Bischoff's Entries Study Aid

CONTENTS

Introduction

This reference document is a study aid to help you review the key record-keeping entries studied in each chapter. Each entry has a brief description of the business context. Then the entry is presented using a balance-sheet-equation mini matrix and a journal entry. Use the journal entry's account names to interpret the abbreviations in the balance-sheet-equation mini matrix. For your convenience, some entries are repeated from earlier chapters when they relate to the later chapter's topic. As needed, see the *Apendix: Record Keeping Quick Reference* for recording entries.

How should you use this study aid? Practice recording the entries on your own. Use the chapter's chart of accounts and the entry description to record the entry. Check your answer against the given solution. You may extend your practice by considering how the entry affects the financial statements or ratios. Knowing the entry is fundamental to identifying these effects.

These are the entries for Bischoff Global Sportswear (BGS). BGS is a fictitious manufacturing company we use throughout *Navigating Accounting* to help you become more adept at interpreting real companies' financial statements. BGS's accounting policies comply with International Financial Reporting Standards (IFRS). Like many real companies, when IFRS allows judgment or leeway in the implementation of a standard, BGS elects to comply with the equivalent U.S. GAAP standard that may be more specific, but importantly still complies with IFRS. In some cases, the difference between IFRS and U.S. GAAP results in different measures (numbers) for the entry; but the structure of the entry is exactly the same. In other cases, the entries and measures are different. When the difference is significant, you will see a brief note describing the key differences for the related entries.

As you study the entries, you may notice several common synonyms that differ for IFRS and U.S. GAAP. For example, IFRS companies typically disclose "share capital" which is equivalent to U.S. GAAP companies' "common stock" or "finance expense" versus "interest expense". The key is to interpret these in the context of the entry.

Caveat: Keep in mind these entries have a very brief description of the business context and don't provide a substitute for learning the broader concepts, including: how to apply the requisite judgments and accounting standards; how to determine or compute the measures (numbers); how to create financial statements from the entries; how the entries affect financial statements or footnote disclosures; how to search for information in real companies' reports; and how to interpret or use the numbers. These are very important skills that build on the fundamental understanding of how to record entries. See the related chapter videos, text, and exercises.

IFRS GAAP

The entries presented here comply with International Financial Reporting Standards (IFRS). When IFRS allows judgment or leeway in the implementation of a standard, the entries also comply with the equivalent U.S. GAAP standard that may be more specific, but importantly still complies with IFRS.

To learn more about the difference between IFRS and U.S. GAAP, see the related chapter videos. Typically, the last topic in the videos describe the differences, if any.

Balance Sheet Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable
C	Cash and cash equivalents
Inven	Inventories
OCA	Other current assets

Non-current

PPE	Property, plant, and equipment, net
ONCA	Other non-current assets

LIABILITIES

Current

AP	Accounts payable
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

SCap	Share capital
OPOE	Other permanent owners' equity

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E1 Issued share capital for cash. During 2013, BGS issued common stock to its owners in exchange for $10 million cash.

E2 Issued non-current debt for cash. During 2013, BGS borrowed $10 million cash from several banks and promised to repay this principal with interest over 5-10 years. Loan contracts specified that the borrower (BGS) issued debt to the lender (banks).

E3 Purchased PP&E with cash. During 2013, BGS purchased $20 million of property, plant, and equipment with cash. PP&E are tangible assets used to support day-to-day business operations. Among other things, PP&E includes buildings, manufacturing equipment, furniture, computers, and automobiles.

E4 Purchased merchandise for resale. During 2013, BGS purchased $80 million of merchandise from other companies on account that were invoiced upon delivery. It plans to resale this merchandise to customers for a profit. These products complement the ones BGS manufactures and allows BGS to meet customers' needs, which reduces the customers' transaction costs.

E5 Paid invoices due. During 2013, BGS paid suppliers $225 million for goods and services previously purchased on account. Among other things, these include merchandise purchased for resale, materials purchased for manufacturing, advertising services, and utilities. BGS's policy is to pay invoices just in time to avoid penalties.

E1 Issued share capital for cash

During 2013, Bischoff Global Sportswear (BGS) issued common stock to its owners in exchange for $10 million cash. [“Share capital” is also call “common stock” in this context.]

E1 Issued share capital for cash

Assets		=	Owners' Eq.	
+	C	=	+	SCap
+	+ $10	=	+	+ $10

	Debit	Credit
Cash and cash equivalents	$10	
Share capital		$10

U.S. GAAP
Common stock is a synonym for share capital.

E2 Issued non-current debt for cash

During 2013, BGS borrowed $10 million cash from several banks and promised to repay this principal with interest over 5-10 years. Loan contracts specified that the borrower (BGS) issued debt to the lender (banks).

E2 Issued non-current debt for cash

Assets		=	Liabilities	
+	C	=	+	LTD
+	+ $10	=	+	+ $10

	Debit	Credit
Cash and cash equivalents	$10	
Long-term debt		$10

E3 Purchased PP&E with cash

During 2013, BGS purchased $20 million of property, plant, and equipment with cash. PP&E are tangible assets used to support day-to-day business operations. Among other things, PP&E includes buildings, manufacturing equipment, furniture, computers, and automobiles.

E3 Purchased PP&E with cash

Assets				=
+	C	+	PPE	=
+	- $20	+	+ $20	=

	Debit	Credit
Property, plant, and equipment, net	$20	
Cash and cash equivalents		$20

E4 Purchased merchandise on account for resale

During 2013, BGS purchased $80 million of merchandise from other companies on account and was invoiced upon delivery. It plans to resale this merchandise to customers for a profit. These products complement the ones BGS manufactures and allows BGS to meet customers' needs, which reduces the customers' transaction costs.

E4 Purchased merchandise on account for resale

Assets		=	Liabilities	
+	Inven	=	+	AP
+	+ $80	=	+	+ $80

	Debit	Credit
Inventories	$80	
Accounts payable		$80

E5 Paid invoices due

During 2013, BGS paid suppliers $225 million for goods and services previously purchased on account. Among other things, these include merchandise purchased for resale, materials purchased for manufacturing, advertising services, and utilities. BGS's policy is to pay invoices just in time to avoid penalties.

E5 Paid invoices due

Assets		=	Liabilities	
+	C	=	+	AP
+	- $225	=	+	- $225

	Debit	Credit
Accounts payable	$225	
Cash and cash equivalents		$225

Income Statement Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable
C	Cash and cash equivalents
Inven	Inventories
PrEx	Prepaid expenses
OCA	Other current assets

Non-current

PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
ONCA	Other non-current assets	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
DivP	Dividend payable
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

CGS	Cost of goods sold	
DepEx	Depreciation expense	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E6a Recognized revenue when goods were delivered. During 2013, BGS recognized $415 million of revenues when goods were delivered to customers, which was the same time customers were billed for their purchases on account. For these sales, BGS concluded it met all of the IFRS criteria for revenue recognition when goods were delivered.

E6b Recognize product cost when goods were delivered. During 2013, BGS recognized $208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

E7 Collected amounts due from customers. During 2013, BGS collected $380 million from customers who had been billed earlier when goods were delivered. BGS recognizes revenue when it concludes the IFRS revenue recognition criteria are met, which can occur at times other than when cash is collected. For this reason, revenue is recorded separately from collections.

E8 Paid previously accrued expenses not invoiced. During 2013, BGS paid $10 million for previously accrued expenses that are never invoiced. For example, BGS paid employees for work performed during the last few days of 2012. The related expense and obligation had been accrued in a 2012 year-end adjusting entry.

E9 Received invoices for previously accrued expenses. During 2013, BGS received $7 million of invoices for services received and previously expensed in 2012. For example, at the end of 2012, BGS recorded an adjusting entry to expense advertisements that ran the last day of 2012. At that time, BGS was obligated to pay the advertiser but had not yet been invoiced.

E10 Recognized expenses when invoiced. During 2013, BGS recognized $20 million of expenses for services received and invoiced, but not paid during 2013. For example, BGS recognized expense during 2013 when it received invoices for advertising services received during 2013.

E11 Paid expenses when recognized. During 2013, BGS recognized $30 million of expenses when it paid for services received in 2013. For example, BGS recognized an expense when it paid employees in 2013 for services performed during 2013. Office supplies purchased with cash is another example of a non-invoiced expense.

E12 Prepaid future expenses. During 2013, BGS paid $20 million in advance for services it had not yet received when the payments were made. For example, BGS paid advertisers to create advertisements before the advertisements were created and BGS paid rent before benefiting from the use of buildings.

E13 Recognized expenses before invoiced. At the end of interim reporting periods during 2013, BGS recognized a total of $3 million of expense for services performed during the periods for which BGS had not yet received invoices by the end of the periods and the timing and amount to be paid in the future was known. For example, advertisements ran on the last day of an interim period for which the fees were known.

E14 Recognized expenses previously prepaid. At the end of interim reporting periods during 2013, BGS recognized a total of $25 million of expense for services performed during the interim periods that were prepaid prior to receiving the services. For example, BGS recognized rent expense at month-end, when the monthly rent was prepaid at the start of the month.

E15 Recognized depreciation expense. At the end of interim reporting periods during 2013, BGS recognized a total of $7 million of expense that represented the portion of the historical cost of PP&E used up during the interim periods.

E16 Sold PP&E for cash. During 2013, BGS received $15 million cash when it sold a building with $20 million of historical cost and $8 of accumulated depreciation. Consistent with an IFRS option, BGS does not recognize unrealized gains associated with PP&E.

E17 Declared dividends on share capital. During 2013, BGS declared $25 million of common stock dividends. When dividends are declared by a company's board of directors, the company is obligated to pay shareholders the declared amount at a future date.

E18 Paid dividends on share capital. During 2013, BGS paid $20 million of previously declared common stock dividends.

E6a Recognized revenue when goods were delivered

During 2013, BGS recognized $415 million of revenues when goods were delivered to customers, which was the same time customers were billed for their purchases on account. For these sales, BGS concluded it met all of the IFRS criteria for revenue recognition when goods were delivered.

E6a Recognized revenue when goods were delivered

Assets		=	Owners' Eq.	
+	AR	=	+	Rev
+	+ $415	=	+	+ $415

	Debit	Credit
Accounts receivable	$415	
Revenues, net		$415

E6b Recognize product cost when goods were delivered

During 2013, BGS recognized $208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

E6b Recognize product cost when goods were delivered

Assets		=	Owners' Eq.	
+	Inven	=	-	CGS
+	- $208	=	-	+ $208

	Debit	Credit
Cost of goods sold	$208	
Inventories		$208

E7 Collected amounts due from customers

During 2013, BGS collected $380 million from customers who had been billed earlier when goods were delivered. BGS recognizes revenue when it concludes the IFRS revenue recognition criteria are met, which can occur at times other than when cash is collected. For this reason, revenue is recorded separately from collections.

E7 Collected amounts due from customers

Assets				=
+	C	+	AR	=
+	+ $380	+	- $380	=

	Debit	Credit
Cash and cash equivalents	$380	
Accounts receivable		$380

E8 Paid previously accrued expenses not invoiced

During 2013, BGS paid $10 million for previously accrued expenses that are never invoiced. For example, BGS paid employees for work performed during the last few days of 2012. The related expense and obligation had been accrued in a 2012 year-end adjusting entry.

E8 Paid previously accrued expenses not invoiced

Assets		=	Liabilities	
+	C	=	+	AcrL
+	- $10	=	+	- $10

	Debit	Credit
Accrued liabilities	$10	
Cash and cash equivalents		$10

E9 Received invoices for previously accrued expenses

During 2013, BGS received $7 million of invoices for services received and previously expensed in 2012. For example, at the end of 2012, BGS recorded an adjusting entry to expense advertisements that ran the last day of 2012. At that time, BGS was obligated to pay the advertiser but had not been invoiced.

E9 Received invoices for previously accrued expenses

=	Liabilities			
=	+	AP	+	AcrL
=	+	+ $7	+	- $7

	Debit	Credit
Accrued liabilities	$7	
Accounts payable		$7

E10 Recognized expenses when invoiced

During 2013, BGS recognized $20 million of expenses for services received and invoiced, but not paid during 2013. For example, BGS recognized expense during 2013 when it received invoices for advertising services received during 2013.

E10 Recognized expenses when invoiced

=	Liabilities		Owners' Eq	
=	+	AP	-	MSGA
=	+	+ $20	-	+ $20

	Debit	Credit
Miscellaneous SG&A expense	$20	
Accounts payable		$20

E11 Paid expenses when recognized

During 2013, BGS recognized $30 million of expenses when it paid for services received in 2013. For example, BGS recognized an expense when it paid employees in 2013 for services performed during 2013. Office supplies purchased with cash is another example of a non-invoiced expense recognized when paid.

E11 Paid expenses when recognized

Assets		=	Owners' Eq.	
+	C	=	-	MSGA
+	- $30	=	-	+ $30

	Debit	Credit
Miscellaneous SG&A expense	$30	
Cash and cash equivalents		$30

E12 Prepaid future expenses

During 2013, BGS paid $20 million in advance for services it had not yet received when the payments were made. For example, BGS paid advertisers to create advertisements before the advertisements were created and BGS paid rent before benefiting from the use of buildings.

