



21世纪高等院校会计专业主干课系列

会计英语

(第二版)

叶建芳 孙红星 何瑞丰 主编

Accounting
English

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前 言

经济活动的不断深入使阅读财务报表成为一项商业人士必备的技能,同时由于经济环境的不断开放,对外交流的机会增多,对会计英语的要求也不断提高。本书希望通过英语讲解会计的基本理论、基本方法,并结合每章的会计词汇学习,使初学者全面学习会计专业知识,满足对外交流和使用的需要。

本书可作为普通高等院校的教学用书,也可由会计初学者自学使用。全书分为十一章。第一至第四章是对会计的性质和会计信息产生过程的叙述;第五至第十章是关于资产、负债和所有者权益的确认、计量和报告;第十一章介绍经济活动对现金流量的影响,以及如何编制现金流量表。

为使读者更好地检测学习效果,本书每章后均附自测题、练习题和问题。同时为使初学者加深对会计知识的理解,每章文后附中文翻译。

本书由叶建芳、孙红星和何瑞丰主编,赵胜男、余晨怡、徐南、熊军、武靖和陈婧婧参与了编写工作。

由于水平有限和时间仓促,书中内容或表述或有不足,恳请读者批评指正。

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1

An Introduction to Accounting

LEARNING OBJECTIVES

- Accounting is an information system.
- Generally accepted accounting principles are applied to financial statements.
- Accounting equation is used to present accounting elements and their increases and decreases.
- Accounting profession and its environment including professional ethics are also presented.

This chapter discusses how accounting information is needed by various users. Various entities that affect the accounting profession are mentioned. The role of ethics and standards of professional conduct in accounting is presented. Generally accepted accounting principles (GAAP) are introduced and some concepts and principles are explained.

Then the chapter introduces the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$. Each element of the equation is defined. Examples of a variety of transactions are analyzed and their impact on the accounting equation is discussed. The financial statements are illustrated. The interrelationship of the financial statements is emphasized.

1.1 Accounting is an information system

Accounting is often described as an information system. It is the system that measures business activities, processes information into reports and communicates these findings to decision makers. Exhibit 1-1 presents the flow of information in an accounting system. **Bookkeeping** is only the part of accounting that records transactions and events. Accounting includes the analysis and interpretation of accounting information intended to be used by both external and internal users in making economic decisions.

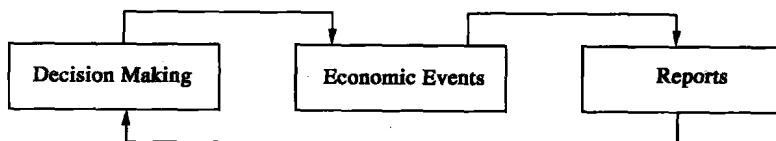


Figure 1-1

The primary **users of accounting information** are investors and creditors. Government, labour unions, and the general public also use accounting information. Financial statements report accounting information about resources, earning prospects, expected cash inflow, incurred expenses, repayment ability, tax collection, and negotiating wage agreements.

1.2 Forms of organization

There are three forms of business organization. These three forms of business ownership are below:

A **sole (single) proprietorship** is a business organization that is owned by one individual. It is an accounting entity but not a legal entity. This means that the owner is responsible for the debts of the proprietorship. It is known as unlimited liability and is obviously a disadvantage of this form

of business organization.

A **partnership** only differs from a single proprietorship in that it has more than one owner. The owners are called partners. There are some different types of partnerships in business activity.

A **corporation** is incorporated under local law as a separate entity; hence, its owners are called shareholders or stockholders. They are not liable for the debts of the corporation. The limited liability is an obvious advantage of the form. The ownership of a corporation is divided into shares or stocks. Shares can be transferred between owners.

