to better tailor information to the circumstances of particular stakeholders. This means that an entity may have its general purpose statements and additional reports designed for specific purposes.

Teaching suggestion: Some care is required here. Students can infer from this discussion the –two sets of books concept--one real and one for the tax auditors. It is important to address this issue. In Chapter 4 use an analogy of a student's resume. The question there is, is it inappropriate to prepare different resumes for different prospective employers, each one tailored to the specific job being applied for? Students will generally agree there is no problem with multiple resumes. The connection can then be made with different

accounting reports for different stakeholders. One is not better or more correct; different reports are simply tailored for different purposes.

- ◆ If an entity's statements are audited or reviewed by an accountant, those statements should be considered the general purpose statements.
 - ◆ Students should recognize that entities can prepare additional information for stakeholders if the entity chooses to do so. This situation depends on the power of that stakeholder (a significant lender or a major shareholder).
-

Teaching suggestion: Highlight the contradictions described above. This type of discussion is valuable for developing the need for careful evaluation of the information before using it for a decision.

Learning Objectives

After studying the material in this chapter you will be able to:

- LO 1 Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework
- LO 2 Recognize the basic accounting assumptions that are fundamental to contemporary accounting
- LO 3 Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them.
- LO 4 Describe and interpret the accounting equation
- LO 5 Explain the nature of assets, liabilities, owners' equity, revenues and expenses.
- LO 6 Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method.
- LO 7 Use financial statement information to assess the liquidity, risk and profitability of an entity.

New In This Edition

- Discussion of the IFRS Conceptual Framework and Basic Accounting Assumptions
- Several Questions for Consideration boxes, Insight boxes and Knowledge Checks
- New Exhibits for Leon's Furniture Ltd and Shoppers Drug Mart Corporation.

- Several new Exercises and new Problems and revised many more.

Chapter Overview

The main purposes of Chapter 2 are to:

- ◆ Familiarize readers with the standard financial statements and their components
- ◆ Introduce the accounting equation, transactional analysis, and the accounting equation spreadsheet
- ◆ Discuss different methods of accounting (cash and accrual)

Classroom Icebreakers

Small Groups

1) *Smile*. Write the word *smile* down on a sheet of paper and make reference to it during your lecture. It is easy to blow through a 2 hour lecture and not even remember to do the simple things like smile. Write down some other (non-lecture) things that you may want to refer to during the lecture. When I first started lecturing I wrote down this phrase; -always keep in mind that you know more than they do. This kind of reminder gave me confidence to get through my first year.

The 5 minutes before and after class are crucial for student contact. Some instructors, including colleagues of mine, do not feel the need to make the class *fun*. However, for optimal student engagement in the course instructors should attempt to make an effort to form some personal connection. The course doesn't necessarily need to be *fun* however there are many ways to make it interesting and enjoyable.

2) *What will students remember about you 30 years from now?* Do you remember your most influential instructors? These could have been school teachers, coaches and even members of your family. Take a minute and write down why they were so influential to you. Try and use those values in your course. I try to inspire my students. Since I am a first accounting course instructor I may be the one who *makes or breaks* a student's decision on a choice of major or even career. Try and inspire yourself with this phrase in mind before every class.

Large Groups

1) *Utilize music to set the tone before your lectures*. Early in the course you may want to control the ambiance (i.e. jazz, classical, etc.) At some point, let students bring in some of their CD's. Give students some ownership in your course. Many students in a required (pre-requisite) financial accounting course may experience anxiety. Studying accounting is not about fun and happiness. Create a *safe space* for them to exchange ideas.

2) *What did we discuss last class?* In the first lecture require students to purchase a stack of recipe cards (approximately \$1.50 per 100 cards). Have students bring the recipe cards to each lecture. In the beginning of each lecture ask each student to summarize the previous lecture by writing down key words and ideas on the recipe cards. It is crucial that you announce that this exercise will not be graded nor will they be required to write their name on the cards. Anonymity will allow them to write freely. Give them a few minutes then collect the recipe cards. Shuffle the cards and then pass one card each back to the students. Randomly choose one student to state a key word from the card e.g. stakeholder, then have that student call on another student to read the next key word. This exercise may continue for 5 or 10 minutes. The goal is to get students to think about the previous lecture, summarize important ideas, and then hear them in a forum. Skills introduced include thinking and listening.

You may also use this exercise at the end of a lecture. Collect the recipe cards at the end of the lecture and pass them out at the beginning of the next lecture. Inevitably, at least one student will say something funny.

