

Unit 1

Accounting: a General Introduction 会计导论



Learning Objectives

学习目标

After studying this unit, you should be able to:

- ◆ Understand the functions of accounting;
- ◆ Understand the development of accounting;
- ◆ Define accounting;
- ◆ Identify the divisions of accountants' work;
- ◆ Understand the accounting assumptions and principles.



1.1 Accounting is an Information System

Accounting is an information system necessitated by the great complexity of modern business.

One of the most important functions of accounting is to accumulate and report financial information that shows an organization's financial position and the results of its operations to its interested users. These users include managers, stockholders, banks and other creditors, governmental agencies, investment advisors, and the general public. For example, stockholders must have an organization's financial information in order to measure its management's performance and to evaluate their own holdings. Banks and other creditors must consider the financial strength of a business before permitting it to borrow funds. Potential investors need financial data in order to compare prospective investments. Also, many laws require that extensive financial information be reported to the various levels of government. Businesses usually publish such reports at least annually. To meet the needs of the external users, a framework of accounting standards, principles and procedures known as "generally accepted accounting principles (GAAP)" have been developed to insure the relevance and reliability of the accounting information contained in these external financial reports.

Another important function of accounting is to provide the management inside an organization with the accounting information needed in the organization's internal decision-making, which relates to planning, control, and evaluation within an organization. For example, budgets are prepared under the directions of a company's financial executives on an annual basis and express the desires and goals of the company's management. A performance report is supplied to help a manager focus his attention on problems or opportunities that might otherwise go unnoticed. Furthermore, cost-benefit data will be needed by a company's management in deciding among the alternatives of reducing prices, increasing advertising, or doing both in attempt to maintain its market shares. The process of generating and analyzing such accounting information for internal decision-making is often referred to as management accounting and the related information reports being prepared are called internal management reports. As contrasted with financial accounting, management accounting information system provides both historical and estimated information that is relevant to the specific plans on more frequent basis.

The growth of organizations, changes in technology, government regulations, and the globalization of economy during the twentieth century have spurred the development of accounting. As a result, a number of specialized fields of accounting have evolved in addition to financial accounting and management accounting, which include auditing, cost



accounting, tax accounting, budgetary accounting, governmental and nonprofit accounting, human resources accounting, environmental accounting, social accounting, international accounting, etc. For example, tax accounting encompasses the preparation of tax returns and the consideration of the tax consequences of proposed business transactions or alternative courses of action. Governmental and nonprofit accounting specializes in recording and reporting the transactions of various governmental units and other nonprofit organizations. International accounting is concerned with the special problems associated with the international trade of multinational business organizations. All forms of accounting, in the end, provide information to the related users and help them make decisions.



1.2 The Development of Accounting

Imagine a long distance telephone company with no system in place to document who calls whom and how long they talk, or a manager of a 300-unit apartment complex who has forgotten to write down which tenants have and have not paid this month's rent. Each of these cases illustrates a problem with bookkeeping, the least glamorous aspect of accounting. Bookkeeping is the preservation of a systematic, quantitative record of an activity. Bookkeeping systems can be very primitive. But the importance of routine bookkeeping can never be overstated. Without bookkeeping, business is impossible.

Bookkeeping is ancient, probably predating both language and money. The modern system of double-entry bookkeeping still in use today was developed in the 1300s ~ 1400s in Italy by the merchants in the trading and banking centers of Florence, Venice and Genoa. The key development in accounting in the last 500 years has been the use of the bookkeeping data, not just to keep track of things, but to evaluate the performance and health of a business, which produces the accounting.



1. Distinctions Between Bookkeeping and Accounting

Earlier accounting procedures were simple in comparison with modern accounting methods. The simple bookkeeping procedures of a hundred years ago have been replaced in many cases by the data-processing computers. The control of the fiscal affairs of a business must be as scientific as possible in order to be effective.

