

# Unit

# 1

## An Introduction to Accounting

## 会计概述

### Objectives

1. To know that accounting is an information system.
2. To understand generally accepted accounting principles applied to financial statements.
3. To use the accounting equation to present accounting elements and their increases and decreases.

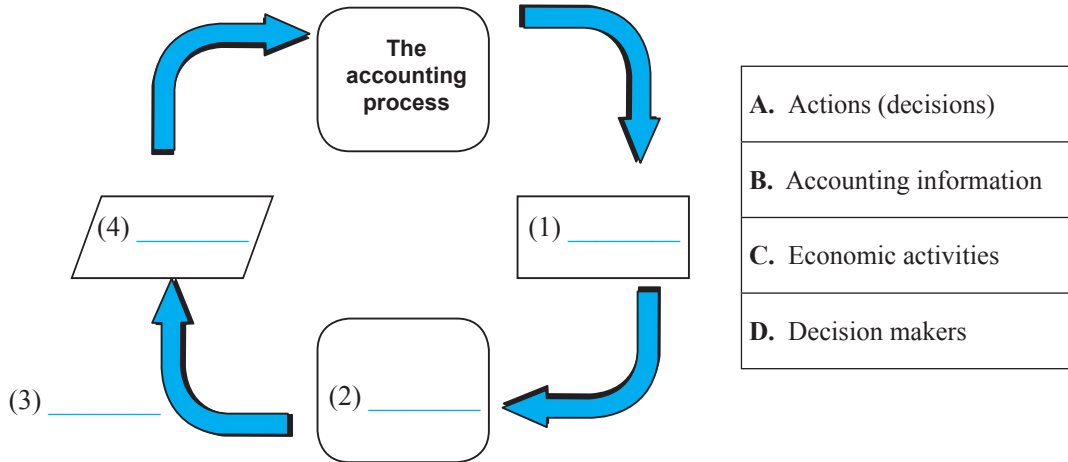
### Focus

- S:** Accounting is an information system (P2)
- L:** Forms of organization (P2)
- L:** Financial reporting standards and convergence in China (P3)
- S:** Accounting elements and using the accounting equation (P3)
- R:** The accounting profession (P4)
- R:** Professional ethics in accounting (P6)



## 1 Starter— Accounting is an information system

A. Look at the illustration of the accounting system and match the numbers with the letters.



B. Tick off the primary users of accounting information.

- |                        |                  |
|------------------------|------------------|
| ( ) investors          | ( ) clients      |
| ( ) government         | ( ) labor unions |
| ( ) the general public | ( ) nation       |
| ( ) citizens           | ( ) creditors    |



## 2 Forms of organization

David and Amy have just come back after class and are discussing the presentation for the next class.

Listen to the conversation and fill in the blanks.



**Amy:** How do we prepare the presentation on forms of business organization?

**David:** Firstly, I think we can point out there are three types of organization.

**Amy:** Yes. They are (1) \_\_\_\_\_, (2) \_\_\_\_\_, and (3) \_\_\_\_\_.

**David:** And then we can show the differences among them.

**Amy:** Sure.

**David:** Ownership can be the point.

**Amy:** Certainly. It's the main difference. A sole proprietorship means (4) \_\_\_\_\_, a

partnership means (5) \_\_\_\_\_, and a corporation is a business owned by (6) \_\_\_\_\_.

**David:** Yes, we can find some examples to make it easier. A sole proprietorship could be a small retail store, and many professional organizations of attorneys and accountants are partnerships.

**Amy:** That's right! And many famous large companies are corporations.

**David:** Look! You can become a shareholder by buying their shares.

**Amy:** Interesting, isn't it?

**David:** Definitely.



3

### Financial reporting standards and convergence in China

Listen to the passage and decide whether the following statements are true (T) or false (F).

- ( ) 1. Different countries have different accounting models because of legal and economic conditions.
- ( ) 2. The International Accounting Standards Committee (IASC) was founded in 2001.
- ( ) 3. A global accounting language for the communication of financial information is needed for harmonization.
- ( ) 4. The first Chinese Accounting Standards were issued in 1985.
- ( ) 5. On April 1, 2001, the IASC was restructured into the IASB.



