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Unit

1

Introduction to Accounting

New Words & Expressions

entity /'entəti/ *n.* 实体

entry /'entri/ *n.* 记录; 分录

proprietorship /prəʊ'praɪətə(r)ʃɪp/ *n.* 业主权;
所有权

partnership /pɑːtnəʃɪp/ *n.* 合伙关系; 合伙企业

liquidate /'lɪkwɪdeɪt/ *v.* 清算

offset /'ɒfset/ *v.* 抵消, 冲抵

entrepreneur /'ɒntɹəprə'nɜː(r)/ *n.* 企业家; 创
业者

proceeds /'prəʊsiːdz/ *n.* 收入, 收益

laurel /'lɔːrəl/ *n.* 荣誉; 桂冠

royalty /'rɔɪəlti/ *n.* 使用费; 特许权

delegate /'delɪɡeɪt/ *v.* 授权; 委托

performance /pə'fɔːməns/ *n.* 业绩; 绩效

stakeholder /'steɪkhəʊldə/ *n.* 有利害关系者
(股东、债权人等)

attribute /'ætrɪbjʊːt/ *n.* 属性; 标志

appreciation /ə'priːʃi'eɪʃən/ *n.* 了解; 评价

accountability /ə'kaʊntə'bɪləti/ *n.* 责任(性)

board of directors 董事会

credit rating 信用评级

staying power 持久力

cash flow 现金流量

Part 1 Description of the Types of Business Entities

A Listen to three people talking about their business and do the following exercises.

1. Can you complete the table?

Speaker	Company	Type of Business Entity
Nicholas		
James		
Alan		

2. Listen again and answer the following questions.

- (1) What is also important in Nicholas's work besides his routine work?
- (2) Record the entries when James's company received the capital.
- (3) What is Alan & Rosa's contract mainly about?

B Read the article and complete the table.

A sole proprietorship is a form of business entity owned by one person. The life of the business ends when the owner is no longer willing or able to keep the firm going. The owner of a sole proprietorship is legally responsible for the debts and taxes of the business. If, for example, the firm is unable to pay its debts, the creditors (those people, companies, or government agencies to whom the firm owes money) can turn to the owner for payment. The owner may then have to pay the debts of the business from personal savings or other personal resources. When the time comes to pay income taxes, the owner's income and the income of the business are combined to compute the total tax responsibility of the owner.

A partnership is a form of business entity owned by two or more people. In a partnership, all the partners act as agents for the business. A partnership can last only as long as the life span of any of its partners. The death or withdrawal of one partner ends the partnership. The partners are individually responsible for the debts and taxes of the partnership. Their personal bank accounts or other personal resources may be used to pay creditors when the partnership

is unable to provide payment.

The corporation is owned by several owners (may have many owners, even thousands of owners). It is a legal entity separate from the legal identities of its owners, the shareholders. In the eyes of the law, the corporation becomes for most purposes a “person” with its own federal identification number. Of course, one cannot see, hear, or touch a corporation, so it must interact with the rest of the world through its agents, the corporation’s officers and employees. The corporate form of business entity is unique because ownership can change through the sale of shares of stock by one individual to another without the form ending. One of the advantages of a corporation is that it can last forever. The life of a corporation ends only when it can no longer pay its creditors and goes bankrupt or when the stockholders vote to liquidate it. Corporate owners, often called stockholders or shareholders, are not responsible for the debts or taxes of the corporation. The most money that a stockholder can lose if the corporation is unable to pay its bills is his or her initial investment in the firm — the cost of the shares of stock that were purchased by the stockholder.

Discussion:

1. List the major characteristics of different types of business entity.

Characteristic	Type of Business Entity		
	Sole Proprietorship	Partnership	Corporation
Ownership			
Life of the business			
Responsibility for the debts of the business			

2. Can you list the advantage(s) and disadvantage(s) of each form of business entities?

	Advantage(s)	Disadvantage(s)
Sole Proprietorship		
Partnership		
Corporation		

C *Read the following article and choose a business form.*

The Consulting Firm

Betty, Melba, and Rick had earned their graduate business degrees together and had paid their dues in middle management positions in various large corporations. Despite their different employers, the three had maintained their friendship and were now ready to realize their dream of starting a consulting practice. Their projections showed modest consulting revenue in the short-term offset by expenditures for supplies, a secretary, a small library, personal computers, and similar necessities. Although each expected to clear no more than perhaps \$25,000 for his or her efforts in their first year in business, they shared high hopes for future growth and success. Besides, it would be a great pleasure to run their own company and have sole charge of their respective fates.