E12 Prepaid future expenses

Assets				=
+	C	+	PrEx	=
+	- $20	+	+ $20	=

	Debit	Credit
Prepaid expenses	$20	
Cash and cash equivalents		$20

E13 Recognized expenses before invoiced

At the end of interim reporting periods during 2013, BGS recognized a total of $3 million of expense for services performed during the periods for which BGS had not yet received invoices by the end of the periods and the timing and amount to be paid in the future was known. For example, advertisements ran on the last day of an interim period for which the fees were known.

E13 Recognized expenses before invoiced

=	Liabilities		Owners' Eq	
=	+	AcrL	-	MSGA
=	+	+ $3	-	+ $3

	Debit	Credit
Miscellaneous SG&A expense	$3	
Accrued liabilities		$3

E14 Recognized expenses previously prepaid

At the end of interim reporting periods during 2013, BGS recognized a total of $25 million of expense for services performed during the interim periods that were prepaid prior to receiving the services. For example, BGS recognized rent expense at month-end, when the monthly rent was prepaid at the start of the month.

E14 Recognized expenses previously prepaid

Assets		=	Owners' Eq.	
+	PrEx	=	-	MSGA
+	- $25	=	-	+ $25

	Debit	Credit
Miscellaneous SG&A expense	$25	
Prepaid expenses		$25

E15 Recognized depreciation expense

At the end of interim reporting periods during 2013, BGS recognized a total of $7 million of expense that represented the portion of the historical cost of PP&E used up during the interim periods.

E15 Recognized depreciation expense

Assets		=	Owners' Eq.	
-	AcDep	=	-	DepEx
-	+ $7	=	-	+ $7

	Debit	Credit
Depreciation expense	$7	
Accumulated depreciation		$7

E16 Sold PP&E for cash

During 2013, BGS received $15 million cash when it sold a building with $20 million of historical cost and $8 of accumulated depreciation. Consistent with an IFRS option, BGS does not recognize unrealized gains associated with PP&E.

E16 Sold PP&E for cash

Assets						=	Owners' Eq	
+	C	+	PPEhc	-	AcDep	=	+	PPEGL
+	+ $15	+	- $20	-	- $8	=	+	+ $3

	Debit	Credit
Cash and cash equivalents	$15	
Accumulated depreciation	$8	
PP&E (historical cost)		$20
Gain on PP&E disposals		$3

E17 Declared dividends on share capital

During 2013, BGS declared $25 million of common stock dividends. When dividends are declared by a company's board of directors, the company is obligated to pay shareholders the declared amount at a future date. ["Share capital" is also call "common stock" in this context.]

E17 Declared dividends on share capital

=	Liabilities		Owners' Eq	
=	+	DivP	+	RE
=	+	+ $25	+	- $25

	Debit	Credit
Retained earnings	$25	
Dividend payable		$25

E18 Paid dividends on share capital

During 2013, BGS paid $20 million of previously declared common stock dividends. ["Share capital" is also call "common stock" in this context.]

E18 Paid dividends on share capital

Assets		=	Liabilities	
+	C	=	+	DivP
+	- $20	=	+	- $20

	Debit	Credit
Dividend payable	$20	
Cash and cash equivalents		$20

Revenue and Receivables Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
ONCA	Other non-current assets	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

CGS	Cost of goods sold	
DepEx	Depreciation expense	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. For your convenience, some entries are repeated from earlier chapters as they relate to this chapter's topic. Check your answers on the following pages.

E6a Recognized revenue when goods were delivered. During 2013, BGS recognized $415 million of revenues when goods were delivered to customers, which was the same time customers were billed for their purchases on account. For these sales, BGS concluded it met all of the IFRS criteria for revenue recognition when goods were delivered.

E6b Recognize product cost when goods were delivered. During 2013, BGS recognized $208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

E7 Collected amounts due from customers. During 2013, BGS collected $380 million from customers who had been billed earlier when goods were delivered. BGS recognizes revenue when it concludes the IFRS revenue recognition criteria are met, which can occur at times other than when cash is collected. For this reason, revenue is recorded separately from collections.

E19a Deferred revenue when goods were delivered. During 2013, BGS deferred recognizing $100 million of revenues when goods were delivered to customers, which was the same time cash was collected from customers. For these sales, BGS concluded it had not yet met all of the IFRS criteria for revenue recognition when goods were delivered. For example, BGS defers revenue when it can't reliably estimate product returns.

E19b Deferred CGS when goods were delivered. During 2013, BGS deferred recognizing $50 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were deferred in entry E19a. BGS's policy is to segregate the cost of delivered inventories from other inventories when revenues are deferred.

E20a Recognized previously deferred revenue. During 2013, BGS recognized $110 million of previously deferred revenues when it concluded it had met all of the IFRS criteria for revenue recognition.

E20b Recognized previously deferred CGS. During 2013, BGS recognized $55 million of previously deferred cost of goods sold. This occurred at the same time revenues were recognized in E20a. Entries E20a and E20b could have been combined. Some companies record these entries at the end of the period, rather than during the period as revenue recognition criteria are met.

E21 Revalued bad debts allowance. At the end of each interim reporting period during 2013, BGS estimated the outstanding receivables that would probably not be collected in the future and adjusted the bad debts allowance by the amount necessary to ensure its balance equalled this bad-debts estimate. There were a total of $6 million of these adjustments during 2013.

E22 Wrote off bad debts. During 2013, BGS wrote off $5 million of accounts receivable. BGS's policy is to write off receivables when they are 180 days past due.

E23 Replenish product returns provision. At the end of each interim period during 2013, BGS estimated the products that would probably be returned in the future and adjusted the revenue and cost components of the allowance to ensure they would cover the expected returns' gross margins. The combined gross margin adjustments for the year were $20 million of revenues less $10 million of cost of sales.

Bischoff's accounting policy for product returns is to maintain separate accounts for two allowance components: the revenue component, which is a contra asset to accounts receivable and the cost of sales component, which is an adjunct to finished goods inventories. Neither sales commissions nor royalties are associated with Bischoff's product returns.

E24 Products were returned by customers. During 2013, BGS's customers returned products with $18 million of previously recognized revenues and $9 million of previously recognized cost of sales. Customers had not yet paid for the returned products. The cost to acquire or produce these products had not changed since the time they were sold.

E6a Recognized revenue when goods were delivered

During 2013, BGS recognized $415 million of revenues when goods were delivered to customers, which was the same time customers were billed for their purchases on account. For these sales, BGS concluded it met all of the IFRS criteria for revenue recognition when goods were delivered.

E6a Recognized revenue when goods were delivered

	Assets	=		Owners' Eq.
+	ARG	=	+	Grev
+	+ $415	=	+	+ $415

	Debit	Credit
Accounts receivable, gross	$415	
Gross revenue		$415

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E6b Recognize product cost when goods were delivered

During 2013, BGS recognized $208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

E6b Recognize product cost when goods were delivered

	Assets	=		Owners' Eq.
+	FGI	=	-	CGS
+	- $208	=	-	+ $208

	Debit	Credit
Cost of goods sold	$208	
Finished goods inventories		$208

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E7 Collected amounts due from customers

During 2013, BGS collected $380 million from customers who had been billed earlier when goods were delivered. BGS recognizes revenue when it concludes the IFRS revenue recognition criteria are met, which can occur at times other than when cash is collected. For this reason, revenue is recorded separately from collections.

E7 Collected amounts due from customers

	Assets			=
+	C	+	ARG	=
+	380	+	-380	=

	Debit	Credit
Cash and cash equivalents	$380	
Accounts receivable, gross		$380

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E19a Deferred revenue when goods were delivered

During 2013, BGS deferred recognizing $100 million of revenues when goods were delivered to customers, which was the same time cash was collected from customers. For these sales, BGS concluded it had not yet met all of the IFRS criteria for revenue recognition when goods were delivered. For example, BGS defers revenue when it can't reliably estimate product returns.

E19a Deferred revenue when goods were delivered

Assets		=	Liabilities	
+	C	=	+	Drev
+	+ $100	=	+	+ $100

	Debit	Credit
Cash and cash equivalents	$100	
Deferred revenue		$100

E19b Deferred cost of goods sold when goods were delivered

During 2013, BGS deferred recognizing $50 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were deferred in entry E19a. BGS's policy is to segregate the cost of delivered inventories from other inventories when revenues are deferred.

E19b Deferred CGS when goods were delivered

Assets				=
+	FGI	+	SIdr	=
+	- $50	+	+ $50	=

	Debit	Credit
Segregated inventories: deferred revenue	$50	
Finished goods inventories		$50

E20a Recognized previously deferred revenue

During 2013, BGS recognized $110 million of previously deferred revenues when it concluded it had met all of the IFRS criteria for revenue recognition.

E20a Recognized previously deferred revenue

=	Liabilities		Owners' Eq	
=	+	Drev	+	Grev
=	+	- $110	+	+ $110

	Debit	Credit
Deferred revenue	$110	
Gross revenue		$110

E20b Recognized previously deferred cost of good sold

During 2013, BGS recognized $55 million of previously deferred cost of goods sold. This occurred at the same time revenues were recognized in E20a. Entries E20a and E20b could have been combined. Some companies record these entries at the end of the period, rather than during the period as revenue recognition criteria are met.

E20b Recognized previously deferred CGS

Assets		=	Owners' Eq.	
+	Sldr	=	-	CGS
+	- $55	=	-	+ $55

	Debit	Credit
Cost of goods sold	$55	
Segregated inventories: deferred revenue		$55

E21 Replenished doubtful receivables allowance

At the end of each interim reporting period during 2013, BGS estimated the outstanding receivables that would probably not be collected in the future and adjusted the bad debts allowance by the amount necessary to ensure its balance equalled this bad-debts estimate. There were a total of $6 million of these adjustments during 2013.

E21 Replenished bad debts allowance

Assets		=	Owners' Eq.	
-	Allbd	=	-	MSGA
-	+ $6	=	-	+ $6

	Debit	Credit
Miscellaneous SG&A expense	$6	
Allowance for bad debts		$6

E22 Wrote off doubtful receivables

During 2013, BGS wrote off $5 million of accounts receivable. BGS's policy is to write off receivables when they are 180 days past due.

E22 Wrote off bad debts

Assets				=
+	ARG	-	Allbd	=
+	- $5	-	- $5	=

	Debit	Credit
Allowance for bad debts	$5	
Accounts receivable, gross		$5

E23 Replenished product returns provision

At the end of each interim period during 2013, BGS estimated the products that would probably be returned in the future and adjusted the revenue and cost components of the allowance to ensure they would cover the expected returns' gross margins. The combined gross margin adjustments for the year were $20 million of revenues less $10 million of cost of sales.

Bischoff's accounting policy for product returns is to maintain separate accounts for two allowance components: the revenue component, which is a contra asset to accounts receivable and the cost of sales component, which is an adjunct to finished goods inventories. Neither sales commissions nor royalties are associated with Bischoff's product returns.

"Provision" is also call "Allowance" in this context. See side bar.

E23 Replenished product returns provision

Assets				=	Owners' Equity			
-	Allprr	+	Slprc	=	-	PRCnR	-	CGS
-	+ $20	+	+ $10	=	-	+ $20	-	- $10

	Debit	Credit
Segregated inventories: product returns allowance cost component	$10	
Product returns contra revenue	$20	
Allowance for product returns: revenue component		$20
Cost of goods sold		$10

IFRS GAAP

Under IFRS, a **provision** is a liability of uncertain timing or amount[1], such as a provision for product returns. In the U.S. a provision typically refers to an expense, such as provision for taxes. Thus, provision refers to a balance at a point in time under IFRS; but to a change over a period in the U.S. **Beware of this significant difference: 'provision' must be interpreted in context.**

1 IAS 37 ¶10.

U.S. GAAP

Allowance is a synonym for provision in this context.

E24 Products were returned by customers

During 2013, BGS's customers returned products with $18 million of previously recognized revenues and $9 million of previously recognized cost of sales. Customers had not yet paid for the returned products. The cost to acquire or produce these products had not changed since they were sold. (See E23 for discussion of Bischoff's accounting policy for product returns.)

E24 Products were returned by customers

Assets								=
+	ARG	-	Allprr	+	FGI	+	Slprc	=
+	- $18	-	- $18	+	+ $9	+	- $9	=

	Debit	Credit
Allowance for product returns: revenue component	$18	
Finished goods inventories	$9	
Accounts receivable, gross		$18
Segregated inventories: product returns allowance cost component		$9

"Provision" is also call "Allowance" in this context. See side bar above.

Cost of Sales and Inventories Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
ONCA	Other non-current assets	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

CGS	Cost of goods sold	
DepEx	Depreciation expense	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

BGS's policy is to accrue obligations in "Accrued liabilities" when it has NOT received an invoice and recognize obligations in "Accounts payable" when it receives an invoice.

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. For your convenience, some entries are repeated from earlier chapters as they relate to this chapter's topic. Check your answers on the following pages.

