



· 普通高等教育“十一五”国家级规划教材 ·

教育部高校工商管理类教学指导委员会双语教学推荐教材

工商管理经典教材·会计与财务系列

BUSINESS ADMINISTRATION CLASSICS

# 会计学原理

英文版·第21版

约翰·J·怀尔德 (John J.Wild)

肯·W·肖 (Ken W.Shaw)

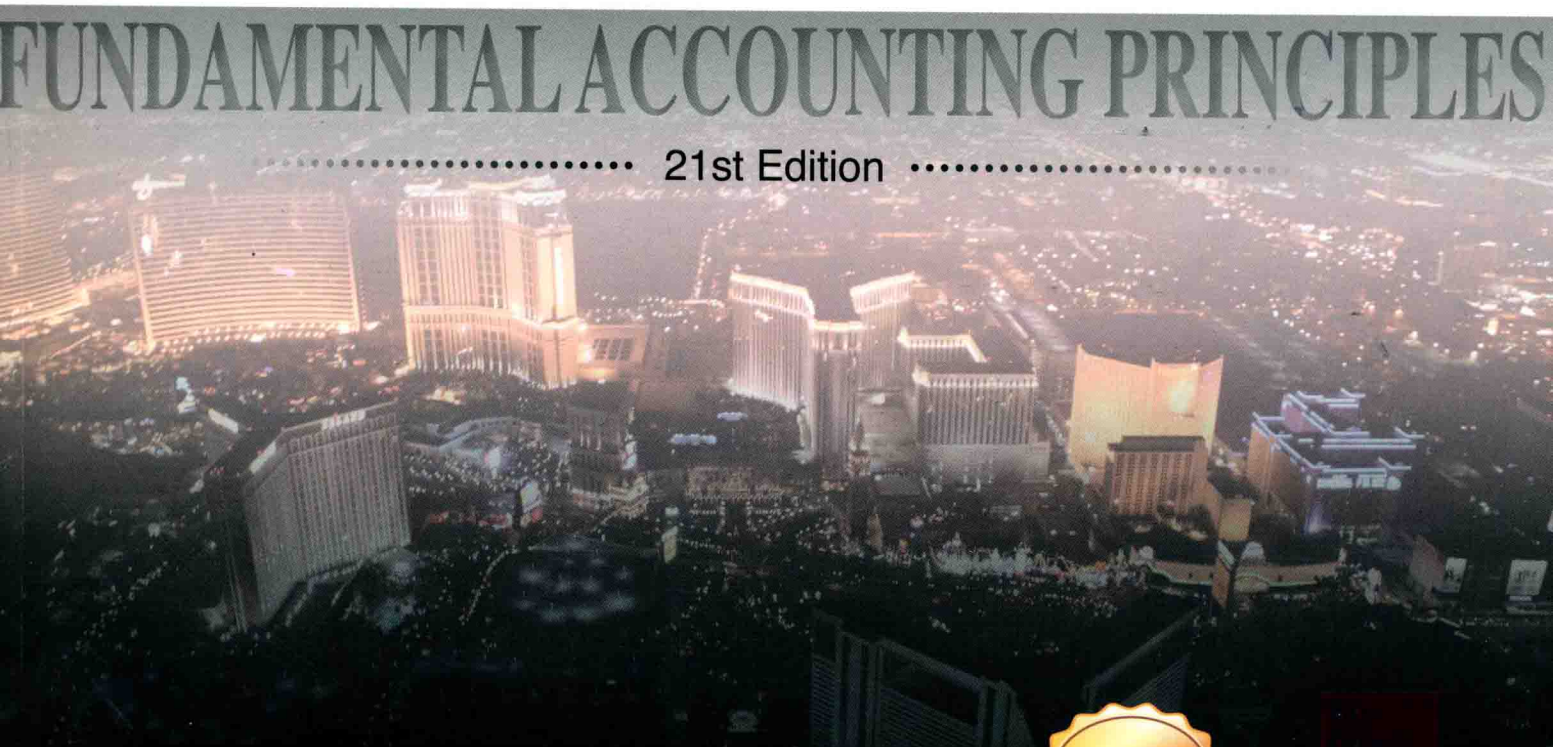
著

巴巴拉·基亚佩塔 (Barbara Chiappetta)

崔学刚 饶菁 改编

## FUNDAMENTAL ACCOUNTING PRINCIPLES

..... 21st Edition .....

