Company Accounting

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立信会计出版社
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前 言

本教材名叫《Company Accounting》，实际就是英语会计，是以美国的会计准则为主用英语撰写的高等学校会计专业学生学习会计英语的教材。之所以叫 Company Accounting（公司会计），因为这里不介绍政府会计、司法会计、非盈利组织会计等，侧重于公司各种业务的会计处理。而这里的“公司”也主要分三大类：个体企业（proprietorship）、合伙企业（partnership）、公司（corporation），它们的业务也有较大差异，如公司有发公司债和股票等业务。

本教材的一个特点是覆盖外企财务部门常用英语单词 800 个左右。本教材的对象是高校财会专业的学生，按教学要求，他们必须学习专业英语，但他们不可能像国际会计专业的学生需要比较系统地学习《Basic Accounting》、《Intermediate Accounting》、《Cost Accounting》和《Managerial Accounting》等，而目前大部分学校用的英语会计教材实际就是 Basic Accounting，仅涉及 500 个左右财会专业英语词汇，与外企财务部门工作实际需要的 800 个左右的财会专业英语词汇的要求，差距较大。本教材用简单实用的方式引进了预算和成本（Budgeting and Costing）、财务分析（Financial Analysis）等章节，并通过强化长期负债和投资、现金流量表等内容，基本覆盖了外企财会工作所需的 800 个常用英语专业词汇。

本教材的另一特点就是供学生复习、自测、练习的题目多：每章后面都有众多课堂讨论题、自测题、练习题，适合教师帮助学生进一步掌握专业知识和专业英语，也便于学生自学。本教材应该在学生至少已经学了《会计基础》后进行使用，这样能使学生在学习本教材的内容时，更注重掌握和理解财会专业英语。

本教材需教学时间至少 54 小时（3×18 周），较合理的是 72 小时（4×18 周）。

本教材的编写，要感谢上海商业会计学校财会教学部主任洪李萍老师等的大力支持，感谢立信会计出版社蔡莉萍老师的大力协助，感谢方士华等老师帮助审稿。

蒋培德

2014 年 9 月

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Chapter 1

Introduction to Accounting

Learning Objectives

- Learn accounting concepts and principles
- Identify the users of accounting information
- Identify the basic forms of business organization
- Apply the accounting equation to business organizations
- Evaluate business operations
- Use accounting vocabulary
- Know how the accounting information system works

1 Accounting: an Information System

Accounting is an information system which measures business activities, processes business data into reports, and communicates the reports to those who need them. Accounting is "the language of business." The better you understand the language, the better you can manage your finances. The accounting information system has several sub-systems.

(1) **Treasury and cash sub-system**. It deals with the receipt and payment of cash, the issuance of stocks and/or bonds, the payment of dividends and/or interest, the short term cash investment, the preparation of fund which ensures the working capital to support the business operation, and the risk control of currency depreciation, etc.

(2) **Sales and receivables sub-system**. It deals with recording of sales, maintaining of sales ledger and receivables. It generates periodic reports about sales, collections made, overdue accounts, etc. It handles the issue of bad debts.

(3) **Inventory sub-system**. It deals with the recording of different items purchased, used or sold, and remained. It reports the inventory positions and valuations.

(4) **Payables sub-system**. It deals with the purchase on account, and the payments to

the creditors. It generates periodic reports about the performance of suppliers, payments schedule and position of payables.

(5) **Payroll sub-system**. It deals with the payment of wages and salary, as well as other kinds of benefits to the employees.

(6) **Fixed assets and intangible assets sub-system**. It deals with the recording of purchase, addition, deletion, usage of fixed assets such as land and building, machinery and equipment, etc, and the recording of purchase of intangible assets and the amortization of their value. It also generates reports about the cost, depreciation or amortization, book value of different assets.

(7) **Costing sub-system**. It deals with the ascertainment of cost of goods produced. It has linkages with other accounting sub-systems for obtaining the necessary information about cost of material, labor and other expenses.

(8) **Budget sub-system**. It deals with the preparation of budget for the coming financial year, and more important, it controls and monitors the implementation of the approved budget by comparison with the current budget of the actual performances.

(9) **Long-term investment sub-system**. It deals with the financial analysis to help the management for making a decision of a long-term equity or bond investment. The financial analysis helps find the investment targets.

(10) **Credit sub-system**. It evaluates the risks of granting the clients to purchase on account. Selling products on account takes the risk of unable to collect the receivable.