E4 Purchased merchandise for resale. During 2013, BGS purchased $80 million of merchandise from other companies on account that were invoiced upon delivery. It plans to resale this merchandise to customers for a profit. These products complement the ones BGS manufactures and allows BGS to meet customers' needs, which reduces the customers' transaction costs.

E6b Recognize product cost when goods were delivered. During 2013, BGS recognized $208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

E19b Deferred CGS when goods were delivered. During 2013, BGS deferred recognizing $50 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were deferred in entry E19a. BGS's policy is to segregate the cost of delivered inventories from other inventories when revenues are deferred.

E20b Recognized previously deferred CGS. During 2013, BGS recognized $55 million of previously deferred cost of goods sold. This occurred at the same time revenues were recognized in E20a. Entries E20a and E20b could have been combined. Some companies record these entries at the end of the period, rather than during the period as revenue recognition criteria are met.

E23 Replenish product returns provision. At the end of each interim period during 2013, BGS estimated the products that would probably be returned in the future and adjusted the revenue and cost components of the allowance to ensure they would cover the expected returns' gross margins. The combined gross margin adjustments for the year were $20 million of revenues less $10 million of cost of sales.

Bischoff's accounting policy for product returns is to maintain separate accounts for two allowance components: the revenue component, which is a contra asset to accounts receivable and the cost of sales component, which is an adjunct to finished goods inventories. Neither sales commissions nor royalties are associated with Bischoff's product returns.

E24 Products were returned by customers. During 2013, BGS's customers returned products with $18 million of previously recognized revenues and $9 million of previously recognized cost of sales. Customers had not yet paid for the returned products. The cost to acquire or produce these products had not changed since the time they were sold.

E25 Purchased materials on account. During 2013, BGS purchased $83 million of materials and parts on account from suppliers and was invoiced upon delivery. It planned to use these items to produce products to sell to customers.

E26 Used materials previously purchased. During 2013, BGS used $80 million of previously purchased materials and parts while producing products to sell to customers.

E27 Used production inputs before invoiced. At the end of interim periods during 2013, BGS identified a total of $2 million of costs for production-related services performed during the periods for which BGS had not yet received invoices by the end of the periods. For example, BGS reconized production-related janitorial costs for services rendered but not yet invoiced by its janitorial service.

E28 Used production inputs when invoiced. During 2013, BGS received $17 million of invoices for production-related goods it received and used during 2013 for production-related services rendered in 2013. BGS had not previously accrued for these services. For example, BGS received invoices in 2013 from utilities companies for servicing production facilities during 2013.

E29 Used production inputs previously prepaid. At the end of interim periods during 2013, BGS identified a total of $10 million of costs for production-related services performed during the periods that were prepaid prior to receiving the services, but not yet charged to production. For example, at month end, BGS recognized the cost of using a production facility that had been prepaid in a prior month.

E30 Used production inputs when paid. During 2013, BGS charged $60 million of costs to production for non-invoiced goods and services received, used, and paid for during 2013. For example, this includes salaries paid to assembly-line employees in 2013 for services performed in 2013. It also includes supplies purchased with cash in 2013 and used in production during 2013.

E31 Recognized production-PP&E depreciation. At the end of interim periods during 2013, BGS capitalized a total of $25 million of production-related depreciation into inventory, representing the portion of the historical cost of PP&E that had been used up during production.

E32 Transfer costs from WIP to FGI. During 2013, BGS transferred $190 million of costs from work-in-process to finished goods. This occurred when production was completed and the finished goods had arrived at BGS's regional distribution centers around the world. Thus, related shipping and handling costs had already been charged to WIP.

E4 Purchased merchandise on account for resale

During 2013, BGS purchased $80 million of merchandise from other companies on account and was invoiced upon delivery. It plans to resale this merchandise to customers for a profit. These products complement the ones BGS manufactures and allows BGS to meet customers' needs, which reduces the customers' transaction costs.

E4 Purchased merchandise on account for resale

Assets		=	Liabilities	
+	FGI	=	+	AP
+	80	=	+	80

	Debit	Credit
Finished goods inventories	$80	
Accounts payable		$80

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E6b Recognize product cost when goods were delivered

During 2013, BGS recognized $208 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were recognized in entry E6a. Entries E6a and E6b could have been combined.

E6b Recognize product cost when goods were delivered

Assets		=	Owners' Eq.	
+	FGI	=	-	CGS
+	- $208	=	-	+ $208

	Debit	Credit
Cost of goods sold	$208	
Finished goods inventories		$208

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E19b Deferred cost of goods sold when goods were delivered

During 2013, BGS deferred recognizing $50 million of cost of goods sold when goods were delivered to customers. This occurred at the same time revenues were deferred in entry E19a. BGS's policy is to segregate the cost of delivered inventories from other inventories when revenues are deferred.

E19b Deferred CGS when goods were delivered

Assets				=
+	FGI	+	SIdr	=
+	- $50	+	+ $50	=

	Debit	Credit
Segregated inventories: deferred revenue	$50	
Finished goods inventories		$50

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E20b Recognized previously deferred cost of good sold

During 2013, BGS recognized $55 million of previously deferred cost of goods sold. This occurred at the same time revenues were recognized in E20a. Entries E20a and E20b could have been combined. Some companies record these entries at the end of the period, rather than during the period as revenue recognition criteria are met.

E20b Recognized previously deferred CGS

Assets		=	Owners' Eq.	
+	SIdr	=	-	CGS
+	- $55	=	-	+ $55

	Debit	Credit
Cost of goods sold	$55	
Segregated inventories: deferred revenue		$55

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E23 Replenished product returns provision

At the end of each interim period during 2013, BGS estimated the products that would probably be returned in the future and adjusted the revenue and cost components of the allowance to ensure they would cover the expected returns' gross margins. The combined gross margin adjustments for the year were $20 million of revenues less $10 million of cost of sales.

Bischoff's accounting policy for product returns is to maintain separate accounts for two allowance components: the revenue component, which is a contra asset to accounts receivable and the cost of sales component, which is an adjunct to finished goods inventories. Neither sales commissions nor royalties are associated with Bischoff's product returns.

E23 Replenished product returns provision

Assets				=	Owners' Equity			
-	Allprr	+	SIprc	=	-	PRCnR	-	CGS
-	+ $20	+	+ $10	=	-	+ $20	-	- $10

	Debit	Credit
Segregated inventories: product returns allowance cost component	$10	
Product returns contra revenue	$20	
Allowance for product returns: revenue component		$20
Cost of goods sold		$10

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

"Provision" is also call "allowance" in this context. See side bar page 23.

E24 Products were returned by customers

During 2013, BGS's customers returned products with $18 million of previously recognized revenues and $9 million of previously recognized cost of sales. Customers had not yet paid for the returned products. The cost to acquire or produce these products had not changed since they were sold. (See E23 for discussion of Bischoff's accounting policy for product returns.)

E24 Products were returned by customers

Assets								=
+	ARG	-	Allprr	+	FGI	+	SIprc	=
+	- $18	-	- $18	+	+ $9	+	- $9	=

	Debit	Credit
Allowance for product returns: revenue component	$18	
Finished goods inventories	$9	
Accounts receivable, gross		$18
Segregated inventories: product returns allowance cost component		$9

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

"Provision" is also call "allowance" in this context. See side bar page 23.

E25 Purchased materials on account

During 2013, BGS purchased $83 million of materials and parts on account from suppliers and was invoiced upon delivery. It planned to use these items to produce products to sell to customers.

E25 Purchased materials on account

Assets		=	Liabilities	
+	Minv	=	+	AP
+	+ $83	=	+	+ $83

	Debit	Credit
Materials inventories	$83	
Accounts payable		$83

E26 Used materials previously purchased

During 2013, BGS used $80 million of previously purchased materials and parts while producing products to sell to customers.

E26 Used materials previously purchased

Assets				=
+	Minv	+	WIP	=
+	- $80	+	+ $80	=

	Debit	Credit
Work in process	$80	
Materials inventories		$80

E27 Used production inputs before invoiced

At the end of interim periods during 2013, BGS identified a total of $2 million of costs for production-related services performed during the periods for which BGS had not yet received invoices by the end of the periods. For example, BGS reconized janitorial costs for services rendered but not yet invoiced by its janitorial service.

E27 Used production inputs before invoiced

Assets		=	Liabilities	
+	WIP	=	+	AcrL
+	+ $2	=	+	+ $2

	Debit	Credit
Work in process	$2	
Accrued liabilities		$2

E28 Used production inputs when invoiced

During 2013, BGS received $17 million of invoices for production-related goods it received and used during 2013 for production-related services rendered in 2013. BGS had not previously accrued for these services. For example, BGS received invoices in 2013 from utilities companies for servicing production facilities during 2013.

E28 Used production inputs when invoiced

Assets		=	Liabilities	
+	WIP	=	+	AP
+	+ $17	=	+	+ $17

	Debit	Credit
Work in process	$17	
Accounts payable		$17

E29 Used production inputs previously prepaid

At the end of interim periods during 2013, BGS identified a total of $10 million of costs for production-related services performed during the periods that were prepaid prior to receiving the services, but not yet charged to production. For example, at month end, BGS recognized the cost of using a production facility that had been prepaid in a prior month.

E29 Used production inputs previously prepaid

Assets				=
+	WIP	+	PrEx	=
+	+ $10	+	- $10	=

	Debit	Credit
Work in process	$10	
Prepaid expenses		$10

E30 Used production inputs when paid

During 2013, BGS charged $60 million of costs to production for non-invoiced goods and services received, used, and paid for during 2013. For example, this includes salaries paid to assembly-line employees in 2013 for services performed in 2013. It also includes supplies purchased with cash in 2013 and used in production during 2013.

E30 Used production inputs when paid

Assets				=
+	C	+	WIP	=
+	- $60	+	+ $60	=

	Debit	Credit
Work in process	$60	
Cash and cash equivalents		$60

E31 Recognized production-PP&E depreciation

At the end of interim periods during 2013, BGS capitalized a total of $25 million of production-related depreciation into inventory, representing the portion of the historical cost of PP&E that had been used up during production.

E31 Recognized production-PP&E depreciation

Assets				=
+	WIP	-	AcDep	=
+	+ $25	-	+ $25	=

	Debit	Credit
Work in process	$25	
Accumulated depreciation		$25

E32 Transfer costs from WIP to FGI

During 2013, BGS transferred $190 million of costs from work-in-process to finished goods. This occurred when production was completed and the finished goods had arrived at BGS's regional distribution centers around the world. Thus, related shipping and handling costs had already been charged to WIP.

E32 Transfer costs from WIP to FGI

Assets				=
+	WIP	+	FGINS	=
+	- $190	+	+ $190	=

	Debit	Credit
Finished goods inventories (not segregated)	$190	
Work in process		$190

Long-Lived Assets Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	**Acquired intangibles**	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
ONCA	Other non-current assets	

LIABILITIES

Current

AcrL	Accrued liabilities
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. For your convenience, some entries are repeated from earlier chapters as they relate to this chapter's topic. Check your answers on the following pages.

E3 Purchased PP&E with cash. During 2013, BGS purchased $20 million of property, plant, and equipment with cash. PP&E are tangible assets used to support day-to-day business operations. Among other things, PP&E includes buildings, manufacturing equipment, furniture, computers, and automobiles.

E15 Recognized depreciation expense. At the end of interim reporting periods during 2013, BGS recognized a total of $7 million of expense that represented the portion of the historical cost of PP&E used up during the interim periods.

E16 Sold PP&E for cash. During 2013, BGS received $15 million cash when it sold a building with $20 million of historical cost and $8 of accumulated depreciation. Consistent with an IFRS option, BGS does not recognize unrealized gains associated with PP&E.

E31 Recognized production-PP&E depreciation. At the end of interim periods during 2013, BGS capitalized a total of $25 million of production-related depreciation into inventory, representing the portion of the historical cost of PP&E that had been used up during production.

E33 Recognized amortization expense. At the end of interim periods during 2013, BGS recognized a total of $12 million of amortization expense that represented the portion of the historical cost of acquired intangible assets used up during the periods. All of BGS's intangible assets were acquired when BGS purchased businesses and none are related to production.

E3 Purchased PP&E with cash

During 2013, BGS purchased $20 million of property, plant, and equipment with cash. PP&E are tangible assets used to support day-to-day business operations. Among other things, PP&E includes buildings, manufacturing equipment, furniture, computers, and automobiles.

E3 Purchased PP&E with cash

Assets				=
+	C	+	PPEhc	=
+	-20	+	20	=

	Debit	Credit
PP&E (historical cost)	$20	
Cash and cash equivalents		$20

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E15 Recognized depreciation expense

At the end of interim reporting periods during 2013, BGS recognized a total of $7 million of expense that represented the portion of the historical cost of PP&E used up during the interim periods.

E15 Recognized depreciation expense

Assets		=	Owners' Eq.	
-	AcDep	=	-	DepEx
-	+ $7	=	-	+ $7

	Debit	Credit
Depreciation expense	$7	
Accumulated depreciation		$7

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E16 Sold PP&E for cash

During 2013, BGS received $15 million cash when it sold a building with $20 million of historical cost and $8 of accumulated depreciation.

