

# 会计 英语

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# ACCOUNTING ENGLISH

中国财政经济出版社

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## 前 言

随着我国改革开放的不断深入,中国会计正逐步向标准化、规范化和国际化靠拢,与国际会计接轨。为了使广大财会人员和企业管理人员学习和掌握西方财务会计的基本知识,我们在认真总结多年西方会计教学经验的基础上,参考最新版本的美国大学会计教科书,编写了这本书。

全书共分会计基础理论、会计要素的核算和会计报表分析三大部分,共计十四章。每章具体包括课文、注释和参考译文。着重介绍会计专业词汇及西方财务会计的基本理论、方法和概念。本书中英对照,语言简练,内容详实,英语语言和西方会计专业知识两者兼顾,系统性、专业性强。可供大专院校财经类专业作为教材使用,也可供具有一定英语基础的广大会计工作者、企业管理人员和涉外单位的工作人员学习和参考之用。

本书第一至四章由白蔚秋同志编译,第五至七章由曲颖同志编译,第八至十一章由梁杰同志编译,第十二至十四章由钟根红同志编译。全书由李爽、钟根红同志担任主编,高卫红同志任副主编,由李爽教授总纂。

由于水平有限,书中错误疏漏之处在所难免,恳请广大读者批评指正。

编 者

1995年1月

# CHAPTER 1

## THE FUNDAMENTAL ACCOUNTING CONCEPTS AND PRINCIPLES

### 1-1 WHAT IS ACCOUNTING?

**A**ccounting is the art of interpreting, measuring, and describing economic activity. Some people mistakenly think of accounting as a highly technical field which can be understood only by professional accountants. Actually, nearly everyone practices accounting in one form or another on an almost daily basis.

Whether you are preparing a household budget, balancing your checkbook, preparing your income tax return, or running General Motors, you are working with accounting concepts and accounting information.

Accounting has often been called the “language of business”. People in the business world—owners, managers, bankers, stockbrokers, investors—all use accounting terms and concepts to describe the resources and the activities of every business, large and small.

How do business executives know whether a company is earn-

ing profits or incurring losses? How do they know whether the company is solvent or insolvent, and whether it probably will be solvent, say, a month from today? The answer to both these questions in one word is accounting. Accounting is the process by which the profitability and solvency of a company can be measured. Accounting also provides information needed as a basis for making business decisions that will enable management to guide the company on a profitable and solvent course.

For specific examples of these decisions, consider the following questions. What prices should the firm set on its products? If production is increased, what effect will this have on the cost of each unit produced? Will it be necessary to borrow from the bank? How much will costs increase if a pension plan is established for employees? Is it more profitable to produce and sell product A or product B? Shall a given part be made or be bought from suppliers? Should an investment be made in new equipment? All these issues call for decisions that should depend, in part at least, upon accounting information. It might be reasonable to turn the question around and ask: what business decisions could be made intelligently without the use of accounting information? Examples would be hard to find.

In large-scale business undertakings such as the manufacture of automobiles or the operation of nationwide chains of retail stores, the top executives cannot possibly have close physical contact with and knowledge of the details of operations. Consequently, these executives must depend to an even greater extent than the small business owner upon information provided by the accounting system.

## The distinction between accounting and bookkeeping

Persons with little knowledge of accounting may fail to understand the difference between accounting and bookkeeping. **Bookkeeping** means the recording of transactions, the record-making phase of accounting. The recording of transactions tends to be mechanical and repetitive, it is only a small part of the field of accounting and probably the simplest part. **Accounting** includes not only the maintenance of accounting records, but also the design of efficient accounting systems, the performance of audits, the development of forecasts, income taxwork, and the interpretation of accounting information. A person might become a reasonably proficient bookkeeper in a few weeks or months; however, to become a professional accountant requires several years of study and experience.

## 1-2 THE FUNCTION OF ACCOUNTING

**T**he underlying purpose of accounting is to provide financial information about an economic entity. Financial information about a business is needed by managerial decision makers to help them plan and control the activities of the organization. Financial information is also needed by **outsiders**—owners, creditors, potential investors, the government, and the public—who have supplied money to the business or who have some other interest in the business that will be served by information about its financial position and operating results. Developing and communicating this information is

the role of the business organization's *accounting system*.

An accounting system consists of the methods, procedures, and devices used by an entity to keep track of its financial activities and to summarize these activities in a manner useful to decision makers. Regardless of whether the accounting system is simple or sophisticated, three basic steps must be performed with data concerning financial activities—the data must be *recorded*, *classified*, and *summarized*.

► **Step 1—recording financial activity** The first function of an accounting system is to create a systematic record of the daily business activity, in terms of money. For example, goods and services are purchased and sold, credit is extended to customers, debts are incurred, and cash is received and paid out. These *transactions* are typical of business events which can be expressed *in monetary terms*, and must be entered in accounting records. The mere statement of an intent to buy goods or services in the future does not represent a transaction. The term *transaction* refers to a completed action rather than to an expected or possible future action.

