



Key Accounting Principles

Volume 2

By

Neville Joffe

AME | Learning





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It is not meant to take the place of professional advice.

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About the Author

Neville Joffe, founder of AME Learning Inc., was involved for over twenty years in the organizational transformation and restructuring of large and small businesses internationally. It was through this experience that he first recognized the benefits of educating employees about the financial implications of their actions. He realized that people with non-financial backgrounds lacked a shared frame of reference to tackle day-to-day financial issues related to their responsibilities. This motivated him to create a unique hands-on system to teach accounting and financial management, which he patented and called the AME Learning System.



The success of this system was phenomenal and Neville has since trained over 25,000 non-finance managers, senior executives, sales professionals and operators of Fortune 1000 companies throughout the world, for more than a decade. Measurable results of the program have been amazing. AME Learning is recognized as a world leader in its industry, winning numerous awards, including the prestigious Otter Award from the Canadian Society for Training & Development for the best training program in the country.

Over the years, employees in numerous organizations have remarked: “I wish I had learned accounting like this in college”. The next step was to extend this patented system of teaching accounting to educational institutions. With over 5 years of research and development, coupled with surveys conducted on numerous professors and students, AME Learning launched a blended introductory accounting course eight years ago. The success of the Accounting 1 course led to the development of this Accounting 2 blended course.

Traditional methods of teaching accounting concepts lean more toward teaching the mechanics of accounting, but AME focuses on the logic of accounting principles, using patented pedagogical tools that bring the subject to life, simplifying the topic and making it easier to understand. Students have consistently commented that they find the course remarkably easy to follow, using the numerous interactive tools that supplement the textbook and workbook.

Professors on the other hand have described this methodology as “refreshing”, “intriguing”, “amazing”, “never thought it could be this simple”, “inspiring to see that someone has changed the rules of teaching accounting” and “you have broken the mould - the way this subject has been taught”!

Neville envisions that in the foreseeable future the perception of accounting will change, from a subject that is typically considered ‘intimidating and boring’ to one that is inspiring, exciting and useful as a crucial life skill.





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PREFACE



The AME method of learning accounting

AME utilizes a unique and patented method that has simplified accounting principles, using step-by-step logic to ensure that the subject is extremely easy to understand. Accounting concepts are communicated using straightforward language and AME Accounting Maps™ that make potentially complex transactions simpler and easier to follow.

This textbook is part of a larger and blended step-by-step program that is being used to teach the course. The steps of the program are as follows:

1. A highly interactive online section must be completed before attending each class.
2. At the start of the class, a quiz will be given to test your knowledge and comprehension of the online section that you would have completed before class.
3. Building on the online segment and the quiz, the class will then reinforce and improve your understanding of the concepts that have already been introduced and studied.
4. Once the basic learning is done, it will be time to take the next step and apply the lessons learned by completing the exercises provided in this textbook.

The *name*, *value*, and *timing* of each transaction

As you have embarked on this unique way of learning accounting you should be aware of the importance of financial statements to both internal and external stakeholders. You should also be familiar with the balance sheet, income statement and cash flow statement – and how they link together. Students familiar with our approach will know that the technical process of double entry accounting isn't really that complicated and that there are very few debit and credit combinations.

Additionally, there are three basic components to every accounting transaction that must be remembered each time entries are made or accounts are adjusted. These three components are:

1. *Name* - What are the names of the accounts involved?
2. *Value* - What value is involved?
3. *Timing* - When is it occurring?

These three components need to be considered in any adjustment made on the company's records to ensure accuracy and thoroughness.

Let us look at a brief example to illustrate the importance of these three components.



Assume that you are an accountant for a company whose fiscal year ends on December 31. On December 20, an upfront payment of \$60,000 (related services to be rendered in the following year) is deposited in the company's bank account. The project is expected to be completed in about six months, i.e. by June of the next year.