E16 Sold PP&E for cash

Assets						=	Owners' Eq	
+	C	+	PPEhc	-	AcDep	=	+	PPEGL
+	+ $15	+	- $20	-	- $8	=	+	+ $3

	Debit	Credit
Cash and cash equivalents	$15	
Accumulated depreciation	$8	
PP&E (historical cost)		$20
Gain on PP&E disposals		$3

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E31 Recognized production-PP&E depreciation

At the end of interim periods during 2013, BGS capitalized a total of $25 million of production-related depreciation into inventory, representing the portion of the historical cost of PP&E that had been used up during production.

E31 Recognized production-PP&E depreciation

Assets				=
+	WIP	-	AcDep	=
+	+ $25	-	+ $25	=

	Debit	Credit
Work in process	$25	
Accumulated depreciation		$25

Note: For your convenience, this entry is repeated from an earlier chapter as it relates to this chapter's topic.

E33 Recognized amortization expense

At the end of interim periods during 2013, BGS recognized a total of $12 million of amortization expense that represented the portion of the historical cost of acquired intangible assets used up during the periods. All of BGS's intangibles were acquired when BGS purchased businesses and none are related to production.

E33 Recognized amortization expense

Assets		=	Owners' Eq.	
-	AcAmt	=	-	AmtEx
-	+ $12	=	-	+ $12

	Debit	Credit
Amortization expense	$12	
Accumulated amortization		$12

Debt Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable		
	ARG	Accounts receivable, gross	
	Allbd	Allowance for bad debts	
	Allprr	Allowance for product returns: revenue component	
C	Cash and cash equivalents		
Inven	Inventories		
	Minv	Materials inventories	
	WIP	Work in process	
	FGI	Finished goods inventories	
	SIdr	Segregated inventories: deferred revenue	
	SIprc	Segregated inventories: product returns allowance cost component	
PrEx	Prepaid expenses		
OCA	Other current assets		

Non-current

PPE	Property, plant, and equipment, net		
	PPEhc	PP&E (historical cost)	
	AcDep	Accumulated depreciation	
Intan	**Acquired intangibles**		
	Inthc	Intangibles (historical cost)	
	AcAmt	Accumulated amortization	
ONCA	Other non-current assets		

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
CPLTD	Current portion of long-term debt
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E34a Paid finance costs previously expensed. During 2013, BGS paid a total of $7 million of interest previously recognized as finance expense. These interest payments could have been combined with the principal payments in E34b. BGS's policy is to classify interest payments as operating activities. Under IFRS, they could have been classified as financing activities. ["Finance expense" is also call "interest expense" in this context.]

E34b Paid debt principal classified as CPLTD. During 2013, BGS repaid a total of $5 million of long-term debt principal. In anticipation of these payments, BGS had reclassified the principal from non-current to current liabilities on December 31, 2012: the end of the prior year. This entry could have been combined with the interest payments in entry E34a.

E35 Recognized finance expense. At the end of interim periods during 2013, BGS recognized a total of $7 million of finance expense that represented the interest costs associated with long-term debt for the periods. BGS's policy is to classify interest as operating activities. Under IFRS, they could have been classified as financing activities. ["Finance expense" is also call "interest expense" in this context.]

E36 Anticipated paying non-current debt. At the end of interim periods during 2013, BGS reclassified a total of $5 million of long-term debt principal from non-current to current liabilities. These transfers ensured that the current liability reported at the end of each period anticipated principal payments for the subsequent 12 months.

E37 Recognized lease classified as finance lease. On December 20, 2013, equipment leased by BGS was installed and ready to use. BGS chose not to put it into service until January 10, 2014. BGS concluded the lease met the IFRS criteria for a finance lease and estimated its present value to be $20 million. Finance leases are recorded under IFRS when the lessee has the right to use property. ["Finance lease" is also call "capital lease" in this context.]

E34a Paid finance costs previously expensed

During 2013, BGS paid a total of $7 million of interest previously recognized as finance expense. These interest payments could have been combined with the principal payments in E34b. BGS's policy is to classify interest payments as operating activities. Under IFRS, they could have been classified as financing activities. [“Finance expense” is also call “interest expense” in this context.]

E34a Paid finance costs previously expensed

	Assets	=		Liabilities
+	C	=	+	AcrL
+	- $7	=	+	- $7

	Debit	Credit
Accrued liabilities	$7	
Cash and cash equivalents		$7

U.S. GAAP

Interest expense is a synonym for finance expense.

E34b Paid debt principal classified as current portion

During 2013, BGS repaid a total of $5 million of long-term debt principal. In anticipation of these payments, BGS had reclassified the principal from non-current to current liabilities on December 31, 2012: the end of the prior year. This entry could have been combined with the interest payments in entry E34a.

E34b Paid debt principal classified as CPLTD

	Assets	=		Liabilities
+	C	=	+	CPLTD
+	- $5	=	+	- $5

	Debit	Credit
Current portion of long-term	$5	
Cash and cash equivalents		$5

E35 Recognized finance expense

At the end of interim periods during 2013, BGS recognized a total of $7 million of finance expense that represented the interest costs associated with long-term debt for the periods. BGS's policy is to classify interest as operating activities. Under IFRS, they could have been classified as financing activities. [“Finance expense” is also call “interest expense” in this context.]

E35 Recognized finance expense

=		Liabilities		Owners' Eq
=	+	AcrL	-	FinEx
=	+	+ $7	-	+ $7

	Debit	Credit
Finance expense	$7	
Accrued liabilities		$7

E36 Anticipated paying non-current debt

At the end of interim periods during 2013, BGS reclassified a total of $5 million of long-term debt principal from non-current to current liabilities. These transfers ensured that the current liability reported at the end of each period anticipated principal payments for the subsequent 12 months.

E36 Anticipated paying non-current debt

=	Liabilities			
=	+	CPLTD	+	LTD
=	+	+ $5	+	- $5

	Debit	Credit
Long-term debt	$5	
Current portion of long-term debt		$5

E37 Recognized lease classified as finance lease

On December 20, 2013, equipment leased by BGS was installed and ready to use. BGS chose not to put it into service until January 10, 2014. BGS concluded the lease met the IFRS criteria for a finance lease and estimated its present value to be $20 million. Finance leases are recorded under IFRS when the lessee has the right to use property. ["Finance lease" is also call "capital lease" in this context.]

E37 Recognized lease classified as finance lease

Assets		=	Liabilities	
+	PPEhc	=	+	LTD
+	+ $20	=	+	+ $20

	Debit	Credit
PP&E (historical cost)	$20	
Long-term debt		$20

U.S. GAAP

Capital lease is a synonym for finance lease.

Income Taxes Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR
CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

DTA	Deferred tax asset	
PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	Acquired intangibles	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
ONCA	Other non-current assets	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
CPLTD	Current portion of long-term debt
CTP	Current income taxes payable
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

DTL	Deferred tax liability
LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
TaxEx	Tax expense	
	CTexp	Current tax expense
	DTexp	Deferred tax expense
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E38 Paid income taxes previously expensed. During 2013, BGS paid $18 million of income taxes previously recognized as current income tax expense.

E39a Recognized current income tax expense. At the end of interim periods during 2013, BGS recognized a total of $22 million of current income tax expense.

E39b Recognized deferred income tax expense. At the end of interim periods during 2013, BGS recognized a total of $17 million of deferred income tax expense associated with a $22 million increase in deferred tax liabilities and a $5 million increase in deferred tax assets.

E38 Paid income taxes previously expensed

During 2013, BGS paid $18 million of income taxes previously recognized as current income tax expense.

E38 Paid income taxes previously expensed

	Assets	=		Liabilities
+	C	=	+	CTP
+	- $18	=	+	- $18

	Debit	Credit
Current income taxes payable	$18	
Cash and cash equivalents		$18

E39a Recognized current income tax expense

At the end of interim periods during 2013, BGS recognized a total of $22 million of current income tax expense.

E39a Recognized current income tax expense

=		Liabilities		Owners' Eq
=	+	CTP	-	CTexp
=	+	+ $22	-	+ $22

	Debit	Credit
Current tax expense	$22	
Current income taxes payable		$22

E39b Recognized deferred income tax expense

At the end of interim periods during 2013, BGS recognized a total of $18 million of deferred income tax expense associated with a $24 million increase in deferred tax liabilities and a $6 million increase in deferred tax assets.

E39b Recognized deferred income tax expense

	Assets	=		Liabilities		Owners' Eq
+	DTA	=	+	DTL	-	DTexp
+	+ $6	=	+	+ $24	-	+ $18

	Debit	Credit
Deferred tax asset	$6	
Deferred tax expense	$18	
Deferred tax liability		$24

Owners' Equity: Share-Based Compensation Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

DTA	Deferred tax asset	
PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	Acquired intangibles	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
AP	Accounts payable	
AcrL	Accrued liabilities	
CPLTD	Current portion of long-term debt	
CTP	Current income taxes payable	
DivP	Dividend payable	
Drev	Deferred revenue	
OCL	Other current liabilities	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
CPLTD	Current portion of long-term debt
CTP	Current income taxes payable
DerivP	Derivatives payable
DivP	Dividend payable
Drev	Deferred revenue
Allprr	Allowance for product returns: revenue component

Non-current

DTL	Deferred tax liability
LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

EFAR	Equity financial assets reserve
RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	PRCnR	Product returns contra revenue
TaxEx	Tax expense	
	CTexp	Current tax expense
	DTexp	Deferred tax expense
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E40 Recognized SBP expense. At the end of interim periods during 2013, BGS recognized a total of $15 million of share-based-payments expense for services rendered by employees during the periods. All of BGS's share-based-payment arrangements are settled in equity and all related expense is classified as miscellaneous selling, general, and administrative expense (MSGA).

E41a Received proceeds on SBP exercise date. During 2013, BGS received $10 million from employees when they exercised their rights to acquire shares under share-based-payment arrangements.

E41b Realized SBP excess tax benefit. During 2013, BGS realized $6 million of excess tax benefit when employees exercised share-based-payment arrangements. $4 million of this excess benefit had previously been anticipated and recognized in share capital and deferred tax assets.

E42 Revalued SBP DTA for excess tax benefit. At the end of interim periods during 2013, BGS estimated the anticipated tax benefit expected to be realized for tax reporting in excess of that recognized for financial reporting and adjusted the related deferred tax asset to this estimate. The adjustments for 2013 totaled $5 million.

E43 Reversed expired SBP deferred taxes. At the end of interim periods during 2013, BGS reversed a total of $3 million of previously anticipated excess tax benefits associated with expired share-based-payment arrangements. (These excess reversals did not include reversals associated with tax benefits previously recognized in income, which were included in E39b.)

IFRS GAAP

The entries presented here comply with IFRS GAAP. Accounting for the tax benefits associated with shared-based compensation differs significantly for IFRS and US GAAP. Beware of this difference when interpreting companies' disclosures.

Under US GAAP, the total tax benefit recognized during the vesting period is determined by multiplying the tax rate by the fair value of the option at the grant date. This is recorded ratably during the vesting period to a deferred tax asset and the deferred tax expense. This deferred tax asset does not change thereafter until the option is exercised or forfeited.

Under IFRS, the deferred tax asset is revalued at each reporting date by multiplying the tax rate by the option's intrinsic value at that date. (The intrinsic value is the share price less the exercise price when the share price exceeds the exercise price, or zero otherwise.) Changes in the deferred tax asset are first recognized in the deferred tax expense to the extent the cumulative amount recognized to date in the deferred tax expense does not exceed the tax rate multiplied by the cumulative pretax expense recognized to date. Any remaining change in the deferred tax asset is recognized in share capital. This means excess tax benefits recognized at the exercise date (in share capital) under US GAAP are generally recognized earlier under IFRS.

The tax benefits associated with share-based compensation that affect the current and deferred tax expense are included in entries E39a and E39b. As a result, the entries here only record the "excess" tax benefit implications for share capital.

E40 Recognized share-based-payments expense

At the end of interim periods during 2013, BGS recognized a total of $15 million of share-based-payments expense for services rendered by employees during the periods. All of BGS's share-based-payment arrangements are settled in equity and all related expense is classified as miscellaneous selling, general, and administrative expense (MSGA).

E40 Recognized SBP expense

=	Owners' Eq			
=	+	SCap	-	MSGA
=	+	+ $15	-	+ $15

	Debit	Credit
Miscellaneous SG&A expense	$15	
Share capital		$15

U.S. GAAP

Common stock is a synonym for share capital.

"Share capital" is also call "common stock" in this context.

E41a Received proceeds on share-based-payments exercise date

During 2013, BGS received $10 million from employees when they exercised their rights to acquire shares under share-based-payment arrangements.

E41a Received proceeds on SBP exercise date

Assets		=	Owners' Eq.	
+	C	=	+	SCap
+	+ $10	=	+	+ $10

	Debit	Credit
Cash and cash equivalents	$10	
Share capital		$10

"Share capital" is also call "common stock" in this context.