Active Learning Techniques

Small Groups

1) Ask students to read through the Leons' annual report and ask them to write down any questions that come to mind. Collect their responses and quickly read through them to get some perspective on what is capturing the interest of the students. Grading is not necessary. At the end of the course hand them back to the students and ask them whether they are able to answer some or all of the questions they asked. Students are usually pleased to find they can answer many of the questions they posed.

2) *Collect expectation cards.* Ask students to write down on 3 x 5 inch cards -What is your perception of accounting? Collect the cards, hold on to them, and hand them back at the end of the course. When you hand them back ask them, —Did you learn anything?!

Large Groups

1) *One minute paper.* Give students a minute to write down a few ideas and their experience in accrual accounting. Give them a hint (something they may be familiar with). For example, paying the landlord last months rent or paying an extra 10 cents deposit per bottle at the beer store for the empties. After a minute either collect the cards or ask for volunteers to discuss their ideas. Use these examples to relate to course learning objectives.

All of your students have had experience in accounting they just may not realize it; for example, babysitting, paper routes, cutting lawns, selling Girl Guide cookies, etc. See if

they remember when they delivered papers for two weeks before collecting any money. That is accrual accounting at an easy level they can understand.

2) *Meta-essays / meta-assignments*. As students pass in or complete an assignment or exam, ask them to write about the experience of completing the assignment. What did they learn? How did they learn it? What surprised them? What are they most proud of? What are they still unsure of? This exercise allows students to take a moment to reflect on what they've done.

Lecture Notes

LO1 The IFRS Conceptual Framework

The framework states that the objective of financial reporting is to provide useful information to existing and potential equity investors, lenders, and other creditors in making decisions about providing resources to the entity. This is a narrow focus as other decision makers may be interested in the entity's financial reporting.

The following qualitative characteristics are discussed:

Fundamental Qualitative Characteristics:

- ◆ Relevance – information is relevant if it influences stakeholder decisions and;
- ◆ Faithful Representation- association between underlying information being represented and the representation of that information. Accounting information is a faithful representation if it's complete, neutral, and free from error.

The following enhancing qualitative characteristics:

- ◆ Comparability – achieved if transactions are accounted for the same way
- ◆ Verifiability – information is verifiable if independent and knowledgeable observers can come with similar results for measuring an attribute
- ◆ Timeliness – information must be available in time to influence the stakeholders' decisions
- ◆ Understandability – information must be understood by stakeholders

LO2 Basic Accounting Assumptions

All contemporary sets of accounting standards have some assumptions in common:

- ◆ Unit-of-measure assumption – economic activity of an entity can be effectively reported in terms of a single unit of measure (money)
- ◆ Entity concept – an entity can provide information that is separate from the information of owners / other entities
- ◆ Going concern - - an entity will continue operations for the foreseeable future
- ◆ Periodic reporting- meaning financial information about an entity can be provided for period of time that are shorter than the entity's life

LO3 General Purpose Financial Statements

Leon's Furniture Limited: An Overview

The overview to Leon's financial statements explains four aspects of the statements. These aspects are common to most financial statements students will encounter. These aspects can be applied to the financial statements of other entities that instructors integrate into their courses. Other general attributes of financial statements can be addressed at this time.

Key points from this section include:

- ◆ Leons financial statements are consolidated (Please note that Leon's Financial Statements used in the exhibit are IFRS compliant).
- ◆ The financial statements are prepared on a comparative basis.
- ◆ The financial statements are prepared for a period of time (the consolidated statements of financial position, income statements, statements of changes in equity and statements of cash flows).
- ◆ All amounts in the financial statements are expressed in terms of money. This point can be linked back to the discussion in Chapter 1 of accounting being for measurement. Here students can see how the single unit of measure is actually applied to financial statements. The benefits of a single unit of measure and the limitations can be discussed in the context of an actual set of financial statements.
- ◆ The issues underlying these topics can be complex. When you mention consolidation to MBA students the issue of goodwill usually comes up.

Teaching suggestion: Once students have read the annual report/financial statements many may have questions about what they read. The overview is an opportunity to address some of these questions. A question period at this time can create interest among students about the nature of accounting and the mystery and judgment associated with it, as well as feed the students' curiosity. It is also possible to get too far ahead of yourself and spend a lot of time on this. The question period is worthwhile at this point but you may need to limit the time and the depth of the answers.

