Question 1

3 accounting standards in Canada, why they are required, provide 2 reasons with supporting details.

- Accounting standards are required to maintain proper order and conduct and set up centralized accounting standards
- Ensure that financial documents adhere to a guideline that is easy to interpret
- **ASPE - Accounting Standards for Private Enterprises**
  - Accounting standards for private enterprises + used by small businesses
  - Allows Canadian medium/small-businesses to keep financial statements private if their stocks are not traded in stock exchange, simpler standards
  - Provide standard principles + info - help increase confidentiality for owners, decision makers, creditors, lenders, credit rating agencies, suppliers
- **IFRS - International Financial Reporting Standards**
  - Guideline for accounting standards set by CICA (Canadian Institute of Chartered Accounting), internationally recognized guideline to formulate financial statements.
  - large businesses (that have different locations across the world)
    - Simplify accounting procedures
    - Give investors + auditors a comprehensive view of financial statements
    - Easier for investors to compare international businesses
  - Public companies (in the stock market)
  - Ensures that all global markets follow the same accounting standards
  - Ensure financial statements are comparable, consistent, transparent at international levels
- **Income Tax Act (Tax Basis Accounting)**
  - Canadian Act that dictates the acceptable standards and rules to prepare income tax returns
  - Income Tax returns are documents that are prepared each year and sent to the government
  - Individuals/businesses can get tax refund or end up with tax payable
    - Tax refund means the government will pay the value to the business, while payable means the business must pay the government.

Question 2

4 ways the term “on account” is used, why it is important for the accrual basis of accounting, provide examples and explain

- The accrual basis of accounting is a system of accounting that relies on the Revenue Recognition and Matching principles, which state that revenues and expenses are recorded at the moment at which they are incurred and that expenses must be matched with revenue in same fiscal period. It relies on recording when revenue and expenses are earned/incurred. This system is facilitated by adjusting entries that provide an accurate representation of the business’ financial position.

- The 4 ways “on account” is used are: **purchase on account**, which means you will pay for a good or service you are receiving now later, **sale on account**, which means you will be paid for a good or service you are offering now later, **payment on account**, which means that you are now paying for a good or service you received earlier, and **receiving on account,** which means you are now being paid for a good or service you offered earlier.
- This is important for the accrual basis of accounting as “on account” **more accurately depicts the financial position of the business**. For example, if you purchase on account, you still owe money to whoever you purchased from, but failing to properly include this on financial documents would understate your accounts payable and violate both the Revenue Recognition and Matching Principles
    - Same thing if you have a sale on account, since Revenue Recognition Principle states that you have to record revenue when it is earned, not when cash is received

Question 3

Explain the accounting ethical principles: integrity, objectivity, competence, and confidentiality, relate them to a scenario, and use supporting details.

- **Integrity** in accounting means that accountants are expected to conduct themselves honestly and do the right thing
    - Violation: Knowingly violating a principle of GAAP
- **Objectivity** in accounting means that accountants view matters clearly and free from bias + conflicts of interest.
    - Violation: The owner or someone with a personal stake in the company does the accounting work
- **Competence** in accounting means maintaining the required skill level to correctly and efficiently perform their tasks and serve their clients effectively.
    - Violation: Someone who is not trained to be an accountant does accounting work and will fail everyone
- **Confidentiality** in accounting is the idea that all accounting information is sensitive and clients must be able to trust their accountants with this information, so that the accountants can act on client’s best interests. Free flow of info, protected from disclosure
    - Violation: Disclosing financial information to the public or entities who should not know the sensitive information

If asked to do something that violates a principle of GAAP, doing so would be against being an accountant with integrity, as you would knowingly be performing illegal accounting duties.

Question 4

Explain the revenue recognition, matching principle, cost principle, and business entity concepts in a scenario, and understand unearned revenue, amortization, and prepaids.

Revenue Recognition Principle

- States that revenue and expenses should be recorded when they are incurred
- Note that this means revenue may not be recorded when cash is received as it may have been recorded earlier

Matching Principle

- States that expenses of a fiscal period can only be compared with the revenue of the same fiscal period as the expenses of that period generated the revenue, and the revenue was made solely because of the expenses
- Comparing expenses to revenue of a different fiscal period would yield an inaccurate representation of the business.

Cost Principle

- States that items on the balance sheet and other financial documents should be recorded at the original price at which they were bought
- Recording the items at a higher price than the price at which they had been bought would overstate the value of that item on financial documents

Business Entity Concept

- States that the owner's finances and the business' finances are kept separate from one another
- Without separating the owner's finances from the business' finances, discerning the financial position of the business would become difficult as the owner's and business' finances would be intermingled.

Unearned Revenue

- Revenue that you've earned before providing a good or service
- A prime example of this is when customers buy airline tickets.The airline hasn't provided the service of air travel and so records the money given as unearned revenue. When the airline provides the service, the unearned revenue is debited and revenue is credited as to transfer the unearned revenue to revenue.

Amortization

- How businesses allocate a portion of a long-term asset to an expense over its useful life to generate more revenue
- A portion of the asset is converted to an expense every fiscal period and is used to recover the cost of the asset. The portion converted to an expense is an estimate of the amount of revenue the asset helped to generate in the fiscal period

- There are two methods of amortization, one being straight-line amortization. In straight-line amortization, the portion expensed is calculated by subtracting its salvage value and dividing by its years of useful life.

