



ACCOUNTING PRINCIPLES

WEYGANDT | KIMMEL | KIESO TENTH EDITION

International Student Version

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ACCOUNTING

PRINCIPLES

International Student Version



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CHAPTER 1

Accounting in Action

Study Objectives

After studying this chapter, you should be able to:

- 1** Explain what accounting is.
- 2** Identify the users and uses of accounting.
- 3** Understand why ethics is a fundamental business concept.
- 4** Explain generally accepted accounting principles.
- 5** Explain the monetary unit assumption and the economic entity assumption.
- 6** State the accounting equation, and define its components.
- 7** Analyze the effects of business transactions on the accounting equation.
- 8** Understand the four financial statements and how they are prepared.

Feature Story

KNOWING THE NUMBERS

Many students who take this course do not plan to be accountants. If you are in that group, you might be thinking, "If I'm not going to be an accountant, why do I need to know accounting?" In response, consider the quote from Harold Geneen, the former chairman of IT&T: "To be good at your business, you have to know the numbers—cold." Success in any business comes back to the numbers. You will rely on them to make decisions, and managers will use them to evaluate your performance. That is true whether your job involves marketing, production, management, or information systems.

In business, accounting and financial statements are the means for communicating the numbers. If you don't know how to read financial statements, you can't really know your business.

Many companies spend significant resources teaching their employees basic accounting so



that they can read financial statements and understand how their actions affect the company's financial results. One such company is Springfield ReManufacturing Corporation (SRC). When Jack Stack and 11 other managers purchased SRC for 10 cents a share, it was a failing division of International Harvester. Jack's 119 employees, however, were counting on him for their livelihood. He decided that for the company to survive, every employee needed to think like a businessperson and to act like an owner. To accomplish this, all employees at SRC took basic

accounting courses and participated in weekly reviews of the company's financial statements. SRC survived, and eventually thrived. To this day, every employee (now numbering more than 1,000) undergoes this same training.

Many other companies have adopted this approach, which is called "open-book management." Even in companies that do not practice open-book management, employers generally assume that managers in all areas of the company are "financially literate."

Taking this course will go a long way to making you financially literate. In this book, you will learn how to read and prepare financial statements, and how to use basic tools to evaluate financial results. Appendices A and B provide real financial statements of two well-known companies, PepsiCo, Inc. and The Coca-Cola Company. Throughout this textbook, we attempt to increase your familiarity with financial reporting by providing numerous references, questions, and exercises that encourage you to explore these financial statements.

InsideCHAPTER1

- **Accounting Across the Organization: The Scoop on Accounting**
- **Ethics Insight: The Numbers Behind Not-for-Profit Organizations**
- **International Insight: The Korean Discount**
- **Accounting Across the Organization: Spinning the Career Wheel**

Preview of CHAPTER 1

The opening story about Springfield ReManufacturing Corporation highlights the importance of having good financial information to make effective business decisions. Whatever one's pursuits or occupation, the need for financial information is inescapable. You cannot earn a living, spend money, buy on credit, make an investment, or pay taxes without receiving, using, or dispensing financial information. Good decision making depends on good information.

The purpose of this chapter is to show you that accounting is the system used to provide useful financial information. The content and organization of Chapter 1 are as follows.

Accounting in Action				
What is Accounting?	The Building Blocks of Accounting	The Basic Accounting Equation	Using the Accounting Equation	Financial Statements
<ul style="list-style-type: none">• Three activities• Who uses accounting data	<ul style="list-style-type: none">• Ethics in financial reporting• Generally accepted accounting principles• Measurement principles• Assumptions	<ul style="list-style-type: none">• Assets• Liabilities• Owner's equity	<ul style="list-style-type: none">• Transaction analysis• Summary of transactions	<ul style="list-style-type: none">• Income statement• Owner's equity statement• Balance sheet• Statement of cash flows

What is Accounting?

Study Objective [1]

Explain what accounting is.

Why is accounting so popular? What consistently ranks as one of the top career opportunities in business? What frequently rates among the most popular majors on campus? What was the undergraduate degree chosen by Nike founder Phil Knight, Home Depot co-founder Arthur Blank, former acting director of the Federal Bureau of Investigation (FBI) Thomas Pickard, and numerous members of Congress? Accounting.¹ Why did these people choose accounting? They wanted to understand what was happening financially to their organizations. Accounting is the financial information system that provides these insights. In short, to understand your organization, you have to know the numbers.

Accounting consists of three basic activities—it **identifies**, **records**, and **communicates** the economic events of an organization to interested users. Let's take a closer look at these three activities.

Three Activities

As a starting point to the accounting process, a company identifies the **economic events relevant to its business**. Examples of economic events are the sale of snack chips by PepsiCo, providing of telephone services by AT&T, and payment of wages by Ford Motor Company.

Once a company like PepsiCo identifies economic events, it **records** those events in order to provide a history of its financial activities. Recording consists of

¹The appendix to this chapter describes job opportunities for accounting majors and explains why accounting is such a popular major.