LO3, LO4, LO5 The Balance Sheet

This section introduces the balance sheet and discusses a number of related issues. These include:

- ◆ The accounting equation
- ◆ The accounting equation spreadsheet and some basic transactional analysis
- ◆ The definitions of assets, liabilities, and owners' equity
- ◆ Using financial statements for analysis

Key points from this section include:

- ◆ Introduction of the accounting equation. The accounting equation represents the structure of the balance sheet and as well as the fundamental identity of accounting.

The point is emphasized that the accounting equation is not exclusive to GAAP or Canada. It can be applied to any set of accounting standards.

- ◆ The discussion of the accounting equation spreadsheet serves as a gentle introduction to the procedural side of accounting, which is discussed thoroughly in Chapter 3. The example developed shows how amounts are entered into a spreadsheet (only asset, liability, and equity accounts are used) and how the information in the spreadsheet (the accounting system) is used to prepare the balance sheet.
- ◆ The coverage of assets addresses most of the standard issues such as the definition of assets and current versus non-current assets. The exhibit identifies specific assets on Leons' balance sheet and explains why each is classified as an asset. This useful exhibit provides a practical demonstration of how IFRS defines an asset (i.e. measurable, future benefit, control and past transaction). These asset criteria are not unique to IFRS as a very similar set of criteria is also part of ASPE. The section discusses some of the limitations of the asset definition (some items that might intuitively be considered assets, for example Leons' brand name, are not classified as such, and market values are not reported). Also, different measures used to value assets are explained. For example, inventory is recorded at cost when purchased. However, per IFRS capital assets could be reported at cost or market value.

Teaching suggestion: The discussion of assets is a good opportunity to demonstrate some of the shortcomings of ASPE and / or IFRS accounting. In particular, discussion of the assets that are not reported on the balance sheet. Students can be asked to take a thoughtful look at the balance sheet and identify anything they see missing. Missing assets that could be identified include human resources, reputation, and market values. This discussion is valuable because it highlights that the balance sheet is not comprehensive.

-
- ◆ The coverage of liabilities addresses the liability criteria as defined by IFRS. The difference between current versus non-current liabilities is explained. The exhibit specifies different liabilities on Leons' balance sheet and explains why each is classified as a liability.

LO7 Using Balance Sheet Information to Analyze Liquidity

- ◆ Discussion and interpretation of the working capital and current ratio . Financial analysis is introduced early in the book. The objective is to get students thinking about how to use the information in financial statements right from the beginning. These ratios, as is the case with all the financial statement analysis material in the book, are discussed thoroughly in the context of Leons.
- ◆ A number of key points are emphasized in the discussion. First, numbers in financial statements may raise questions in the minds of users but rarely provide answers. Financial analysis may provide some additional insight but even then more information may be required. Second, accounting numbers and ratios cannot be considered in a vacuum. They must be assessed relative to some benchmark (previous years, similar entities, etc.).

LO5 Owner's Equity

- ◆ The coverage of owners' equity includes the definition of shareholders' equity, as well as retained earnings. Common shares and dividends are also briefly discussed.

LO7 The Debt-to-Equity Ratio

- ◆ Discussion and interpretation of the debt-to-equity ratio. Key terms such as principal and interest are also explained.

LO3, LO4, LO5, LO6, LO7 The Income Statement

This section introduces the income statement and discusses a number of related issues. These include:

- ◆ The income statement as a measure of performance
- ◆ Cash and accrual bases of accounting
- ◆ Alternative measures of performance (cash versus accrual)
- ◆ Preliminary discussion of the meaning of revenue and expense
- ◆ Financial statement analysis using income statement numbers

Key points from this section include:

- ◆ Expansion of the accounting equation to include the income statement components. The link between the balance sheet and the income statement is often difficult for students to understand at first. Students should understand that net income is a measure of the economic gain or loss by the owners of an entity, which is why it affects owners' equity.
- ◆ Some instructors might want to point out (without much elaboration) that net income as a measure of the change in wealth of owners is not the only approach (entity versus proprietary approaches, for example). Other approaches exist and could be used. These types of observations reinforce the idea that accounting is not an absolute.
- ◆ The relevance of net income (and other measurements) for specific purposes such as performance evaluation, bonus determination, valuation, and tax determination. These different situations provide an opportunity to ask whether a manager would prefer higher net income or lower net income. Student easily grasp the idea that lower income is better if the use of the statement is to determine taxes. This reinforces the idea that preparers will approach their financial reporting depending on the use of the information. It is important to emphasize that the different ways of accounting does not change the underlying economic activity of the entity. In discussions of the impact of accounting choice on accounting numbers students should be reminded that accounting choice does not alter the underlying economic activity of the entity, just the accounting representation of that activity.
- ◆ Introduction to cash and accrual accounting and comparison of the two approaches. The Melissa's Painting Business example provides a straightforward comparison and discussion of the two methods. The example highlights that the same economic activity can be reported in different, legitimate ways. Introduction to the concept of depreciation and implicitly to the matching concept. (The term matching is not

specifically mentioned but the idea that under accrual accounting expenses are costs incurred to earn revenue is explained.)

