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前　言

作者在参阅了美国的相关教材和国内的相关书籍后，构建了本书的结构。本书分八章，第一、二章对会计体系做了总体的描述，第三章到第七章分类别具体说明了会计的几个基本要素，第八章介绍了成本会计、管理会计和审计的基本内容。在书后附有资产负债表、利润表和现金流量表。本书可用于双语会计教学，也可作为学生的参考书和从事国际会计业务人员的学习书籍。

由于作者水平有限，加之时间紧迫，疏漏以及错误在所难免，恳请读者批评指正。

编　者

2005 年 2 月 16 日

Contents

Chapter 1
Conceptual Framework Underlying Accounting

Learning Objectives:

After learning this chapter, the students should:

1. Understand the definition of accounting.
2. Learn the objectives of financial accounting.
3. Identify the qualitative characteristics of accounting information.
4. Figure out the basic elements of financial statements and equations.
5. Comprehend the basic accounting assumptions.
6. Understand the important accounting principles.

1.1 Introduction about Accounting

Accounting is an information system of interpreting, recording, measuring, classifying, summarizing, reporting and describing business economic activities with monetary unit as its main criterion. Concerning this definition, we should pay attention to three important points. Firstly, the accounting involves many activities: interpreting, recording, measuring, classifying, summarizing, reporting and describing. Secondly, the object of accounting is business economic activities. Thirdly, the monetary unit is the main criterion used in accounting. Besides, The objective of accounting is to record and measure the business economic activities of an entity and present the financial report to users including management, creditors, and other potential investors, etc.

The field of accountants' work is divided into three kinds: public accounting, accounting for private business, and accounting for government and nonprofit organization. The accountants work in public accounting are called CPAs (Certified Public Accountants). In USA, AICPA (American Institute of Certified Public Accountant) will organize the examination for the CPAs, and the different states set additional qualifications. In China, CICPA (Chinese Institute of Certified Public Accountant) will organize the examination for the CPAs. Public accounting firms are called CPA firms, and they have different forms such as proprietorship, partnership, and corporation. In China, CPA firms cannot be a proprietorship. The primary service offered by CPA firms include auditing, tax service, and consultative service. Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and the established criteria. Auditing should be done by a competent, independent person. Tax service offered by CPA firms usually include helping the clients to file the tax report and giving the clients some suggestions to minimize the tax amount. The consultative services mainly refer to management advisory services such as whether the business earns profit properly, how to budget the business resources, and so on. The accountants in private enterprises are in charge of designing the accounting system, cost accounting, and internal control and auditing. The accounting for government and nonprofit organization is similar to that for private company except that the objective of earning a profit is absent from accounting for government and nonprofit organization.

1.2 Financial Accounting

Financial accounting is a very important part in accounting. Financial accounting is defined as the gathering and presentation of financial information for users. According to the American FASB (Financial Accounting Standards Board), the objectives of financial reporting are to provide information that is: (1) useful to present the potential investors, creditors and other users information in making rational investment, credit, and similar decisions. The information should be comprehensible for those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence. In sum, this objective is useful for those making investment and credit decisions who have a reasonable understanding of business and economic activities; (2) helpful to present the potential investors, creditors and other users information in assessing the amounts, timing, uncertainty of prospective cash receipts from dividends or interest and the process of the sale, redemption, or maturity of securities or loans. Since investors' and creditors' cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise; and (3) about economic resources, the claims to those resources, and the changes in them.

1.3 Fundamental Concepts

In this part, the qualitative characteristics of accounting information are explained, and the elements of financial statements are defined.

Qualitative Characteristics of Accounting Information

In China, the qualitative characteristics of accounting information include: (1) reliability, (2) relevance, (3) comparability, (4) consistency, (5) timeliness, and (6) understandability.

Reliability

Reliability means that the accounting information is reliable to the extent that it is verifiable, is a faithful representation, and is reasonably free of error and bias. Reliability is the base of accounting. If the contents in the accounting information are not true, or the figures in the accounting information are not correct, the financial statements cannot reflect the financial position, the results of operation, and cash flows faithfully.

Relevance

Relevance means that there is a connection between the accounting information and the decision the users make, and the accounting information is able to make a difference in a decision. It has predictive value and feedback value. The predictive value means that the relevant information helps users make predictions about the ultimate outcome of past, present, and future events. In other word, the predictive value can help users to make predictions about future events according to the past and current ones. The feedback value means that the relevant information can help users to confirm or correct prior expectations.

Comparability

Comparability means that information should be measured and reported in a similar manner for different enterprises. Under comparability, the users can compare the results of the companies with different places and different industries during the same or different periods.

Consistency

Consistency means that an entity applies the same accounting treatment to similar events from period to period. But it does not mean the companies cannot switch from one method of accounting to another. Companies can change methods, but the changes are restricted to situations in which it can be demonstrated that the newly adopted method is preferable to the old. And the nature and effect of the accounting change, as well as the justification for it, must be disclosed in the financial statements for the period in which the change is made.

Timeliness

Timeliness means that the measurement of accounting should be timely, and should not be advanced or deferred. There are three aspects about timeliness. Firstly, the accountants should collect the accounting information timely. Secondly, the accountants should deal with the accounting information timely. Thirdly, the accountants should deliver accounting information timely.

Understandability

Understandability means that the reasonably informed users can perceive the quality of information. If the accounting information cannot be understood by the users, the information is useless. To obey the understandability, the accountants should assure that the accounting entries are correct and clear, ledgers' relationship is understandable, all items included are recorded, and no omission or overstatement exists.

From figure 1.1, we can get to know the accounting qualities in USA.