(11) **Bookkeeping sub-system**. It does the daily bookkeeping and the preparation of financial statements.

(12) **Taxation sub-system**. It handles a company's all kinds of taxation issues.

(13) **Internal auditing sub-system**. It deals with the surveillance of its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations.

Figure 1-1 shows the basic structure of accounting as an information system and its sub-systems.

2 Accounting and Business Organizations

Accounting is the system that records, measures, processes, summarizes, reports, and analyses business transactions. An accounting system can be a complete record of all the activities of a business, providing details of every aspect of the business, allowing the analysis of business trends, and providing insight into future prospects. At the root of all accounting is **bookkeeping**. A **bookkeeper** keeps tracks of all of the funds that a business handles, including money paid to the business, money paid out, and assets that the

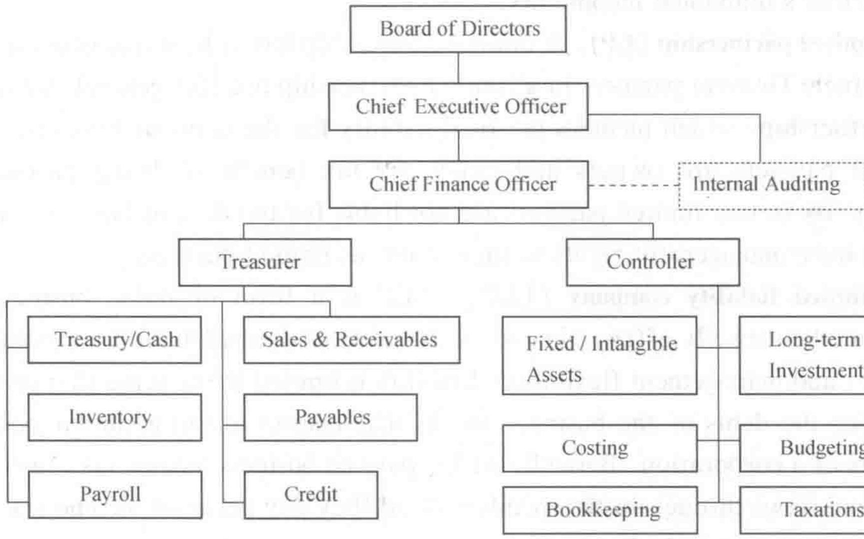


Fig. 1-1 The basic structure of accounting

business holds. The bookkeeper's goal is to keep the **ledgers** of the company balanced so that anyone can assess the financial state of the company. Records handled by a bookkeeper include payroll, company ledgers, bank statements, and paperwork pertaining to real estate and investments, etc.

Bookkeepers tend to focus on the details, recording transactions in an efficient and organized manner, and they may or may not see the overall picture. **Accountants** use the work done by bookkeepers to produce and analyze financial reports. Although accounting follows the same principles and rules as bookkeeping, an **accountant** can design a system that will capture all of the details necessary to satisfy the needs of the business — managerial, financial reporting, projection, analysis, and tax reporting. A good accountant will create a system of financial reporting that gives a complete picture of a business.

There are six or more legal forms: a proprietorship, a general partnership, a limited partnership, a limited liability company, and a corporation.

(1) **Proprietorship, or sole proprietorship**. Owned by one person, a proprietor, a proprietorship has no legal requirements that need to be met to start up. Unlike a corporation, a proprietorship has unlimited liability, the owner is thus completely responsible for the proprietorship's debts. The advantage of being a proprietorship is that it is not subject to business income tax. It is reported on the owner's personal income tax.

(2) **General partnership (GP)**. A general partnership is owned by two or more people, the partners. A GP is very similar to a proprietorship: there is no legal requirement to start up a GP, instead, an oral or written agreement is made between all of its partners to run the business together. Also unlimited liability applies to all it's partners making them responsible for the partnership's debts and its income is reported