Teaching suggestion: When examining two income statements (cash and accrual) ask students which is better. Ideally, a responding student will make a choice and then ask why. The objective of the discussion is to get students to realize that the best measure depends on what one is trying to find out.

LO3 Leon's Income Statement

- ◆ The section on Leons' statement of earnings applies the general concepts introduced in the section on Leons' income statement. A brief introduction to some common expenses (e.g. salaries, advertising etc) is provided. Leons' gross margin and gross margin percentage ratios are calculated and discussed. This material can be discussed explicitly in class or can be discussed in the context of another company's income statement. One benefit of using Leons' income statement is the detail it provides. Also,
It is not possible to interpret net income (or other income statement or financial statement measures) in absolute terms. The assessment must be made relative to something—such as a previous period, a similar entity, or some other benchmark. It might be interesting to point out (though it might be early now) at some point during the course the relationship between accounting earnings and stock prices.

LO3 The Statement of Comprehensive Income

This section introduces the comprehensive income and discusses a number of related issues. These include:

- ◆ Definition of comprehensive income
- ◆ Other comprehensive income
- ◆ Comparison of net income and comprehensive income using Leons' financial statements

Key points from this section include:

- ◆ Comprehensive income is intended to measure all transactions and economic events that affect non-owners and equity.
 - ◆ Comprehensive income is comprised of other comprehensive income and net income.
 - ◆ Other comprehensive income includes those transactions that affect equity but not included in net income.
 - ◆ Accumulated comprehensive income appears on the balance sheet and current's year comprehensive income is added to or subtracted from the accumulated comprehensive income (i.e. the same treatment as for the retained earnings balance sheet account)
-

Teaching suggestion: When explaining the concept of comprehensive income ask the students why they think this measure is part of the IFRS. The objective of the discussion is for students to recognize that in the past companies could hide some adjustments in the retained earnings as a one-lump-sum figure. Some examples of such adjustments are provided in the subsequent chapters.

LO3, LO4 The Statement of Changes in Equity

IFRS requires companies to provide a statement of shareholder's equity, whereas ASPE requires a statement of retained earnings. The statement of shareholder's equity presents changes in each account of the equity section whereas the statement of retained earnings summarizes the changes without breaking them down in other comprehensive income and net income.

It is worth pointing out that retained earnings and cash are not the same thing. Since dividends reduce retained earnings some students extrapolate that it is possible to pay dividends as long as there is some retained earnings. The accounting equation can be used here to show how investments by owners correspond with many different assets, not just cash.

This section explains that dividends are not considered expenses when calculating net income since they are distributions of the shareholders' investment.

LO3 The Statement of Cash Flows

The discussion of the cash flow statement is used to highlight the different ways that performance can be measured (cash versus accrual) and the importance of cash for an entity. (This discussion ties back to the comparison used in the Melissa's Painting Business example.) Because of the emphasis placed on accrual accounting as the primary reporting method, it is easy for students to lose track of the importance of cash. This point should be emphasized time and time again. Remind your students that creditors want to be paid in cash, not net income. While it is not possible to get into the details of why cash flow and income are different (although the concept is demonstrated in the Melissa's Painting Business example), it is important for students to be aware that the existence of net income does not automatically mean that there is cash.

LO3, LO4 The Relationship Among the Financial Statements

The relationship between different financial statements is explained and several examples are provided. For instance while the cash balance is shown on the balance sheet, its flow (or how the corporation's activities during the year affecting cash) is shown on the cash flow statement.

Teaching suggestion: Students often fail to keep in mind the relationship among the financial statements. Consider allocating time to this topic throughout the course as the students' accounting knowledge broadens. In this chapter, you could show Leons' financial statements (or another set of financial statements that you are using in your course) and ask the students to trace the net income figure to another account on the financial statements (e.g. tracing the net income figure to the retained earnings account on the balance sheet).

LO3 Notes to the Financial Statements

The existence and importance of the notes is introduced. Examples are provided. The accounting policy note is explained. Throughout the book the notes to Leons' financial statements and examples from other entities are provided.

Teaching suggestion: Select some specific notes from the financial statements you are using in the course or from the Leons material in the appendix to show the importance of the notes. Show how they expand the information in the financial statements and provide information not reported in the statements themselves.