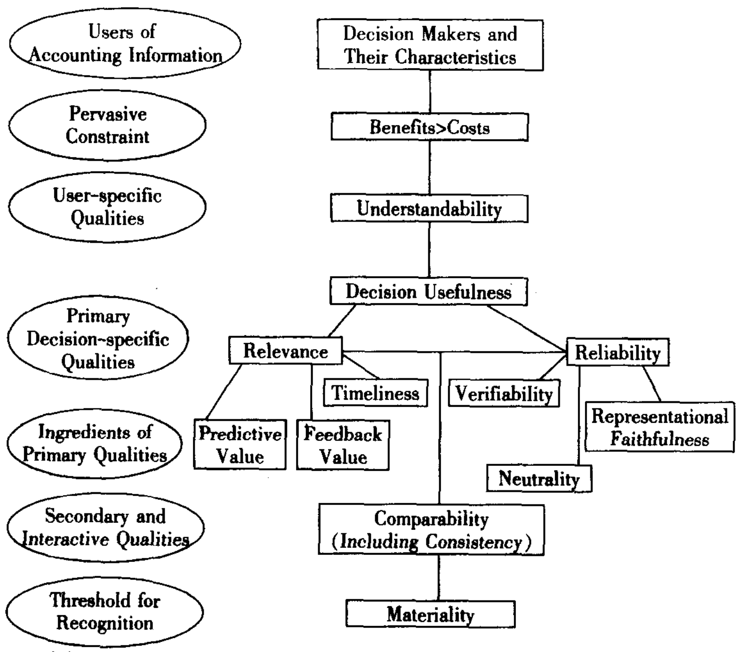

Figure 1.1 A Chart of Accounting Qualities of USA

Decision makers and their characteristics shows that each decision maker's judgement about accounting information will be influenced by many factors, such as the decision to be made, the methods of making decision, and the information already possessed or obtained from other sources, etc. Therefore, the decision makers can figure out the useful information according to their characteristics. For example, the creditors of an entity are interested in the accounting information about credit of the entity, whereas the shareholders care for the results of operations and EPS (earning per share).

Cost-benefit constraint refers that the cost of preparing the financial reporting is lower than the benefit arose from using the financial reports. Usually the company itself prepares the financial reports, and it must bear the cost by itself. However, there are many parties using the financial reports besides management, such as creditors, investors, and other potential users. The benefits going to both preparers and users should be larger than the cost. If the benefits are smaller than the costs, no company will prepare the financial statements.

Understandability is like a link between decision makers and accounting information. Only when the decision makers comprehend accounting information, it is useful. Otherwise, the accounting information has no use to the decision makers, and it will also lose its value. In other words, the accounting information is like a merchandise. If users cannot figure out the usefulness of it, no one will buy it and it becomes useless.

Decision usefulness means that the information must have two characteristics—relevance and reliability. If one of them is completely missing, the information will not be useful.

Relevance and reliability are primary qualities. Relevance means the accounting information can cause the decision makers to make a difference in a decision. It has three components, and they are predictive value, feedback value, and timeliness. Reliability means that the accounting information is reliable to the extent that it is verifiable, is a faithful representation, and is reasonably free of error and bias. It has three ingredients—verifiability, representational faithfulness, and neutrality. Verifiability may be demonstrated by securing a high degree of consensus among independent measures using the same measurement methods. Representational faithfulness refers to the correspondence or agreement between a measure and the phenomenon it purports to represent. Neutrality means the choice between accounting alternatives is free from bias towards a predetermined result.

Comparability and consistency are secondary qualities. Comparability means that the information becomes useful only when it can be compared with similar information about other enterprises and with similar information about the same enterprise in different periods. Consistency indicates that the accounting methods from period to period is the same. Comparability between enterprises and consistency in the application of methods over time increases the informational value of comparisons of relative economic opportunities or performance. Materiality is another constraint. Materiality is a popular concept and it relates to qualitative characteristics, especially relevance and reliability. We will talk about this item more specifically in the later chapters.

Basic Elements

In China, the basic elements include six components—assets, liabilities, equity, revenues, expenses, and net income. In USA, There are ten elements of financial statements, and they are: (1) assets, (2) liabilities, (3) equity, (4) investment by owners, (5) distributions to owners, (6) comprehensive income, (7) revenues, (8) expenses, (9) gains, and (10) losses. FASB classifies the elements into two groups. The first group describes amounts of resources and claims to resources at a specific time, including assets, liabilities, and equity. The other group describes transactions, events, and circumstances that affect an enterprise during a period of time including comprehensive income, revenues, expenses, gains, losses, investments by owners, and distributions to owners. The definition of these elements are as following:

Assets

Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. From this definition, we can figure out three main characteristics of assets. Firstly it results in probable future economic benefits coming into a company. Secondly, its ownership belongs to the company or it is controlled by a company. Thirdly, the reason resulting in the assets are from past transactions.

Liabilities

Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. From this definition, we also can identify three characteristics of liabilities. Firstly, it results in the outflow of economic benefits. Secondly, the payment of liabilities is through transferring assets or providing services to other entities. Thirdly, the liabilities are from past transactions.

Equity

Residual interest in the assets of an entity that remains after deducting its liabilities. In a business enterprise, the equity is the ownership interests. Here, interests are not the return on capital. They refer to rights.

Investments by Owners

Increases in net assets of a particular enterprise resulting from transfers to it from other entities of something of value to obtain or increase ownership interests (or equity) in it.

Distribution to Owners

Decreases in net assets of a particular enterprise resulting from transferring assets, rendering services, or incurring liabilities by the enterprise to owners.

Comprehensive Income

Changes in equity (net assets) of an entity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Revenues

Inflows or other enhancements of assets of an entity or settlement of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Expenses

Outflows or other using up of assets or of liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

Gains

Increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity during a period except those that result from revenues or investments by owners.

Losses

Decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting