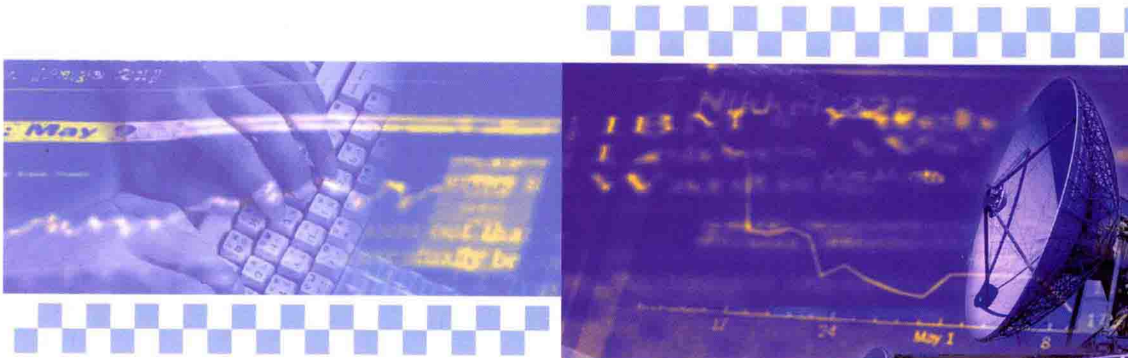
普通高等教育“十三五”规划教材

Accounting English

——Basic Accounting



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前　言

随着世界经济一体化发展，中国经济与世界经济的融合度日益加深。与中国全面走向世界相联系，培养国际化人才已成为我国高等教育不能回避的问题。既具有专业技术功底又能熟练使用英语，已成为国际化人才的基本素质。在中国与世界经济全面接轨、外资企业在我国越来越多、中国企业走向世界的步伐进一步加快的背景下，会计作为一门国际通用商业语言在国际舞台上的作用和地位日益显著，因此，培养会计专业学生的专业英语应用能力，对高等院校会计专业人才的成长、学生就业适应能力、中国经济管理人员参与国际经济竞争，企业加强国际合作、实现中国企业的国际化战略具有越来越重要的作用。

本教材正是在充分考虑现阶段高校会计专业学生学习兴趣和特点的基础上，立足于中国最新会计准则与国际财务报告准则趋同化背景（个别存在差异之处，以我国会计准则为准），及时更新会计知识，让学生了解和掌握最前沿的会计知识。本书以企业基本的财会活动为主体，深入浅出地介绍会计英语的记账、核算、财务报告等知识。其中，以会计基础知识介绍为主，重点培养学生对会计英语资料的认读能力，尽量选择国际通用的、规范的、简明的会计语言，培养和提高学生的学习兴趣；书中配有丰富的、针对性强的例题，利于强化学生对应知、应会会计术语的理解与掌握。

本书在编写过程中参考了财务会计相关领域许多国内外专家的优秀成果，尤其是在 INVESTOPEDIA、ACCOUNTING FOR MANAGE-

MENT 等网站上引用了大量经典范例，为本书的顺利编写以及自有体系的形成提供了不菲的帮助。部分引文因为各种原因，难以查明原作者，无法注明出处，敬请谅解。如涉及版权问题，请原作者与本书作者联系。在此一并表示衷心感谢！

因编者水平所限，疏漏难免，恳请读者提出宝贵意见，我们将在修订时予以采纳并修正！

Contents

Chapter 1
Basic Concepts

Accounting is the language of business that conveys some business information. So accounting is an information system as well, which measures business activities, processes the data into financial reports, and provides the results to decision makers.

Part 1.1 International Financial Reporting Standards (IFRS)

In almost everything we do, if there is a set of rules, it is clear what we need to do. If there are no formal rules, we must choose what to do based on guidelines or practice. You have learned that some accounting rules may depend on how the accountant chooses to apply the rules. Thus, accounting has both rules and choices. Accounting is definitely not a science.

There is a standard set of guiding principles in China. These guidelines are called Generally Accepted Accounting Principles. We usually shorten this to GAAP. GAAP includes the rules, in the form of standards that accountants follow when they prepare financial statements.

Since we follow the guidelines of PRC GAAP, it seems logical that other countries have their own versions of GAAP. But if every country has its own set of guidelines, this would make it incredibly difficult to understand the financial statements of other countries. So many countries have joined together to form a set of accounting standards to make it easier to read and compare financial statements.

IFRS stands for International Financial Reporting Standards. These standards are intended to make it easier for a wide range of users to interpret financial statements. The IFRS are principles-based because it is based on a set of guiding principles.