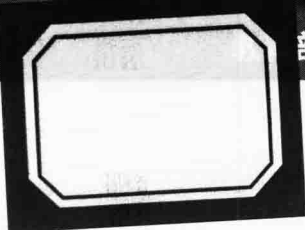


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· 北京 ·

**图书在版编目(CIP)数据**

会计学原理：第21版：英文 / 怀尔德等著；崔学刚等改编. —北京：中国人民大学出版社，2013. 11

教育部高校工商管理类教学指导委员会双语教学推荐教材 工商管理经典教材. 会计与财务系列

ISBN 978-7-300-18314-5

I. ①会… II. ①怀… ②崔… III. ①会计学-高等学校-教材-英文  
IV. ①F230

中国版本图书馆CIP数据核字(2013)第250670号

普通高等教育“十一五”国家级规划教材  
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出版发行 中国人民大学出版社

社 址 北京中关村大街31号

邮政编码 100080

电 话 010-62511242（总编室）

010-62511398（质管部）

010-82501766（邮购部）

010-62514148（门市部）

010-62515195（发行公司）

010-62515275（盗版举报）

网 址 <http://www.crup.com.cn>

<http://www.ttrnet.com>（人大教研网）

经 销 新华书店

印 刷 涿州市星河印刷有限公司

规 格 215mm×275mm 16开本

版 次 2013年11月第1版

印 张 26.25插页2

印 次 2013年11月第1次印刷

字 数 760 000

定 价 48.00元

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教育部高校工商管理类教学指导委员会双语教学推荐教材

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# 总 序

随着我国加入 WTO，越来越多的国内企业参与到国际竞争中来，用国际上通用的语言思考、工作、交流的能力也越来越受到重视。这样一种能力也成为我国各类人才参与竞争的一种有效工具。国家教育机构、各类院校以及一些主要的教材出版单位一直在思考，如何顺应这一发展潮流，推动各层次人员通过学习来获取这种能力。双语教学就是这种背景下的一种尝试。

双语教学在我国主要指汉语和国际通用的英语教学。事实上，双语教学在我国教育界已经不是一个陌生的词汇了，以双语教学为主的科研课题也已列入国家“十五”规划的重点课题。但从另一方面来看，双语教学从其诞生的那天起就被包围在人们的赞成与反对声中。如今，依然是有人赞成有人反对，但不论是赞成居多还是反对占上，双语教学的规模 and 影响都在原有的基础上不断扩大，且呈大发展之势。一些率先进行双语教学的院校在实践中积累了经验，不断加以改进；一些待进入者也在模仿中学习，并静待时机成熟时加入这一行列。由于我国长期缺乏讲第二语言（包括英语）的环境，开展双语教学面临特殊的困难，因此，选用合适的教材就成为双语教学成功与否的一个重要问题。我们认为，双语教学从一开始就应该使用原版的各类学科的教材，而不是由本土教师自编的教材，从而可以避免中国式英语问题，保证语言的原汁原味。各院校除应执行国家颁布的教学大纲和课程标准外，还应根据双语教学的特点和需要，适当调整教学课时的设置，合理选择优秀的、合适的双语教材。

顺应这样一种大的教育发展趋势，中国人民大学出版社同众多国际知名的大出版公司，如麦格劳-希尔出版公司、培生教育出版公司等合作，面向大学本科生层次，遴选了一批国外最优秀的管理类原版教材，涉及专业基础课，人力资源管理、市场营销及国际化管理等专业方向课，并广泛听取有着丰富的双语一线教学经验的教师的建议和意见，对原版教材进行了适当的改编，删减了一些不适合我国国情和不适合教学的内容；另一方面，根据教育部对双语教学教材篇幅合理、定价低的要求，我们更是努力区别于目前市场上形形色色的各类英文版、英文影印版的大部头，将目标受众锁定在大学本科生层次。本套教材尤其突出了以下一些特点：

- 保持英文原版教材的特色。本套双语教材根据国内教学实际需要，对原书进行了一定的改编，主要是删减了一些不适合教学以及不符合我国国情的内容，但在体系结构和内容特色方面都保持了原版教材的风貌。专家们的认真改编和审定，使本套教材既保持了学术上的完整性，又贴近中国实际；既方便教师教学，又方便学生理解和掌握。

● 突出管理类专业教材的实用性。本套教材既强调学术的基础性，又兼顾应用的广泛性；既侧重让学生掌握基本的理论知识、专业术语和专业表达方式，又考虑到教材和管理实践的紧密结合，有助于学生形成专业的思维能力，培养实际的管理技能。

● 体系经过精心组织。本套教材在体系架构上充分考虑到当前我国在本科教育阶段推广双语教学的进度安排，首先针对那些课程内容国际化程度较高的学科进行双语教材开发，在其专业模块内精心选择各专业教材。这种安排既有利于我国教师摸索双语教学的经验，使得双语教学贴近现实教学的需要；也有利于我们收集关于双语教学教材的建议，更好地推出后续的双语教材及教辅材料。

● 篇幅合理，价格相对较低。为适应国内双语教学内容和课时上的实际需要，本套教材进行了一定的删减和改编，使总体篇幅更为合理；而采取低定价，则充分考虑到了学生实际的购买能力，从而使本套教材得以真正走近广大读者。

● 提供强大的教学支持。依托国际大出版公司的力量，本套教材为教师提供了配套的教辅材料，如教师手册、PowerPoint 讲义、试题库等，并配有内容极为丰富的网络资源，从而使教学更为便利。