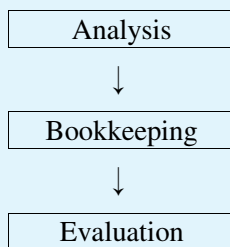
In the past, a bookkeeper kept the books of accounts for a business; the present-day accountants' job developed from the bookkeeper's job. Today, a sharp distinction is made between the relatively unchanged work performed by a bookkeeper and the more sophisticated duties of an accountant. The bookkeeper simply enters data in financial books; the accountant must understand the entire system of records so that he/she can analyze and interpret business transactions. To explain the difference briefly, the accountant sets up a

bookkeeping system and interprets the data in it, whereas the bookkeeper performs the routine work of recording figures in books. Because interpretation of the figures is such an important part of the accountant's function, accounting has often been described as an art. A person might become a reasonably proficient bookkeeper in a few weeks or months. However, to be a qualified professional accountant or a certified public accountant requires several years of study and experience.

2. Functions of the Accounting System

The procedures and processes used by a business to analyze transactions, handle routine bookkeeping tasks, and structure information so it can be used to evaluate the performance and health of the business, which procedures and processes are called the accounting system. In summary, an accounting system is used by a business to (1) analyze transactions to determine if information should be entered into the accounting system, (2) handle routine bookkeeping tasks, and (3) structure information so it can be used to evaluate the performance and health of a business. Exhibit 1-1 illustrates the three functions of the accounting system.

Exhibit 1-1 Functions of the Accounting System



1.3 The Definition of Accounting

Accounting is an information system of interpreting, recording, measuring, classifying, summarizing, reporting and describing business economic activities with monetary unit as its main criterion. The accounting information is primarily supplied to owners, managers and investors of every business, and other users to assist in the decision-making process. Therefore, accounting is also called “the language of business”.

Accounting is a basic and vital element in every modern business. It records the past growth or decline of a business. Careful analysis of these results and trends may suggest the ways in which the business may grow in the future. How do business executives know whether a company is earning profit or incurring loss? How do they know the company is



solvent or insolvent, and whether it probably will be solvent, say, a month from today? The answer to all these questions in one word is accounting.



1.4 Divisions of Accounting Profession

The field of accountants' work is divided into three broad areas: public accounting, accounting for private businesses, and accounting for governments and non-profit organizations.

1. Public Accounting

Public accountant who are similar to doctors or lawyers can offer their accounting service to the public on a fee basis. Public accounting firms are organizations in which public accountants mainly work. Most people in the public accounting firms are licensed as certified public accountants (CPAs). Thus, public accounting firms are often called CPA firms. These firms vary in size from one-person practices to large, international organizations with several thousand professional accountants. Almost all countries in the world have promulgated laws for the CPAs. In the United States, the certification examinations are prepared and administrated by the American Institute of Certified Public Accountants (AICPA). The various states or other major governmental jurisdictions set additional qualifications for residence, experience, and so on. The British equivalent for a CPA is called a chartered accountant. In China, the institute same as AICPA, which is responsible for administrating CPAs, is the Chinese Institute of Certified Public Accountants (CICPA).

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

(1) Auditing. The principal function of CPAs is auditing. Auditing is an analytical process applied to everyday business situations. Hence it is closely related to existing business practices. The CPAs study the company's accounting records and gather other evidence regarding every item in the financial statements through the investigation. Therefore, persons outside the business, such as bankers, investors and government officials, attach great importance to the auditing report.

(2) Income tax services. An important element of decision-making by business executives is consideration of the income tax consequences of an alternative course of action. The CPAs are often called upon for "tax planning", which will help the business executives to hold the companies' income taxes to a minimum amount. The CPAs are also frequently retained to prepare the income tax returns. To render tax services, the CPAs must have extensive knowledge of tax statutes, regulations, as well as a thorough knowledge of accounting.

(3) Management advisory services. Many CPA firms offer their clients a wide range of



management consulting services. The services include as follows: What are the resources of the business? What debts does it owe? Will the business be able to meet these debts as they mature? Are accounts owed by customers are collected properly? Is too little or too much inventory being kept? Are expenses too large in relation to sales? Does the business earn profit properly? Should the plant be expanded? Should a new production line or new product be introduced? Business executives often seek their CPAs' advice on a wide range of problems from the illustration of accounting information to business decision.

2. Accounting for Private Businesses

The accountants in a private business, large or small, must record transactions and prepare periodic financial statements from accounting records. The chief accounting officer in a medium-sized or large business is usually called the controller, who manages the work of the accounting staff. As a part of the top management team, the controller is charged with the task of running the business, setting its objectives, and seeing that these objectives are met.