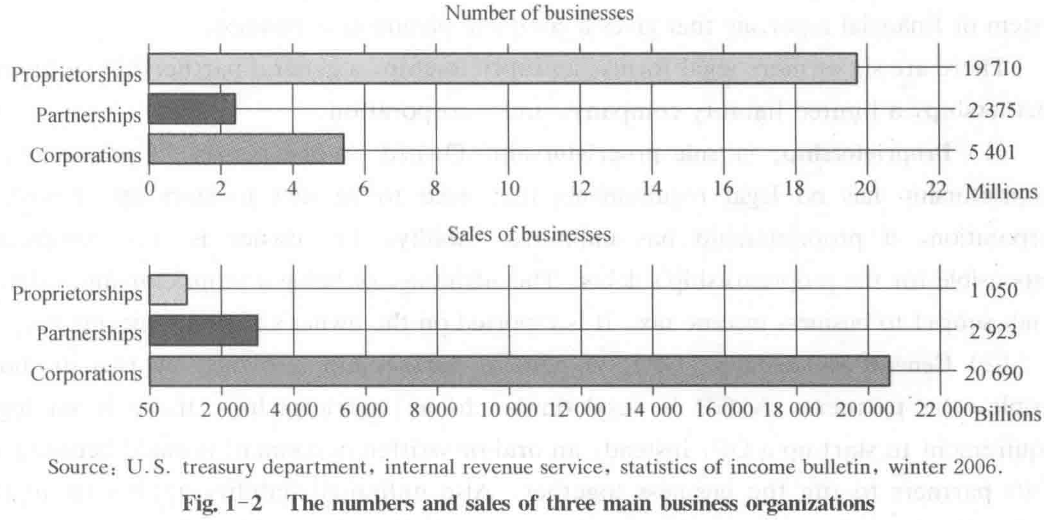
on each partner's individual income tax.

(3) **Limited partnership (LP).** A limited partnership has at least one general and one limited partner. General partners in a limited partnership are like general partners in a general partnership, which includes personal liability for the debts of business. Limited and general partners are owners and enjoy the tax benefit of being partners in a partnership. By statute limited partners are not liable for the debt of business, and they also do not have management rights in their status as limited partners.

(4) **Limited liability company (LLC).** LLC is a form of doing business as an unincorporated entity. It offers owners the benefits of limited liability, taxation as a partnership, and management flexibility. Liability is limited in the sense that owners are not liable for the debts of the business and in that respect are in a similar position to shareholders of a corporation. Basically a LLC pays no business income tax. Instead, the LLC's income flows through to the members, and they pay personal income tax at their own individual tax rate. Today most proprietorship and partnership are organized as LLCs in the US.

(5) **Corporation**. A corporation conducts business with the rights and responsibilities of a legal person. It separates from its owners. Because of this separate legal status, a corporation's owners are called stockholders (or shareholders) and are not liable for corporate debts. Therefore a corporation's debts are limited liabilities. However, corporations are subject to double taxation which means that both the corporation's income is taxed and the income given to its owners through dividends is taxed as part of the owner's individual income.

Figure 1-2 shows the number of three main businessorganizations and the sales of each group in US. In terms of numbers, proprietorships are dominant form of businesses, while in terms of sales, corporations are the biggest form.



Source: U.S. treasury department, internal revenue service, statistics of income bulletin, winter 2006.

Fig. 1-2 The numbers and sales of three main business organizations

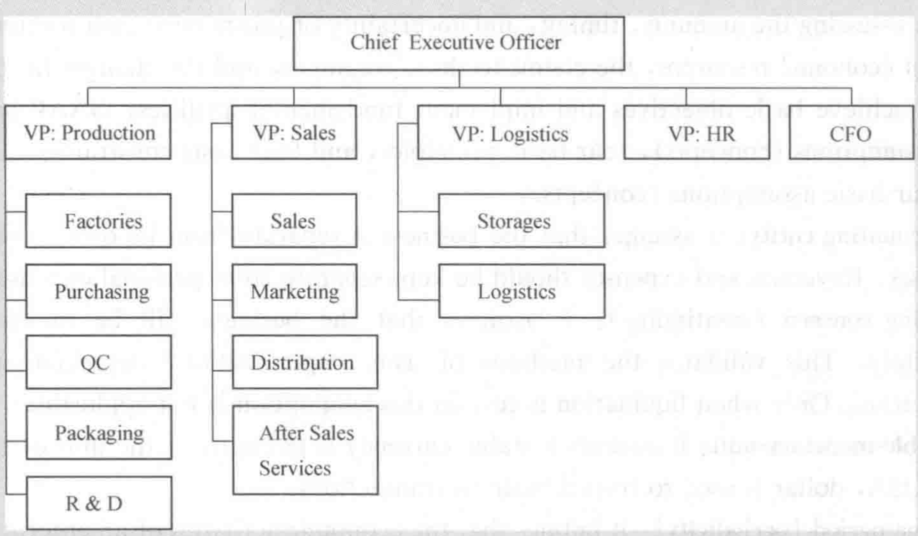
Little Tips: Top 10 Fortune 500 Companies in 2013