1.3 The framework for the preparation and presentation of financial statements—The conceptual framework

Different countries have different accounting models because of prevailing legal and economic conditions that are present nationally. What represents an acceptable accounting practice in one country is not necessarily acceptable in another country. It is the differences among national accounting models that have created the need for a harmonization of accounting standards; a global accounting language for the communication of relevant and reliable financial information.

In response to this growing need, the International Accounting Standards Committee (IASC) was founded in 1973 and has engaged in internationally recognized standard-setting to achieve this goal. On April 1, 2001, the IASC was restructured into the International Accounting Standards Board (IASB).

In addition to issuing international accounting standards, in 1989, it issued the Framework for the Preparation and Presentation of Financial Statements, intended to be the conceptual foundation on which to build accounting standards.

The Framework identifies the following issues:

1. Objectives of financial statements and underlying assumptions,
2. Qualitative characteristics of financial statements,
3. Elements of financial statements, and
4. Concepts of capital and capital maintenance.

Let's present an explanation of some important accounting principles that provide an overview. It's summarized below:

Accounting Entity Principle Each entity must keep accounting records and prepare reports that are distinct from those of the owner and any other entity. Also known as the Separate Entity Principle.

Objectivity Principle Transactions must be recorded based on independent, unbiased, and verifiable evidence.

Cost Principle All transactions are recorded based on the cash amount received or paid. Also known as the Historical Cost Principle.

Going Concern Principle Users of financial statements assume that the records reflect the business is going to continue its operations as opposed to being closed or sold unless information is provided to the contrary. Also called the Continuing Concern Principle.

Monetary Unit Principle Transactions are recorded based on a common currency and not adjusted for changes in value.

Time Period Principle An entity's activities are divided into specific time periods, such as a year, and reported on that basis. Also known as the Periodicity Principle.

Revenue Recognition Principle Revenue and related expenses are recorded when realized regardless of when cash is actually received/paid. Also known as the Realization Principle.

Matching Principle Revenues and expenses must be allocated to the period in which they were actually created.

Full Disclosure Principle Financial statements (including the notes) must report all relevant information about the operations and financial position of the entity.

Consistency Principle An entity must use the same accounting methods period after period so that the financial statements of succeeding periods will be comparable.

Materiality Principle An amount may be ignored if its affect on the financial statements is not important to its users, also called *cost-to-benefit constraint*.

Conservatism Principle The least optimistic estimate should be selected when two estimates of amounts to be received or paid are about equally likely; it is better to understate than overstate values.

1.4 Understanding of financial statements

Accounting information must meet the needs of the users. The primary users are interested in financial information to evaluate profitability and solvency. Financial statements are final product of the accounting process. They should be presented in a good manner and be used to fulfill the objective of accounting—to provide information for decision making.

Four financial statements are prepared by a *proprietorship*:

- **Income statement** (also known as the **profit and loss account**),
- **Statement of owner's equity** (also known as the **capital statement statement of retained earnings** in the further chapters),
- **Balance sheet**,
- **Cash flow statement**.

Example 1-1 illustrates how the balance sheet, income statement and the statement of owner's equity are interrelated. The balance sheet is arisen from both the income statement and the statement of owner's equity.

◇ Balance sheet (Statement of financial position)

The **balance sheet** lists all assets, liabilities, and owner's equity as of a specific date of a

business entity. The balance sheet shows that assets equal the sum of liabilities and owner's equity.

IASB's Framework defines an asset as follows:

Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

Assets can either be **tangible** or **intangible**. Examples of tangible assets include cash, accounts receivable, merchandise inventory, supplies, equipment, buildings, and machines. Examples of intangible assets are patents, trademarks and copyrights.

There are two sources of assets. One source is liabilities and the other is equity. IASB's Framework defines a liability as follows:

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

Examples of liabilities include accounts payable, notes payable, salaries payable, taxes payable, interest payable, and bonds payable.

