

POWERNOTES AND FORMS

FINANCIAL

INFORMATION *for* DECISIONS, 3E

ACCOUNTING

INGRAM & BALDWIN



ACCOUNTING

**INFORMATION *for* DECISIONS,
CHAPTERS 1-13**

**INGRAM, ALBRIGHT,
BALDWIN & HILL**

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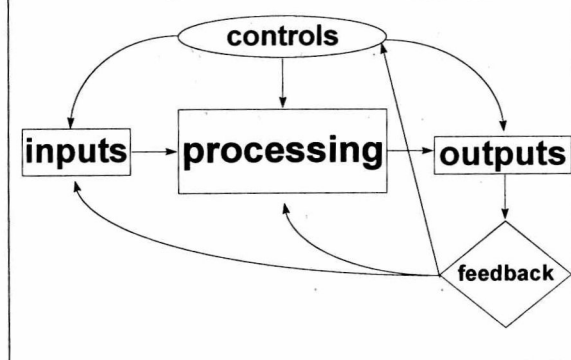
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PowerNotes

Chapter 1: Accounting and Organizations

What is accounting?

Accounting is an information system.



The outputs of an accounting information system are helpful in making decisions about economic activities.

...hmm. Do I want to invest in this company?

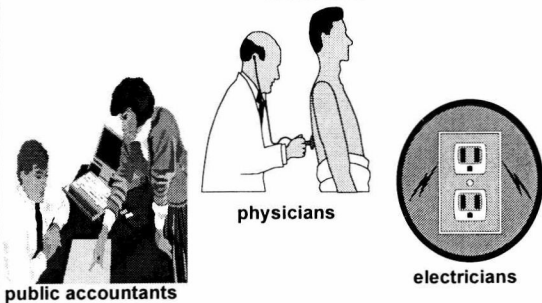


Let's relate accounting to organizations.

What are the major types of organizations?

BASIC TYPES OF ORGANIZATIONS

a service company is paid for performing a service



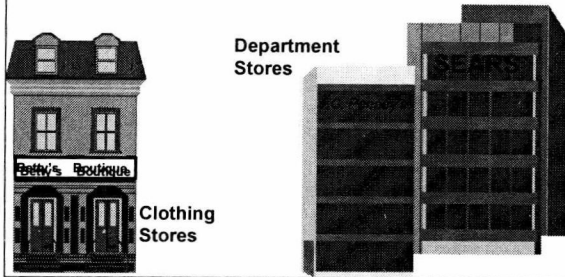
Business
Basic Types of organizations

- ① service
- ② Merchandising
- ③ manufacturing

These
Business' are
profit oriented

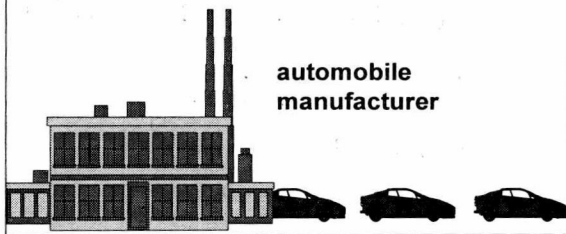
BASIC TYPES OF ORGANIZATIONS

a merchandising company buys inventory from a manufacturer and sells it without modifications



BASIC TYPES OF ORGANIZATIONS

a manufacturing company makes finished goods by combining materials, labor, and overhead; the company then sells the finished product.



Service, merchandising, and manufacturing companies are types of business (profit-oriented) organizations.

***What does
profit-oriented
mean?***

What does profit-oriented mean?

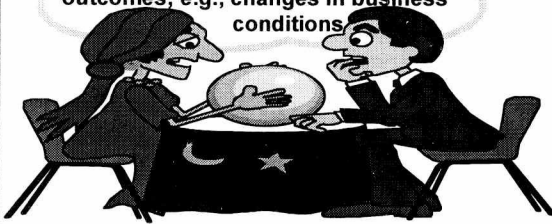
One of the goals of a profit-oriented company is maximization of profit; i.e., they want their revenues to be far greater than their expenses.

$$\begin{array}{r} \text{revenues} \\ - \text{expenses} \\ \hline \text{PROFIT} \end{array}$$

Companies that are proficient at profit maximization are usually those that have learned to:

- manage risk

Risk is uncertain about outcomes; e.g., changes in business conditions



Companies that are proficient at profit maximization are usually those that have learned to:

- manage risk
- achieve effectiveness

An effective business is one that is successful in providing goods and services demanded by customers.