The work of the accountants in a private business mainly includes the following areas:

- (1) Design of the accounting system. Although the same basic accounting principles are applicable to all types of businesses, each enterprise requires an individually tailored financial information system. This system consists of accounting forms, records, instruction manuals, flow chart, computers programs, and reports to fit the particular needs of the business.
- (2) Cost accounting. Accountants must know the cost of a particular product in order to make business decisions. Calculating and controlling cost is vital to the efficient management of a business. The phase of accounting particularly concerned with collecting and interpreting cost data is called cost accounting.
- (3) Internal control and auditing. A key responsibility of the manager of a business is to keep its operations under control. Internal control is a management priority, not merely a part of the accounting system. Thus it is not only a responsibility of accountants but of managers as well. To make internal control effective, internal auditing in a business is very important. Most large corporations maintain staff 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.



3. Accounting for Governments and Non-profit Organizations

Many accountants work in government offices or for non-profit organizations. These two areas are often joined together under the term governmental accounting and non-profit accounting. All of these accountants, like those in private businesses, work on a salary basis.

Most enterprises face government regulations. Government officials rely on information to help them direct the affairs of their agencies just as do the executives of corporations. For example, in the United States, there are two of the governmental agencies, which perform extensive accounting work. One is the Securities and Exchange Commission (SEC); another is the Internal Revenue Service (IRS). 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 so as to meet these requirements. Local, state, and federal governments levy taxes on individuals and business. 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.

Many governmental accounting problems are similar to those applicable to private businesses. 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. Non-profit organizations include universities, hospitals, churches, and charitable organizations. Non-profit accounting also follows a pattern of accounting that is similar to governmental accounting.



1.5 Generally Accepted Accounting Principles

Accounting practice needs certain qualitative requirements to action. Accounting theory provides the rationale or justification for accounting practice. In USA, GAAP is used to instruct accounting practice. GAAP is a widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board (FASB).

To achieve basic business accounting objectives and implement fundamental qualities, GAAP has four basic assumptions, four basic principles, and four basic constraints.

1. Accounting Assumptions

Accounting Entity Assumption

The most basic concept in accounting is that of the accounting entity. An accounting entity is any economic unit which controls resource and engages in accounting practice.



Transactions between accounting entities are recorded in the accounts of both entities. Each accounting entity interprets transactions from its own viewpoint.

Monetary Unit Assumption

Money is the common unit in which accounting measurements are made and measured. All transactions are measured, recorded and reported in terms of money unit. The stable-money-unit concept is the basis for ignoring the effect of inflation in the accounting records. It allows accountants to add and subtract dollar amounts as though each dollar has the same purchasing power as any other dollar at any other time. Nevertheless, the value of money is not constant over time. The purchasing power of money changes as a result of either inflation or deflation.

Going Concern Assumption

According to the going concern concept, accountants assume that the business will remain in operation long enough to use existing assets for their intended purpose. However, under the situation of going out of business, because an enterprise that is holding a going-out-of-business sale is trying to sell its assets, the relevant measure of the asset is their current market value. The going concern assumption allows the accountant to record assets at what they are worth to a business in normal use, rather than what they would sell for in a liquidation sale.

Accounting Period Assumption

Most accounting entities are assumed to have an indefinite life. But accountants are asked to measure operating results and changes in economic position at relatively short time interval during this indefinite life. Consequently, accountants must divide the life of a business into time periods of equal length, called accounting period. Accounting period is normally divided into one year, one quarter or one month.

2. Accounting Principles

The accounting principles based upon this foundation provide guidelines or directives to accounting practice.

The Cost Principle

The financial statements are affected by cost principle. All goods and services purchased by an enterprise are recorded at acquisition cost and appear on financial statements at cost. Because cost is a reliable measure, the cost principle states that the accounting records should maintain the historical cost of an asset for as long as the business holds the asset. The cost principle is based on the assumption that cost is equal to fair market value at the date of acquisition and subsequent changes are not relevant to it.



The Revenue Realization Principle

The revenue realization principle indicates that revenue should be recognized at the time goods are sold or services are rendered. At this time, the business has essentially completed the earning process and the sales value of the goods or service can be measured objectively. In most cases, revenue is earned when the business has delivered completed goods or services to the customer. The reason is that the business has done everything required by the agreement including transferring the item to the customer. At any time prior to sale, the ultimate sales value of the goods or services sold can only be estimated. The revenue should be recognized and reported in the financial statement when the timing of revenue is reasonably determinable and the earning process is completed.

