


*Core Concepts of
Accounting Information*

Theme III

1998/1999 Edition

Karen V. Pincus

The background of the lower half of the cover is an abstract artwork. It features warm, golden-yellow and orange tones. There are dark, swirling, marbled patterns on the left side, resembling a close-up of a shell or a cross-section of wood. On the right, there are more fluid, brush-like strokes in darker brown and black, suggesting a hand-drawn or painted texture. The overall effect is organic and textured.

Accounting
Issues
Involving
Economic
Resources

*Core Concepts of
Accounting Information*

Theme III

Accounting Issues Involving Economic Resources

1998/1999 Edition

Karen V. Pincus, Ph.D.

University of Arkansas

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Core Concepts of Accounting Information
Theme III: Accounting Issues Involving Economic Resources

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Core Concepts of Accounting Information
Theme III: Accounting Issues Involving Economic Resources

FEEDBACK ON COURSE MATERIALS

Comments, corrections, and suggestions for future topics and assignments are greatly appreciated. Address any feedback to:

Dr. Karen V. Pincus
Chair, Department of Accounting
College of Business Administration
University of Arkansas
Fayetteville, AR 72701

E-mail: kpincus@comp.uark.edu

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Core Concepts of Accounting Information
Theme III: Accounting Issues Involving Economic Resources

ORGANIZATION OF COURSE MATERIALS

Core Concepts of Accounting Information is organized into 4 broad themes:

Theme I:	<i>The Users/Uses of Accounting Information</i>
Theme II:	<i>Accounting Issues Involving Income and Cash Flows</i>
Theme III:	<i>Accounting Issues Involving Economic Resources</i>
Theme IV:	<i>Accounting Issues Involving Capital</i>

Each theme looks at a variety of topics that cut across the major functional areas of accounting--financial accounting, managerial accounting, systems, tax and auditing. Examples from business, non-profit and government organizations--both domestic and international--are used throughout the themes. Each theme is further divided into modules that follow the same organizational pattern across the themes:

- ◆ The first module of each theme provides an introduction to the theme, describing the key points to be covered and presenting needed terminology.
- ◆ The remaining modules explore the topics of the theme from the perspective of a particular user group for accounting information: management, owners and creditors, government and other users.
- ◆ Theme I also contains a final module on the environment of accounting that introduces the body of technical rules, laws, standards and guidelines in the 5 major functional areas of accounting and discusses how to research accounting questions and problems.

Pagination

Core Concepts of Accounting Information is divided into themes and modules, which different schools put together in a variety of ways.

How do you find material within your bound text? After this preface, pagination is of the form **I-2-3**, where the initial roman numeral indicates the theme, the middle number indicates the module within the theme, and the final number indicates the page within the module. Thus, page I-2-3 indicates Theme I, Module 2, page 3.

CORE CONCEPTS OF ACCOUNTING INFORMATION

**THEME III: Accounting Issues Involving
Economic Resources**

Karen V. Pincus

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The background is an abstract composition of soft, blended watercolor washes in shades of orange, yellow, and cream. The colors are layered and textured, creating a sense of depth and movement. A small, solid brown dot is positioned in the lower-middle section of the page. The overall aesthetic is warm and artistic.

module 1

MODULE I: INTRODUCTION

1998-1999 edition

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MODULE I: INTRODUCTION

Estimated Time Budget

<u>Task</u>	<u>Time Estimate</u>
Reading PART A: THE NATURE OF ECONOMIC RESOURCES	75 - 120 minutes
Assignments for Part A	
Assignment III-1A-1	60 - 120 minutes
Assignment III-1A-2	60 - 120 minutes
Assignment III-1A-3	60 - 120 minutes
Assignment III-1A-4	10 - 20 minutes
Reading PART B: THE NATURE OF ACCOUNTING INFORMATION ABOUT ECONOMIC RESOURCES	45 - 60 minutes
Assignments for Part B	
Assignment III-1B-1	45 - 60 minutes
Assignment III-1B-2	45 - 60 minutes
Assignment III-1B-3	45 - 60 minutes
Assignment III-1B-4	50 - 60 minutes
Assignment III-1B-5	30 - 45 minutes
Assignment III-1B-6	60 - 90 minutes
Assignment III-1B-7	50 - 75 minutes
Assignment III-1B-8	60 - 90 minutes
Assignment III-1B-9	30 - 45 minutes

Note: These time estimates, like all the time budgets for this course, should be adjusted to suit your own learning style. Time estimates for assignments assume that readings were completed before attempting the assignments.

MODULE I: INTRODUCTION

PART A: THE NATURE OF ECONOMIC RESOURCES

*Nos numerus sumus et fruges consumere nati. (We are just statistics,
born to consume resources.)*

-- Horace (65-8 B. C.), Epistles, I,ii27

All organizations possess a bundle of economic resources they intend to apply to their particular purpose. Automobile manufacturers have stockpiles of metal to use in making cars. Department stores have counters on which to display their goods and cash registers on which to record their sales. A hospital has supplies of drugs and medical equipment to put to use treating patients. A government has cash to be used for public service programs and stocks of weapons to be used for national defense. These economic resources, and many others, are expected to provide benefits to the organizations in the future--in a sense, they *are* the organizations' future.