Profit Maximization :

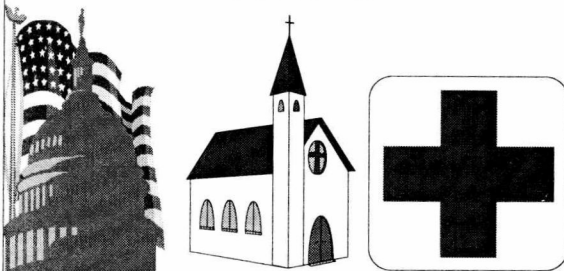
- 1 - manage risk
- 2 - achieve effectiveness
(providing goods & services cust. demand)
- 3 - achieve efficiency
(provides g+s at low costs)

Companies that are proficient at profit maximization are usually those that have learned to:

- manage risk
- achieve effectiveness
- achieve efficiency

An efficient business is one that provides goods and services at low costs relative to their selling prices.

What are nonprofit organizations?



Most nonprofit organizations are government units or charitable groups. Their primary goal is service, not profit generation.

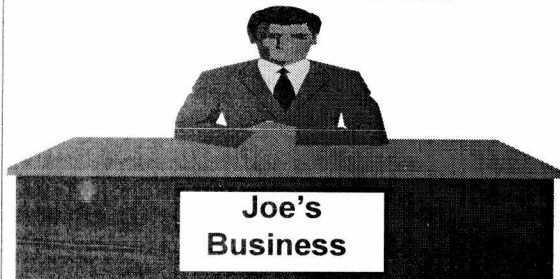
How do profit-oriented and nonprofit organizations contribute to society?

They create value!

Accounting enables an organization to measure the creation of value.

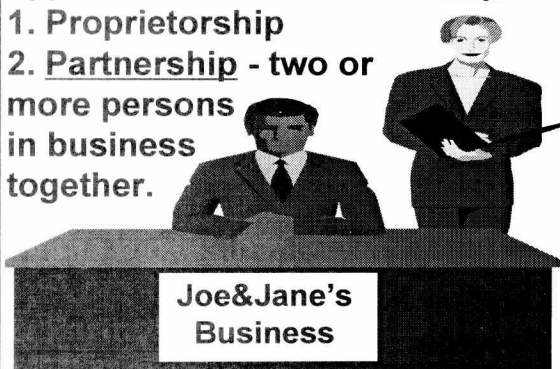
Types of Business Ownership

1. Proprietorship - one person in business for him/herself



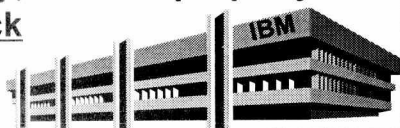
Types of Business Ownership

1. Proprietorship
2. Partnership - two or more persons in business together.



Types of Business Ownership

1. Proprietorship
2. Partnership
3. Corporation - a state-licensed legal entity with the right to:
 - enter into contracts
 - own, buy, and sell property
 - sell stock



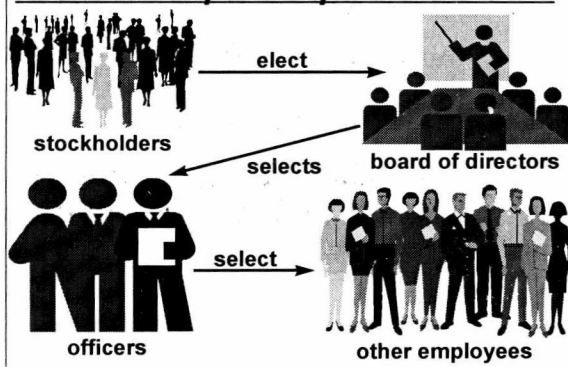
Types of Business Ownership

- ① proprietorship - 1 person in business for himself
- ② Partnership - 2 or more
- ③ Corporation - state-licensed legal entity w/ right to
 - 1- enter into contracts
 - 2- own, buy, sell property
 - 3- sell stock

What is corporate stock?

Every share of stock is an equal share of ownership in the corporation. Stockholders own the corporation. One share = one vote.

How do corporate politics work?



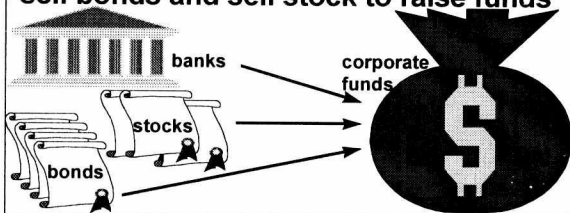
What are the advantages of the corporate form of ownership?

1. Limited liability - shareholders are generally only liable to the extent of their stock.



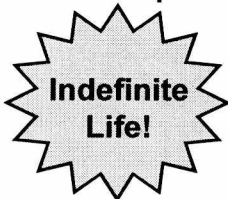
What are the advantages of the corporate form of ownership?