本套教材是在双语教学教材出版方面的一种尝试。我们在选书、改编及出版的过程中得到了国内许多高校的专家、教师的支持和指导，在此深表谢意。同时，为使后续推出的教材更适于教学，我们也真诚地期待广大读者提出宝贵的意见和建议。需要说明的是，尽管我们在改编的过程中已加以注意，但由于各教材的作者所处的政治、经济和文化背景不同，书中内容仍可能有不妥之处，望读者在阅读时注意比较和甄别。

徐二明

中国人民大学商学院

## 改编者前言

2007年,针对当时国内会计学原理双语教学及全英语教学的实际需要,我们改编了怀尔德、拉森和基亚佩塔三位教授的著作《会计学原理》(第18版)一书;2009年在充分吸收了广大师生意见和建议的基础上,对刚刚面市的第19版进行了改编。改编版一经出版就得到了会计教育界和市场的广泛认可,于2009年被教育部列为“普通高等教育‘十一五’国家级规划教材”,并为国内开设会计专业的绝大多数高校所使用。得益于该书原著的上乘价值以及广大读者的支持和鼓励,我们同中国人民大学出版社一道,在探索会计双语教材的道路上顺利走过了6个年头。然而,我们也倍感压力,一方面担心该书原著能否一直保持高质量的更新,尤其是对国际会计准则和美国会计准则内容的处理与讲授方面;另一方面担心我们的改编原则能否跟得上我国会计教育形势的发展。对于后者,有广大读者的支持是可以做到不断改进与创新的,但是对于前者,我们很担心该书保守地强调美国会计准则而对国际会计准则的变化不予反映。

直到见到了怀尔德、肖和基亚佩塔的《会计学原理》(第21版),我们才发现自己是杞人忧天,同时感到欢欣鼓舞。第21版沿用广受好评的CAP框架——概念(conceptual)、分析(analytical)与程序(procedural),并在保持内容框架稳定的基础上,在以下方面做出了出色的提升:第一,第21版吸收了体现最新的会计理论发展的研究成果,如欺诈三角形理论及其对会计与内部控制的政策含义,FASB与IASB在制定会计准则中的合作与分歧,美国《多德-弗兰克法案》(Dodd-Frank Act)对会计的影响,以及会计欺诈对经济下滑的影响等;第二,突出体现了国际会计准则的发展与变化,几乎在各章都安排了专门反映国际会计准则最新变化的内容,并提供了国际公司案例,还提供了反映各国(地区)采用国际会计准则情况的世界地图;第三,语言更加凝练、优美,如对会计循环和会计原则的重新表述,对最新案例的描述与分析等;第四,更新了最能反映教材内容的图表、调查数据、例题以及课后习题等。

为适应国内高校对英文教材不断更新的需要,我们坚持已有经验,同时克服上两版的不足,继续对第21版进行改编。我们的改编原则仍然是在保持原有教材构架和风格的前提下,强调系列教材之间的内容衔接,按照国内的课时要求突出重点内容,压缩篇幅。具体变动如下:(1)删除了管理会计的内容;(2)针对改编后的教材内容,精选满足教学和学习需要的课后练习题;(3)删除了影像案例、部分附录(保留了与国际会计准则有关以及涉及重点内容的附录);(4)对排列不符合国内学生认知规律的一些章节,在改编时进行了调整;(5)删除了各章中与我国现实背景差距较大的内容。

本书适合会计全英语及双语教学使用,也是会计专业外语课程的理想用书,还可以作为会计学、财务管理、金融学以及管理学专业本科生、学术型硕士生、MPAcc、MBA学生以及各类在职人员会计入门用书。

广大读者的支持和帮助一直是不断提升改编质量的重要保证,限于改编者的视野和水平,疏漏总是难免,希望读者一如既往地批评指正。

崔学刚 饶 菁

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# Adapting to the Needs of Today's Students

## ***Fundamental Accounting Principles 21e***

Enhancements in technology have changed the spectrum of how we live and learn in the world today. Being able to download and work with learning tools on smart phones, tablets, or laptop computers empowers students to drive their own learning by putting increasingly intelligent technology into their hands.

No two students are alike, and whether the goal is to become an accountant or a businessperson or simply to be an informed consumer of accounting information, *Fundamental Accounting Principles (FAP)* has helped generations of students succeed by giving them support in the form of leading-edge accounting content that engages students, paired with state-of-the-art technology that elevates their understanding of key accounting principles.

With *FAP* on your side, you'll be provided with **engaging content** in a **motivating style** to help students see the relevance of accounting. Students are motivated when reading materials that are clear and pertinent. *FAP* excels at engaging students. Its chapter-opening vignettes showcase dynamic, successful entrepreneurial individuals and companies guaranteed to **interest and excite students, and highlights the usefulness of accounting to those business owners**. This edition's featured companies—**Polaris, Arctic Cat, KTM, and Piaggio**—captivate students with their products and annual reports, which are a pathway for learning financial statements. Further, this book's coverage of the accounting cycle fundamentals is widely praised for its clarity and effectiveness.