Many groups--including management, investors and creditors, government, employees or their labor unions, and others--use accounting information about economic resources to help them make decisions. In this module, we'll look at the nature of economic resources (Part A) and at the nature of accounting information about economic resources (Part B).

GETTING STARTED: LOOKING AT INDUSTRIES

*Today's big industries were small within our lifetime, many of today's
small industries will become big before our lifetime ends.*

-- W. J. Cameron

The mix of economic resources an organization needs in order to succeed will differ between industries. Hospitals need a different mix of economic resources than department stores. Department stores need a different mix of economic resources than government agencies, and so on. Thus, to understand the accounting information about an organization's economic resources, it helps to know something about the industry in which the organization operates.

Throughout the world, information about industry groups is accumulated by various government agencies and private organizations. Industry information is monitored by many decision-makers--including managers, financial analysts,

stockholders, creditors, labor unions, and consumer groups. Suppose you wanted to find out information about a particular industry. How would you go about finding it?

Information about different industries is available on many electronic databases and in many printed reference sources. For example, Dun and Bradstreet publishes books of industry norms, including the typical composition of assets for companies in each industry and financial ratios for firms in different size categories (quartiles) within the industry. Or, Disclosure, Inc. provides financial statement data and ratios for U.S. and international public companies in a database known as "Worldscope." This type of database can be searched to find information about many companies in a given industry. Accounting and tax rules that affect particular industries are also accessible through either printed reference materials or electronic databases.

Whether industry information is available in print or electronic media, access to the information is often organized by means of a coding system that assigns each industry group a unique code number. In the United States, there is a federally-designed standard numbering system, known as the **Standard Industrial Classification (SIC) System**, that identifies companies by industry. To find industry information, you begin by looking up the industry's SIC code in a library reference book or on an electronic database. SIC codes have many uses. For example, governments use SIC codes to gather and publish industry economic and tax data. Investors and creditors use SIC code information to find the names of companies in a particular industry and information about industry average performance. Managers use SIC codes to investigate possible sources of supply for a particular raw material, product or service and to compare their own organization to their competitors. Researchers use SIC codes to investigate the impact of changes in accounting standards or tax policy on different industries.

How An SIC Code System Works

An SIC code consists of four digits that identify a company by its principal product or service. In an SIC code, the first two digits identify the broad industry group and the last two digits provide a more specific identification of the company's product or service. The two digits that define the broad industrial groups are broken down into 10 divisions with the following ranges:

- 01 - 09** Agriculture, forestry and fishing
- 10 - 14** Mining
- 15 - 17** Construction
- 20 - 39** Manufacturing
- 40 - 49** Transportation, communication, electric, gas and sanitary services
- 50 - 59** Wholesale and retail trade
- 60 - 67** Finance, insurance and real estate services
- 70 - 89** Services (other than those named above)
- 90 - 97** Government
- 99** Nonclassifiable establishments

Exploring Industry Data

Suppose you are in the reference section of a library or hooked up to an electronic database. In either instance, if you want to find an industry's SIC code, you can look it up in an alphabetical index of SIC codes. Then, you can search a database of company information to find companies in the industry. Or, if you know the SIC code for a particular company, you can determine the principal industry in which it operates by using a numerical index of SIC codes.

Figure III-1-1, on the following page, illustrates the decoding of SIC code information for a particular company with an SIC code of 3574. The first two digits, 35, fall within the range for manufacturing, so you would know immediately that the company was a manufacturer. If you look up the 4-digit SIC code, you would find that 3574 stands for a company that manufactures calculating and accounting machines, other than electronic computing equipment.

What about companies operating in several different industries, such as Sara Lee Corporation, an industry leader in products as diverse as frozen baked goods bearing the Sara Lee name; underwear manufactured under brand names such as Hanes and Playtex; leather goods such as Coach handbags; and household products such as shoe polish (Kiwi), toilet bowl cleaner (Bloo); and so on? Companies operating in several industries are classified by two levels of SIC codes:

- ◆ a **primary SIC code** describing the industry which accounts for the largest portion of the organization's operations, and
- ◆ one or more **secondary SIC codes**, describing the other industries within which the organization operates.

The Evolution of Economies

The SIC code system is not universal, but most nations keep economic data on different industry groups. As international trade grows, the need for comparable industry data increases. As a result, the U.S. will cease using its long-standing SIC code system in the year 2000 and adopt a new **North American Industry Classification System (NAICS)**, pronounced "nakes") that will commonly code businesses throughout the United States, Canada, and Mexico. NAICS will also add 350 new industries and 9 new service industry sectors, reflecting the way business is being transformed by technology. For example, a new Information sector will be included; this sector will cover communications, publishing, motion picture and sound recording, and online services.

One of the ways countries' economies are distinguished is by looking at the proportion of the labor force employed in various industry groups. Some countries--such as Ethiopia, China, and India--have **agricultural economies**,

Figure III-1-1
Breaking Down an SIC Code