Users of Leons' Financial Statements

The section builds on the accounting environment that was introduced in Chapter 1. From the more general context of Chapter 1 students now have to think about stakeholders of an actual entity. Here they have to *apply* a general framework. Students should not only be asked to identify possible stakeholders, but they should also be asked to explain the –stake each has in the entity, the type of decisions each would have to make, and the type of information that each stakeholder would require to make the decision.

LO 4 Format of General Purpose Financial Statements

Accounting students (and undoubtedly students of other subjects) often focus on the right way (and only way) to do things. The format of financial statements is an example. Some students will want to learn the right way to format the statements. Respond to such requests by explaining that the information in financial statements should be organized to meet the needs of the people using those statements and it is not possible to describe a best approach for all situations. This section of the chapter emphasizes this point. Even under ASPE or IFRS there are no specific requirements for how financial statements should be presented. The *CICA Handbook* requires that certain information be included in the financial statements, but the preparer decides how that information is presented. IFRS suggests how the financial statements could be organized but this format is not mandatory. The section provides a comparison between the balance sheet statements of Leons' and Edleun Group Inc. While both companies use IFRS, their balance sheets look different. While the format issue is not very important, it is included to reinforce the ongoing theme that there are few absolutes in accounting. Rather, alternatives are

available in many situations and the preparers of the financial statements must exercise judgment (and users must exercise judgment when using them).

Teaching suggestion: Students often tend to provide generic answers to application questions. Instructors should push students to be specific. Being specific means applying the circumstances of a situation when answering a question. This approach is very important for the development of problem solving and critical thinking skills.

For instructors who use an entity's financial statements other than Leons for discussion purposes in their courses, students can be asked to identify the users of that entity's financial statements. Some users will be fairly obvious (shareholders, major lenders) but other may be more subtle and would require a careful reading of the annual report and perhaps some insights into the entity itself to identify. For example, customers of a computer company will be more interested in having some confidence about the long-term viability of the company (because of the need for customer support and warranty service) and therefore interested in the financial statements than customers of a snack food company.

LO3 Other Accounting Information

Financial statements are the most commonly seen product of accounting systems and accountants. However, accountants may prepare any type of report to satisfy the needs of users, so long as the entity is willing to provide the information and the information is available. Accounting reports that are prepared to meet the needs of specific users and/or a specific use are called special purpose reports. Special purpose reports normally would not be made publicly available even by public companies, which is why they are not often seen.

Solved Problem

The solved problem gives students the opportunity to engage in some introductory transactional analysis, statement preparation (balance sheet, and income statements prepared on the cash and accrual bases), and financial analysis.

Students are required to prepare income statements on cash basis and accrual basis. Students are not asked to discuss the two income statements of the solved problem, but some classroom discussion of why cash flow and net income are different could be useful in helping students understand the differences between these two accounting methods. This part of the problem can be used to reinforce (either in class or by students on their own) the concepts that were raised in the Melissa's Painting Business example.

Students also get a chance to use the financial ratios introduced in the chapter. Because SSRC is a new business and no comparative data is available it is not possible to gain

much in the way of insight about the company. However, students should get into the habit of interpreting their analyses. Emphasize the point that financial analysis is carried out for a purpose and the amounts and ratio analysis need to be interpreted.

Writing Assignments

Require students to write a 250-500 word essay that they will discuss during the seminar.

1) Ask students to describe how their tuition money flows through your institution.

You could invite a guest lecturer from your university to discuss issues such as operating revenues (grants and tuition), operating expenses (salaries and scholarships) and pension liabilities of the university; all of this information is likely available in the University financial statements. Consider discussing issues such as the impact of the -tuition freeze in Ontario and how that would affect both the university's financial statements in the future and student's as stakeholders in the university. Very few students actually know how their tuition flows through the university. I find it easier to teach students about accounting when I use their own money in my examples. For instance, when explaining deferred revenue, students are obviously aware that they pay their tuition fees in August, long before they are provided with any services (education). For that reason, since the University has received payment before recognizing any revenue, the tuition payment in August must be classified as a liability before the fall term begins, even though they have the cash.

Another interesting discussion develops when the -funding formula is described for universities in Ontario. Most students have no idea how their tuition is matched by the province and that some programs are more profitable than others in terms of the matching grants from the province. The key here is not to provide bias or opinion but to highlight the method in which the university recognizes revenue. Then when analyzing the Statement of Operations students examine whether or not the university is running a deficit or a surplus and the discussion will always lead to questions about "why"?