The overall framework of IFRS states that the objective of financial statements should help users to make economic decisions through understanding the financial status of an entity. The IFRS framework describes some qualitative characteristics of financial statements. Obviously, an important issue is the ability to compare financial statements of organizations from different countries. Needless to say, it will be quite difficult to be able to achieve this comparison with so many countries in the world.

When we think of how many countries have financial reporting guidelines, we are thinking of countries around the world, or the globe. Sometimes we refer to international reporting as global reporting. Global financial reporting would help to make the qualitative characteristics of comparability easier. Users of financial statements often need to compare the financial information across many organizations.

Global financial reporting cannot be consistent around the world without a single set of standards. IFRS attempts to bring together many different sets of standards into a common set of standards. Global financial reporting should allow us to analyze and compare financial statements from different countries. Financial reporting is not only about bookkeeping, which uses fairly straightforward rules. Using guiding principles rather than rules calls for judgment. Evidently, every one of us must learn to think more broadly about financial accounting.

According to the issue of Ministry of Finance of China, PRC GAAP and IFRS is achieving substantial convergence eventually, so this book is not going to discuss the differences between them here, and the following parts we discuss in the book are all based on PRC GAAP.

Part 1.2 Accounting Assumptions and Accounting Basis

Separate Entity Assumption

The separate entity assumption states that the transactions related to a business must be recorded separately from those of its owners and any other business. In other words, while recording transactions in a business, we take into account only those events that affect that particular business; the events that affect anyone else other than the business entity are not relevant and are therefore not included in the accounting records of the business.

The separate entity assumption of accounting is applicable to all types of business organizations (i. e., sole proprietorship, partnership and corporation) even if a law does not recognize a business and its owner as the separate entities.

Examples

a) Mr. John has acquired a floor of a building having 3 halls for ¥1,500 per month. He uses two halls for his business and one for personal purpose. According to separate entity assumption, only ¥1,000 (the rent of two halls) is a valid expense of the business.

b) The owner of a company lends loan to his company. It would be strictly recorded as company's liability and that has to be paid back to the owner.

c) Mr. Sam owns a company. He uses two different credit cards-one for the payment of business expenses and one for the payment of personal expenses. He pays ¥200 as the electricity bill of his company using his personal credit card. According to Separate Entity Assumption of accounting, the electricity bill of the business should have been paid using company's credit card. The payment of ¥200 using personal credit card would therefore be considered as the contribution of additional paid-in capital by Sam.

Importance/need of separate entity assumption

The separate entity concept of accounting is of great importance because of the following reasons:

- The separate entity assumption is essential to separately measure the performance of a particular business in terms of profitability and cash flows etc.
- It helps in assessing the financial position of each and every business separately on a particular date.
- It becomes difficult and impossible to audit the records of a business if they are intermingled with those of different entities/individuals.
- The assumption ensures that each and every business entity is taxed separately.
- The employment of separate entity assumption is very general among business organizations. If a company ignores this concept, it would not be able to compare its financial performance with that of others in the industry.

Going-Concern Assumption

The going-concern concept of accounting implies that the business entity will continue its operations in the future and will not liquidate or be forced to discontinue operations due to any reason. A company is a going-concern if no evidence is available to believe that it will or will have to cease its operations in foreseeable future.

An example of the application of going-concern concept of accounting is the computation of depreciation on the basis of expected economic life of fixed assets rather than their current market value. Companies assume that their business will continue for an indefinite period of time and the assets will be used in the business until fully depreciated. Another example of the going concern assumption is the prepayment and accrual of expenses. Companies prepay and accrue expenses because they believe that they will continue operations in future.

The going-concern concept is applicable to the company's business as a whole. If, for example, a company closes a small business segment or discontinues one of its product and continues with others, it does not mean that the company is no longer a going concern because the going-concern concept is applicable to the entity as a whole not to the particular segment of business or product.

The going-concern concept of accounting is of great importance for accountants because if a company is a going concern, it must prepare its financial statements in accordance with applicable financial reporting framework such as generally accepted accounting principals applicable in China (PRC GAAP) and international financial reporting standards (IFRS).

Examples

a) A company manufactures a chemical known as Chemical-X. Suddenly, the government imposes a restriction on the manufacture, import, export, marketing and sale of this chemical in the country. If Chemical-X is the only product that company manufactures, the company will no longer be a going concern.

b) The National Company is in serious financial trouble and cannot pay its obligations. The government gives National Company a bailout and a guarantee of all payments to creditors. The National Company is a going concern despite of its current weak financial position.

c) The Eastern Company closes one of its branches and will continue with others. The company is a going concern because the shutting down a small part of business does not impair the ability of the company to operate as going concern.

d) The Small Company is unable to make payments to its creditors due to a very weak liquidity position. The court grants the order of liquidating the company upon the request of one of the company's creditors. The company is no longer a going concern because sufficient evidence is available to believe that the company cannot continue its operations in future.