The Software Entrepreneur

Howard was cashing a seven-figure check for his share of the proceeds from the sale of the computer software firm he had founded seven years ago with four of his friends. Rather than rest on his laurels, however, Howard saw this as an opportunity to capitalize on a complex piece of software he had developed in college. Although Howard was convinced that there would be an extensive market for his software, there was much work to be done before it could be brought to market. The software had to be converted from a mainframe operation system to the various popular microcomputer systems. In addition, there was much marketing to be done prior to its release. Howard anticipated that he would probably spend over \$300,000 on programmers and salespeople before the first dollar of royalties would appear. But he was prepared to make that investment himself, in anticipation of retaining all the eventual profit.

The Hotel Venture

Diane and Gary were not nearly as interested in high technology. Directly following their graduation from business school, they were planning to construct and operate a resort hotel near a popular ski area. They had chosen as their location a beautiful parcel of land in Colorado owned by their third partner, Sharon. Rich in ideas and enthusiasm, the three lacked funds. They were certain, however, that they could attract investors to their enterprise. The location, they were sure, would virtually sell itself.

Discussion:

Which of the various legal business forms can they choose for the operation of their enterprises? Why?

Part 2 *The Role of Accounting in Business*

A *Barbara Demastes, who is recently promoted to be a sales manager, is talking to Kurt Stancliffe, a finance manager. Study their conversation and answer the questions.*

Kurt: Congratulations, Barbara.

Barbara: Thank you, Kurt. I am glad that you are here. Can you do me a favor?

Kurt: Sure. What can I do for you?

Barbara: You know, I have done my job well in the past two seasons. The number of my clients has doubled. The sales have gone up by 40 percent. These are the main reasons why I was chosen to be the sales manager. But my problem is that I haven't background broad enough to understand the complicated international trade and my job requires me to work closely with finance department. I'm not sure whether I'm qualified for the new job. Can you give me some suggestions?

Kurt: I'd be glad to. There are a number of specialized fields of accounting. The most common specialized fields of accounting are financial accounting and managerial accounting. Other fields include cost accounting, environmental accounting, tax accounting, accounting systems, international accounting, not-for-profit accounting, and social accounting. I suggest you take financial accounting courses first. With the basic knowledge of financial accounting, you might explain to your sales staff why they can not get their bonus at the end of this year if the order is placed at the end of this year while shipped early next year.

Barbara: Sounds interesting.

Kurt: You will depend a lot on the financial information for your decision making. For example, you will need cost-benefit data to decide your sales strategies. In order to promote your sales, you need to understand the alternatives of reducing prices, increasing advertising or doing both in attempt to maintain the company's shares.

Barbara: Great. I know where to start. I feel much better now. Thank you, Kurt. You are always helpful.

Kurt: Don't mention it.

Questions:

1. What suggestion does Kurt give to Barbara?
2. What difficulties do you think Barbara might face in her new job?
3. What are your suggestions for Barbara?

B

Information Users

John Burtis, a journalist who works for the magazine The Business, is interviewing Phyllis Carlin, a financial manager in Fitness Co., Ltd. Study the conversation and do the exercises.

John: Good morning, Mr. Carlin. It's my pleasure to interview you.

Phyllis: Pleasure is mine, Mr. Burtis.

John: Mr. Carlin, what do you think is important for a financial manager?

Phyllis: To perform effectively, the financial manager must have a clear understanding of the company's goals.

John: What goals do firms in practice ordinarily pursue?

Phyllis: One of the most important goals of business firms is maximization of the owners' interest in the firm, that is, maximization of value of the corporation's shares.