Equity (or Owner's equity for a sole proprietorship, Partners' equity for a partnership, Shareholders' equity for a corporation) is a residual equity. IASB's Framework defines equity as follows:

Equity is the residual interest in the assets that remains after deducting its liabilities. In a business enterprise, the equity is the ownership interest.

Owner's equity represents the claims of owner(s) after creditors make claims from total assets. Owner's equity is sometimes referred to as net assets.

◇ Income statement

The **income statement** lists revenues and expenses and shows net income or net loss for a period of time, such as a month, or a year. Net income or loss can be determined by the following formula:

$$\text{Net Income (Net Loss)} = \text{Revenues} - \text{Expenses}$$

The IASB's Framework defines income as follows:

Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. The definition of income encompasses both revenue and gains, and revenue arises in the course of ordinary activities of an enterprise and is referred to by different names, such as sales, fees, interest, dividends, royalties, and rent.

IAS 18 is the standard that details the accounting for revenue. In short, revenues are inflows of cash or other properties in exchange for goods or services provided to customers as part of the central operations of the business. Do not confuse "income" with "net income." Net income is the amount remaining after deducting expenses from income (or revenues).

The IASB's Framework defines expenses as follows:

Expenses are decreases in economic benefits during an accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

◇Statement of owner's equity/ Statement of retained earnings

The **statement of owner's equity** shows the changes taken place in the owner's capital during a period of time from net income or net loss, withdrawals, and owner's investment for a business.

There are three forms of organizations—proprietorship, partnership and corporation. A corporation prepares the **statement of retained earnings** to describe the changes in the retained earnings. This statement is parallel to the statement of owner's equity prepared for a sole proprietorship. On the statement of retained earnings, net income is added to the opening retained earnings balance to obtain the closing balance. This closing balance is then used in the shareholders' equity section on a corporate balance sheet.

Although the financial statements are very similar for the three types of business organizations discussed (sole proprietorship, partnership, and corporation), there are differences. These differences are summarized below in Table 1-1.

Table 1-1

Difference	Type of Business Organization		
	Sole Proprietorship	Partnership	Corporation
Equity section on the balance sheet is called:	Owner's equity	Partners' equity	Shareholders' equity
Distributions to owners are called:	Withdrawals	Withdrawals	Dividends
When managers are also owners, their salaries are normally:	Not an expense	Not an expense	An expense

Example 1-1 Preparation of the income statement, statement of owner's equity, and balance sheet

Amy Schneider, the owner of The Schneider's Accounting Firm, prepared the following income statement.

Amy Schneider, Accountant Income statement For the month ended December 31, 20 × ×		
Revenues:		
Consulting revenue	\$3 800	
Rental revenue	<u>300</u>	
Total revenues		\$4 100
Operating expenses:		
Rent expense	\$1 000	
Salaries expense	<u>700</u>	
Total operating expenses		<u>1 700</u>
Net income		<u>\$2 400</u>

She then used the net income figure from the income statement to construct the statement of owner's equity.

Amy Schneider, Accountant Statement of Owner's Equity For the month ended December 31, 20 × ×		
Amy Schneider, capital December 1, 20 × ×		\$0
Investment during the month	\$30 000	
Add: net income	<u>2 400</u>	<u>32 400</u>
Less: withdrawals		\$600
Amy Schneider, capital December 31, 20 × ×		<u>\$31 800</u>

Finally, Amy prepared the balance sheet at December 31 from the firm's records. She included in the balance sheet the December 31 capital balance from the statement of owner's equity.

Amy Schneider, Accountant Balance Sheet December 31, 20 × ×			
Assets		Liabilities	
Cash	\$8 400	Accounts payable	\$200
Supplies	3 600	Notes payable	<u>6 000</u>
Furniture	<u>26 000</u>	Total liabilities	\$6 200
		Owner's equity	
		Amy Schneider, capital	<u>31 800</u>
Total assets	<u>\$38 000</u>	Total liabilities and capital	<u>\$38 000</u>