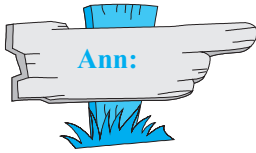
4

### Accounting elements and using the accounting equation

Ann is talking about her new book with Bill. Work in pairs to complete the dialogue with the right sentences given below and role-play it.

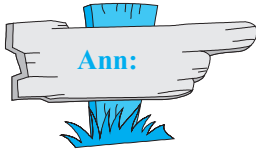
- a. Total assets should be equal to the sum of liabilities and equity.
- b. Of course not!
- c. Sounds unbelievable!
- d. How was your weekend?
- e. Accounting equation in balance?
- f. It was a birthday present.
- g. Fundamental Accounting?

**Bill:** Hi, Ann. (1) \_\_\_\_\_



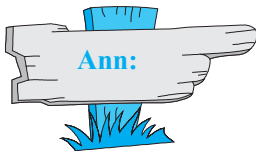
**Ann:** Hi, Bill! I spent a nice day reading my new book. (2) \_\_\_\_\_  
\_\_\_\_\_ Here it is.

**Bill:** (3) \_\_\_\_\_ A little bit boring?



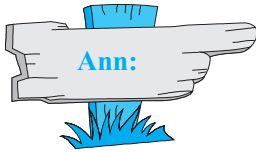
**Ann:** (4) \_\_\_\_\_ You know it's fantastic to find that every transaction affects at least two items in the accounting equation, and the equation remains in balance after each transaction.

**Bill:** Transaction? (5) \_\_\_\_\_



**Ann:** It's true! (6) \_\_\_\_\_

**Bill:** Every time? (7) \_\_\_\_\_



**Ann:** There are so many unbelievable truths inside! Let me show you more.



## 5

## The accounting profession

Read the following passage and do the exercises.

Accounting practices are in three main fields—financial accounting, managerial accounting, and tax accounting. Please notice that this does not include not-for-profit accounting.

Financial accounting is used to prepare financial statements for people outside the organization. It is the process of summarizing financial data taken from an organization's accounting records and publishing it in the form of annual reports for the outside users. Managerial accounting is concerned with giving accounting information to managers within organizations, to provide them with the basis to make business decisions. Cost accounting is a central element of managerial accounting and budgeting is essential for management. Tax accounting is used to prepare tax returns and tax planning.

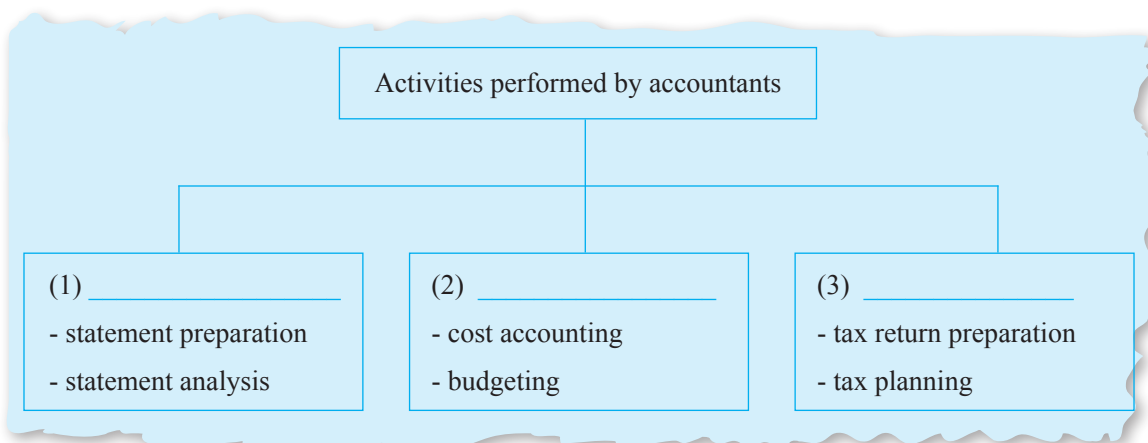
Accountants can also be categorized based on the kinds of organizations they work in:

Private accountants normally work for one employer and offer services. They are internal accountants reporting to the managers of the entity. Private accounting involves preparing financial reports, budgets, and a comprehensive analysis of financial operations for a particular company.