John: Who determines the company's goals?

Phyllis: Theoretically, they are determined by the owners, I mean the shareholders, as represented by an elected board of directors. In reality, the shareholders delegate to management enormous powers to run the company. This delegation of authority is acceptable to most stockholders, so long as the company's performance is satisfactory in terms of dividend payments and earnings. Most large firms are run by professional managers who, by law, represent the stockholders.

John: As I know, accountants speak a special language that puzzles people outside the circle.

Phyllis: Right. So we must explain the meaning of the information to the information users.

John: Who are the major information users?

Phyllis: There are two main categories: internal and external users.

John: Can you make it more specific?

Phyllis: The internal users include owners, managers, employees, etc. The external users are customers, creditors, government and so on. They use financial information for a large variety of business purposes. For example, managers use it to assess their own performance; investors to monitor their investments and to evaluate their performance of management; rating agencies to assign credit ratings; potential competitors, to assess how profitable it may be to enter an industry; major

customers and suppliers, to evaluate the financial strength and staying power of the company as a dependable resource for their business.

John: What kind of government agencies are interested in the financial information?

Phyllis: Government agencies that are responsible for taxing, regulating, or investigating the company.

John: I see. How do you provide the information for the users?

Phyllis: We will first identify stakeholders and assess their informational needs. Then we will design the accounting information system to meet stakeholders' needs. After that, record economic data about business activities and events. Finally, prepare accounting reports for stakeholders.

John: But how do decision makers gain sufficient understanding of accounting and the financial reporting model? Should they memorize all of the accounting and reporting procedures?

Phyllis: No, that would be virtually impossible, and even then, new reporting procedures arise every day. A better and simpler way to understand financial statements is to understand the basic accounting and financial reporting model.

John: What are the main aspects of the financial reporting model?

Phyllis: They are the objectives of financial reporting, the qualities of accounting information, the basic concepts of financial accounting, and some important recognition and measurement attributes. By understanding the basic concepts of financial reporting, those concerned will gain an appreciation of the strengths and weaknesses of financial statement information.

John: The ability to understand and analyze financial information is essential to success in the business world.

Phyllis: You are right.

John: Thank you very much, Mr. Carlin.

Phyllis: You are welcome.

Exercises:

1. Choose the best answer to the following questions.

(1) Accounting information is used by managers to _____.

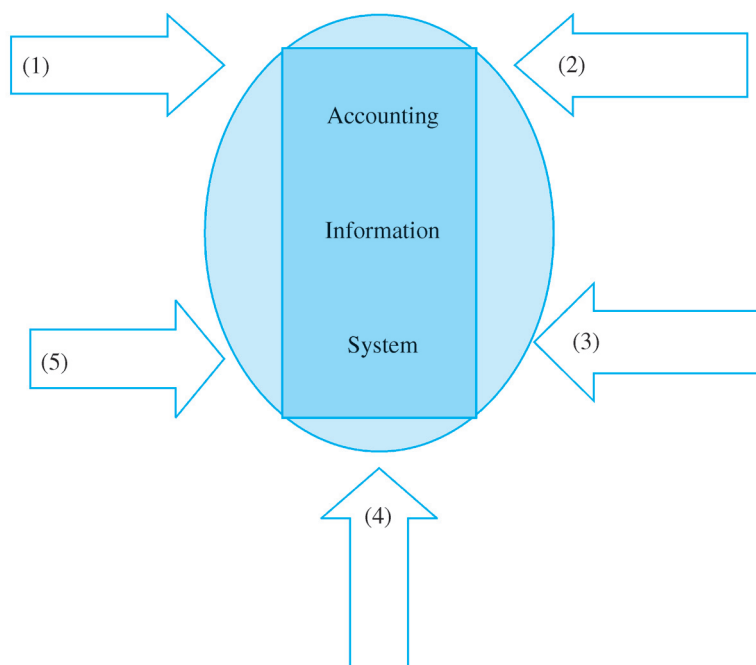
- A. decide on the acquisition of new machinery and equipment
- B. evaluate the efficiency of operations
- C. calculate year-end bonuses
- D. All of the above.