*FAP* also delivers innovative technology to help student performance. **Connect Accounting** provides students with instant grading and feedback for assignments that are completed online. With our new **Intelligent Response Technology**, we are taking our accounting content to the next level, delivering assessment material in a **more intuitive, less restrictive** format that adapts to the needs of today's students.

Our new content features:

- a **general journal interface** that looks and feels more like that found in practice.
- an **auto-calculation** feature that allows students to focus on concepts rather than rote tasks.
- a **smart (auto-fill) drop-down design**.

The end result is content that better prepares students for the real world. *Connect Accounting* also includes digitally based, interactive adaptive learning tools that provide an opportunity to engage students more effectively by offering varied instructional methods and more personalized learning paths that build on different learning styles, interests, and abilities, allowing students to work at their own pace.

**McGraw-Hill LearnSmart™** is an intelligent learning system that uses a series of adaptive questions to pinpoint each student's knowledge gaps. LearnSmart then provides an optimal learning path for each student, so that they spend less time in areas they already know and more time in areas they don't. The result is LearnSmart's adaptive learning path that helps students retain more knowledge, learn faster, and study more efficiently.

Our **Interactive Presentations** teach each chapter's core learning objectives in a rich multimedia format, bringing the content to life. Your students will come to class prepared when you assign Interactive Presentations. Students can also review the Interactive Presentations as they study.

**Guided Examples** provide students with narrated, animated, step-by-step walkthroughs of algorithmic versions of assigned exercises. Students appreciate the Guided Examples because they can help students learn accounting and complete assignments when outside of class.

**Connect Plus Accounting** integrates a media-rich online version of the textbook with *Connect Accounting*.

"I believe that *FAP* is the best intro accounting text on the market—clear, concise, complete... Additionally, it is clear that the authors stay in touch with the 'times'."

— JAMES L. LOCK, Northern Virginia Community College

# Accounting in Business

# 1

Learning Objectives are classified as conceptual, analytical, or procedural.



## A Look at This Chapter

Accounting is crucial in our information age. In this chapter, we discuss the importance of accounting to different types of organizations and describe its many users and uses. We explain that ethics are essential to accounting. We also explain business transactions and how they are reflected in financial statements.



## A Look Ahead

Chapter 2 describes and analyzes business transactions. We explain the analysis and recording of transactions, the ledger and trial balance, and the double-entry system. More generally, Chapters 2 through 4 use the accounting cycle to show how financial statements reflect business activities.

## Learning Objectives

### CONCEPTUAL

- C1** Explain the purpose and importance of accounting.
- C2** Identify users and uses of, and opportunities in, accounting.
- C3** Explain why ethics are crucial to accounting.
- C4** Explain generally accepted accounting principles and define and apply several accounting principles.
- C5** *Appendix 1A*—Identify and describe the three major activities of organizations.

### ANALYTICAL

- A1** Define and interpret the accounting equation and each of its components.

### PROCEDURAL

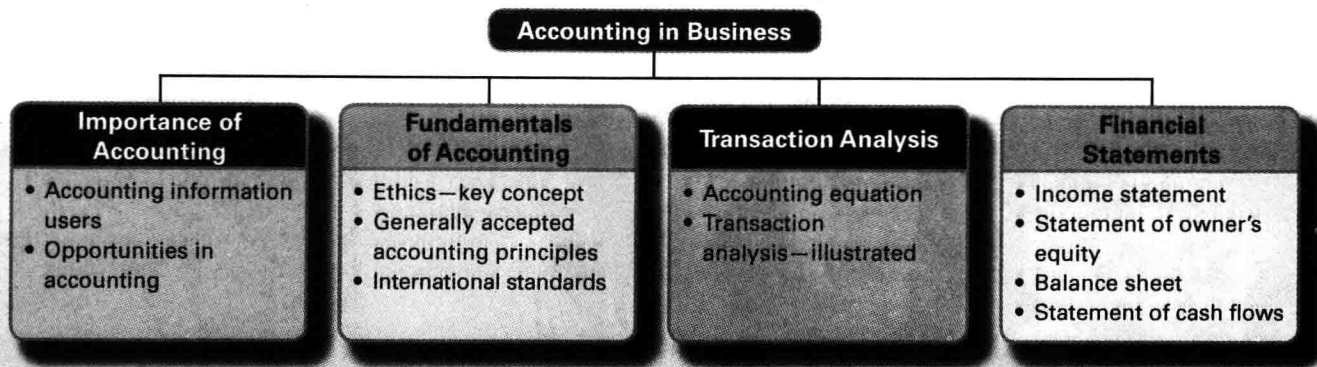
- P1** Analyze business transactions using the accounting equation.
- P2** Identify and prepare basic financial statements and explain how they interrelate.

# Chapter Preview

A Preview opens each chapter with a summary of topics covered.

Today's world is one of information—its preparation, communication, analysis, and use. Accounting is at the core of this information age. Knowledge of accounting gives us career opportunities and the insight to take advantage of them. This book introduces concepts, procedures, and analyses that help us

make better decisions, including career choices. In this chapter we describe accounting, the users and uses of accounting information, the forms and activities of organizations, and several accounting principles. We also introduce transaction analysis and financial statements.



