FA 4.3
Exercise 21-1
(a) and (b) Accounting treatment under IFRS:

	(a) Accounting treatment	(b) Type of change
1.	P	Change in estimate
2.	R	Accounting error correction
3.	P	Change in estimate (take care with this other texts would treat as a change in method)
4.	NA*	Change in policy
5.	P	Not an accounting change – selection of policy for first time.
6.	P	Change in estimate
7.	R	Accounting error correction
8.	P	Change in estimate
9.	P	Application of a new accounting policy to transactions that differ in substance from those previously occurring
10.	R	Accounting error correction

c) Accounting treatment under ASPE essentially the same

(d) Under IFRS, one of the following two situations is required for a change in an accounting policy to be acceptable:

1. **The change is required by a primary source of GAAP.**
2. **A voluntary change results in the financial statements presenting reliable and more relevant information about the effects of the transactions, events, or conditions on the entity's financial position, financial performance, or cash flows. Sounds strict until you consider that the judgment's management to make!**

EXERCISE 21-7

(a)
1. **Change in accounting policy – full retrospective application *.**
2. **Change in estimate – prospectively.**
3. **Accounting error correction – full retrospective application.**
4. **Change in accounting policy – full retrospective application.**

(b) **Event #3:**

Equipment	100,000	
Depreciation Expense	22,500*	
Accumulated Depreciation ($22,500 X 2)		45,000
Retained Earnings–Correction of Error.		46,500 **
Future Income Tax Asset/Liability		31,000 ***

* ($100,000 – $10,000)/4 = $22,500
** ($100,000 – $22,500) X (1 – 40%) = $46,500
*** ($100,000 – $22,500) X 40% = $31,000

The Future Income Tax effect for the current year is not included in the above entry.

Event #4:

Retained Earnings	6,000	
Income Tax Payable	4,000	
Cost of Goods Sold		10,000

Changes for 2008 and 2009 have not been included since inventory changes are counterbalancing and their impact on opening 2011 retained earnings is nil.

Also note that CRA generally requires a company to use the same inventory costing method for tax as it uses for financial reporting purposes. Therefore, the effect of the change in inventory costing method will result in a current tax amount, not a future tax asset or liability.

***EXERCISE 21-15**

1.	Wages Expense	4,100	
	Wages Payable..		4,100
2.	Vacation Wages Expense	29,400	
	Vacation Wages Payable.........................		29,400
3.	Prepaid Insurance ($2,760 X 10/12)	2,300	
	Insurance Expense		2,300
4.	Sales Revenue	110,000	
	[$2,310,000 ÷ (1.00 + .05) X 5%]		
	Sales Tax Payable....................................		110,000
	Sales Tax Payable	101,300	
	Sales Tax Expense		101,300

*EXERCISE 21-16

(a) Effect of errors on 2011 net income:
$10,700 understatement

Calculations – Effect on 2011 net income:

	Over (under) statement
Overstatement of 2010 ending inventory	$ (9,600)
Understatement of 2011 ending inventory	(8,100)
Expensing of insurance premium in 2010 ($66,000 ÷ 3)	22,000
Failure to record gain on sale of fully depreciated machine in 2011	(15,000)
Total effect of errors on net income (understated)	$(10,700)

(b) Effect of errors on working capital: $45,100 understatement

Calculations – Effect on working capital:

	Over (under) statement
Understatement of 2011 ending inventory	$ (8,100)
Expensing of insurance premium in 2010 (prepaid insurance)	(22,000)
Cash from sale of fully depreciated machine unrecorded	(15,000)
Total effect on working capital (understated)	$(45,100)

***EXERCISE 21-16 (Continued)**

(c) Effect of errors on retained earnings:
$47,400 understatement

Calculations – Effect on retained earnings:

	Over (under) statement
Understatement of 2011 ending inventory	$ (8,100)
Overstatement of depreciation expense in 2010	(2,300)
Expensing of insurance premium applicable to 2012 in 2010	(22,000)
Failure to record sale of fully depreciated machine in 2011	(15,000)
Total effect on retained earnings (understated)	$(47,400)

(d)

HENNESEY TOOL CORPORATION
Statement of Retained Earnings
For the Years 2011 and 2010

	2011	2010 (restated)
Retained earnings, January 1, as previously reported	$1,607,000	$1,250,000
Less: Effect of error in inventory in previous year	(9,600)	
Add: Depreciation error in previous year	2,300	
Add: Error in insurance	44,000	
Retained earnings, January 1, as restated	1,643,700	1,250,000
Net income	* 385,700	** 458,700
Dividends	(45,000)	(65,000)
Retained earnings, December 31	$1,984,400	$1,643,700

***EXERCISE 21-16 (Continued)**

***   Net income for 2011 = $375,000 + $10,700 understatement.**

****   Net income for 2010 = $422,000 – $9,600 + $2,300 + $44,000**

(e) Correction of error: The financial statements must be restated for all prior periods, when it is practicable to do so. Opening retained earnings are adjusted.

The required disclosure includes a description of the errors, the effect of the correction of the errors on the financial statements of the current and prior periods; and the fact that the financial statements of prior periods that were presented are restated. More specifically, the amounts of the corrections to basic and fully diluted earnings per share and to each line of the financial statements presented for comparative purposes, as well as the amount of the correction made at the beginning of the earliest prior period are presented.

Retrospective restatement enhances the consistency, and more specifically the comparability of the financial statements.

*EXERCISE 21-19 (10-15 minutes)

	2010			2011		
Item	Over-statement	Under-statement	No Effect	Over-statement	Under-statement	No Effect
(1)			X	X		
(2)		X		X		
(3)			X			X
(4)	X				X	
(5)		X		X		