Name	Revenues ($bil)	Profits ($mil)
1. Wal-Mart Stores	469.2	16,999
2. Exxon Mobil	449.9	44,880
3. Chevron	233.9	26,179
4. Phillips 66	169.6	4,124
5. Berkshire Hathaway	162.5	14,824
6. Apple	156.5	41,733
7. General Motors	152.3	6,188
8. General Electric	146.9	13,641
9. Valero Energy	138.3	2,083
10. Fort Motor	134.2	5,665

3 Users of Financial Information

The people who use accounting information to make decisions fall into three categories: ① those who manage a business; ② those outside a business enterprise who have a direct financial interest in the business; and ③ those who have an indirect financial interest in a business (Shown in Figure 1-3).

Little Tips: Corporate Organizational Structure



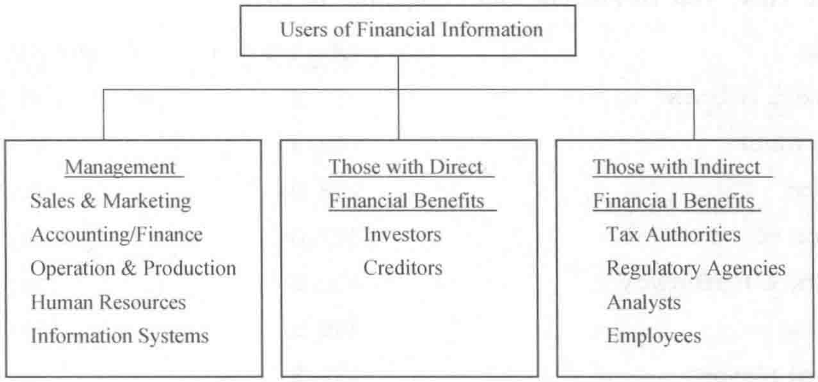


Fig. 1-3 Users of financial information

4 Accounting Standards (Generally Accepted Accounting Principles)

Financial accounting information must be assembled and reported objectively. Third-parties who must rely on such information have a right to be assured that the accounting information is free from bias and inconsistency, whether deliberate or not. For this reason, financial accounting relies on certain standards or guides that are called Accounting Standards or "Generally Accepted Accounting Principles" (GAAP). In the US, the Financial Accounting Standards Board (FASB) formulates GAAP.

The basic objectives of GAAP are: ① useful to the present and potential investors, creditors, and the other users in making rational investment, credit, and other financial decisions; ② helpful to the present and potential investors, creditors, and the other users in assessing the amounts, timing, and uncertainty of prospective cash receipts; and ③ about economic resources, the claims to those resources, and the changes in them.

To achieve basic objectives and implement fundamental qualities, GAAP has four basic assumptions (concepts), four basic principles, and four basic constraints.

Four basic assumptions (concepts):

Accounting entity: it assumes that the business is separate from its owners or other businesses. Revenues and expenses should be kept separate from personal expenses.

Going concern (continuity): it assumes that the business will be in operation indefinitely. This validates the methods of asset capitalization, depreciation, and amortization. Only when liquidation is certain this assumption is not applicable.

Stable-monetary-unit: it assumes a stable currency is going to be the unit of record. In the USA, dollar is used to record business transactions.

Time-period (periodicity): it implies that the economic activities of an enterprise can be divided into artificial time periods. In the USA, a company's year could be any successive 12 months, such as from October 1 to September 30 of next calendar year.

Four basic principles:

Cost principle: it requires companies to account and report based on acquisition costs rather than fair market value for most assets and liabilities.

Revenue recognition principle: it requires companies to record when revenue is ① realized or realizable and ② earned, not when cash is received.

Matching principle: Expenses have to be matched with revenues as long as it is reasonable to do so. Expenses are recognized not when the work is performed, or when a product is produced, but when the work or the product actually makes its contribution to revenue. Only if no connection with revenue can be established, may cost be charged as expenses to the current period.

Disclosure principle: Information disclosed should be enough to make a judgment while keeping costs reasonable. Information is presented in the main body of financial statements, in the notes or as supplementary information.

Four basic constraints:

Objectivity principle: the financial statements provided by the accountants should base on objective evidence.

Materiality principle: the significance of an item should be considered when it is reported. An item is considered significant when it would affect a decision.

Consistency principle: the company is required to use the same accounting principles and methods from year to year. Any change of accounting principles or methods should be disclosed.

Prudent principle: when choosing between two solutions, the one that will be least likely to overstate assets and income should be picked.