(2) Accounting information is used by external decision makers to _____.

- A. decide on the acquisition of new machinery and equipment

- B. estimate the amount of risk associated with investing in a company
 - C. estimate future demand for a company's products in new markets
 - D. determine the amount of advertising to be undertaken by the company
- (3) Which information is NOT likely to be included in the information provided by management to creditors and investors?
- A. Information on the company's past operating results.
 - B. Information on the resources currently held by the company.
 - C. Information on the cash flows for the last period.
 - D. Information on competitors' projected sales.
2. Put the following statements about accounting information systems and decision making in the right order and complete the chart.
- A. Design the accounting information system to meet stakeholders' needs.
 - B. Record economic data about business activities and events.
 - C. Identify stakeholders.
 - D. Prepare accounting reports for stakeholders.
 - E. Assess stakeholders' informational needs.

The Process of Providing Information



Part 3 Accounting Systems

- A** *Barbara meets Kurt after she has taken the financial accounting course.
Read the conversation and answer the questions.*

Kurt: Hi, Barbara. How are you getting on with your lessons?
Barbara: I am still struggling with my Financial Accounting course.
Kurt: Oh, don't get discouraged. Not everyone can do as well as you.
Barbara: Thanks. Kurt, can you give me an example of an entity?
Kurt: General Motors Corporation is a good case in point. It is an enormous entity that encompasses many smaller entities such as the Chevrolet Division and the Buick Division. In turn, Chevrolet encompasses many smaller entities such as a Michigan Assembly Plant and an Ohio Assembly Plant.
Barbara: Why is the entity concept important?
Kurt: Because it helps the accountant relate events to a clearly defined area of accountability.
Barbara: Can you make it more specific?
Kurt: For example, the business entity should not be confused with personal entity. A purchase of groceries for merchandise inventory is an accounting transaction of a grocer's store, which is the business entity, but the store owner's purchase of a stereo set with a personal check is a transaction of the owner, which is the personal entity.
Barbara: I begin to understand. I think I need to do a lot of study today.
Kurt: Keep up. Barbara, you will make it.

Questions:

1. What is an entity?
2. What examples can you tell Barbara to help her understand what an entity is?

- B** *Read the article and do the exercises.*

Accounting systems are designed mainly to provide information that managers and outsiders can use in decision-making. They also serve other purposes: to produce operating documents, to protect the company's assets, to provide data for company tax returns, and,

in some cases, to provide the basis for reimbursement of costs by clients or customers. The accounting organization is responsible for preparing documents that contain instructions for a variety of tasks, such as payment of customer bills or preparing employee payrolls. It also must prepare documents that serve what might be called private information purposes, such as the employees' own records of their salaries and wages. Many of these documents also serve other accounting purposes, but they would have to be prepared even if no information reports were necessary. Measured by the number of people involved and the amount of time required, document preparation is one of accounting's biggest jobs.

Accounting systems must provide means of reducing the chance of losses of assets due to carelessness or dishonesty on the part of employees, suppliers, and customers. Asset protection devices are often very simple; for example, many restaurants use numbered meal checks so that waiters will not be able to submit one check to the customer and another, with a lower total, to the cashier. Other devices entail a partial duplication of effort or a division of tasks between two individuals to reduce the opportunity for unobserved thefts.

These are all part of the company's system of internal controls. Another important element in the internal control system is internal auditing. The task of internal auditors is to see whether prescribed data handling and asset protection procedures are being followed. To accomplish this, they usually observe some of the work as it is being performed and examine a sample of past transactions for accuracy and fidelity to the system. They may insert a set of fictitious data into the system to see whether the resulting output meets a predetermined standard. This technique is particularly useful in testing the validity of the programs that are used to process data through electronic computers.

The accounting system must also provide data for use in the completion of the company's tax returns. This function is the concern of tax accounting. In some countries financial accounting must obey rules laid down for tax accounting by national tax laws and regulations, but no such requirement is imposed in the United States, and tabulations prepared for tax purposes often diverge from those submitted to shareholders and others. "Taxable income" is a legal concept rather than an accounting concept. Tax laws include incentives to encourage companies to do certain things and discourage them from doing others. Accordingly, what is "income" or "capital" to a tax agency may be far different from the accountant's measures of these same concepts.