Using this example, let us apply the three components of every accounting transaction:

What are the names of the accounts that should be used for the transaction? *Cash* is obvious. As any introductory accounting course indicates cash, it gets debited for the amount deposited. However, which account receives the corresponding credit? If you guessed *Revenue*, your guess is incorrect. Since the money isn't earned until the service is performed, it is the *Unearned Revenue* account that is used. This makes a big difference when the company reports its financial position. We will explore this later in the course.

What is the value of the transaction? Your first thought may be that the value of this transaction is \$60,000. However, the transaction may need to be sliced into smaller sections to reflect work performed in due course. This may be done on a monthly basis, using some work measure, such as materials delivered. Therefore, depending on the kind of transaction involved, the amount to be recorded isn't as obvious as it might appear. We will explore this principle throughout the remainder of the course.

What is the timing of the transaction? The first two questions have touched upon the third. Revenue should only be recognized in the period in which it is earned. In our present example, this cannot be done in the current fiscal period. It has to be done in the next fiscal period, (when the work is finally started), and in a way that reflects the gradual completion of the work done. In other words, the revenue cannot be recognized as earned right away. It will take six months to complete this project, and the same amount of time to transfer the entire \$60,000 into the *Revenue* account.





The AME approach

The AME approach has always emphasized the importance of accounting in our everyday lives and how these principles can be applied to professional accounting in general. This approach will be expanded upon in this current course, which will examine more closely, various aspects of the balance sheet and income statement and how the information contained therein impacts both internal and external stakeholders.



The design and structure of this course is based on the format in which the accounts on the balance sheet are laid out. Each chapter will focus on one aspect of the balance sheet in order, which is why we look at *Cash* first (the top item on the balance sheet), then move on to *Short-Term Investments*, *Accounts Receivable* and so on. The further we go down the list of accounts, the less liquid the assets are that we look at, until we finally examine *Long-Term Assets* such as property, equipment and goodwill. These assets are not easily converted into cash, which is why they are also known as *Fixed Assets*.

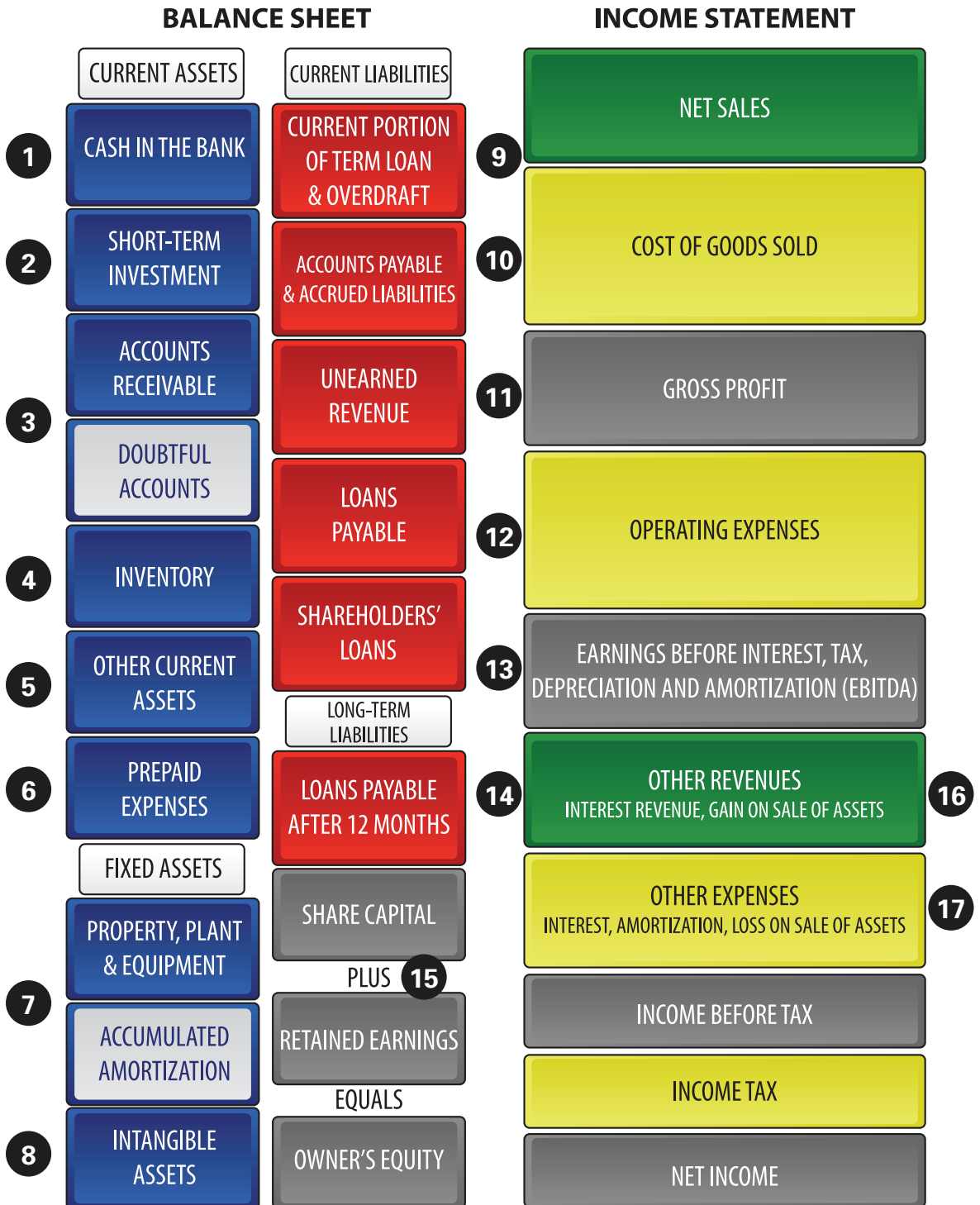
The other side of the balance sheet, of course, is where we find a listing of the company's liabilities. These liabilities will form the basis of the next part of this course. Just as with assets, liabilities are listed on the balance sheet with a purpose. Those that need to be paid first, such as bank loans and accounts payable, are listed near the top. The least immediate of liabilities, (such as loans from shareholders, or owners of companies), are listed last. The layout of this course will also follow this order.