## IMPORTANCE OF ACCOUNTING

Why is accounting so popular on campus? Why are there so many openings for accounting jobs? Why is accounting so important to companies? Why do politicians and business leaders focus on accounting regulations? The answer is that we live in an information age, where that information, and its reliability, impacts us all.

**C1** Explain the purpose and importance of accounting.

**Accounting** is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities. *Identifying* business activities requires that we select relevant transactions and events. Examples are the sale of iPhones by **Apple** and the receipt of ticket money by **TicketMaster**. *Recording* business activities requires that we keep a chronological log of transactions and events measured in dollars. *Communicating* business activities requires that we prepare accounting reports such as financial statements, which we analyze and interpret. Exhibit 1.1 summarizes accounting activities.

Real company names are printed in bold magenta.

Accounting is part of our everyday lives. Our most common contact with accounting is through credit approvals, checking accounts, tax forms, and payroll. These experiences tend to focus on the recordkeeping parts of accounting. **Recordkeeping**, or **bookkeeping**, is the recording of transactions and events, either manually or electronically. This is just one part of accounting. Accounting also identifies and communicates information on transactions and events, and it includes the crucial processes of analysis and interpretation.

Technology is a key part of modern business and plays a major role in accounting. Technology reduces the time, effort, and cost of recordkeeping while improving clerical accuracy. Some small organizations continue to perform various accounting tasks manually, but even they are impacted by technology. As technology makes more information available, the demand for accounting increases and so too the skills for applying that information. Consulting, planning, and other finan-



**EXHIBIT 1.1**  
Accounting Activities



**Point:** Technology is only as useful as the accounting data available, and users' decisions are only as good as their understanding of accounting. The best software and recordkeeping cannot make up for lack of accounting knowledge.

**Margin notes** further enhance the textual material.

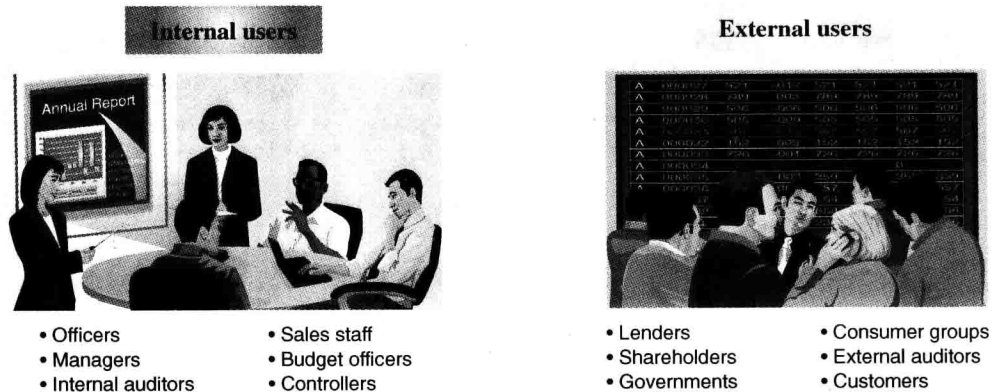
## EXHIBIT 1.2

Users of Accounting Information

cial services are now closely linked to accounting. These services require sorting through data, interpreting their meaning, identifying key factors, and analyzing their implications.

## Users of Accounting Information

Accounting is called the *language of business* because all organizations set up an accounting information system to communicate data to help people make better decisions. Exhibit 1.2 shows that accounting serves many users (this is a partial listing) who can be divided into two groups: external users and internal users.



**Infographics** reinforce key concepts through visual learning.

**C2** Identify users and uses of, and opportunities in, accounting.

**External Information Users** External users of accounting information are *not* directly involved in running the organization. They include shareholders (investors), lenders, directors, customers, suppliers, regulators, lawyers, brokers, and the press. External users have limited access to an organization's information. Yet their business decisions depend on information that is reliable, relevant, and comparable. **Financial accounting** is the area of accounting aimed at serving external users by providing them with *general-purpose financial statements*. The term *general-purpose* refers to the broad range of purposes for which external users rely on these statements. Following is a partial list of external users and some decisions they make with accounting information.

- **Lenders** (creditors) loan money or other resources to an organization. Banks, savings and loans, co-ops, and mortgage and finance companies are lenders. Lenders look for information to help them assess whether an organization is likely to repay its loans with interest.
- **Shareholders** (investors) are the owners of a corporation. They use accounting reports in deciding whether to buy, hold, or sell stock.
- **Directors** are typically elected to a *board of directors* to oversee their interests in an organization. Since directors are responsible to shareholders, their information needs are similar.
- **External** (independent) **auditors** examine financial statements to verify that they are prepared according to generally accepted accounting principles.
- **Nonexecutive employees** and **labor unions** use financial statements to judge the fairness of wages, assess job prospects, and bargain for better wages.
- **Regulators** often have legal authority over certain activities of organizations. For example, the Internal Revenue Service (IRS) and other tax authorities require organizations to file accounting reports in computing taxes. Other regulators include utility boards that use accounting information to set utility rates and securities regulators that require reports for companies that sell their stock to the public.
- **Voters, legislators, and government officials** use accounting information to monitor and evaluate government receipts and expenses.
- **Contributors** to nonprofit organizations use accounting information to evaluate the use and impact of their donations.
- **Suppliers** use accounting information to judge the soundness of a customer before making sales on credit.