2) Ask students to research a Canadian public company (Tim Horton's Inc.) on **www.sedar.com**. Have them report what type of information is provided both financial and non-financial.

Tim Hortons Inc.

P R O F I L E

Mailing Address: 874 Sinclair Road Oakville, Ontario L6K 2Y1	Head Office Address: 874 Sinclair Road Oakville, Ontario L6K 2Y1
Contact Name: Jill Aebker	Principal Regulator: Ontario
Business e-mail address: jill_aebker@tmhordons.com	Short Form Prospectus Issuer: No
Telephone Number: 905 339-6102	Reporting Jurisdictions: All provinces and territories of Canada
Fax Number: 905 815-6567	Stock Exchange: TSX, NYSE
Date of Formation: Jun 23 2008	Stock Symbol: THI
Jurisdiction Where Formed: Canada	Auditor: PricewaterhouseCoopers LLP
Industry Classification: hospitality	General Partner:
CUSIP Number: 88706M	Transfer Agent: Computershare Investor Services Inc.
Financial Year-End: Dec 31	Size of Issuer (Assets): Over \$1,000,000,000

Short Cases

Case 1

Narada's accounting professor organized a Monopoly tournament (Parker Brothers game) for 32 students. The tournament took place last week and Narada made it to the finals and lost to her professor. She was confident that she would win the final game but her professor maintained his undefeated lifetime record of 187 wins and no losses using a simple strategy. He would buy only one set of properties, no utilities, no railroads and try to put up the houses and hotels faster than the other players.

Required

The professor asked each student to discuss the results of this tournament and relate some of the strategies to the course learning objectives.

Solution:

My father taught me this foolproof strategy to win at monopoly. In fact, I have never lost a game using it. He would focus on his cash flow and liquidity while the other players were building a diversified empire. I would always have more properties but no liquidity. Remember the game is not about long-term asset management (balance sheet), profitability (income statement) or sustainability (qualitative issues). The goal of the game is to bankrupt your opponents ... *fast*. Use this case as a way to describe the different financial statements or different motivations of various stakeholders.

Case 2

Accounting standards in Canada are now changing to the International Financial Reporting Standards and all public companies will be required to issue IFRS compliant financial statements starting 2011.

Required:

Why has Canada chosen international and not U.S. standards when our two economies are so closely linked?

Solution:

- Increased costs in compliance
- Large Canadian companies (Rogers, Nortel, etc.) registered with Securities and Exchange Commission are permitted to use U.S. instead of Canadian GAAP.
- U.S. GAAP too detailed for small Canadian public corporations to adopt.

Assignment Topic Grid

Chapter 2

<i>Problem</i>	<i>Topic</i>	<i>Difficulty</i>	<i>Time</i>	<i>LO1: Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework</i>	<i>LO2: Recognize the basic accounting assumptions that are fundamental to contemporary accounting</i>	<i>LO3: Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them</i>	<i>LO4: Describe and interpret the accounting equation</i>	<i>LO5: Explain the nature of assets, liabilities, owner's equity, revenues and expenses</i>	<i>LO6: Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method</i>	<i>LO7: Use financial statement information to assess the liquidity, risk and profitability of an entity.</i>
Q2-1	Components of Financial Statement Package	Basic	5min.			✓				
Q2-2	Differentiate Between Cash and Accrual Accounting	Basic	5min.						✓	
Q2-3	Format of Financial Statements	Basic	5min.			✓		✓		
Q2-4	Problems with General Purpose Financial Statements	Basic	5min.			✓		✓		
Q2-5	General Purpose	Basic	5min.			✓		✓		

	Financial Statements									
Q2-6	Balance Sheet as a Photograph. Explain.	Basic	5min.			✓		✓		
Q2-7	Net income: cash basis vs. accrual basis	Basic	5min.					✓	✓	
Q2-8	Cash as a key asset	Basic	5min.							✓
Q2-9	Explain Terms (Assets, Liabilities etc)	Basic	5min.					✓	✓	
Q2-10	Explain Accounting Measurements (Ratios)	Basic	5min.							✓