The latter part of this course will involve an in-depth examination of equity and how it is structured in entities such as corporations and partnerships. We will also complete our look at financial statements, with an examination of the structure and logic of the income statement, also known as a profit and loss statement (P & L).

Each chapter will contain a structure. The first part of a chapter will discuss *inputs*, or how activities are accounted for on a company's financial statements. The second part of the chapter will discuss *outputs*, or how companies collect and organize information to generate reports and make managerial decisions. Where applicable, each chapter will end with a discussion of controls, ethics and financial ratios relevant to the topic at hand.



Navigating the Accounting Map™



Why learn this material?

Many of you may be taking this course as the next step towards becoming an accountant. Nevertheless, the value in learning this material goes beyond simply getting to the next step. It involves understanding the importance and logic that underlies most business decisions. For example, a manager of a medium-sized business needs to operate the company in a responsible fashion, while at the same time providing financial statements to the board of directors every month. This course will help a student do just that, as well as calculate profits, award bonuses based on those profits, and do a number of other things that are crucial for any size of business.

In other words, a thorough knowledge of a company's accounts, and the procedures involved in recording and analyzing related transactions, is vital for most important decision-makers within a company. This course will provide you with that knowledge.

How this material is organized

The following is a layout of the logic of this course, accompanied by a description of each financial statement item to be examined as the course proceeds. Refer to the Accounting Map™ on the previous page. It is not necessary to memorize any of these summaries, but they will give you a preview of what is to come in this textbook.

1. **Cash in the bank** – This account includes petty cash, bank reconciliations and the controls necessary to protect cash. These were already addressed comprehensively in our introductory course, so they will not go into detail in this textbook. You should know by now that the *Cash* account is at the centre of almost every transaction. For example, businesses often find themselves with a surplus of cash that needs to be invested for short periods of time, which brings us to the next item on the asset side of the balance sheet.
2. **Investments** – Organizations often invest surplus cash in investments outside the company. These investments can include short-term and long-term debt and equity. We will look at each of these types of investments as the course proceeds.