E41b Realized share-based-payments excess tax benefit

During 2013, BGS realized $6 million of excess tax benefit when employees exercised share-based-payment arrangements. $4 million of this excess benefit had previously been anticipated and recognized in share capital and deferred tax assets. ["Share capital" is also call "common stock" in this context.]

E41b Realized SBP excess tax benefit

Assets		=	Liabilities		Owners' Eq	
+	DTA	=	+	CTP	+	SCap
+	- $4	=	+	- $6	+	+ $2

	Debit	Credit
Current income taxes payable	$6	
Deferred tax asset		$4
Share capital		$2

E42 Revalued share-based-payments deferred tax asset

At the end of interim periods during 2013, BGS estimated the anticipated tax benefit expected to be realized for tax reporting in excess of that recognized for financial reporting and adjusted the related deferred tax asset to this estimate. The adjustments for 2013 totaled $5 million.

E42 Revalued SBP DTA for excess tax benefit

Assets		=	Owners' Eq.	
+	DTA	=	+	SCap
+	+ $5	=	+	+ $5

	Debit	Credit
Deferred tax asset	$5	
Share capital		$5

"Share capital" is also call "common stock" in this context.

E43 Reversed expired share-based-payments deferred taxes

At the end of interim periods during 2013, BGS reversed a total of $3 million of previously anticipated excess tax benefits associated with expired share-based-payment arrangements. (These excess reversals did not include reversals associated with tax benefits previously recognized in income, which were included in E39b.)

E43 Reversed expired SBP deferred taxes

Assets		=	Owners' Eq.	
+	DTA	=	+	SCap
+	- $3	=	+	- $3

	Debit	Credit
Share capital	$3	
Deferred tax asset		$3

"Share capital" is also call "common stock" in this context.

Investments Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
OfinA	Other financial assets	
	HCDE	Historical cost of debt & equity financial assets
	AcrInt	Accrued interest income
	UGDE	Unrealized gains on debt & equity financial assets
	ULDE	Unrealized losses on debt & equity financial assets
	Othfa	Other
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

DTA	Deferred tax asset	
PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	Acquired intangibles	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
ONCA	Other non-current assets	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
CPLTD	Current portion of long-term debt
CTP	Current income taxes payable
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

DTL	Deferred tax liability
LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

EFAR	Equity financial assets reserve
RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
FinInc	Finance income	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	DInvGL	G/L on debt securities
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
TaxEx	Tax expense	
	CTexp	Current tax expense
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Other comprehensive income

OCI	Other comprehensive income	
	GLEFA	G/L on equity financial assets
	TxEInv	Tax on equity financial assets net G/L
	Othoci	Other OCI

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E44 Purchased debt and equity financial assets. During 2013, BGS paid $70 million for debt and equity financial assets. Given its business model, BGS concluded that to comply with IFRS, the debt securities had to be reported at fair value with gains and losses recognized in profits and losses. Consistent with an IFRS option, BGS elected to report its equity financial assets at fair value with gains and losses recognized in OCI.

E45 Received previously recognized interest. During 2013, BGS received $1 million of previously accrued interest income associated with debt financial assets (such as government bonds).

E46 Recognized finance income. At the end of interim periods during 2013, BGS recognized a total of $1 million of finance income that represented interest and dividends earned on debt and equity financial assets during these periods. BGS's policy is to classify finance income as an operating activity. Under IFRS, they could have been classified as an operating or financing activity.

E47a Sell debt financial assets carried at fair value. During 2013, BGS received $17 million cash when it sold debt financial assets. To comply with IFRS (given its business model), BGS reports these securities at fair value with gains and losses recognized in profits and losses. When the sold securities' fair values were last updated, the historical cost, unrealized gains, and unrealized losses were $7, $7 and $3 million, respectively. The related taxes are included in the current and deferred tax provision entries: E39a and E39b, respectively.

E47b Sell equity financial assets carried at fair value through OCI. During 2013, BGS received $23 million cash when it sold equity financial assets. Consistent with IFRS, BGS has elected to report these securities at fair value with gains and losses recognized in OCI. When the sold securities' fair values were last updated, the historical cost, unrealized gains, and unrealized losses were $13, $13 and $7 million, respectively. Thus, the net gains were $10 million (=$23 - $13) of which $6 million (=$13 - $7) had previously been recognized in OCI. The remaining $4 million was recognized in OCI at the time of the sale. The related taxes are recorded in E47c.

E47c Recognize tax on sale of equity financial assets. During 2013, BGS recognized $3 million of current taxes payable in conjunction with the gains recorded in E47b. $2 million of these taxes had previously been deferred: $2 million was associated with deferred tax assets and $4 million with deferred tax liabilities. The remaining $1 million of tax, which is related to the $4 million of pretax net gains recognized in OCI at the time of the sale, is recognized in OCI.

E47d Transfer equity net gains from reserves to retained earnings. During 2013, consistent with an option allowed under IFRS, BGS transferred $7 million associated with the sale in E47b from the reserves associated with equity financial assets to retained earnings: $10 million of pretax net gains, $6 million of which had been recognized in OCI in prior periods, net of $3 million of taxes.

E48a Revalue debt financial assets carried at fair value. At the end of interim periods during 2013, BGS estimated the fair values of its debt financial assets and adjusted their carrying values by recognizing $13 million of additional unrealized gains and $7 million of additional unrealized losses. To comply with IFRS (given its business model), BGS reports its debt financial assets at fair value with gains and losses recognized in profits and losses.

E48b Revalue equity financial assets carried at fair value through OCI. At the end of interim periods during 2013, BGS estimated the fair values of its equity financial assets and adjusted their carrying values by recognizing $17 million of additional unrealized gains and $3 million of additional unrealized losses. Consistent with an IFRS option, BGS reports its equity financial assets at fair value with gains and losses recognized in OCI.

E48c Recognize tax consequences of revaluing equity financial assets. At the end of interim periods during 2013, BGS recorded the tax consequences of the adjustments to pretax unrealized gains and losses in E48b. $4 million of taxes deducted from OCI were associated with a $5 million increase to deferred tax liabilities and a $1 million increase to deferred tax assets.

IFRS GAAP

Accounting for investment securities will differ significantly under IFRS and US GAAP starting in 2015 and earlier for IFRS companies that elect to early adopt a new standard enacted in 2009. The entries here are based on this new standard (IFRS 09).

Under US GAAP (and earlier IFRS guidance) the classification categories for investments differ from the categories under the new IFRS standard. The measurement and recognition guidance also differs significantly, especially with regards to whether unrealized gains and losses are recognized in net profits or other comprehensive income (OCI).

E44 Purchased debt and equity financial assets

During 2013, BGS paid $70 million for debt and equity financial assets. Given its business model, BGS concluded that to comply with IFRS, the debt securities had to be reported at fair value with gains and losses recognized in profits and losses. Consistent with an IFRS option, BGS elected to report its equity financial assets at fair value with gains and losses recognized in other comprehensive income (OCI).

E44 Purchased debt and equity financial assets

Assets				=
+	C	+	HCDE	=
+	- $70	+	+ $70	=

	Debit	Credit
Historical cost of debt & equity financial assets	$70	
Cash and cash equivalents		$70

E45 Received previously recognized interest

During 2013, BGS received $1 million of previously accrued interest income associated with debt financial assets (such as government bonds).

E45 Received previously recognized interest

Assets				=
+	C	+	AcrInt	=
+	+ $1	+	- $1	=

	Debit	Credit
Cash and cash equivalents	$1	
Accrued interest income		$1

E46 Recognized finance income

At the end of interim periods during 2013, BGS recognized a total of $1 million of finance income that represented interest and dividends earned on debt and equity financial assets during these periods. BGS's policy is to classify finance income as an operating activity. Under IFRS, they could have been classified as operating or financing.

E46 Recognized finance income

Assets		=	Owners' Eq.	
+	AcrInt	=	+	Fininc
+	+ $1	=	+	+ $1

	Debit	Credit
Accrued interest income	$1	
Finance income		$1

E47a Sell debt financial assets carried at fair value

During 2013, BGS received $17 million cash when it sold debt financial assets. To comply with IFRS (given its business model), BGS reports these securities at fair value with gains and losses recognized in profits and losses. When the sold securities' fair values were last updated, the historical cost, unrealized gains, and unrealized losses were $7, $7 and $3 million, respectively. The related taxes are included in the current and deferred tax provision entries: E39a and E39b, respectively. ["Provision" is also call "expense" in this context. See side bar page 23.]

E47a Sell debt financial assets carried at fair value

Assets								=	Owners' Eq	
+	C	+	HCDE	-	UGDE	-	ULDE	=	+	DInvGL
+	+ $17	+	- $7	-	- $7	-	- $3	=	+	+ $6

	Debit	Credit
Cash and cash equivalents	$17	
Unrealized losses on debt & equity financial assets	$3	
Historical cost of debt & equity financial assets		$7
Unrealized gains on debt & equity financial assets		$7
Gain on debt securities		$6

E47b Sell equity financial assets carried at fair value through OCI

During 2013, BGS received $23 million cash when it sold equity financial assets. Consistent with IFRS, BGS has elected to report these securities at fair value with gains and losses recognized in other comprehensive income (OCI). When the sold securities' fair values were last updated, the historical cost, unrealized gains, and unrealized losses were $13, $13 and $7 million, respectively. Thus, the net gains were $10 million (=$23 - $13) of which $6 million (=$13 - $7) had previously been recognized in OCI. The remaining $4 million was recognized in OCI at the time of the sale. The related taxes are recorded in E47c.

E47b Sell equity financial assets carried at fair value through OCI

Assets								=	Owners' Eq	
+	C	+	HCDE	-	UGDE	-	ULDE	=	+	GLEFA
+	+ $23	+	- $13	-	- $13	-	- $7	=	+	+ $4

	Debit	Credit
Cash and cash equivalents	$23	
Unrealized losses on debt & equity financial assets	$7	
Historical cost of debt & equity financial assets		$13
Unrealized gains on debt & equity financial assets		$13
Gain on equity financial assets		$4

E47c Recognize tax on sale of equity financial assets

During 2013, BGS recognized $3 million of current taxes payable in conjunction with the gains recorded in E47b. $2 million of these taxes had previously been deferred: $2 million was associated with deferred tax assets and $4 million with deferred tax liabilities. The remaining $1 million of tax, which is related to the $4 million of pretax net gains recognized in OCI at the time of the sale, is recognized in OCI.

E47c Recognize tax on sale of equity financial assets

Assets		=	Liabilities				Owners' Eq	
+	DTA	=	+	CTP	+	DTL	-	TxEInv
+	- $2	=	+	+ $3	+	- $4	-	+ $1

	Debit	Credit
Tax on equity financial assets net gain	$1	
Deferred tax liability	$4	
Current income taxes payable		$3
Deferred tax asset		$2

E47d Transfer equity net gains from reserves to retained earnings

During 2013, consistent with an option allowed under IFRS, BGS transferred $7 million associated with the sale in E47b from the reserves associated with equity financial assets to retained earnings: $10 million of pretax net gains, $6 million of which had been recognized in OCI in prior periods, net of $3 million of taxes.

E47d Transfer equity net gains from reserves to retained earnings

=	Owners' Eq			
=	+	RE	+	EFAR
=	+	+ $7	+	- $7

	Debit	Credit
Equity financial assets reserve	$7	
Retained earnings		$7

E48a Revalue debt financial assets carried at fair value

At the end of interim periods during 2013, BGS estimated the fair values of its debt financial assets and adjusted their carrying values by recognizing $13 million of additional unrealized gains and $7 million of additional unrealized losses. To comply with IFRS (given its business model), BGS reports its debt financial assets at fair value with gains and losses recognized in profits and losses.

E48a Revalue debt financial assets carried at fair value

Assets				=	Owners' Eq	
+	UGDE	-	ULDE	=	+	DInvGL
+	+ $13	-	+ $7	=	+	+ $6

	Debit	Credit
Unrealized gains on debt & equity financial assets	$13	
Unrealized losses on debt & equity financial assets		$7
Gain on debt securities		$6

E48b Revalue equity financial assets carried at fair value through OCI

At the end of interim periods during 2013, BGS estimated the fair values of its equity financial assets and adjusted their carrying values by recognizing $17 million of additional unrealized gains and $3 million of additional unrealized losses. Consistent with an IFRS option, BGS reports its equity financial assets at fair value with gains and losses recognized in OCI.

E48b Revalue equity financial assets carried at fair value through OCI

Assets				=	Owners' Eq	
+	UGDE	-	ULDE	=	+	GLEFA
+	+ $17	-	+ $3	=	+	+ $14

	Debit	Credit
Unrealized gains on debt & equity financial assets	$17	
Unrealized losses on debt & equity financial assets		$3
Gain on equity financial assets		$14

E48c Recognize tax consequences of revaluing equity financial assets

At the end of interim periods during 2013, BGS recorded the tax consequences of the adjustments to pretax unrealized gains and losses in E48b. $4 million of taxes deducted from OCI were associated with a $5 million increase to deferred tax liabilities and a $1 million increase to deferred tax assets.