<i>Problem</i>	<i>Topic</i>	<i>Difficulty</i>	<i>Time</i>	<i>LO1: Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework</i>	<i>LO2: Recognize the basic accounting assumptions that are fundamental to contemporary accounting</i>	<i>LO3: Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them</i>	<i>LO4: Describe and interpret the accounting equation</i>	<i>LO5: Explain the nature of assets, liabilities, owner's equity, revenues and expenses</i>	<i>LO6: Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method</i>	<i>LO7: Use financial statement information to assess the liquidity, risk and profitability of an entity.</i>
Q2-11	Classify Assets	Basic	5min.					✓		
Q2-12	Classify Liabilities	Basic	5min.					✓		
Q2-13	Treatment of Research Costs	Basic	5min.						✓	✓
Q2-14	Difference Between Capital Stock and Retained Earnings	Basic	5min.					✓	✓	
Q2-15	Explain Comprehensive Income	Basic	5min.					✓		

Q2-16	Explain Concept of Liquidity	Basic	5min.								✓
Q2-17	Evaluate Liquidity of a Distillery	Basic	5min.								✓
Q2-18	How Net Income Affects Owners' Equity	Basic	5min.								✓
Q2-19	How Dividends Affect Retained Earnings	Basic	5min.					✓			-
Q2-20	Assessing Survival of an Entity	Basic	5min								✓

<i>Problem</i>	<i>Topic</i>	<i>Difficulty</i>	<i>Time</i>	<i>LO1: Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework</i>	<i>LO2: Recognize the basic accounting assumptions that are fundamental to contemporary accounting</i>	<i>LO3: Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them</i>	<i>LO4: Describe and interpret the accounting equation</i>	<i>LO5: Explain the nature of assets, liabilities, owner's equity, revenues and expenses</i>	<i>LO6: Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method</i>	<i>LO7: Use financial statement information to assess the liquidity, risk and profitability of an entity.</i>
Q2-21	Annual Reporting Requirement	Basic	5min			✓				✓
Q2-22	Reporting More Than Once Per year	Basic	5min			✓				
Q2-23	Varying levels of Disclosure	Basic	5min			✓				✓
Q2-24	Relevance and faithful representation	Basic	5min	✓						
Q2-25	Qualitative characteristics of f/s	Basic	5min	✓						
Q2-26	IFRS assumptions	Basic	5min		✓					
Q2-27	Periodic reporting	Basic	5min		✓					
Q2-28	Unit-of-measure	Basic	5min		✓					
E2-1	Accounting Equation	Basic	5min.				✓			
E2-2	Accounting Equation	Basic	5min.				✓			

E2-3	Classification of balance sheet accounts	Basic	5min.			✓		✓		
E2-4	Calculate ending Retained Earnings	Basic	5min.			✓				
E2-5	Prepare a Statement of Comprehensive Income	Basic	5min.			✓				
E2-6	Prepare a Statement of Comprehensive Income	Basic	5min.			✓				
E2-7	Calculate ending Retained Earnings	Basic	5min.			✓				

<i>Problem</i>	<i>Topic</i>	<i>Difficulty</i>	<i>Time</i>	<i>LO1: Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework</i>	<i>LO2: Recognize the basic accounting assumptions that are fundamental to contemporary accounting</i>	<i>LO3: Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them</i>	<i>LO4: Describe and interpret the accounting equation</i>	<i>LO5: Explain the nature of assets, liabilities, owner's equity, revenues and expenses</i>	<i>LO6: Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method</i>	<i>LO7: Use financial statement information to assess the liquidity, risk and profitability of an entity.</i>
E2-8	Classification of Cash Flows	Basic	5min.			✓				
E2-9	Classification of Cash Flows	Basic	5min			✓				
E2-10	Prepare a Balance Sheet	Basic	5min			✓		✓		
E2-11	Complete Statements of Income and Retained Earnings	Basic	10min.			✓	✓			
E2-12	Complete Statements of Income and Retained Earnings	Basic	10min.			✓	✓			
E2-13	Classification of Cash Flows	Basic	5min.			✓				
E2-14	Prepare a Statement of Cash Flows	Medium	10min.			✓				
E2-15	Prepare a Statement of Cash Flows	Medium	10min.			✓				

E2-16	Classifying Items on the Financial Statements	Basic	5min.			✓		✓		
E2-17	Classifying Items on the Financial Statements	Basic	5min.			✓		✓		
E2-18	Calculation of ratios	Medium	10min.							✓
E2-19	Calculation of ratios	Medium	10min.			✓				✓