Of course, not all business events can be objectively measured and described in monetary terms. Therefore, we do not record in the accounting records such events as the death of a key executive or a threat by a labor union to call a strike.

► **Step 2—classifying data** A complete record of all business activities usually amounts to a huge volume of data—too large and diverse to be useful to decision makers such as managers and investors. Therefore, the data must be classified into related groups or categories of transactions. For example, grouping together those



transactions in which cash is received or paid out is a logical step in developing useful information about the cash position of a business.

► **Step 3—summarizing the data** To be useful to decision makers, accounting data generally must be highly summarized. A complete listing of the sales transactions of a company such as Sears, for example, would be too long for anyone to read. The employees responsible for ordering merchandise need sales information summarized by product. Store managers will want sales information summarized by department, while Sears' top management will want sales information summarized by store. Outsiders, such as the company's stockholders and the Internal Revenue Service, probably will be most interested in a single sales figure which represents the total sales of the entire company.

These three steps we have described—recording, classifying, and summarizing—are the means of creating accounting information. However, the accounting process includes more than the *creating* of information. It also involves *communicating* this information to interested parties and *interpreting* accounting information to help in the making of specific business decisions.

## 1-3 THE WORK OF ACCOUNTANTS

**A**ccountants tend to specialize in a given subarea of the discipline just as do attorneys and members of other professions. In terms of career opportunities, the field of accounting may be divided into three broad areas: (1) the public accounting profession,

(2) private accounting, and (3) governmental accounting

## public accounting

Public accounting firms are organizations which offer a variety of accounting services to the public. These firms vary in size from one-person practices to large, international organizations with several thousand professional accountants.

Most of the people in public accounting are licensed as *certified public accountants* (CPAs). Thus, public accounting firms often are called *CPA firms*. States license CPAs for the same reason that they license attorneys and physicians—to assure the public that the individuals offering these professional services have appropriate qualifications.

The primary services offered by CPA firms include auditing, income tax services, and management advisory services.

► **Auditing** The principal function of CPAs is auditing. How do people outside of a business—creditors, investors, government officials, and other interested parties—know that the financial statements prepared by a company's management are reliable and complete? In large part, these outsiders rely upon *audits* performed by a CPA firm which is *independent* of the company issuing the financial statements.

An audit is a thorough investigation, in which the CPAs study the company's accounting records and gather other evidence regarding every item in the financial statements. This investigation enables the CPA firm to express its professional *opinion* as to the fairness and reliability of the financial statements.

Audited financial statements have developed an excellent track record for completeness and reliability. Therefore, persons outside the business, such as bankers and investors, attach great importance to the auditor's report.

Large corporations, such as those listed on the New York Stock Exchange, have their financial statements audited each year. These audited statements are then sent to the companies' stockholders and creditors, and also are made available to the public.

► **Income tax services** An important element of decision making by business executives is consideration of the income tax consequences of each alternative course of action. The CPA is often called upon for "tax planning," which will show how a future transaction such as the acquisition of new equipment may be arranged in a manner that will hold income taxes to a minimum amount. The CPA is also frequently retained to prepare the federal and state income tax returns. To render tax services, the CPA must have extensive knowledge of tax statutes, regulations, and court decisions, as well as a thorough knowledge of accounting.

► **Management advisory services** Many CPA firms offer their clients a wide range of management consulting services. For example, a CPA firm might be engaged to study the feasibility of installing a computer-based accounting system, of introducing a new product line, or of merging with another company. The fact that business executives often seek their accountants' advice on a wide range of problems illustrates the relevance of accounting information to virtually all business decisions.

## Private accounting

In contrast to the CPA in public practice who serves many clients, an accountant in private industry is employed by a single enterprise. The chief accounting officer of a medium-sized or large business is usually called the **controller**, in recognition of the fact that one of the primary uses of accounting data is to aid in controlling business operations. The controller manages the work of the accounting staff. He or she is also a part of the top management team charged with the task of running the business, setting its objectives, and seeing that these objectives are met.

The accountants in a private business, large or small, must record transactions and prepare periodic financial statements from accounting records. Within this area of general accounting, a number of specialized phases of accounting have developed. Among the more important of these are:

► **Design of accounting systems** Although the same basic accounting principles are applicable to all types of business, each enterprise requires an individually tailored **financial information system**. This system includes accounting forms, records, instruction manuals, flow charts, computer programs, and reports to fit the particular needs of the business. Designing an accounting system and putting it into operation constitute a specialized phase of accounting.

► **Cost accounting** Knowing the cost of a particular product is vital to the efficient management of a business. For example, an automobile manufacturer needs to know the cost of each type of car produced. Knowing the cost of each manufacturing process or the

cost of any business operation is also essential to making sound business decisions. The phase of accounting particularly concerned with collecting and interpreting cost data is called ***cost accounting***.