Issues to keep in mind:

- Where is the cash to be invested?
- What is the risk of losing the money being invested?
- Is the return worth the investment?
- What happens if the business needs to cash the investment urgently? Does the investment chosen allow for such cashing out? In other words, is it liquid?
- How is the interest or return on the investment recorded? If it is recorded as a regular form of revenue, it may give the impression that the business is operating with a larger profit than is actually the case. We will explore some of these issues further in Chapter 2.

3. Accounts receivable and doubtful debts – One of a company's most important assets is its accounts receivable, which constitutes debt owed by customers who have bought a good or service using payment terms. This course will examine how transactions involving accounts receivable are input, and how subsidiary ledgers are used to help in this regard. The course will also examine how non-paying customers are dealt with, and allowing for bad or doubtful debts. Various controls, as well as reports used to manage accounts receivable and related information, will also be looked at closely in Chapter 3.

Issues to keep in mind:

- Are there adequate controls to ensure that customers pay on time?
- How certain is it that the company will actually get paid? Some methods to predict frequency of payment will be looked at in Chapter 3.
- How do we know that customers are being billed correctly?
- Are there adequate controls to ensure that no unauthorized refunds are being issued?
- How are potential losses being assessed? If these losses are underestimated, then it will appear as though the company is making more profit than it actually is. Conversely, an overestimation of losses will understate profit. Among other things, this could have an impact on taxes and payment of bonuses.
- Higher or lower profits may also influence the manner in which pricing policies are established for the upcoming year.

4. Inventory – The basic concepts associated with inventory, including Cost of Goods Sold (COGS), as well as perpetual and periodic inventory systems, were covered in our introductory course. This course will examine more closely the different methods of valuing inventory, as well as issues related to inventory controls and ethics.

Issues to keep in mind:

- Is the inventory system being used appropriate for the industry?
- How is the inventory valued? Overstated values will affect figures related to gross and net profit. Conversely, if the value of inventory is too low, it will appear that gross profit margins have been compromised, reflecting badly on management.
- The value of inventory impacts profit and bonuses.
- Lack of proper controls for inventory could lead to theft and lower than expected inventory levels.

5. Other current assets – This section comprises items that are used on a non-regular basis and do not warrant the assignment of a special account code. Some examples of other current assets include tax refunds owing, interest owing and employee loans.

Issues to keep in mind:

- Are certain entries made in the hope they will be overlooked and scrutinized less?
- Are adequate controls in place to ensure that all refunds (including tax refunds) are collected on a timely basis?

6. **Prepaid expenses** – This type of asset was addressed in our introductory course and will be examined further in connection with other parts of a company's financial statements.

Issues to keep in mind:

- Are staff members informing the accounting department that travel expenses, for example, are related to a future event? Is the staff aware of the implications of not reporting these expenses properly?
- Not accruing prepaid expenses can skew the operating results of the company.
- Is the value of prepaid services being monitored as to when the services are actually provided? How much of the prepaid expense should be recognized? When?
- What happens to refunds? Are proper controls in place to ensure that these refunds are made to the company, and not specific to individuals?

7. **Fixed assets and amortization** – Fixed assets are also referred to as long-term assets. They usually consist of the company's most highly valued assets and often consume most of the available cash resources. We will examine different methods of amortizing – or depreciating – fixed assets and their impact on company profits.

Issues to keep in mind:

- Who in the company is authorized to purchase fixed assets?
- Are some expenses considered assets, which will falsely increase profits?
- Are assets properly amortized over their expected useful life?
- Are the company's fixed assets financed using long-term debt, or operating capital? Why is the difference so important?
- Does the business generate sufficient profits and cash flow to finance debt?
- Does the business have an asset register to keep track of its fixed assets, such as laptops, that may disappear?

8. **Intangible assets** – The word *intangible* literally describes something that cannot be touched or felt. It is therefore understood that intangible assets comprise things that aren't physical in nature but that, nevertheless, the company owns – such as goodwill, copyright, trademarks and patents. We will examine these kinds of assets as the course progresses.