Finally, accounting systems in some companies must provide cost data in the forms required for submission to customers who have agreed to reimburse the companies for the costs they have incurred on the customers' behalf. The primary example of these is work performed under cost-based contracts with U.S. military agencies. The measurement rules for this purpose are contained in the Armed Services Procurement Regulations, which embody standards issued by the Cost Accounting Standards Board. In general, these

standards conform to the principles underlying conventional product costing systems, but they go beyond them in incorporating provisions for corporate and divisional head office administrative costs.

Exercises:

1. Are these statements true (T) or false (F)?
 - (1) Accounting systems are designed to provide information for not only the insiders but also the outsiders to make decisions.
 - (2) A bank loan officer is an example of inside demand for accounting information.
 - (3) Accounting systems must serve the purpose of protecting the company's assets from being lost due to the carelessness or dishonesty on the part of employers, suppliers, and customers.
 - (4) The task of internal auditors is to protect the company's assets by checking on whether the accounting system is effective or not.
 - (5) In the United States, financial accounting must not obey rules laid down for tax accounting by national tax laws and regulations.
 - (6) The accounting systems in some companies must provide cost data for reimbursement of costs by clients or customers.
2. Answer the following questions.
 - (1) What is the main purpose of the accounting systems?
 - (2) What other purposes do accounting systems serve?
 - (3) Why is it said that document preparation is one of accounting's biggest jobs?
 - (4) What are the elements of internal control?
 - (5) How could the accounting system serve the purpose of internal control?
 - (6) Give an example to describe how the accounting system protects the assets of an enterprise.
3. Complete the following outline about the article.
 - (1) The purposes of accounting systems are:
 - (a) _____
 - (b) _____
 - (c) _____
 - (d) _____
 - (e) _____
 - (2) The accounting organization is responsible for _____.
 - (3) Internal controls contain
 - (a) _____
 - (b) _____

Test Yourself

I. Match the terms in the left column with the definition in the right column.

1. incentive	A. a business organized under state or federal statutes as a separate legal entity
2. financial accounting	B. repayment (of a spender or of money)
3. managerial accounting	C. an encouragement to greater activity
4. proprietorship	D. an action of arranging (facts, figures, etc) in tables, lists or columns
5. accounting	E. a specialized field of accounting that uses estimated data to aid management in running day-to-day operations and in planning future operations
6. accounting period	F. an official examination of the accounts of a business
7. corporation	G. an economic event or condition that directly changes an entity's financial condition or directly affects its results of operations
8. partnership	H. the accounting concept that assumes that the economic life of the business can be divided into time periods
9. business transaction	I. the state of being effective
10. validity	J. a specialized field of accounting concerned primarily with the recording and reporting economic data and activities to stakeholders outside the business
11. tabulation	K. a business owned by two or more individuals
12. fidelity	L. a business owned by one individual
13. auditing	M. truthfulness
14. reimbursement	N. an information system that provides reports to stakeholders about the economic activities and condition of a business

II. Select the correct answer for each of the following.

1. A profit-making business operating as a separate legal entity and in which ownership is divided into shares of stock is known as a _____.
A. proprietorship B. service business
C. partnership D. corporation

2. Which is NOT one of the three forms of business organization?
 - A. Sole proprietorship.
 - B. Ownership.
 - C. Partnership.
 - D. Corporation.
3. Which is an advantage of corporations relative to partnerships and sole proprietorships?
 - A. Lower taxes.
 - B. Harder to transfer ownership.
 - C. Reduced legal liability for investors.
 - D. Most common form of organization.
4. Which is NOT one of the three primary business activities?
 - A. Financing.
 - B. Operating.
 - C. Advertising.
 - D. Investing.
5. Which statement about users of accounting information is NOT correct?
 - A. Management is considered an internal user.
 - B. Taxing authorities are considered external users.
 - C. Present creditors are considered external users.
 - D. Regulatory authorities are considered internal users.