5 Two Kinds of Accounting

Accounting is generally classified into 2 branches: financial accounting and management accounting.

Financial accounting provides information for people outside the company, such as tax authority, investors, lenders, etc. The information of financial accounting must meet GAAP.

Management accounting generates inside information for the managers of the company, and for the board of directors as well, if the board members need the information. Such information is not required to meet GAAP and some other standards, because only company insiders need it. **Cost accounting** is a kind of management accounting, because the information the cost accounting provides is also for the internal use. **Budgeting** is obviously a mean of management, therefore it belongs to the management accounting.

6 Ethics in Accounting

A company will report biased information because of many reasons. It may overstate profits or understate the company's debts. The USA has laws that require companies to report relevant and reliable information to outsiders. "Relevant" means able to affect a decision, while "reliable" means verifiable and free of error and bias. Reporting relevant and reliable information to the public is the only ethical course of action. The American Institute of Certified Public Accountants (AICPA), other professional organizations, and most companies have codes of conduct that require ethical conduct.

Little Tips: Arthur Andersen

Arthur Andersen LLP is formerly one of the "Big Five" accounting firms. In 2002, the firm voluntarily surrendered its licenses to practice as Certified Public Accountants in the United States after being found guilty of criminal charges relating to the firm's handling of the auditing of Enron, an energy corporation, which had filed for bankruptcy in 2001 and later failed.

7 The Accounting Profession

Positions in the field of accounting are divided into two general classifications: public accounting and private accounting. Public accountants are those who serve the general public and collect professional fees for their work which includes auditing, income tax planning and preparation, and management consulting. The public accountants who have met certain professional requirements are designated as Chartered Accountant (CA) in UK, or Certified Public Accountants (CPAs) in US. The four biggest accounting firms (Big Four) are PricewaterhouseCoopers, Ernst & Young, KPMG, and Deloitte & Touche.

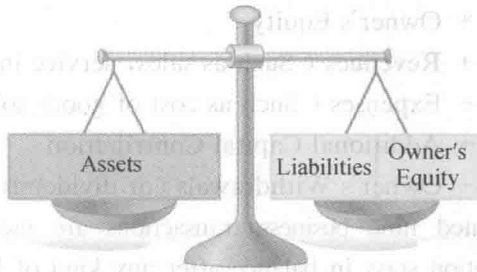
Private accountants work for a single business, such as a supermarket, a hotel, a factory, etc. In a company, the head who is in charge of financing and accounting is usually called as CFO (Chief Financial Officer) who directly reports to the president or CEO (Chief Executive Officer) of the company. CFOs are increasingly required to take on responsibilities for strategic planning, mergers and acquisitions, and tasks involving international operations.

8 The Accounting Equation

From the large, multi-national corporation down to the corner beauty salon, every business transaction will have an effect on a company's financial position. The financial position of a company is measured by: ① assets (what it owns), ② liabilities (what it owes to others), and ③ owner's Equity (the difference between assets and liabilities, or net assets).

The **accounting equation** offers us a simple way to understand how these three amounts relate to each other. The accounting equation is as follows.

Assets = Liabilities + Owner's(or Stockholders') Equity



Assets are a company's resources—things the company owns. Examples of assets include cash, accounts receivable, inventory, prepaid insurance, investments, land, buildings, equipment, and goodwill. From the accounting equation, we see that the amount of assets must equal the combined amount of liabilities plus owner's equity.

Liabilities (debts) are a company's obligations—amounts the company owes. Examples of liabilities include notes payable, accounts payable, salaries payable, interest payable, and income taxes payable. Liabilities can be viewed in two ways: ① as claims by creditors against the company's assets, and ② a source — along with owner's or stockholders' equity — of the company's assets.

Owner's equity is the amount left over after liabilities are deducted from assets.

Assets—Liabilities = Owner's (or Stockholders') Equity

Owner's or stockholders' equity also reports the amounts invested into the company by the owners (or stockholders) plus the cumulative net income of the company that has not been withdrawn or distributed to the owner (stockholders).

If a company keeps accurate records, the accounting equation will always be "in balance," meaning the left side should always equal the right side. The balance is maintained because every business transaction affects at least two of a company's accounts. For example, when a company borrows money from a bank, the company's assets will increase and its liabilities will increase by the same amount. When a company purchases inventory for cash, one asset will increase and another asset will decrease by the same amount. Because there are two or more accounts affected by every transaction, the accounting system is referred to as double-entry accounting.