The Matching Principle

The matching principle requires that revenues and expenses should be matched each other. The measurement of expenses occurs in two stages: (1) measuring the cost of goods and services that will be consumed or expired in generating revenue and (2) determining when the goods and services acquired have contributed to revenue and their cost thus becomes an expense. The second aspect of the measurement process is often referred to as matching cost and revenue and fundamental to the accrual basis of accounting. To match expenses against the revenues means to subtract the expenses from the revenues in order to compute net income or net loss.

The Adequate Disclosure Principle

The adequate disclosure principle holds that a company's financial statements should report enough information for outsiders to make knowledgeable decision about the company. In short, the company should report relevant, reliable, and comparable information about its economic affairs. Adequate disclosure can be accomplished either in the financial statements or in the notes accompanying the statements. Such disclosure should make the financial statements more useful and less subject to misinterpretation. The key point to bear in mind is that the supplementary information should be relevant to the interpretation of the financial statements.

3. Accounting Constraints

In the accounting practice, there are some constraints principles.

The Objective Principle

Accounting records and statements are based on the most reliable data available so that they will be as accurate and as useful as possible. This guideline is the objective principle. The key of objective principle is that accounting records and financial reports must be based on financial and economic transactions as they actually take place, in order to reflect the financial position and operating results of an enterprise objectively. Without the objective

principle, accounting records would be based on whims and options and subject to dispute.

The Materiality Principle

In following general accepted accounting principles, accountants must consider the relative importance of any transactions. Accountants are primarily concerned with significant information and not overly concerned with those items which have little effect on financial statements. However, to determine whether the materiality of a transaction is or not, no precise criteria can be formulated. Accountants are required to judge the materiality in accounting practice. An item is judged to be material if it is important enough to influence the decisions of statement users. Materiality of an item may depend not only on its nature.

The Consistency Principle

The principle of consistency implies that accounting methods should be consistent from one period to the other and should not be changed. Changes and reasons for changes, if necessary, and their impact on an enterprise's financial position and operating results, should be reported in notes to the financial statements. This principle is very important because it assists users of financial statements in interpreting changes in financial position and changes in net income.

The Conservatism Principle

Conservatism in accounting, also called prudence, means to report items in financial statements at amounts that lead to the gloomiest immediate financial results. According to the conservatism principle, to fully consider the risk or uncertainty inherent in business situations, accountants should be conservative in choosing the one that has the least favorable impact on net income when there are two or more alternative accounting methods. Accountants should follow the conservatism principle so as to determine the possible losses and expenses reasonably.



Key Words and Expressions

核心词汇

- | | |
|-----------------------|--------------------|
| 1. accounting | <i>n.</i> 会计;会计学 |
| 2. information | <i>n.</i> 信息,资料 |
| 3. business | <i>n.</i> 商业;企业,公司 |
| 4. financial | <i>a.</i> 财务的,财政的 |
| 5. financial position | 财务状况 |



6. investment	<i>n.</i> 投资
7. measure	<i>v.</i> 估量,判定;测量,度量
8. principle	<i>n.</i> 法则,原则
9. financial report	财务报告
10. budget	<i>v.</i> 预算
11. management accounting	管理会计
12. financial accounting	财务会计
13. audit	<i>n. & v.</i> 审计
14. tax	<i>n.</i> 税,税金
15. income tax return	所得税申报单
16. account	<i>n.</i> 账,账目,账户
17. transaction	<i>n.</i> 交易,业务
18. accountant	<i>n.</i> 会计师,会计人员
19. financial statement	财务报表
20. classify	<i>v.</i> 分类
21. corporation	<i>n.</i> 股份公司
22. salary	<i>n.</i> 工资
23. revenue	<i>n.</i> 收益
24. asset	<i>n.</i> 财产,资产



1. certified public accountant (CPA)

注册会计师,是有资格执行审计业务的专业人员,一般需要满足三个方面的条件才能获得这种资格:(1)接受过专业教育,通常要有本科学历,有的国家甚至要求更高的学历;(2)具有一定期限的会计或审计工作经验;(3)通过由会计专业团体举办的统一考试。