E48c Recognize tax consequences of revaluing equity financial assets

Assets		=	Liabilities		Owners' Eq	
+	DTA	=	+	DTL	-	TxEInv
+	+ $1	=	+	+ $5	-	+ $4

	Debit	Credit
Deferred tax asset	$1	
Tax on equity financial assets net gain	$4	
Deferred tax liability		$5

Business Combinations: Equity Method Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	Sldr	Segregated inventories: deferred revenue
	Slprc	Segregated inventories: product returns allowance cost component
OfinA	Other financial assets	
	HCDE	Historical cost of debt & equity financial assets
	AcrInt	Accrued interest income
	UGDE	Unrealized gains on debt & equity financial assets
	ULDE	Unrealized losses on debt & equity financial assets
	Othfa	Other
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

DTA	Deferred tax asset	
Gwill	Goodwill	
PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	Acquired intangibles	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
Invass	Investments in associates	
ONCA	Other non-current assets	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
CPLTD	Current portion of long-term debt
CTP	Current income taxes payable
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

DTL	Deferred tax liability
LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

EFAR	Equity financial assets reserve
RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
FinInc	Finance income	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	DInvGL	G/L on debt securities
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
SAsInc	Share of associates' post-tax income	
TaxEx	Tax expense	
	CTexp	Current tax expense
	DTexp	Deferred tax expense
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Other comprehensive income

OCI	Other comprehensive income	
	GLEFA	G/L on equity financial assets
	TxEInv	Tax on equity financial assets net G/L
	Othoci	Other OCI

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E49 Recognized share of associates' income. At the end of interim accounting periods during 2013, BGS recognized a total of $2 million of income related to associates BGS accounted for using the equity method. This represented BGS's proportionate share of the associates' income.

E50 Received dividends from associates. During 2013, BGS received $1 million of dividends from associates accounted for using the equity method.

E51 Acquired business for cash. BGS acquired other businesses during 2013 for $50 million cash. As a result, BGS added several assets and liabilities to its balance sheet. E51 reflects the net effects of the actual entries recorded for these business acquisitions, which were more complicated than presented here. Transaction costs charged to profits are ignored. They are included in other entries depending on whether they were paid with cash as incurred, charged to accounts payable, etc. See below for information needed to record the simplified entry.

- Purchase Price:

Cash, net of cash acquired	$50

- Assets other than cash added to balance sheet:

Accounts receivable, gross (ARG)	$15
Finished goods inventories (not segregated) (FGINS)	$10
Prepaid expenses (PrEx)	$ 3
Deferred tax asset (DTA)	$ 2
PP&E (historical cost) (PPEhc)	$20
Intangibles (historical cost) (Inthc)	$15
Goodwill (Gwill)	?

(To record the entry, you must first determine the goodwill amount.)

- Liabilities added to balance sheet:

Accounts payable (AP)	$10
Accrued liabilities (AcrL)	$ 5
Long-term debt (LTD)	$20

E49 Recognized share of associates' income

At the end of interim accounting periods during 2013, BGS recognized $2 million of income related to associates BGS accounted for using the equity method. This represented BGS's proportionate share of the associates' income.

E49 Recognized share of associates' income

	Assets	=		Owners' Eq.
+	Invass	=	+	SAsInc
+	+ $2	=	+	+ $2

	Debit	Credit
Investments in associates	$2	
Share of associates' post-tax income		$2

E50 Received dividends from associates

During 2013, BGS received $1 million of dividends from associates accounted for using the equity method.

E50 Received dividends from associates

	Assets			=
+	C	+	Invass	=
+	+ $1	+	- $1	=

	Debit	Credit
Cash and cash equivalents	$1	
Investments in associates		$1

E51 Acquired business for cash

BGS acquired other businesses during 2013 for $50 million cash. As a result, BGS added several assets and liabilities to its balance sheet. E51 reflects the net effects of the actual entries recorded for these business acquisitions, which were more complicated than presented here. Transaction costs charged to profits are ignored. They are included in other entries depending on whether they were paid with cash as incurred, charged to accounts payable, etc. See below for information needed to record the simplified entry.

- Purchase Price:
  - Cash, net of cash acquired $50
- Assets other than cash added to balance sheet:
  - Accounts receivable, gross (ARG) $15
  - Finished goods inventories (not segregated) (FGINS) $10
  - Prepaid expenses (PrEx) $ 3
  - Deferred tax asset (DTA) $ 2
  - PP&E (historical cost) (PPEhc) $20
  - Intangibles (historical cost) (Inthc) $15
  - Goodwill (Gwill) ?
  - (To record the entry, you must first determine the goodwill amount.)
- Liabilities added to balance sheet:
  - Accounts payable (AP) $10
  - Accrued liabilities (AcrL) $ 5
  - Long-term debt (LTD) $20

E51 Acquired business for cash

Assets																=	Liabilities					
+	C	+	ARG	+	FGINS	+	PrEx	+	PPEhc	+	Inthc	+	DTA	+	Gwill	=	+	AP	+	AcrL	+	LTD
+	- $50	+	+ $15	+	+ $10	+	+ $3	+	+ $20	+	+ $15	+	+ $2	+	+ $20	=	+	+ $10	+	+ $5	+	+ $20

	Debit	Credit
Accounts receivable, gross	$15	
Finished goods inventories (not segre	$10	
Prepaid expenses	$3	
PP&E (historical cost)	$20	
Intangibles (historical cost)	$15	
Deferred tax asset	$2	
Goodwill	$20	
Accounts payable		$10
Accrued liabilities		$5
Long-term debt		$20
Cash and cash equivalents		$50

Zoom in on the PDF to see the details.

Pensions Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	Sldr	Segregated inventories: deferred revenue
	Slprc	Segregated inventories: product returns allowance cost component
OfinA	Other financial assets	
	HCDE	Historical cost of debt & equity financial assets
	AcrInt	Accrued interest income
	UGDE	Unrealized gains on debt & equity financial assets
	ULDE	Unrealized losses on debt & equity financial assets
	Othfa	Other
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

DTA	Deferred tax asset	
Gwill	Goodwill	
PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	Acquired intangibles	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
Invass	Investments in associates	
ONCA	Other non-current assets	

LIABILITIES

Current

AcrL	Accrued liabilities	
CPLTD	Current portion of long-term debt	
CTP	Current income taxes payable	
DivP	Dividend payable	
Drev	Deferred revenue	
OCL	Other current liabilities	

Non-current

DTL	Deferred tax liability	
LTD	Long-term debt	
NPEBL	Net post-employment benefit liability	
	PEBL	Post-employment benefit liability
	PEBA	Post-employment benefit asset
ONCL	Other non-current liabilities	

OWNERS' EQUITY

Permanent

EFAR	Equity financial assets reserve	
RE	Retained earnings	
SCap	Share capital	
OPOE	Other permanent owners' equity	

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
FinInc	Finance income	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	DInvGL	G/L on debt securities
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
PEBEx	Post-employment benefit expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
SAsInc	Share of associates' post-tax income	
TaxEx	Tax expense	
	CTexp	Current tax expense
	DTexp	Deferred tax expense
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Other comprehensive income

OCI	Other comprehensive income	
	GLEFA	G/L on equity financial assets
	TxEInv	Tax on equity financial assets net G/L
	PtAv	Pretax available OCI
	TxAv	Tax available OCI
	Othoci	Other OCI

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E52 Contributed to PEB trusts. During 2013, BGS contributed $13 million to its post-employment-benefit (PEB) trusts. These trusts are independent entities that pay former employees' pensions and medical costs.

E53a Recognized PEB interest costs. At the end of interim periods during 2013, BGS recognized a total of $5 million of finance costs associated with its post-employment-benefits liability.

E53b Recognized PEB current service costs. At the end of interim periods during 2013, BGS recognized a total of $13 million of period service costs associated with post-employment-benefits.

E53c Recognized expected return on PEB assets. At the end of interim periods during 2013, BGS recognized a total of $2 million of returns on post-employeemt-benefits assets.

E53d Recognized PEB actuarial G/L. At the end of interim periods during 2013, BGS recognized a total of $1 million of actuarial losses on its PEB liabilities and a total of $4 million of actuarial gains on its PEB assets. Consistent with IFRS, BGS's policy is to recognize actuarial gains and losses in OCI in the periods they occur and close them directly to retained earnings.

E52 Contributed to post-employment-benefit trusts

During 2013, BGS contributed $13 million to its post-employment-benefit (PEB) trusts. These trusts are independent entities that pay former employees' pensions and medical costs.

E52 Contributed to PEB trusts

Assets		=	Liabilities	
+	C	=	+	PEBL
+	- $13	=	+	- $13

	Debit	Credit
Post-employment benefit liability	$13	
Cash and cash equivalents		$13

E53a Recognized post-employment-benefit interest costs

At the end of interim periods during 2013, BGS recognized a total of $5 million of finance costs associated with its post-employment-benefits liability.

E53a Recognized PEB interest costs

=	Liabilities		Owners' Eq	
=	+	PEBL	-	FinEx
=	+	+ $5	-	+ $5

	Debit	Credit
Finance expense	$5	
Post-employment benefit liability		$5

E53b Recognized post-employment-benefit current service costs

At the end of interim periods during 2013, BGS recognized a total of $13 million of period service costs associated with post-employment-benefits.

E53b Recognized PEB current service costs

=	Liabilities		Owners' Eq	
=	+	PEBL	-	PEBEx
=	+	+ $13	-	+ $13

	Debit	Credit
Post-employment benefit expense	$13	
Post-employment benefit liability		$13

E53c Recognized expected return on post-employment-benefit assets

At the end of interim periods during 2013, BGS recognized a total of $2 million of returns on post-employemt-benefits assets.

E53c Recognized expected return on PEB assets

=	Liabilities		Owners' Eq	
=	-	PEBA	-	PEBEx
=	-	+ $2	-	- $2

	Debit	Credit
Post-employment benefit asset	$2	
Post-employment benefit expense		$2

E53d Recognized post-employment-benefit actuarial gains and losses in OCI

At the end of interim periods during 2013, BGS recognized a total of $1 million of actuarial losses on its PEB liabilities and a total of $4 million of actuarial gains on its PEB assets. Consistent with IFRS, BGS's policy is to recognize actuarial gains and losses in OCI in the periods they occur and close them directly to retained earnings.

E53d Recognized PEB actuarial G/L

=	Liabilities				Owners' Eq	
=	+	PEBL	-	PEBA	-	PEBEx
=	+	- $1	-	+ $4	-	- $5

	Debit	Credit
Post-employment benefit liability	$1	
Post-employment benefit asset	$4	
Post-employment benefit expense		$5

Foreign Currencies Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
OfinA	Other financial assets	
	HCDE	Historical cost of debt & equity financial assets
	AcrInt	Accrued interest income
	UGDE	Unrealized gains on debt & equity financial assets
	ULDE	Unrealized losses on debt & equity financial assets
	Othfa	Other
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

DTA	Deferred tax asset	
Gwill	Goodwill	
PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	Acquired intangibles	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
Invass	Investments in associates	
ONCA	Other non-current assets	

LIABILITIES

Current

AP	Accounts payable
AcrL	Accrued liabilities
CPLTD	Current portion of long-term debt
CTP	Current income taxes payable
DivP	Dividend payable
Drev	Deferred revenue
OCL	Other current liabilities

Non-current

DTL	Deferred tax liability	
LTD	Long-term debt	
NPEBL	Net post-employment benefit liability	
	PEBL	Post-employment benefit liability
	PEBA	Post-employment benefit asset
ONCL	Other non-current liabilities	

OWNERS' EQUITY

Permanent

EFAR	Equity financial assets reserve
CTAR	Currency translation reserve
RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
FinInc	Finance income	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	DInvGL	G/L on debt securities
	FxGL	Gain/Loss on FX transactions
	ONOGL	Other non-operating gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
PEBEx	Post-employment benefit expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
SAsInc	Share of associates' post-tax income	
TaxEx	Tax expense	
	CTexp	Current tax expense
	DTexp	Deferred tax expense
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Other comprehensive income

OCI	Other comprehensive income	
	GLEFA	G/L on equity financial assets
	TxEInv	Tax on equity financial assets net G/L
	PtAv	Pretax available OCI
	TxAv	Tax available OCI
	PtCTA	Pretax OCI FX translations
	TxCTA	Tax on OCI FX translations
	Othoci	Other OCI

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E55 Recognized FX transaction G/L pre settlement. At the end of interim periods during 2013, BGS recognized a total of $4 million of foreign currency transaction losses associated with: a $6 million loss in accounts receivable, a $3 million loss in accounts payable, and a $1 million gain in current taxes payable.

E56 Recognized FX transaction G/L at settlement. At settlement of foreign currency transactions during 2013, BGS recognized a total of $2 million of foreign currency transaction losses associated with: a $3 million loss in accounts receivable and a $1 million loss in accounts payable.

E57a At the end of interim periods during 2013, BGS recognized a total of $14 million of pretax gain associated with foreign currency translation adjustments. See below for information needed to record the combined adjustments for the year. (The related tax effects are recorded in E57b.)