Prepaids

- Prepaids occur when you pay for a service in advance and prepaid expenses are assets
- Expire through their use or through the passage of time
- An example of a prepaid expense is prepaid insurance, in which you may pay for yearly insurance for employees, managers, etc. in advance. These are adjusted by expensing the portion of the prepaid insurance used to insurance expense. The exact value to be expensed is calculated by calculating the monthly or daily rate and then multiplying that by kthe number of months or days passed respectively.
- They are adjusted by expensing a portion of the prepaid asset to its corresponding expense
- Prepaid rent is another example. At the end of a fiscal period, the rent that is actually used during the fiscal period is converted into rent expense

Business Going Concern

- Business will continue functioning optimally for the foreseeable future. Ignoring this would allow business to use liquidation accounting, which completely changes how the business will operate and how investors will invest.

When you can ignore GAAP (Materiality Principle)

Material object - Of importance in accounting
Immaterial object - Items that don't make a difference to financial statements, investors, etc can be ignored in financial statements

  Ex - A single Pen or bunches of pens won't make a difference to financial statements, and nobody will be enraged by this

- Example: Amortizing a pen. The pen may last two years, but figuring out how to amortize it will take more time than the pen is worth. Wasting time.

Full Disclosure

- All information affecting the company's financial position should be included in the financial statements

Principle of Conservatism

- Accounting information should be fair and reasonable

- Accountants are required to make estimates, evaluations, and deliver their opinions, ensuring that assets and profits are never over- or understated.
- Accountants should choose the accounting alternative that yields a lower net income and lower net assets so that an overly optimistic view of the business is not presented
  - Disappointing investors by reporting that you'll product more revenue than you do is a very, very bad position to be in. Investors will look elsewhere to make profit and your business will die.
  - Surprising investors in a good way is great, since the stock price will go up, investors will invest more, the financial position of the business will improve. Think about it as the very high offer Laurie offered Richard and the story of Davood

Users of Accounting Information

- Investors, Creditors, Government, Employees, Managers

Global Accounting Designations

- Numerous: CPA, CA, CGA
  - Will be assimilated into single organization CPA
- General requirements:
  - University degree - Major in accounting or accounting/finance
  - 3 to 5 years of approved working experience
  - 3 to 5 professional exams

Sources of Accounting Rules + Regulations

- Accounting Handbook
  - Set by Standards Accounting Board
  - IFRS, ASPE, Not-for-Profits, Pension Plans, Old GAAP
- Assurance Handbook
- Income Tax Act

Accrual Basis of Accounting

- Follows the Revenue Recognition Principle that states that revenue must be recognized when it is earned and not when cash is received
- Follows matching principle that states expenses can only be compared with the revenues of the same period

Why is it important to disclose all critical information to the users and which accounting principle is satisfied?

So that everyone has current and salient information, allowing all users of accounting information to make the best decisions possible. For example, if an investor is not given critical financial statements like the income statement, they will have very little idea as to the business' revenue and expenses. This lack of information would prevent them from making an informed decision

Which are the steps of the accounting cycle?

The steps of the accounting cycle occur in this order:

- Transaction occurs
- Transaction is journalized
- Journal entry is posted to ledger accounts
- Trial Balance is prepared
- Journalize and post adjusting entries
- Prepare the adjusted trial balance
- Prepare fin. Statements
- Journalize closing entries
- Prepare post-closing TB

What type of accounts are unearned revenue, prepaid expenses, sales returns and allowance, purchase returns and allowance?

- Unearned revenue is a liability
- Prepaid Expenses is an asset
- Sales returns and allowances are contra-sales accounts and are treated as assets
- Purchase returns and allowances are contra-purchase accounts and are treated as a liability

Why are adjusting entries important and what accounting principle is used to justify adjusting Entries?

- Adjusting entries are important as they keep financial documents updated
- A number of accounting principles are used to justify adjusting entries such as Revenue Recognition, Matching, and Time period concepts

What is amortization, why record it, and which accounting principles are used to justify it?

- Amortization is the process businesses use to recoup the cost of their assets by expensing a portion of the asset’s value.
- Businesses use it to report more expenses, thereby paying less tax
- Matching principle
- Revenue Recognition
- Time period

What types of accounts are HST payable and HST Recoverable?
- HST Payable is a contra-asset account and can be put with the liabilities
- HST Recoverable is a contra-liability account and can be put with the asset accounts

What types of account is sales discount and purchase discount?
- Sales discount is a contra-revenue account
- Purchase discount is a contra-expenses account

What is the difference between purchase invoice and sales invoice?
- Purchase invoice is what you give to someone when they buy from you on account
- Sales invoice is what you get from when you buy from someone on account

When are these source document used: cash sales slip, cheque, bank memo?
- Cash Sales slip: Given after a cash sale has been made
- Cheque: Used to transfer money
- Bank memo: Invoice from the bank that is given when a change to your account is made

What kind of account is inventory and what are the characteristics of inventory?
- A short-term asset
- Two ways of updating inventory:
    - Periodic
    - Perpetual
- A business will have inventory throughout the year

What is the difference between balance sheet and income statement and what are they designed to show?

- A balance sheet is a snapshot of the business' financial position. It includes the business' assets, liabilities, and owner's equity, fulfilling the fundamental accounting equation
- Income statement is prepared at the end of the fiscal period and shows the business' revenues and expenses, showing how the business performed during the fiscal period.

12. C
13. C
14. B
15. D
16. C