2. American Institute of Certified Public Accountants (AICPA)

美国注册会计师协会,简称 AICPA,是美国全国性的民间会计专业团体,负责制定会计师职业标准和规则,进行会计方面的科学研究并出版一些会计刊物,组织并为学员提供继续教育的机会,组织一年两次的注册会计师统一考试,在国际上有较大的影响。

3. Chinese Institute of Certified Public Accountants (CICPA)

中国注册会计师协会。中国注册会计师协会成立于1988年11月,是中国注册会计师行业的自律管理组织。中国注册会计师协会最高权力机构为全国会员代表大会,协会下设秘书处,为其常设执行机构。

4. Internal Revenue Service (IRS)

(美国)国家税务局。(美国)国家税务局隶属于美国财政部,是美国联邦政府负责税收的机关。

5. Financial Accounting Standards Board (FASB)

(美国)财务会计准则委员会。美国财务会计准则委员会是美国目前制定财务会计准则的权威机构,它的建立及其委员会的任命由“财务会计基金会”负责。

6. accounting entity

会计个体,会计主体。将企业看做是一个独立的会计主体,这是一项重要的会计原则,即从企业单位而不是从企业主个人的角度进行会计核算,企业的财务会计活动与所有者个人的财务会计活动要分开。

7. going concern assumption

持续经营假设。它指的是企业在提供会计报表时,总是假定企业是一个永久存在的实体,即能够持续营业,除非有明显的证据显示它要倒闭。

8. accounting period

会计期间,也称为 fiscal period。根据持续经营假设,可以将不断循环的经营过程划分为适当的时间段落,而在每一段落结束时,办理一次结算,这种划分时间段落作为计算盈亏的时间单位,称为会计期间。会计期间可以与日历年度一致,也可以与日历年度不一致。

9. the matching principle

配比原则。配比原则是指某个会计期间或某个会计对象所取得的收入应与为取得该收入所发生的费用、成本相匹配,以正确计算在该会计期间,该会计所获得的净损益。收入与费用之间的配比方式主要有两种:一是根据收入与费用之间的因果关系进行直接配比;二是根据收入与费用项目之间存在的时间上的一致关系进行期间配比。

10. the objective principle

客观性原则。它是指如果一项经济业务的数量在不能正确计量以前,对它不予确认,也不记账。也就是说,对经济业务的计量应以客观的事实为依据,而不应受主观意志的支配。

11. the consistency principle

一致性原则。它是指在不同会计期间所使用的会计程序和会计方法应保持一致。但会程



序和方法并非永远不能变动,如果发生了重要的变动,必须在财务报表的附注中加以说明。

12. the conservatism principle

稳健性原则。它是指在不确定的情况下,对于经济业务的报告趋向于减少本期收益。它要求确认一切可能发生的损失,但避免预计任何可能发生的收益,从而使会计报表不会引起人们的过分乐观。



1. Read the following sentences carefully and fill in the blanks with appropriate words.

(1) _____ is an information system that identifies, measures, records and communicates relevant, reliable, consistent and comparable information about an organization's economic activities.

(2) An individual who earns a living by recording the financial activities of a business is known as a _____.

(3) The process of classifying and summarizing business transactions and interpreting their effects is accomplished by the _____.

(4) An _____ is any economic unit that controls resources and engages in economic activities.

(5) The _____ requires business transactions and financial statements to be based upon objective and verifiable evidence.

(6) The _____ states that for accounting purposes, all business transactions will be recorded at cost or the actually dollars paid.

(7) _____ assumption holds that the entity will remain in operation for the foreseeable future.

(8) The _____ principle requires that revenue be recognized at the time it is earned.

(9) The _____ indicates that the requirements of accounting principles may be ignored if their effects on the financial statement are unimportant to users.

(10) The _____ assumption identifies a business's activities during a specific time period.