Issues to keep in mind:

- The decision to capitalize or expense an item is one of the most important on the company's balance sheet. It affects the bottom line, as well as bonuses awarded to employees.
- What is the company's policy when capitalizing intangible assets related to the creation of material such as software?
- If an item is to be capitalized, over what period should its total cost be amortized?
- The method of amortization chosen could impact other aspects of the business, such as pricing policy.

9. - 13. **Debt** – Items 9 to 13 on our Accounting Map™ represent the company's current liabilities, or debt owing, ranging from bank loans to shareholder loans. We will examine the various ways in which these items should be categorized, as well as the transactions associated with each.

Issues to keep in mind:

- Can the business actually pay its debts? Are there sufficient current assets to pay for current liabilities?
- Are discount opportunities taken advantage of?
- How are unearned revenues accounted for? Falsely classifying them as earned when deposited will significantly overstate profits for the period.
- Are unearned revenues properly matched to related expenses?
- Are yet-to-be-earned revenues recognized as earned by sales staff, simply to collect a commission?

14. **Long term debt** - This category of liabilities represents amounts owing after 12 months.

Issues to keep in mind:

- Can the business finance its debt?
- Are the lenders taking more risk than the owners? If so, it may be difficult to secure additional loans.
- If the business is running out of operating capital to finance inventory and accounts receivable, should some of the current debt be converted to long-term debt?
- Is the business generating sufficient profits and cash flow to support any additional debt?

15. **Equity** – Equity represents a company's net worth and is structured according to entity type. We will specifically look at how to account for corporations and partnerships.

Issues to keep in mind:

- Should profits be distributed to owners for personal use, or should some of the profits be retained in the business?
- What if the business needs more cash but cannot secure more financing from the bank. Should shares be issued? At what price? Will control of the business change as a result?

Beyond the company's balance sheet, other aspects of financial statements examined in this course, will include:

The income statement – Although every company has an income statement on its books, they don't all look the same. We will examine the various types of income statements that companies use, their layouts and which are most common or appropriate for certain industries.

Cash flow – Once the balance sheet and income statement are fully understood, we will address the cash flow statements that provide information related to the sources and uses of cash.

Financial analysis – Sometimes it is the simple numbers that can tell the story of a business. We will examine various financial ratios and key performance indicators that provide a telling glimpse into the health of a company.

IFRS – We will touch upon International Financial Reporting Standards, which is a modified form of GAAP.

In summary, this course should not only serve as preparation for the accounting profession, it should also serve as preparation for business decision-making in general. By knowing the *name*, *value* and *timing* associated with any transaction of interest, the business professional has at their disposal the tools to make informed and strategic decisions. This is the basic foundation of the course, one which you can take with you in all your future endeavours.



Some additional segments

This current textbook was designed to make your learning experience productive and engaging. To that end, we have added some segments to each chapter that highlight some learning objectives. They include:

WORTH REPEATING...

“ The Worth Repeating segments in each chapter are meant to remind students of concepts in accounting already learned, and to highlight current concepts being taught that are “worth repeating”. They serve as our attempt to highlight information that will help cement your understanding of the various topics found in each chapter.”

A CLOSER LOOK

The Closer Look segments in each chapter are meant to more closely examine a part of the chapter that might need to be expanded in order to broaden your understanding of an underlying concept or principle. Or they might include an example that applies the concepts being learned, in a way that is easy to understand and follow.

IN THE REAL WORLD



The “In The Real World” segments in each chapter are meant to provide applied examples of elements being learned in a particular chapter. They are meant to put some of the concepts being learned in context and to drive home the point that, eventually, accounting has to be done outside the classroom. We hope that these segments give you a sense of what “the real world” can be like for the accountant or business professional.