Public accountants work for many clients, who may be corporations, governments, nonprofits, or individuals, and offer auditing, management advisory, and tax services. The public accountant should be designated.

Government accountants audit tax returns and accumulate financial information for government agencies.

**A. Complete the following graph according to the passage.**



**B. Different positions have different responsibilities. Complete the table according to the passage.**

Positions	Responsibilities
private accountants	_____ _____
public accountants	_____ _____
government accountants	_____ _____



## 6

## Professional ethics in accounting

Read the following passage and do the exercises.

Professional ethics provide a framework for practice. In recent years, there has been widespread interest in accounting ethics, due partly to media coverage of events involving a host of misdeeds, such as insider trading, tax evasion, audit failure, and fraud. Reports of unethical behavior are a threat to public confidence in the accounting profession.



Some basic ethical standards include:

### *Integrity*

Accountants have a responsibility to report favorable as well as unfavorable information. Integrity implies that accountants should not take unfair advantage of information and should act in the interests not only of their clients but also other indirect users. Accountants should also disassociate themselves from misleading information.

### *Competence*

Accountants have a duty to perform their professional duties according to high standards and to ensure that they stay current with changes in the profession. Accountants have an ethical obligation to maintain both technical competence and moral competence.

### *Confidentiality*

The work of the accountant regularly involves dealing with confidential files about the personal and business affairs of their clients. Accountants have a duty to refrain from disclosing confidential information unless legally obligated to do so.

### *Objectivity*

Accountants must fully disclose all relevant information that assists users to understand financial reports. Accountants, therefore, are obligated to provide information that is objective so that users can rely on its accuracy when making investment and credit decisions.

### A. Match the English expressions with their Chinese versions.

- |                               |         |
|-------------------------------|---------|
| ( ) 1. insider trading        | a. 误导信息 |
| ( ) 2. tax evasion            | b. 职业道德 |
| ( ) 3. audit failure          | c. 机密文件 |
| ( ) 4. professional ethics    | d. 内幕交易 |
| ( ) 5. misleading information | e. 审计失败 |
| ( ) 6. confidential files     | f. 逃税   |

## B. Read the following example and find out what professional ethics Zhao Li violated.

Zhao Li is an accountant and works for Xuedong Electric Corporation. She is considered an excellent worker for her hard work and professional skills. Her husband is CEO of a private electronics company. At her husband's request, she gave him copies of her company's new product development plan and related accounting materials, which led to a big loss for her company.



## 7 Project

### Analyze these transactions by using the accounting equation.

1. The owner invested \$30,000 to start a consulting firm.
2. She purchased \$26,000 of furniture, \$20,000 with cash, and the remainder by issuing a note.
3. She purchased supplies on account, \$3,600.
4. She provided consulting services for \$3,800 in total, collected \$3,000 in cash, and billed the balance.
5. Collected cash from transaction 4.
6. Provided rental service for \$300 cash.
7. Paid rent expense of \$1,000 cash.
8. Paid salary of \$700 cash.
9. Withdrew \$600 cash for personal use.
10. Paid \$3,400 cash for transaction 3.

**Hints:** The headlines and model are provided below.

	Cash	AR	Supplies	Furniture	=	AP	NP	Capital
1	+30,000							+30,000



## Further reading

**Read the passage. Decide the data flows following the model statements.**

Financial statements are the 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 changes in equity (also known as the capital statement, statement of retained earnings will be used for simplification),
- Balance sheet,
- Statement of cash flows.

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

$$\text{Net profit} = \text{Income} - \text{Expenses}$$

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.

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.

The statement of changes in equity shows the changes take place in the owner's equity during a period of time from net profit or net loss, withdrawals/dividends, and owner's investment for a business.

For corporation net profit is added to the opening accumulated profits balance to obtain the closing balance. This closing balance is then used in the shareholders' equity section on a corporate balance sheet.

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.

Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. 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. 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 and also simply capital, Partners' equity for a partnership, Shareholders' equity for a corporation) is a residual amount. 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.

The statement of cash flows reports cash receipts and payments as well as cash inflows and outflows in three groups: operating activities, investing activities, and financing activities.