► **Financial forecasting** A financial forecast (or budget) is a plan of financial operations for some future period expressed in monetary terms. By using a forecast, management is able to make comparisons between ***planned operations*** and ***actual results achieved***. A forecast is thus an attempt to preview operating results before the actual transactions have taken place. A forecast is a particularly valuable tool for the controller because it provides each division of the business with a specific goal, and because it gives management a means of measuring the efficiency of performance throughout the company.

► **Income tax accounting** As income taxes have increased in importance and the determination of taxable income has become more complex, both internal accountants and independent public accountants have devoted more time to problems of taxation. Although many companies rely largely on CPA firms for tax planning and the preparation of income tax returns, large companies also maintain their own tax departments.

► **Internal auditing** Most large corporations maintain staffs of ***internal auditors*** with the responsibility of evaluating the efficiency of operations and determining whether company policies are being followed consistently in all divisions of the corporation. The internal auditor, in contrast to the independent auditor or CPA, is not responsible for determining the overall fairness of the company's annual financial statements.

## Governmental accounting

Government officials rely on financial information to help them direct the affairs of their agencies just as do the executives of corporations. Many governmental accounting problems are similar to those applicable to private industry. In other respects, however, accounting for governmental affairs requires a somewhat different approach because the objective of earning a profit is absent from public affairs. Every agency of government at every level must have accountants in order to carry out its responsibilities. Universities, hospitals, churches, and other not for profit institutions also follow a pattern of accounting that is similar to governmental accounting.

► **Internal Revenue Service** One of the governmental agencies which performs extensive accounting work is the Internal Revenue Service (IRS). The IRS handles the millions of income tax returns filed by individuals and corporations, and frequently performs auditing functions relating to these income tax returns and the accounting records on which they are based.

► **Securities and Exchange Commission** Another governmental agency deeply involved in accounting is the Securities and Exchange Commission (SEC). The SEC establishes requirements regarding the content of financial statements and the reporting standards to be followed. All corporations which offer securities for sale to the public must file annually with the SEC audited financial statements meeting these requirements.

## 1-4 ACCOUNTING PRINCIPLES AND CONCEPTS

### Need for recognized accounting standards

**T**he basic objective of financial statements is to provide information about a business enterprise; information that will be useful in making economic decisions. Investors, managers, economists, bankers, labor leaders, and government administrators all rely upon financial statements and other accounting reports in making the decisions which shape our economy. Therefore, it is of vital importance that the information contained in financial statements be highly reliable and clearly understood. Also, it is important for financial statements to be prepared in a manner which permits them to be compared fairly with prior years' statements and with financial statements of other companies. In short, we need a well-defined body of accounting principles or standards to guide accountants in preparing financial statements with the characteristics of *reliability*, *understandability*, and *comparability*.

### Generally accepted accounting principles (GAAP)

The principles which constitute the "ground rules" for financial reporting are termed *generally accepted accounting principles*. Accounting principles are also referred to as *standards*, *assumptions*, *postulates*, and *concepts*.

## The accounting entity concept

One of the basic principles of accounting is that information is compiled for a clearly defined accounting entity. An accounting entity is any *economic unit* which controls resources and engages in economic activities. An individual is an accounting entity. So is a business enterprise, whether organized as a proprietorship, partnership, or corporation. Governmental agencies are accounting entities, as are all nonprofit clubs and organizations.

## The going-concern assumption

An underlying assumption in accounting is that an accounting entity will continue in operation for a period of time sufficient to carry out its existing commitments.

## The time period principle

We assume an indefinite life for most accounting entities. But accountants are asked to measure operating progress and changes in economic position at relatively short time intervals during this indefinite life. Users of financial statements need periodic measurements for decision-making purposes.

The need for frequent measurements creates many of the accountant's most challenging problems. Dividing the life of an enterprise into time segments, such as a year or a quarter of a year, requires numerous estimates and assumptions.



## The monetary principle

The monetary principle means that money is used as the basic measuring unit for financial reporting. Money is the common denominator in which accounting measurements are made and summarized. The dollar, or any other monetary unit, represents a unit of value; that is, it reflects ability to command goods and services. Implicit in the use of money as a measuring unit is the *assumption that the dollar is a stable unit of value*, just as the mile is a stable unit of distance and an acre is a stable unit of area.

## The objectivity principle

The term *objective* refers to measurements that are *unbiased* and subject to verification by independent experts. Accountants rely on various kinds of evidence to support their financial measurements, but they seek always the most objective evidence available. Invoices, contracts, paid checks, and physical counts of inventory are examples of objective evidence.

## Asset valuation: the cost principle

Both the balance sheet and the income statement are affected by the cost principle. Assets are initially recorded in the accounts at cost, and no adjustment is made to this valuation in later periods. At the time an asset is originally acquired, cost represents the “fair market value” of the goods or services exchanged, as evidenced by an arm’s-length transaction. With the passage of time, however, the fair market value of such assets as land and buildings may change