2. Read each of the following statements and decide whether it is true (T) or false (F).

(1) The accounting process generates financial reports for both “internal” and “external” users. ()

(2) GAAP are not like laws of math and science; they are guidelines which define correct accounting practice at the time. ()

(3) A business should be understood as an entity that is separate and distinct from its owners, customers, and creditors. ()

(4) CPAs can offer their services to the public on an individual consultant basis for which they receive fees. ()

(5) The objectives of non-profit organizations are profit. ()

3. Translate the following sentences into English.

(1) 会计是当今经济社会中发展最快的行业之一。

(2) 公认会计原则是会计师编制财务报表时必须遵循的原则和指南。

(3) 注册会计师现在享有和医生或律师一样的职业地位。

(4) 20 世纪以来,会计行业的迅速发展造就了一大批经过专业培训的会计师。

(5) 会计是可以用来衡量一个公司盈利能力和偿债能力的手段。

4. Translate the following passage into Chinese.

Accounting has a long history. Accounting records date back to the ancient civilizations of China, Babylon, Greece and Egypt. Modern accounting is services designed to accumulate, measure and communicate economic data of organizations. Actually, nearly everyone practices accounting in one form or another on an almost daily basis. Whether you are preparing a household budget, balancing your check-book, preparing your income tax return, or managing a company, you are working with accounting concepts and accounting information.

Decision-makers need accounting information. Virtually all businesses and most individuals keep accounting records to aid in making decision. 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 employee? 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.



The Foundation for Generally Accepted Accounting Principles

Identify the basic objective of financial reporting. The Financial Accounting Standards Board (FASB) formulates GAAP to provide relevant, reliable and comparable accounting information. Relevant information allows users to make business predictions and to evaluate past decisions. Reliable data are free from material error and bias. Accounting information is also intended to be comparable from company to company and from period to period.

Identify and apply the underlying concepts of accounting. Four concepts underlie accounting. The most basic, the entity concept, draws clear boundaries around the accounting entity. The entity, based on the going-concern concept, is assumed to remain in business for the foreseeable future. The time-period concept is the basis for reporting accounting information for particular time periods such as months, quarters, or years. Under the stable-monetary-unit concept, no adjustment is made for the changing value of the dollar.

Identify and apply the principles of accounting. Accounting principles provide detailed guidelines for recording transactions and preparing the financial statements. The reliability and comparability principles require that accounting information be based on objective data and be useful for comparing companies over different time periods. The cost principle governs accounting for assets and liabilities, and the revenue principle governs accounting for revenues.

Allocate revenue to the appropriate period by four methods. Different methods exist to account or revenues, depending on when the revenue has been earned, when it can be measured objectively, and whether collectability is assured. Matching is the basis for recording expenses.

Report information satisfies the disclosure principle. The disclosure principle requires companies to report their accounting policies, probable future losses, accounting changes, subsequent events, and business-segment data. They use different disclosure techniques.

Apply the materiality constraint and the conservatism constraint to accounting. Two constraints on accounting are materiality and conservatism. The materiality concept allows companies to avoid excessive cost in accounting for immaterial items. Conservatism constrains the optimism of managers by anticipating no profits, but anticipating all losses.

Unit 2

Accounting Elements and Equations 会计要素和会计等式



Learning Objectives

学习目标

After studying this unit, you should be able to:

- ◆ Explain the accounting elements;
- ◆ Explain the classification of the accounting elements;
- ◆ Understand the accounting equation;
- ◆ Understand the effect of business transactions upon the accounting equation.



2.1 Basic Elements of Accounting

Financial accounting information is classified into the categories of assets, liabilities, owner's equity, revenues, expenses and net income. The above accounting information is also called accounting elements, which form the basic structure of financial statements. A good understanding of these accounting elements will be a good basis and start in learning financial accounting.

1. Assets

Assets are economic resources, which are measurable by money value, and which are owned or controlled by an enterprise, including all property, rights as a creditor to others, and other rights. Assets can be classified into current assets and long-term assets. Current assets refer to those assets which will be realized or consumed within one year of their acquisition, or within an operating cycle longer than a year, including cash, accounts receivable, and inventories, etc. Long-term assets consist of those economic resources that are held for operational purposes, including plant and equipment and intangible assets, etc.

2. Liabilities

Liabilities are debts born by an enterprise, measurable by money value, which will be paid to a creditor using assets or services. Liabilities are generally classified into current liabilities and long-term liabilities. Current liabilities refer to the debts which should be paid off within a year or an operating cycle longer than a year, including notes payable, accounts payable, advances from customers, accrued expenses, and taxes payable, etc; long-term liabilities refer to the debts which will be repayment after a year including long-term notes payable, bonds payable, and mortgage note, etc.