CHAPTER 1: ACCOUNTING INFORMATION SYSTEMS

CHAPTER 1



WHAT YOU WILL LEARN IN THIS CHAPTER:

- Features of an effective accounting information system
- Elements of computerized and manual accounting systems
- Methods of extracting information to manage a business, such as, journals and subsidiary ledgers

AN INTEGRATED APPROACH TO LEARNING ACCOUNTING

The challenge in teaching a modern course in accounting involves the need to integrate traditional concepts and methods with modern technology. This challenge can become more formidable, considering that many of today's teachers learned and practised accounting at a time when a ledger had nothing to do with a computer screen. On the other hand, most students today are far more familiar with typing out words and numbers than writing them out by hand.

Nevertheless, the reality is that today's accounting student may never see or get to use an actual accounting ledger. Alternatively, most modern accounting techniques were developed when a mouse was more likely to eat a piece of cheese than be used to draw one – with a point and click. Among other things, this means that older methods were used to develop modern accounting procedures – even if those methods are being used less and less.

In other words, having some familiarity with more traditional and manual accounting systems will help the modern student understand concepts for today – even on a computer screen. That is why we have designed this textbook to integrate the new with the old; to use the foundations of accounting theory and apply them to the realities of modern accounting practice.

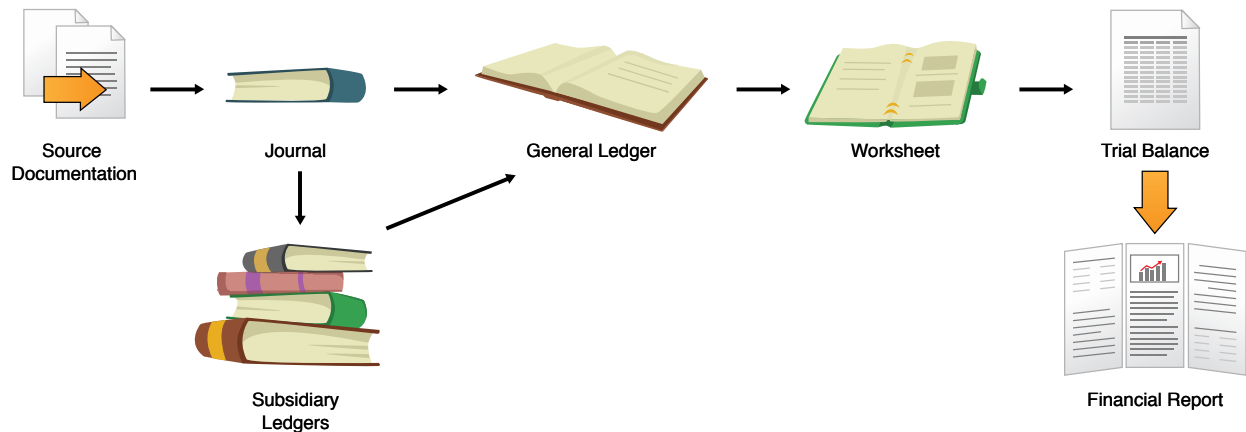
We hope this blended approach will enhance your understanding of accounting and ease your way through the rest of this chapter and textbook.

HOW ACCOUNTANTS FOLLOW A PAPER TRAIL

There are some basic elements of a manual/paper-based accounting system, including: *source documents, journals, subsidiary ledgers, ledgers, worksheets, trial balances and financial statements.*



The Traditional Accounting Paper Trail



Although computerized systems are becoming more common by the day, and they certainly make gathering and analyzing information easier for the accountant, having some knowledge of traditional paper-based systems provides a foundation for understanding what accounting is all about.

A certain logic applies to almost everything an accountant does. Having some familiarity with the manual procedures involved helps accounting students understand the logic behind the concepts being learned. A point and click of a mouse might be easier but, it is the job of the accountant to know the principles behind every transaction. That is what we will achieve by explaining some of the manual elements involved in transactions from time to time throughout this text.

Following the paper trail

Source documents literally come in many forms for various business transactions. The most common examples of source documentation are usually associated with accounts receivable and accounts payable. In other words, businesses still tend to deal in paper bills. Source documentation can apply to purchase orders, to contracts signed when receiving a loan from a bank, and to almost any kind of transaction.