Translation gains/losses associated with accounts:	
Cash and cash equivalents (C)	$2
Accounts receivable, gross (ARG)	$4
Allowance for doubtful receivables (Allbd)	($1)
Materials inventories (Minv)	$1
Work in process (WIP)	$2
Finished goods inventories (FGI)	$3
Segregated inventories (SIdr)	$1
Prepaid expenses (PrEx)	$2
PP&E (historical cost) (PPEhc)	$4
Accumulated depreciation (AcDep)	($1)
Intangibles (historical cost) (Inthc)	$2
Accumulated amortization (AcAmt)	($1)
Deferred tax asset (DTA)	$1
Investments in associates (Invass)	$1
Goodwill (Gwill)	$3
Accounts payable (AP)	($2)
Accrued liabilities (AcrL)	($1)
Current income taxes payable (CTP)	($1)
Deferred revenue (Drev)	($1)
Deferred tax liability (DTL)	($1)
Post-employment benefit liability (PEBL)	($4)
Post-employment benefit asset (PEBA)	$1
Pretax gains/losses recorded to OCI	$14

E57b Recognized tax on FX translation adjustments. At the end of interim periods during 2013, BGS recognized a total of $4 million of taxes in OCI associated with the gains on foreign currency translations recorded in E57a. The offset to the OCI tax effects was recorded to deferred tax liabilities.

E55 Recognized FX transaction G/L pre settlement

At the end of interim periods during 2013, BGS recognized a total of $4 million of foreign currency transaction losses associated with: a $6 million loss in accounts receivable, a $3 million loss in accounts payable, and a $1 million gain in current taxes payable.

E55 Recognized FX transaction G/L pre settlement

Assets		=	Liabilities				Owners' Eq	
+	ARG	=	+	AP	+	CTP	+	FxGL
+	- $6	=	+	- $3	+	+ $1	+	- $4

	Debit	Credit
Loss on FX transactions	$4	
Accounts payable	$3	
Accounts receivable, gross		$6
Current income taxes payable		$1

E56 Recognized FX transaction G/L at settlement

At settlement of foreign currency transactions during 2013, BGS recognized a total of $2 million of foreign currency transaction losses associated with: a $3 million loss in accounts receivable and a $1 million loss in accounts payable.

E56 Recognized FX transaction G/L at settlement

Assets		=	Liabilities		Owners' Eq	
+	ARG	=	+	AP	+	FxGL
+	- $3	=	+	- $1	+	- $2

	Debit	Credit
Accounts payable	$1	
Loss on FX transactions	$2	
Accounts receivable, gross		$3

E57a Recognized pretax FX translation adjustments

At the end of interim periods during 2013, BGS recognized a total of $14 million of pretax gain associated with foreign currency translation adjustments. See below for information needed to record the combined adjustments for the year. (The related tax effects are recorded in E57b.)

Translation gains/losses associated with accounts:

Cash and cash equivalents (C)	$2
Accounts receivable, gross (ARG)	$4
Allowance for doubtful receivables (Allbd)	($1)
Materials inventories (Minv)	$1
Work in process (WIP)	$2
Finished goods inventories (FGI)	$3
Segregated inventories (SIdr)	$1
Prepaid expenses (PrEx)	$2
PP&E (historical cost) (PPEhc)	$4
Accumulated depreciation (AcDep)	($1)
Intangibles (historical cost) (Inthc)	$2
Accumulated amortization (AcAmt)	($1)
Deferred tax asset (DTA)	$1
Investments in associates (Invass)	$1
Goodwill (Gwill)	$3
Accounts payable (AP)	($2)
Accrued liabilities (AcrL)	($1)
Current income taxes payable (CTP)	($1)
Deferred revenue (Drev)	($1)
Deferred tax liability (DTL)	($1)
Post-employment benefit liability (PEBL)	($4)
Post-employment benefit asset (PEBA)	$1
Pretax gains/losses recorded to OCI	$14

E57a Recognized pretax FX translation adjustments

Assets																														
+	C	+	ARG	-	Allbd	+	Minv	+	WIP	+	FGI	+	SIdr	+	PrEx	+	PPEhc	-	AcDep	+	Inthc	-	AcAmt	+	DTA	+	Invass	+	Gwill	=
+	+ $2	+	+ $4	-	+ $1	+	+ $1	+	+ $2	+	+ $3	+	+ $1	+	+ $2	+	+ $4	-	+ $1	+	+ $2	-	+ $1	+	+ $1	+	+ $1	+	+ $3	=

Liabilities																Owners' Eq.	
+	AP	+	AcrL	+	CTP	+	Drev	+	Allprr	+	DTL	+	PEBL	-	PEBA	+	PtCTA
+	+ $2	+	+ $1	+	+ $1	+	+ $1	+	+ $0	+	+ $1	+	+ $4	-	+ $1	+	+ $14

	Debit	Debit
Cash and cash equivalents	$2	
Accounts receivable, gross	$4	
Materials inventories	$1	
Work in process	$2	
Finished goods inventories	$3	
Segregated inventories: deferred revenue	$1	
Prepaid expenses	$2	
PP&E (historical cost)	$4	
Intangibles (historical cost)	$2	
Deferred tax asset	$1	
Investments in associates	$1	
Goodwill	$3	
Post-employment benefit asset	$1	
Allowance for bad debts		$1
Accumulated depreciation		$1
Accumulated amortization		$1
Accounts payable		$2
Accrued liabilities		$1
Current income taxes payable		$1
Deferred revenue		$1
Allowance for product returns: revenue component		$0
Deferred tax liability		$1
Post-employment benefit liability		$4
Pretax OCI FX translations		$14

Zoom in on the PDF to see the details.

E57b Recognized tax on FX translation adjustments

At the end of interim periods during 2013, BGS recognized a total of $4 million of taxes in OCI associated with the gains on foreign currency translations recorded in E57a. The offset to the OCI tax effects was recorded to deferred tax liabilities.

E57b Recognized tax on FX translation adjustments

=	Liabilities		Owners' Eq	
=	+	DTL	-	TxCTA
=	+	+ $4	-	+ $4

	Debit	Credit
Tax on OCI FX translations	$4	
Deferred tax liability		$4

Derivatives Chapter Entries

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable	
	ARG	Accounts receivable, gross
	Allbd	Allowance for bad debts
	Allprr	Allowance for product returns: revenue component
C	Cash and cash equivalents	
Inven	Inventories	
	Minv	Materials inventories
	WIP	Work in process
	FGI	Finished goods inventories
	SIdr	Segregated inventories: deferred revenue
	SIprc	Segregated inventories: product returns allowance cost component
OfinA	Other financial assets	
	HCDE	Historical cost of debt & equity financial assets
	AcrInt	Accrued interest income
	UGDE	Unrealized gains on debt & equity financial assets
	ULDE	Unrealized losses on debt & equity financial assets
	DerivR	Derivatives receivable
	Othfa	Other
PrEx	Prepaid expenses	
OCA	Other current assets	

Non-current

DTA	Deferred tax asset	
Gwill	Goodwill	
PPE	Property, plant, and equipment, net	
	PPEhc	PP&E (historical cost)
	AcDep	Accumulated depreciation
Intan	Acquired intangibles	
	Inthc	Intangibles (historical cost)
	AcAmt	Accumulated amortization
Invass	Investments in associates	
ONCA	Other non-current assets	

LIABILITIES

Current

AcrL	Accrued liabilities	
CPLTD	Current portion of long-term debt	
CTP	Current income taxes payable	
DerivP	Derivatives payable	
DivP	Dividend payable	
Drev	Deferred revenue	
OCL	Other current liabilities	

Non-current

DTL	Deferred tax liability	
LTD	Long-term debt	
NPEBL	Net post-employment benefit liability	
	PEBL	Post-employment benefit liability
	PEBA	Post-employment benefit asset
ONCL	Other non-current liabilities	

OWNERS' EQUITY

Permanent

EFAR	Equity financial assets reserve
CTAR	Currency translation reserve
HedR	Hedging reserve
RE	Retained earnings
SCap	Share capital
OPOE	Other permanent owners' equity

Net income

AmtEx	Amortization expense	
CGS	Cost of goods sold	
DepEx	Depreciation expense	
FinEx	Finance expense	
FinInc	Finance income	
G/L	Gain/loss	
	PPEGL	Gain/Loss on PP&E disposals
	DInvGL	G/L on debt securities
	FxGL	Gain/Loss on FX transactions
	HedGL	Hedge gains/losses
IncS	Income summary	
MSGA	Miscellaneous SG&A expense	
PEBEx	Post-employment benefit expense	
Rev	Revenues, net	
	Grev	Gross revenue
	PRCnR	Product returns contra revenue
SAsInc	Share of associates' post-tax income	
TaxEx	Tax expense	
	CTexp	Current tax expense
	DTexp	Deferred tax expense
OSGA	Other SG&A expense	
OOI	Other operating income net of expenses	
ONOI	Other non-operating income net of expenses	

Other comprehensive income

OCI	Other comprehensive income	
	GLEFA	G/L on equity financial assets
	TxEInv	Tax on equity financial assets net G/L
	PtAv	Pretax available OCI
	TxAv	Tax available OCI
	PtCTA	Pretax OCI FX translations
	TxCTA	Tax on OCI FX translations
	PtCFH	Pretax cash flow hedges OCI G/L
	TxCFH	Tax on cash flow hedges OCI G/L
	Othoci	Other OCI

Use the chart of accounts on the prior page to record journal entries for the following Bischoff Global Sportswear Company (BGS) events. Check your answers on the following pages.

E58 Revalue forward FX with no hedge accounting. At the end of interim periods during 2013, BGS recognized a combined net increase of $7 million in the fair values of its derivative receivables and a combined net increase of $3 million in the fair values of its derivative payables. See below for information needed to record the combined revaluations for the year.

Description of BGS's Derivatives and Related Accounting Policies:

- BGS uses forward foreign currency contracts to hedge FX risks on receivables and payables denominated in foreign (non-functional) currencies that tend to be settled in 90 days or less. BGS's policy is to not to use hedge accounting for these derivatives because the cost of establishing hedge effectiveness is high and the consequences on the statement of comprehensive income are quite similar with and without hedge accounting.
- BGS splits changes in the fair values of these derivatives into two components, which affect different line items of the statement of comprehensive income:

  (a) The fair-value change attributable to spot-price movements, which is reported in foreign currency gains/losses. This offsets gains and losses associated with receivables and payables arising from foreign currency transactions.

  (b) The change attributable to forward points (the spread between forward and spot rates associated with interest rates in the two countries). This portion of the fair-value change is assigned to financing expense.

Facts Needed to Record Revaluations:

• Fair-Value Changes:	
Increase (decrease) in derivative receivables	$7
Increase (decrease) in derivative payables	$3
• Statement of Comprehensive Income :	
Classified as FX gain (loss)	$5
Classified as finance expense	$1

E59a Revalue forward FX with hedge accounting. At the end of interim periods during 2013, BGS recognized changes in the fair values of derivatives that management concluded met the IFRS criteria for hedge accounting. See below for information needed to record the combined revaluations for the year.

Description of Derivatives and Related Accounting Policies:

- BGS uses forward FX contracts to hedge risks associated with highly probable forecasts of foreign currency purchases of merchandise and other inventoried costs. For example, to get volume discounts and ensure plenty of lead time for deliveries, BGS frequently agrees to pay fixed foreign-currency prices 9-12 months in advance of delivery, with payment 2-4 months later.
- BGS designates the spot components of forward FX contracts as hedges of changes in the functional-currency values of the forecasted payments attributable to spot rates. BGS has concluded these are highly effective cash flow hedges because the critical terms of the forward contracts and purchase contracts are the same and suppliers generally meet delivery schedules.
- Consistent with IFRS, BGS splits changes in the fair values of these derivatives into three components, which affect different line items of the statement of comprehensive income:

  (a) Changes in the fair values attributable to spot-price movements reported in OCI. These are the changes in the fair values of the hedging instruments that BGS has concluded are the effective portions of the hedging instruments.

  (b) Changes in the fair values attributable to forward points (the spread between forward and spot rates associated with interest rates in the two countries). This portion of the fair-value changes is assigned to financing expense.

  (c) Changes in the fair values attributable to spot-price movements reported directly to profits (as FX G/L) because BGS has concluded they are ineffective portions of the hedging instruments. For example, these arise when deliveries are delayed, which leads to a mismatch in the timing of the forward contract and payment date.

Facts Needed to Record Revaluations:

• Fair-Value Changes:	
Increase (decrease) in derivative receivables	\$1
Increase (decrease) in derivative payables	\$10
• Statement of Comprehensive Income:	
Classified as gains/losses in OCI	(\$7)
Classified as finance expense	\$1
Classified as FX gain (loss) in profits	(\$1)

E59b Recognized tax on hedge reserve revaluation. At the end of interim periods during 2013, BGS recognized \$2 million of tax benefit in OCI related to the losses recognized in E59a. The offsetting increases to deferred tax liabilities and assets were \$1 and \$3 million, respectively.