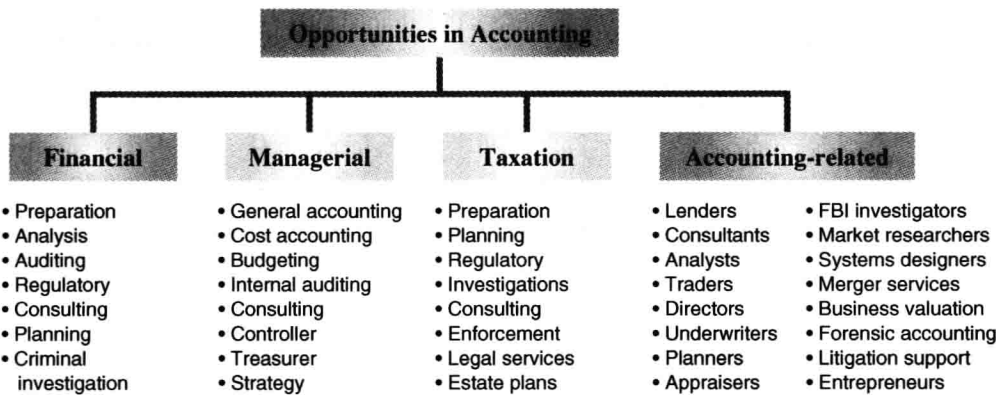
- *Customers* use financial reports to assess the staying power of potential suppliers.

**Internal Information Users** Internal users of accounting information are those directly involved in managing and operating an organization. They use the information to help improve the efficiency and effectiveness of an organization. **Managerial accounting** is the area of accounting that serves the decision-making needs of internal users. Internal reports are not subject to the same rules as external reports and instead are designed with the special needs of internal users in mind. Following is a partial list of internal users and some decisions they make with accounting information.

- *Research and development managers* need information about projected costs and revenues of any proposed changes in products and services.
- *Purchasing managers* need to know what, when, and how much to purchase.
- *Human resource managers* need information about employees' payroll, benefits, performance, and compensation.
- *Production managers* depend on information to monitor costs and ensure quality.
- *Distribution managers* need reports for timely, accurate, and efficient delivery of products and services.
- *Marketing managers* use reports about sales and costs to target consumers, set prices, and monitor consumer needs, tastes, and price concerns.
- *Service managers* require information on the costs and benefits of looking after products and services.

### Opportunities in Accounting

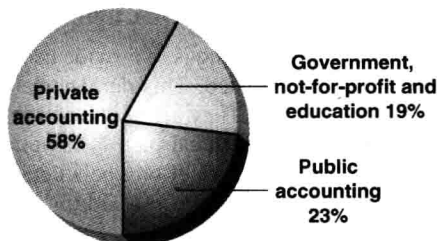
Accounting information is in all aspects of our lives. When we earn money, pay taxes, invest savings, budget earnings, and plan for the future, we use accounting. Accounting has four broad areas of opportunities: financial, managerial, taxation, and accounting-related. Exhibit 1.3 lists selected opportunities in each area.



**EXHIBIT 1.3**  
Accounting Opportunities

Exhibit 1.4 shows that the majority of opportunities are in *private accounting*, which are employees working for businesses. *Public accounting* offers the next largest number of opportunities, which involve services such as auditing and tax advice. Still other opportunities exist in government and not-for-profit agencies, including business regulation and investigation of law violations.

Accounting specialists are highly regarded. Their professional standing often is denoted by a certificate. Certified public accountants (CPAs) must meet education and experience requirements,



**EXHIBIT 1.4**  
Accounting Jobs by Area

**Point:** The largest accounting firms are Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers.

**Point:** Census Bureau (2011) reports that for workers 25 and over, higher education yields higher average pay:

Advanced degree . . . . .	\$81,568
Bachelor's degree . . . . .	57,326
High school degree . . . . .	36,876
No high school degree . . . . .	26,124

pass an examination, and exhibit ethical character. Many accounting specialists hold certificates in addition to or instead of the CPA. Two of the most common are the certificate in management accounting (CMA) and the certified internal auditor (CIA). Employers also look for specialists with designations such as certified bookkeeper (CB), certified payroll professional (CPP), personal financial specialist (PFS), certified fraud examiner (CFE), and certified forensic accountant (CrFA).