Following our manual accounting paper trail, after the source documentation has been received, the next step for the accountant is to record the transaction in journal format.



Indeed, specialized journals used to be the norm for specific types of transactions, such as sales, purchases and so on. For example, a company receives an invoice after making a purchase from a supplier. That invoice serves as a basis to record the transaction in the company's purchase journal.

Since a company usually deals with many suppliers and customers at the same time, the journal entries usually get posted to specific subsidiary ledgers, which are often associated with one specific customer or vendor. These subsidiary ledgers make it easier to track dealings with specific companies while leaving the general ledger relatively uncluttered.

The amounts in the subsidiary ledgers eventually get posted to the corresponding control account in the general ledger, usually on a monthly basis. As an example, all the accounts receivable subsidiary ledgers would be added up and posted to the accounts receivable control account in the general ledger.

Also on a monthly basis, accountants generally use worksheets to calculate trial balances. After some adjustments, these trial balances are then used as a basis for preparation of the company's financial statements. When done manually, the system can produce a paper trail that can be very difficult to manage and track. However, understanding this traditional procedure also helps to understand the accounting principles involved. That is why we are focusing on this issue and also why we will refer to it periodically in the following chapters.

It is almost certain that an accountant will eventually come into contact with the digital age. Although some computerized systems require an initial manual entry of source documentation into the system, some systems do away with any paper documentation. For example, electronic data interchange, or EDI, is a computerized system that allows companies to transfer electronic information to one another. Sending a bill electronically to a customer is one potential use of such a system. There are many more.

A CLOSER LOOK

Electronic data interchange, or EDI, is the name given to any system that integrates the exchange of electronic information from one company to another.

The purpose of EDI is to literally get rid of as much paperwork as possible. The end result of a good EDI system should be a seamless and affordable exchange of documents — ideally between a network of companies — without any actual exchange of documents. Everything should be transacted in digital format.

One of the most common uses of EDI is to make business-to-business transactions, or B2B, much quicker and more standardized than with traditional paper exchanges. One supplier could use an EDI based system to receive standardized purchase orders from their customers with the click of a button. This would essentially replace a system that saw unique paper orders being shipped by every single customer.

The potential efficiencies of an EDI system can be quite remarkable.



HOW ACCOUNTANTS DEAL WITH INFORMATION TODAY

In manual accounting, traditional recording procedures are used to enter information in a categorized fashion. For example, all accounts receivable are entered into the sales journal. Accounts receivable sub-ledgers are then used, which are ultimately added and posted to the accounts receivable control account in the general ledger. The same process can be used for accounts payable and other types of accounting transactions.



In other words, in manual systems, recording procedures often provide the analytical structure for the accountant. If it is accounts receivable that needs analysis, then all related journals and ledgers are pulled and looked at for reference. If it is inventory, then the paper trail from receipt to shipping must be tracked accordingly.

With most modern computerized systems, however, the logic of accounting is already built into the software. There really is no need to keep a separate set of books and documents for specific types of transactions. Instead, just about every transaction gets input into the system to produce one central database (general ledger). It is then up to the software, or various different types of software, to process the information and transfer it when and where it is needed. In essence, the software will produce the view that the accountant wants at any given time.

A CLOSER LOOK

An effective accounting information system should always contain the following:

- Adequate internal controls that ensure the safeguarding of assets and elimination of waste.
- Compatibility between the various components of the business to ensure that each is receiving the appropriate information on a timely basis.
- Flexibility to accommodate changes as the organization grows and evolves.
- Maximum benefits for the least cost.

For example, if the accountant wants to view any information in a system, the software is programmed to access all the relevant information that has already been input into the system, such as the date, nature and amount related to the sale, disbursement, receipt and so on.

Indeed, almost every transaction can be accessed for any purpose, depending upon the number of fields that the software has attached to the transaction. Different types of software can be used to access different fields for different types of information. As with journal-related information mentioned above, the same process can be used for information related to a specific ledger account. This



information can be extracted from the database to produce a report for that one ledger account. It can be that simple, and the possibilities are endless.