1. Limited liability
2. Broad source of capital - in addition to borrowing money, corporations can sell bonds and sell stock to raise funds



What are the advantages of the corporate form of ownership?

1. Limited liability
2. Broad source of capital
3. Continuity of existence - indefinite life, transfers of ownership do not threaten existence



What are the advantages of the corporate form of ownership?

1. Limited liability
2. Broad source of capital
3. Continuity of existence
4. Easy transferability of ownership - to buy or sell corporate stock, call a broker.

Hello,
broker! Buy 300
shares of IBM, sell 50
shares of General
Motors.



Advantages of Corporations

① Limited liability

shareholders only liable to extent of stock

② Broad Source of cap'l

- can borrow \$, sell bonds & stock

③ Continuity of existence

- indefinite life, transfers of ownership don't threaten existence

④ Easy transferability of ownership

- buy/sell corporate stock - call a broker

⑤ Use of professional management

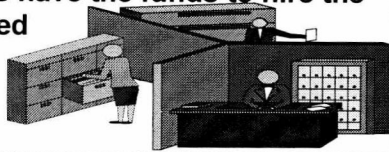
- have \$ to hire most qualified

⑥ Absence of mutual agency

Permits a partner to enter into contracts & agreements that are binding on the partnership

What are the advantages of the corporate form of ownership?

1. Limited liability
2. Broad source of capital
3. Continuity of existence
4. Easy transferability of ownership
5. Use of professional management - corporations have the funds to hire the most qualified



(moral hazard)

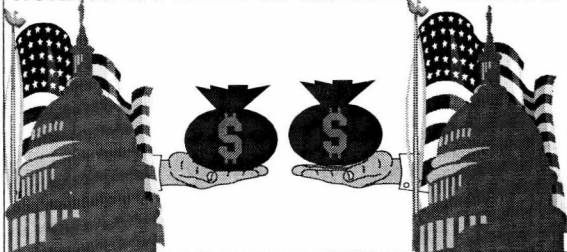
What are the advantages of the corporate form of ownership?

1. Limited liability
2. Broad source of capital
3. Continuity of existence
4. Easy transferability of ownership
5. Use of professional management
6. Absence of mutual agency

Mutual agency permits a partner to enter into contracts and agreements that are binding on the partnership.

What are the disadvantages of the corporate form of ownership?

1. Double taxation - a corporation is taxed as a separate entity and stockholders are taxed on dividends received.



Disadvantages of Corporations

① double taxation

- taxed as a separate entity
+ stockholders are taxed
on dividends rec'd

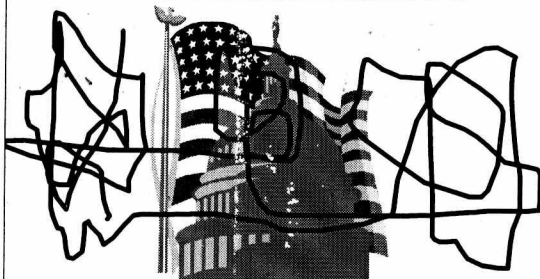
② greater govt regulation

③ Separation of Ownership & Management

- managers & stockholders
may have diff. ideas

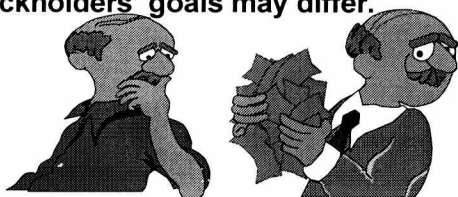
What are the disadvantages of the corporate form of ownership?

1. Double taxation
2. Greater government regulation



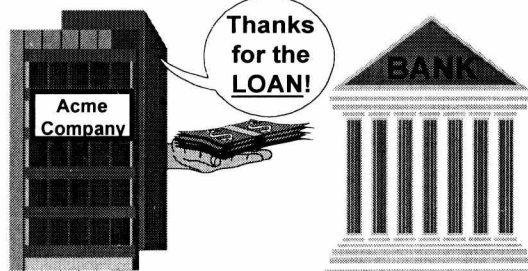
What are the disadvantages of the corporate form of ownership?