E60a Transferred G/L from hedge reserve to profits. During 2013, BGS reclassified a total of \$1 million of losses from OCI to profits (FX G/L). These pertained to changes in the spot rates of forecasted purchase transactions during relatively short time intervals between delivery and payment dates.

E60b Adjusted inventory basis for hedge G/L. During 2013, BGS increased the basis of its inventories by \$8 million by transferring G/L from OCI. These pertained to changes in the spot rates of forecasted purchase transactions starting on the dates contracts commenced and ending when inventories were delivered.

E60c Reversed tax on transferred hedge G/L. During 2013, BGS reversed \$3 million of previously recorded tax benefits from OCI related to transfers in E60a and E60b. The offsetting decreases to deferred tax liabilities and assets were \$1 and \$4 million, respectively.

E61 Settled forward FX contracts. During 2013 BGS had net payments of $3 million associated with settling $7 million of derivative receivables and $10 million of derivative payables.

E58 Revalue forward FX with no hedge accounting

At the end of interim periods during 2013, BGS recognized a combined net increase of $7 million in the fair values of its derivative receivables and a combined net increase of $3 million in the fair values of its derivative payables. See below for information needed to record the combined revaluations for the year.

Description of Derivatives and Related Accounting Policies:

- BGS uses forward foreign currency contracts to hedge FX risks on receivables and payables denominated in foreign (non-functional) currencies that tend to be settled in 90 days or less. BGS's policy is to not to use hedge accounting for these derivatives because the cost of establishing hedge effectiveness is high and the consequences on the statement of comprehensive income are quite similar with and without hedge accounting.
- BGS splits changes in the fair values of these derivatives into two components, which affect different line items of the statement of comprehensive income:
  (a) The fair-value change attributable to spot-price movements, which is reported in foreign currency gains/losses. This offsets gains and losses associated with receivables and payables arising from foreign currency transactions.
  (b) The change attributable to forward points (the spread between forward and spot rates associated with interest rates in the two countries). This portion of the fair-value change is assigned to financing expense.

Facts Needed to Record Revaluations:

- Fair-Value Changes:

Increase (decrease) in derivative receivables	$7
Increase (decrease) in derivative payables	$3

- Statement of Comprehensive Income :

Classified as FX gain (loss)	$5
Classified as finance expense	$1

E58 Revalue forward FX with no hedge accounting

Assets		=	Liabilities		Owners' Eq		
+	DerivR	=	+	DerivP	-	FinEx	+	FxGL
+	+ $7	=	+	+ $3	-	+ $1	+	+ $5

	Debit	Credit
Derivatives receivable	$7	
Finance expense	$1	
Derivatives payable		$3
Gain on FX transactions		$5

E59a Revalue forward FX with hedge accounting

At the end of interim periods during 2013, BGS recognized changes in the fair values of derivatives that management concluded met the IFRS criteria for hedge accounting. See below for information needed to record the combined revaluations for the year.

Description of Derivatives and Related Accounting Policies:

- BGS uses forward FX contracts to hedge risks associated with highly probable forecasts of foreign currency purchases of merchandise and other inventoried costs. For example, to get volume discounts and ensure plenty of lead time for deliveries, BGS frequently agrees to pay fixed foreign-currency prices 9-12 months in advance of delivery, with payment 2-4 months later.
- BGS designates the spot components of forward FX contracts as hedges of changes in the functional-currency values of the forecasted payments attributable to spot rates. BGS has concluded these are highly effective cash flow hedges because the critical terms of the forward contracts and purchase contracts are the same and suppliers generally meet delivery schedules.
- Consistent with IFRS, BGS splits changes in the fair values of these derivatives into three components, which affect different line items of the statement of comprehensive income:
  (a) Changes in the fair values attributable to spot-price movements reported in OCI. These are the changes in the fair values of the hedging instruments that BGS has concluded are the effective portions of the hedging instruments.
  (b) Changes in the fair values attributable to forward points (the spread between forward and spot rates associated with interest rates in the two countries). This portion of the fair-value changes is assigned to financing expense.
  (c) Changes in the fair values attributable to spot-price movements reported directly to profits (as FX G/L) because BGS has concluded they are ineffective portions of the hedging instruments. For example, these arise when deliveries are delayed, which leads to a mismatch in the timing of the forward contract and payment date.

Facts Needed to Record Revaluations:

- Fair-Value Changes:

Increase (decrease) in derivative receivables	$1
Increase (decrease) in derivative payables	$10

- Statement of Comprehensive Income:

Classified as gains/losses in OCI	($7)
Classified as finance expense	$1
Classified as FX gain (loss) in profits	($1)

E59a Revalue forward FX with hedge accounting

Assets		=	Liabilities		Owners' Eq					
+	DerivR	=	+	DerivP	-	FinEx	+	FxGL	+	PtCFH
+	+ $1	=	+	+ $10	-	+ $1	+	- $1	+	- $7

	Debit	Credit
Derivatives receivable	$1	
Finance expense	$1	
Loss on FX transactions	$1	
Pretax cash flow hedges OCI G/L	$7	
Derivatives payable		$10

E59b Recognized tax on hedge reserve revaluation

At the end of interim periods during 2013, BGS recognized $2 million of tax benefit in OCI related to the losses recognized in E59a. The offsetting increases to deferred tax liabilities and assets were $1 and $3 million, respectively.

E59b Recognized tax on hedge reserve revaluation

	Assets	=		Liabilities		Owners' Eq
+	DTA	=	+	DTL	-	TxCFH
+	+ $3	=	+	+ $1	-	- $2

	Debit	Credit
Deferred tax asset	$3	
Deferred tax liability		$1
Tax on cash flow hedges OCI G/L		$2

E60a Transferred G/L from hedge reserve to profits

During 2013, BGS reclassified a total of $1 million of losses from OCI to profits (FX G/L). These pertained to changes in the spot rates of forecasted purchase transactions during relatively short time intervals between delivery and payment dates.

E60a Transferred G/L from hedge reserve to profits

=		Owners' Eq		
=	+	FxGL	+	PtCFH
=	+	- $1	+	+ $1

	Debit	Credit
Loss on FX transactions	$1	
Pretax cash flow hedges OCI net loss		$1

E60b Adjusted inventory basis for hedge G/L

During 2013, BGS increased the basis of its inventories by $8 million by transferring G/L from OCI. These pertained to changes in the spot rates of forecasted purchase transactions starting on the dates contracts commenced and ending when inventories were delivered.

E60b Adjusted inventory basis for hedge G/L

	Assets	=		Owners' Eq.
+	FGINS	=	+	PtCFH
+	+ $8	=	+	+ $8

	Debit	Credit
Finished goods inventories (not segregated)	$8	
Pretax cash flow hedges OCI net gain		$8

E60c Reversed tax on transferred hedge G/L

During 2013, BGS reversed $3 million of previously recorded tax benefits from OCI related to transfers in E60a and E60b. The offsetting decreases to deferred tax liabilities and assets were $1 and $4 million, respectively.

E60c Reversed tax on transferred hedge G/L

Assets		=	Liabilities		Owners' Eq	
+	DTA	=	+	DTL	-	TxCFH
+	- $4	=	+	- $1	-	+ $3

	Debit	Credit
Tax on cash flow hedges OCI G/L	$3	
Deferred tax liability	$1	
Deferred tax asset		$4

E61 Settled forward FX contracts

During 2013 BGS had net payments of $3 million associated with settling $7 million of derivative receivables and $10 million of derivative payables.

E61 Settled forward FX contracts

Assets				=	Liabilities	
+	C	+	DerivR	=	+	DerivP
+	- $3	+	- $7	=	+	- $10

	Debit	Credit
Derivatives payable	$10	
Cash and cash equivalents		$3
Derivatives receivable		$7

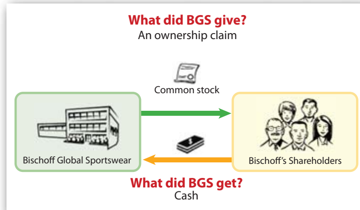
Apendix: Record Keeping Quick Reference

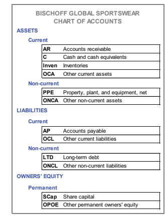
Comparison of Record-Keeping and Reporting Using the Balance-Sheet-Equation and Journal Entries

	Step	Task	Balance-Sheet Equation (BSE)	Journal Entries	Converting BSE to Debits/Credits
Recording Entries	1	Determine what happened	Describe business activity in terms of the primary balance sheet classes		
	2	Identify the accounts	Search the chart of accounts, starting with the primary balance-sheet classes to identify the accounts affected		
	3	Characterize the accounts	Determine the accounts' signs	Determine whether the accounts are debit or credit accounts (noun)	An account on the **left** side of the balance-sheet equation with a **positive** account sign is a ***debit*** account. Changing one (two) **underlined** words above causes the ***italicized*** word to change to a credit (stay a debit)
	4	Determine entry affects on accounts	Determine the entry signs — how the entry affected the accounts	Determine whether the accounts are debited or credited (verb)	An **increase** to a **debit** account ***debits*** the account. Changing one (two) **underlined** words above causes the ***italicized*** word to change to credits (stay debits)
	5	Record entries	Record the entry using a BSE equation	Record the entry using a journal entry	
	6	Check quality	Does the entry reflect what happend? Does each number have two signs? Does the account sign (first sign from the left) reflect how the account affects its primary class? Does the entry sign (second sign from the left) reflect how the entry affects the account? Does the equation balance mathematically?	Does the entry reflect what happend? Are the debits and credits properly indicated with the accounts debited listed first? Are the total debits equal to the total credits?	
Viewing Activity		View period account activity	Column in the BSE matrix	T-Account	An **increase** to a **debit** T-account is recorded on the ***left*** side of the T-account. Changing one (two) bold words above causes the ***italicized*** word to change to right (stay left)

E1—Issued share capital for cash

During 2013, BGS issued common stock to its owners in exchange for $10 million cash.





BISCHOFF GLOBAL SPORTSWEAR
CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable
C	Cash and cash equivalents
Inven	Inventories
OCA	Other current assets

Non-current

PPE	Property, plant, and equipment, net
ONCA	Other non-current assets

LIABILITIES

Current

AP	Accounts payable
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

SCap	Share capital
OPOE	Other permanent owners' equity

BSE entry

E1 Issued share capital for cash

	Assets	=		Owners' Eq.
+	C	=	+	SCap
+	+ $10	=	+	+ $10

Characterize account

A **positively** signed account on the **left** side of the BSE is a ***debit*** account

Entry effects

An **increase** to a **debit** account ***debits*** the account

Characterize account

A **positively** signed account on the **right** side of the BSE is a ***credit*** account

Entry effects

An **increase** to a **credit** account ***credits*** the account

Journal entry

E1 Issued share capital for cash

	Debit	Credit
Cash and cash equivalents	$10	
Share capital		$10

Four cases

- A **positively** signed account on **left** side of BSE is a *debit* account.
- A **positively** signed account on **right** side of BSE is a *credit* account.
- A **negatively** signed account on **left** side of BSE is a *credit* account.
- A **negatively** signed account on **right** side of BSE is a *debit* account.

Memory helper

Changing one (two) **bold** words in the first case causes the *italicized* word to change to a credit (stay a debit) in the other cases.

Four cases

- An **increase** to a **debit** account *debits* the account.
- An **increase** to a **credit** account *credits* the account.
- An **decrease** to a **debit** account *credits* the account.
- An **decrease** to a **credit** account *debits* the account.

Memory helper

Changing one (two) **bold** words in the first case causes the *italicized* word to change to credits (stay debits) in the other cases.

			Assets						=	Liabilities				+	Owners' Equity	
			Current				+	Non-current	=	Current		+	Non-current	+	Permanent	
			C	AR	Inven	OCA	PPE	ONCA	=	AP	OCL	LTD	ONCL		SCap	OPOE
December 31, 2012			+ $13	+ $78	+ $103	+ $178	+ $175	+ $199	=	+ $35	+ $95	+ $60	+ $70		+ $214	+ $272
Period Entries	E1	Issued share capital for cash	+ 10						=						+ 10	
	E2	Issued non-current debt for cash	+ 10						=			+ 10				
	E3	Purchased PP&E with cash	- 20				+ 20		=							
	E4	Purchased merchandise for resale			+ 80				=	+ 80						
	E5	Paid invoices due	- 225						=	- 225						
	Other period entries		+ 243	+ 28	- 36	+ $51	- 1	+ 34	=	+ 135	+ $2	+ 35	+ 30		+ 29	- 25
December 31, 2013			+ $31	+ $106	+ $147	+ $229	+ $194	+ $233	=	+ $25	+ $97	+ $105	+ $100		+ $253	+ $360

C			
BB	$13		
E1	$10		
E2	$10		
		E3	$20
		E5	$225
	$243	oth	
EB	$31		

Cash is a debit account so its T-account balances and account increases are on the debit (left) side of the T-account.

SCap			
		BB	$214
		E1	$10
		oth	$29
		EB	$253

Share capital (Scap) is a credit account so its T-account balances and account increases are on the credit (right) side of the T-account.