As an example, the recording of a payment from a customer can contain ten fields of information as follows:

Transaction type	Date	Debit account	Debit amount	Credit account	Credit amount	Payee name	Payee a/c #	Invoice date	Due date
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These fields of information are not only used for accounts receivable, but for any purpose at any point in the traditional document trail – from initial sale to final financial reporting. Countless transactions can be input into a system, which can then be sorted to produce a standard document such as a financial report, or a less standard document such as amounts due from problem customers.

Ultimately, it is up to management and the accounting department to work with information technology personnel to buy and design a system that meets organizational objectives. Yes, manual systems help accountants learn the ABC's of their profession. However, in today's business world, a properly designed computer system tailored to the needs of a specific company, can make accounting more efficient.



IN SUMMARY

The challenge for today's accountant is to use principles established with traditional methods and apply them using today's technology. This involves knowledge and familiarity with the traditional paper trail. It also involves an understanding of how these traditional methods are handled today using computer software. This chapter provides a basic framework from which the rest of this textbook can be understood, which is to use traditional techniques to understand how modern accounting is done.

IN THE REAL WORLD



Although the information age has been forging full speed ahead for more than a decade, efficiencies and innovations are still sought after in almost every sector of technology. This is particularly true regarding how financial entities communicate electronically with one another. A recent development in the field might constitute a great leap forward.

Extensible Business Reporting Language, or XBRL, is a new computer language that will help facilitate the exchange of financial information in all sectors of the economy – and it is coming very soon.

What XBRL does is essentially package bits of financial information, standardize this information and make it easier to use and manipulate. The ramifications for this kind of development are almost limitless.

XBRL can be used by companies to publish financial reports for the public. Governments and regulators can use XBRL to receive this information and transmit their own. Stock exchanges can serve as a conduit between business and government in exchanging financial information quickly and easily. Even software companies can get in on the action to create various IT solutions for specific sectors. Only the imagination can limit potential possibilities with XBRL.

In a sense, what XBRL will do for the communicating of financial information is similar to what highways did for the transport of people in vehicles. One system can be used more quickly and efficiently by everyone.

This new information system is upon us already. Discussions are underway to have the U.S. Securities and Exchange Commission (SEC) implement XBRL in certain sectors by 2009. That means a technological platform will soon be at hand to make the electronic transmission of financial information as quick and accessible as a drive down the highway — an information highway, in this case.



Here is a summary of some of the specific concepts and principles you have learned in this chapter:

- Modern accounting involves a need to understand traditional accounting procedures and apply them to current technological realities.
- The basic elements of the traditional accounting paper trail include: *source documents, journals, subsidiary ledgers, ledgers, worksheets, trial balances* and *financial statements*.
- Modern systems of accounting are dependent on information technology, which turn the logic of traditional methods upside down. Accountants used to categorize transactions and track them accordingly. Today, computer software simply gathers all the information in one database and distributes it as instructed.



**LEVEL OF DIFFICULTY**

EASY



MEDIUM



DIFFICULT

Assessment questions:**Question 1**

List the items on the financial statements that management needs to run the business.

Question 1 – answer

Question 2

List some examples of the kind of reports needed for each of assets, liabilities, equity, sales and expenses.

Question 2 – answer

Critical thinking exercise

The General Index of Financial Information (GIFI) is a system used by the Canadian taxation authorities to standardize classification on financial statements filed with those authorities.

The URL reference for this exercise is <http://www.cra-arc.gc.ca/E/pub/tg/rc4088/rc4088-06e.pdf>

Discuss GIFI with your class group. Include the following in your discussion:

1. Is GIFI appropriate for all organizations?
2. Should GIFI be used as a replacement for the company's own numbering system?
3. Does the GIFI numbering system make sense?
4. Will the GIFI numbering system make it easier or more difficult for accountants? Support your answer.
5. If a company chooses to not use GIFI, how can it comply with GIFI reporting requirements when reporting to taxation authorities?