Time Period Assumptions

The life of every business is divided into equal time periods. These time periods are known as accounting periods for which companies prepare their financial statements to be used by various internal and external parties. The length of accounting period to be used for the preparation of financial statements depends on the nature and requirement of each business as well as the need of the users of financial statements. Normally, an accounting period consists of a quarter, six months or a year.

The time period assumption enables business organizations to stop and see how successful they have been in achieving their objectives during a particular period of time and where the room for improvement exists.

The users of financial statements need current and reliable information to evaluate financial performance and position of the companies to make important decisions and take appropriate actions. The time period assumption enables companies to divide their economic activities into short time periods. For each time period, companies prepare and publish a set of financial statements to meet the needs of the users of financial statements.

The income statement tells interested parties how profitably the company has carried out its operations during the period and balance sheet discloses the financial position of the business at the end of the period. The statement of cash flows shows the reasons of inflows and outflows of cash and cash equivalents during the period and statement of retained earnings tells what portion of the company's profit has been distributed among its owners and what portion has been kept in the business for future growth.

This information is very important for internal management, actual and potential investors, creditors, government agencies and other users of financial statements to decide what to do and what not to do in future. The time period assumption facilitates the provision of latest relevant and reliable financial information to the relevant parties to make reliable business decisions in a timely manner.

Examples

a) The Meta Company provides services valuing ¥2,500 to Beta Company during the first quarter of the year. The Beta Company will pay the cash for these services next quarter. According to time period assumption, if Meta Company prepares its financial statements at the end of the first quarter of the year, it must include this service revenue of ¥2,500 in its income statement for the first quarter.

b) The Meta Company incurs expenses of ¥1,200 during the first quarter of the year. The cash for these expenses will be paid next quarter. The time period assumption requires Meta Company to disclose these expenses on the income statement for the first quarter of the year.

Note: The two examples given above show that the time period assumption is closely related to matching principle and revenue recognition principle of accounting.

Money-Measurement Assumption

Money-Measurement Assumption states that only those events and transactions are recorded in books of accounts of the business, which can be measured and expressed in monetary terms. Information that cannot be expressed in terms of money is useless for financial accounting purpose and is therefore not recorded. So accounting therefore does not give a complete record of an entity.

The monetary unit is a simple and universally recognized basis of communicating financial information. It is the most appropriate and effective basis of recording, communicating and analyzing the financial data on the basis of which rational business decisions can be made.

Examples

a) The CEO of Fine Enterprise delivers a lecture to the employees in a special meeting that can be helpful in raising the employees' morale and completing the current projects on time. As the value of the lecture cannot be measured in terms of money, it cannot be recorded in the books of accounts of Fine Enterprise.

b) The owner of a fruit store had ¥2000 in cash, 100 dozen oranges, and 200 apples, he can not simply add up them together because they are not stated in similar units. So the only way for him to calculate his total assets is make all the fruit state in terms of money.

Accrual Accounting

The accrual accounting is accounting basis. It is a system used by companies to record their financial transaction at the point when they occur regardless of whether a cash transfer has been made. It is unlike cash accounting in which transaction is deemed as valid for recording when cash is actually received or paid. Accrual accounting requires that financial statements reflect transactions at the time when they actually occur, not necessarily when cash changes the hands. This basis of accounting is generally used in preparing financial statements except for cash flow statement. Revenue is recorded when it is earned regardless of when it is received and expenses are recorded when they are incurred, regardless of when they are paid.

Example

Suppose JL company rents a house from Sam at ¥10,000 per month. JL company pays ¥120,000 cash to Sam for one year rent at the beginning of the year. How could the accountant to record this payment now?

In accrual accounting: it should be recorded ¥10,000 at this time, because the rest of the cash is not for the first month, they will be recorded one by one in the following 11 months which they belong to.

In cash accounting: it should be recorded ¥120,000 at this time, because the cash transfer has been made at this moment, and there is no any other records in the following 11 months.

Benefits and importance of the accrual approach

- Under accrual accounting, financial statements reflect all the expenses associated with the reported revenues for an accounting period.
- It satisfies the requirements of major accounting standards applicable in the world such as GAAP and IFRS.
- It makes financial information more accurate and more reliable.

Part 1.3 The Qualitative Characteristics of Accounting Information

Reliability

Accounting information should be reliable, verifiable, and objective (not subject). Reliability requires that the information should be accurate, true and fair, so that the information users can depend on it.

Relevance

Relevance is associated with information that is timely, useful, has predictive value, and is going to make a difference to a decision maker. Relevance requires that the financial accounting information should be such that the users need it and it is expected to affect their decisions.

Understandability

Understandability is the quality of being sufficiently clear expressed as