<i>Problem</i>	<i>Topic</i>	<i>Difficulty</i>	<i>Time</i>	<i>LO1: Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework</i>	<i>LO2: Recognize the basic accounting assumptions that are fundamental to contemporary accounting</i>	<i>LO3: Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them</i>	<i>LO4: Describe and interpret the accounting equation</i>	<i>LO5: Explain the nature of assets, liabilities, owner's equity, revenues and expenses</i>	<i>LO6: Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method</i>	<i>LO7: Use financial statement information to assess the liquidity, risk and profitability of an entity.</i>
E2-20	Calculation and interpretation of the debt-to-equity ratio	Medium	10min.				✓			✓
E2-21	Calculation and interpretation of the gross margin percentage	Medium	10min.				✓			✓
E2-22	Prepare income statements using cash and accrual accounting	Medium	10min.			✓			✓	
E2-23	Prepare income statements using cash and accrual accounting	Medium	10min.			✓			✓	
P2-1	Complete a Set of Financial Statements	Medium	30min.			✓	✓	✓		

P2-2	Preparing an Income Statement	Basic	10min.			✓		✓		
P2-3	Prepare and Interpret an Income Statement	Basic	10min.			✓			✓	✓
P2-4	Explaining Assets	Basic	5min.					✓		
P2-5	Explaining Assets	Basic	5min.					✓		
P2-6	Explaining Liabilities	Basic	5min.					✓		
P2-7	Prepare a Balance Sheet	Medium	15min.			✓		✓		
P2-8	Prepare a Balance Sheet	Medium	10min.			✓		✓		
P2-9	Prepare a Balance Sheet	Medium	15min.			✓		✓		
P2-10	Prepare Balance Sheet	Medium	15min.			✓		✓		

<i>Problem</i>	<i>Topic</i>	<i>Difficulty</i>	<i>Time</i>	<i>LO1: Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework</i>	<i>LO2: Recognize the basic accounting assumptions that are fundamental to contemporary accounting</i>	<i>LO3: Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them</i>	<i>LO4: Describe and interpret the accounting equation</i>	<i>LO5: Explain the nature of assets, liabilities, owner's equity, revenues and expenses</i>	<i>LO6: Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method</i>	<i>LO7: Use financial statement information to assess the liquidity, risk and profitability of an entity.</i>
P2-11	Prepare and Income Statement using cash and accrual accounting	Medium	15min.			✓			✓	✓
P2-12	Prepare and Income Statement using cash and accrual accounting	Medium	15min.			✓			✓	✓
P2-13	Correcting a Balance Sheet	Medium	15min.			✓		✓		
P2-14	Calculation and interpretation of the gross margin percentage	Medium	15min.				✓			✓
P2-15	Calculation and interpretation of the gross margin percentage	Medium	15min.				✓			✓

P2-16	Calculation and interpretation of the current ratio	Medium	15min.				✓			✓
P2-17	Calculation and interpretation of the current ratio	Medium	15min.				✓			✓
P2-18	Calculation and interpretation of the gross margin percentage	Medium	15min.				✓			✓
P2-19	Analyze financial information	Difficult	10min.			✓				
P2-20	Understanding the impact of transactions on financial ratios	Difficult	10min.	✓				✓		
P2-21	Understanding the impact	Difficult	10min.	✓				✓		
P2-22	Prepare financial statements from a list of accounts	Difficult	10min.			✓	✓			
P2-23	Prepare an income statement and balance sheet from a list of accounts	Difficult	10min.			✓	✓			
P2-24	Evaluate the format of a balance sheet	Difficult	10min.	✓						
P2-25	Prepare a statement of cash flows	Difficult	10min.				✓			
P2-26	Prepare a statement of cash flows	Difficult	10min.				✓			

<i>Problem</i>	<i>Topic</i>	<i>Difficulty</i>	<i>Time</i>	<i>LO1: Understand the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information as described in the IFRS conceptual framework</i>	<i>LO2: Recognize the basic accounting assumptions that are fundamental to contemporary accounting</i>	<i>LO3: Identify components that make up a set of general purpose financial statements, understand the information each statement provides, and prepare simple examples of them</i>	<i>LO4: Describe and interpret the accounting equation</i>	<i>LO5: Explain the nature of assets, liabilities, owner's equity, revenues and expenses</i>	<i>LO6: Differentiate between accrual-basis and cash-basis accounting, and prepare simple income statements using each method</i>	<i>LO7: Use financial statement information to assess the liquidity, risk and profitability of an entity.</i>
P2-27	Explain whether and why an expenditure is an asset	Difficult	10min.			✓				
P2-28	Classify the effect of economic events on cash and accrual income	Difficult	15min.			✓	✓			
P2-29	Classify the effect of economic events on cash and accrual income	Difficult	15min.		✓			✓		
P2-30	Prepare balance sheets using different asset values	Difficult	15min.				✓			
P2-31	Prepare a personal balance sheet	Difficult	15min.	✓	✓	✓				