Amy Schneider, Accountant

Income Statement

For the month ended December 31, 20××

Operating revenue:		
Consulting revenue	\$3,800	
Rental revenue	<u>300</u>	
Total revenues		\$4,100
Operating expenses:		
Rental expense	\$1,000	
Salaries expense	<u>700</u>	
Total operating expenses		<u>1,700</u>
Net profit		<u>\$2,400</u>

Amy Schneider, Accountant

Statement of changes in equity

For the month ended December 31, 20××

Amy Schneider, capital December 1, 20××		\$0
Investment during the month	\$30,000	

Add: net profit	<u>2,400</u>	<u>32,400</u>
Less: withdrawals		\$600
Amy Schneider, capital December 31, 20××		<u>\$31,800</u>

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>



## Surfing the Internet

**Accountancy is one of the fastest growing professions in the modern business world. Search the Internet to find information about the requirements and responsibilities of a staff accountant.**



## 10 Enjoying yourself

Enjoy the following picture with your partners.



"Wait a minute! Aren't you the accountant I fired last year?"

## Vocabulary

## New Words

decision /dɪ'sɪʒn/ <i>n.</i> 决策	Our leaders made a sound decision for our company's future.	1.1
investor /ɪn'vestə(r)/ <i>n.</i> 投资者	An investor of capital has a major financial interest in an important business.	1.1
creditor /'kredɪtə(r)/ <i>n.</i> 债权人	The main creditor of the company is demanding payment.	1.1
proprietorship /prə'praɪətəʃɪp/ <i>n.</i> 所有权	In the United States, it often takes just a few minutes to set up a new sole proprietorship.	1.2
partnership /'pɑ:tənəʃɪp/ <i>n.</i> 合伙企业; 合伙关系	She worked in partnership with her sister.	1.2
corporation /,kɔ:pə'reɪʃn/ <i>n.</i> 公司, 企业	He works for a large American corporation.	1.2
ownership /'əʊnəʃɪp/ <i>n.</i> 所有权	The office building is under new ownership.	1.2
shareholder /'ʃeəhəʊldə(r)/ <i>n.</i> 股东	Shareholders will be voting on the development of the company.	1.2
attorney /ə'tɜ:nɪ/ <i>n.</i> 律师	The attorney will give us legal advice for our business.	1.2
accountant /ə'kaʊntənt/ <i>n.</i> 会计师	He is a trained accountant.	1.2
financial /faɪ'nænʃl/ <i>a.</i> 财务的	The company was in deep financial difficulties.	1.3
convergence /kɒn'vedʒəns/ <i>n.</i> 趋同, 共通	Member states were to make significant progress towards economic policy convergence.	1.3
harmonization /,hɑ:mənə'zeɪʃn/ <i>n.</i> 协调, 调和, 和谐	The harmonization of tax policy and economic conditions is very important.	1.3
restructure /,rɪ:'strʌktʃə(r)/ <i>v.</i> 改组, 重建	If your company restructures, you will just have to survive.	1.3
underlying /,ʌndə'laɪɪŋ/ <i>a.</i> 基础的, 根本的	All these elements play a part, but the underlying problem is deeper.	1.3
framework /'freɪmwɜ:k/ <i>n.</i> 框架	The government establishes a national policy framework.	1.3
entity /'entəti/ <i>n.</i> 单位, 个体, 实体	The company has been an independent economic entity since it was established.	1.3
cost /kɒst/ <i>n.</i> 成本	We must reduce the production cost.	1.3
state-owned /,steɪt'əʊnd/ <i>a.</i> 国有的, 国营的	He is convinced that the bank is a good investment because it is state-owned.	1.3
fundamental /,fʌndə'mentl/ <i>a.</i> 基础的, 根本的 <i>n.</i> 基本原则, 原理	In three days, she had learned the fundamentals of accounting.	1.4