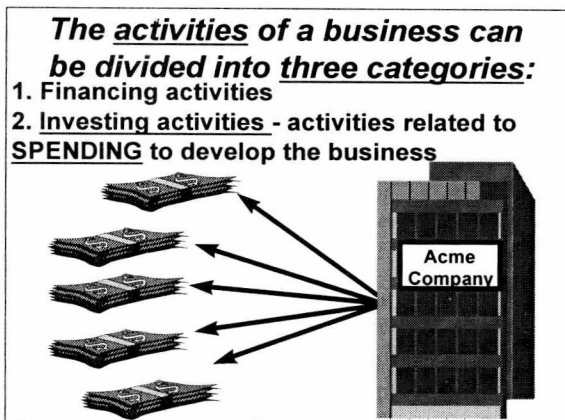
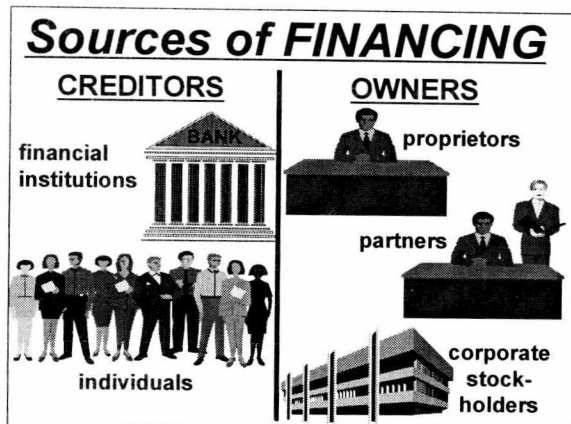
1. Double taxation
2. Greater government regulation
3. Separation of Ownership and Management (Moral hazard) - managers' and stockholders' goals may differ.



The activities of a business can be divided into three categories:

1. Financing activities - activities related to **BORROWING** from owners and creditors





Business Activities ÷ 3 categories

① Financing Activities

- activities related to borrowing from owners + creditors

② investing activities-

Spending to develop business

- purchasing, plant, + equipment.
- purchasing + selling nat'l resources
- legal rights (patents + trademarks)

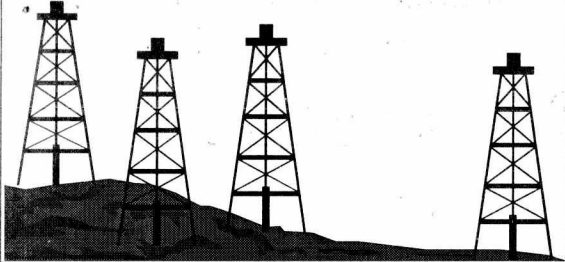
③ operating activities

using our resources to do what we are in the business of doing

- r+d
- design + engineering
- purchasing
- human resources
- production
- distribution
- marketing + selling
- servicing

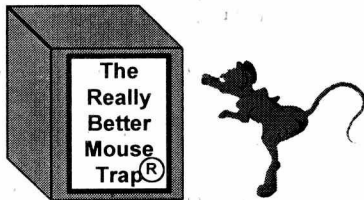
Components of INVESTING activities

- property, plant, and equipment
- purchasing and selling natural resources



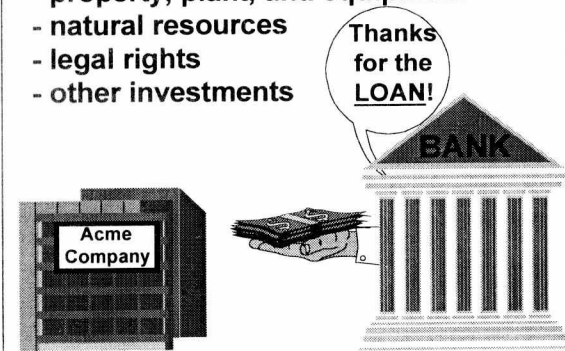
Components of INVESTING activities

- property, plant, and equipment
- natural resources
- purchasing and selling legal rights,
such as patents and trademarks



Components of INVESTING activities

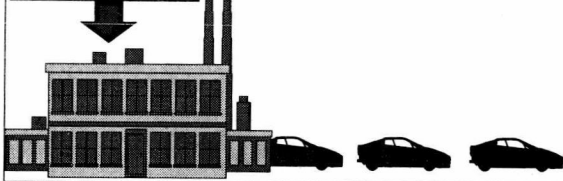
- property, plant, and equipment
- natural resources
- legal rights
- other investments



The activities of a business can be divided into three categories:

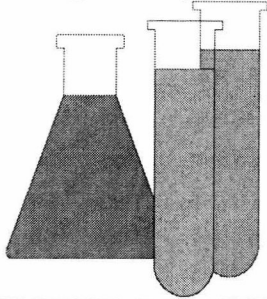
1. Financing activities
2. Investing activities
3. **Operating activities** - using our resources to do what we are in the business of doing

resources



Operating activities include:

- research and development
- design and engineering



Operating activities include:

- research and development
- design and engineering
- purchasing