Demand for accounting specialists is strong. Exhibit 1.5 reports average annual salaries for several accounting positions. Salary variation depends on location, company size, professional designation, experience, and other factors. For example, salaries for chief financial officers (CFO) range from under \$100,000 to more than \$1 million per year. Likewise, salaries for bookkeepers range from under \$30,000 to more than \$80,000.

### EXHIBIT 1.5

Accounting Salaries for Selected Fields

Field	Title (experience)	2011 Salary	2016 Estimate*
<b>Public Accounting</b>	Partner . . . . .	\$202,000	\$223,000
	Manager (6–8 years) . . . . .	97,500	107,500
	Senior (3–5 years) . . . . .	75,000	83,000
	Junior (0–2 years) . . . . .	57,500	63,500
<b>Private Accounting</b>	CFO . . . . .	242,000	267,000
	Controller/Treasurer . . . . .	157,500	174,000
	Manager (6–8 years) . . . . .	91,500	101,000
	Senior (3–5 years) . . . . .	74,500	82,000
<b>Recordkeeping</b>	Junior (0–2 years) . . . . .	53,000	58,500
	Full-charge bookkeeper . . . . .	59,500	65,500
	Accounts manager . . . . .	52,000	57,500
	Payroll manager . . . . .	55,500	61,000
	Accounting clerk (0–2 years) . . . . .	38,500	42,500

\* Estimates assume a 2% compounded annual increase over current levels (rounded to nearest \$500).

**Point:** For updated salary information: [Abbott-Langer.com](http://Abbott-Langer.com), [www.AICPA.org](http://www.AICPA.org), [Kforce.com](http://Kforce.com)

**Quick Check** is a chance to stop and reflect on key points.

**Point:** U.S. Bureau of Labor (June 2011) reports higher education is linked to a lower unemployment rate:

Bachelor's degree or more . . . . .	4.4%
High school degree . . . . .	10.0%
No high school degree . . . . .	14.3%

### Quick Check



1. What is the purpose of accounting?
2. What is the relation between accounting and recordkeeping?
3. Identify some advantages of technology for accounting.
4. Who are the internal and external users of accounting information?
5. Identify at least five types of managers who are internal users of accounting information.

## FUNDAMENTALS OF ACCOUNTING

Accounting is guided by principles, standards, concepts, and assumptions. This section describes several of these key fundamentals of accounting.

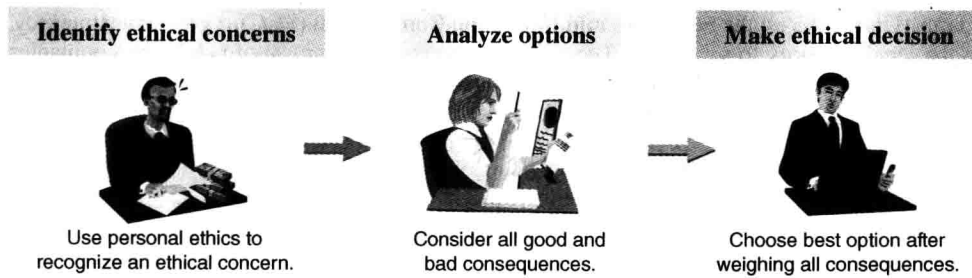
### Ethics—A Key Concept

The goal of accounting is to provide useful information for decisions. For information to be useful, it must be trusted. This demands ethics in accounting. **Ethics** are beliefs that distinguish right from wrong. They are accepted standards of good and bad behavior.

Identifying the ethical path is sometimes difficult. The preferred path is a course of action that avoids casting doubt on one's decisions. For example, accounting users are less likely to trust an auditor's report if the auditor's pay depends on the client's success. To avoid such concerns, ethics rules are often set. For example, auditors are banned from direct investment in their

**C3** Explain why ethics are crucial to accounting.

**Point: Sarbanes-Oxley Act** requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior officers and the contents of that code.

**EXHIBIT 1.6**

Guidelines for Ethical Decision Making

client and cannot accept pay that depends on figures in the client's reports. Exhibit 1.6 gives guidelines for making ethical decisions.

Accountants face many ethical choices as they prepare financial reports. These choices can affect the price a buyer pays and the wages paid to workers. They can even affect the success of products and services. Misleading information can lead to a wrongful closing of a division that harms workers, customers, and suppliers. There is an old saying: *Good ethics are good business.*

Some people extend ethics to *social responsibility*, which refers to a concern for the impact of actions on society. An organization's social responsibility can include donations to hospitals, colleges, community programs, and law enforcement. It also can include programs to reduce pollution, increase product safety, improve worker conditions, and support continuing education. These programs are not limited to large companies. For example, many small businesses offer discounts to students and senior citizens. Still others help sponsor events such as the Special Olympics and summer reading programs.

**Point:** The American Institute of Certified Public Accountants' Code of Professional Conduct is available at [www.AICPA.org](http://www.AICPA.org).

## Fraud Triangle

The fraud triangle is a model created by a criminologist that asserts the following *three* factors must exist for a person to commit fraud: opportunity, pressure, and rationalization.