fantastic /fæn'tæstɪk/ <i>a.</i> 极好的, 不可思议的	Nobody believed the fantastic story he made up.	1.4
transaction /træn'zækʃn/ <i>n.</i> 交易, 业务	A record is kept of all the firm's transactions.	1.4
asset /'æset/ <i>n.</i> 资产, 财产	The bank has assets of more than \$1 billion.	1.4
liability /'laɪə'bɪləti/ <i>n.</i> 负债	Heavy liabilities forced the company into bankruptcy.	1.4
equity /'ekwəti/ <i>n.</i> 权益	Equity is the ownership interest in the business entity.	1.4
unbelievable /'ʌnbɪ'li:vəbl/ <i>a.</i> 难以置信的	It seems unbelievable that he has climbed so high in twenty-two years.	1.4
managerial /'mænədʒɪəriəl/ <i>a.</i> 管理的	She was promoted into a managerial job.	1.5
summarize /'sʌməraɪz/ <i>v.</i> 汇总	Please summarize and report on the monthly production situation.	1.5
budgeting /'bʌdʒɪtɪŋ/ <i>n.</i> 预算	The Chairperson addressed the principle of cost control and budgeting.	1.5
comprehensive /'kɒmprɪ'hensɪv/ <i>a.</i> 综合的, 全面的	They have made a comprehensive budgeting.	1.5
auditing /'ɔ:drɪtɪŋ/ <i>n.</i> 审计	I have ten years of experience in auditing.	1.5
designate /'deɪzɪneɪt/ <i>v.</i> 认证, 认定	The town has been designated a development area.	1.5
accumulate /ə'kju:mjuleɪt/ <i>v.</i> 积累, 积聚	By investing wisely she accumulated a fortune.	1.5
ethics /'eθɪks/ <i>n.</i> 伦理, 道德	The ethics of his profession do not permit him to do that.	1.6
misdeed /'mɪs'di:d/ <i>n.</i> 不端行为	Corporate misdeeds often hit the headlines.	1.6
evasion /ɪ'veɪʒən/ <i>n.</i> 逃避, 规避	He and his partners were accused of tax evasion.	1.6
fraud /frɔ:d/ <i>n.</i> 欺骗, 诈骗	The three most common forms of crime are theft, fraud, and murder.	1.6
threat /θret/ <i>n.</i> 威胁	The financial crisis is a threat to our business.	1.6
integrity /m'teɡrəti/ <i>n.</i> 诚信	Integrity is the foundation of the accounting profession.	1.6
disassociate /dɪsə'səʊʃɪeɪt/ <i>v.</i> 分离, 无关联	The accountant can't disassociate himself from the material misleading information.	1.6
competence /'kɒmpɪtəns/ <i>n.</i> 胜任	The young CFO showed exceptional competence.	1.6
confidential /'kɒnfɪ'denʃl/ <i>a.</i> 机密的	Our budget is confidential.	1.6
objectivity /'ɒbdʒek'tɪvəti/ <i>n.</i> 客观, 客观性	Objectivity is a principle in accounting.	1.6
relevant /'reləvənt/ <i>a.</i> 相关的	These facts are relevant to the management decision.	1.6
accuracy /'ækjərəsɪ/ <i>n.</i> 精确性, 准确度	He can predict operating performance with great accuracy.	1.6

## Phrases and Expressions

accounting information	会计信息	1.1
economic activities	经济活动	1.1
point out	指出	1.2
sole (single) proprietorship	独资企业	1.2
make it easier	使更容易	1.2
professional organization	职业团体	1.2
accounting standard	会计准则	1.3
engage in	从事, 参与, 进行	1.3
economic entity	经济主体, 经济实体	1.3
matching (principle)	配比原则	1.3
going concern	持续经营	1.3
materiality (principle)	重要原则	1.3
prudence (principle)	谨慎原则	1.3
accounting equation	会计等式	1.4
spend... doing sth.	花…… (时间) 做某事	1.4
remain in balance	保持平衡	1.4
show sb. sth.	给某人展示某物	1.4
be concerned with	有关	1.5
be essential for	必需的	1.5
internal auditing	内部审计	1.5
management advisory	管理咨询	1.5
tax return	税单	1.5
professional ethics	职业道德	1.6
insider trading	内幕交易	1.6
a host of...	大量的	1.6
as well as	和……一样	1.6
refrain from	避免	1.6
be obligated to	对……有责任, 有义务	1.6
rely on	依靠	1.6

**Proper Nouns**

International Accounting Standards Committee (IASC)	国际会计准则委员会	1.3
International Accounting Standards Board (IASB)	国际会计准则理事会	1.3
International Financial Reporting Standards (IFRSs)	国际财务报告准则	1.3
Chinese Accounting Standards (CAS)	中国会计准则	1.3
Chinese Accounting Standards System for Business Enterprises	中国企业会计制度	1.3