*Opportunity* is one side of the fraud triangle. A person must envision a way to commit fraud with a low perceived risk of getting caught. Employers can directly reduce this risk. An example of some control on opportunity is a pre-employment background check. *Pressure*, or incentive, is another side of the fraud triangle. A person must have some pressure to commit fraud. Examples are unpaid bills and addictions. *Rationalization*, or attitude, is the third side of the fraud triangle. A person who rationalizes fails to see the criminal nature of the fraud or justifies the action.



It is important to recognize that all three factors of the fraud triangle must usually exist for fraud to occur. The absence of one or more factors suggests fraud is unlikely.

The key to dealing with fraud is to focus on prevention. It is less expensive and more effective to prevent fraud from happening than it is to try to detect the crime. By the time the fraud is discovered, the money is gone and chances are slim that it will be recovered. Additionally, it is costly and time consuming to investigate a fraud.

Both internal and external users rely on internal controls to reduce the likelihood of fraud. *Internal controls* are procedures set up to protect company property and equipment, ensure reliable accounting reports, promote efficiency, and encourage adherence to company policies. Examples are good records, physical controls (locks, passwords, guards), and independent reviews.

## Generally Accepted Accounting Principles

Financial accounting is governed by concepts and rules known as **generally accepted accounting principles (GAAP)**. We must understand these principles to best use accounting data. GAAP aims to make information *relevant*, *reliable*, and *comparable*. Relevant information affects decisions of users. Reliable information is trusted by users. Comparable information is helpful in contrasting organizations.

**C4** Explain generally accepted accounting principles and define and apply several accounting principles.

**Point:** State ethics codes require CPAs who audit financial statements to disclose areas where those statements fail to comply with GAAP. If CPAs fail to report noncompliance, they can lose their licenses and be subject to criminal and civil actions and fines.

In the United States, the **Securities and Exchange Commission (SEC)**, a government agency, has the legal authority to set GAAP. The SEC also oversees proper use of GAAP by companies that raise money from the public through issuances of their stock and debt. Those companies that issue their stock on U.S. exchanges include both *U.S. SEC registrants* (companies incorporated in the United States) and *non-U.S. SEC registrants* (companies incorporated under non-U.S. laws). The SEC has largely delegated the task of setting U.S. GAAP to the **Financial Accounting Standards Board (FASB)**, which is a private-sector group that sets both broad and specific principles.

## International Standards

In today's global economy, there is increased demand by external users for comparability in accounting reports. This demand often arises when companies wish to raise money from lenders and investors in different countries. To that end, the **International Accounting Standards Board (IASB)**, an independent group (consisting of individuals from many countries), issues **International Financial Reporting Standards (IFRS)** that identify preferred accounting practices.

If standards are harmonized, one company can potentially use a single set of financial statements in all financial markets. Differences between U.S. GAAP and IFRS are decreasing as the FASB and IASB pursue a *convergence* process aimed to achieve a single set of accounting standards for global use. More than 115 countries now require or permit companies to prepare financial reports following IFRS. Further, non-U.S. SEC registrants can use IFRS in financial reports filed with the SEC (with no reconciliation to U.S. GAAP). This means there are *two* sets of accepted accounting principles in the United States: (1) U.S. GAAP for U.S. SEC registrants and (2) either IFRS or U.S. GAAP for non-U.S. SEC registrants.

The SEC is encouraging the FASB to change U.S. GAAP over a period of several years by endorsing, and thereby incorporating, individual IFRS standards into U.S. GAAP. This endorsement process would still allow the FASB to modify IFRS when necessary. The SEC would:

- Maintain its statutory oversight of the FASB, including authority to prescribe accounting principles and standards for U.S. issuers.
- Contribute to oversight and governance of the IASB through its involvement on the IFRS Foundation Monitoring Board.

The FASB would continue, but its role would be to provide input and support to the IASB in crafting high-quality, global standards. The FASB is to develop a transition plan to effect these changes over the next five years or so. For updates on this roadmap, we can check with the AICPA ([IFRS.com](http://IFRS.com)), FASB ([FASB.org](http://FASB.org)), and IASB ([ifrs.org](http://ifrs.org)).



## IFRS

Like the FASB, the IASB uses a conceptual framework to aid in revising or drafting new standards. However, unlike the FASB, the IASB's conceptual framework is used as a reference when specific guidance is lacking. The IASB also requires that transactions be accounted for according to their substance (not only their legal form), and that financial statements give a fair presentation, whereas the FASB narrows that scope to fair presentation *in accordance with U.S. GAAP*. ■

## Conceptual Framework and Convergence

The FASB and IASB are attempting to converge and enhance the **conceptual framework** that guides standard setting. The FASB framework consists broadly of the following:

- **Objectives**—to provide information useful to investors, creditors, and others.
- **Qualitative Characteristics**—to require information that is *relevant*, *reliable*, and *comparable*.
- **Elements**—to define items that financial statements can contain.
- **Recognition and Measurement**—to set criteria that an item must meet for it to be recognized as an element; and how to measure that element.