3. Owner's Equity

Owner's equity refers to the interest or the claim of the investors remaining in the net assets of an enterprise. Net assets are the difference between the amount of assets and the amount of liabilities. Owner's equity includes owner's investment in a business and accumulated operating results since the beginning of the operation. Capital, net assets, and shareholder's equity are the other terms for owner's equity.

4. Revenue

Revenue is the economic resources flowing into a business as a result of rendering goods and services sold during a given accounting period. Sales revenue, service revenue, and investment revenue are subdivisions of revenue. Increase in revenue will increase owner's equity.

5. Expenses

Expenses are the outflow of a business's economic resources resulting from earning revenue or the cost of the operational activities for the business. Expenses include cost of goods sold, administrative expenses, selling expenses, and financial expenses, etc. Increase in expenses will decrease owner's equity.

6. Net Income

Net income (or net loss) is the result of matching revenue with expenses. When revenue exceeds expenses, net income occurs, otherwise net loss occurs. The net income is a major goal of almost every enterprise. Profit and earnings are the other terms for net income.



2.2 Accounting Equations

The relationship between the accounting elements can be expressed in a simple mathematical form known as the accounting equation.

1. The Basic Accounting Equation

The basic accounting equation reflects the relationship among assets, liabilities, and owner's equity. Assets appear on the left side of the equation and equity (liabilities and owner's equity) on the right side of the equation shows the legal and economic claims against the assets. The two sides of the accounting equation must be equal.

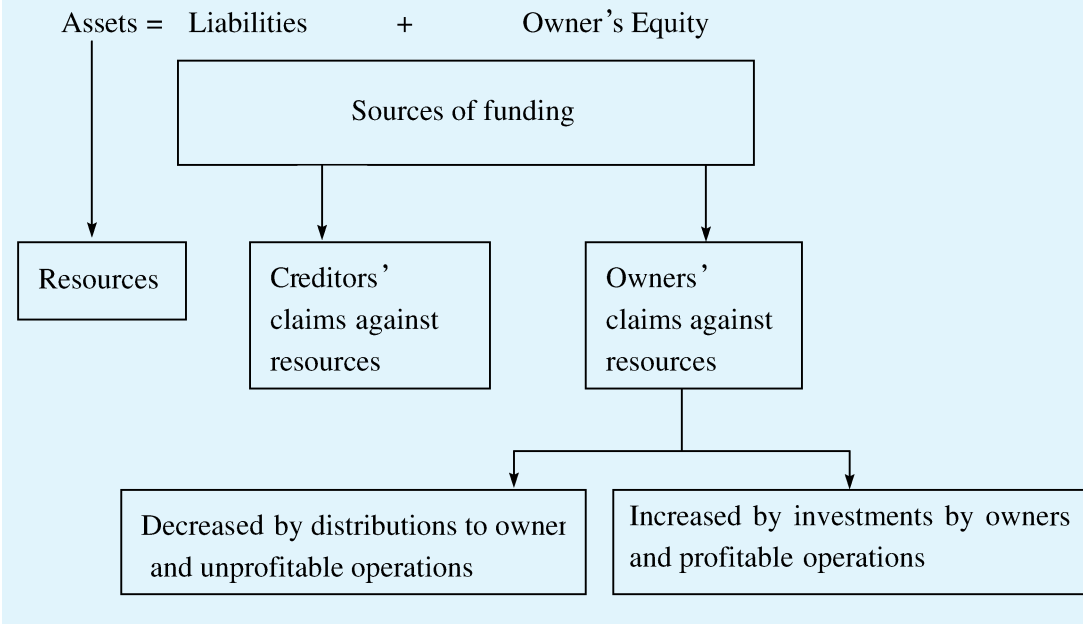
$$\text{Assets} = \text{Equity}$$

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Exhibit 2-1 shows the basic accounting equation.



Exhibit 2-1 The Basic Accounting Equation



2. The Expanded Accounting Equation

At this point, we must bring revenue and expenses into the picture, which is called expanded accounting equation. Obviously, they are parts of every ongoing business. Revenue provides resource inflows; it is increases in resources from the sale of goods or services. Expenses represent resource outflows; they are costs incurred in generating revenue. Revenue is not synonymous with cash or other assets, but is a way describing where the assets came from. For example, cash received from the sale of a product would be considered revenue. Cash received by borrowing from the bank would not be revenue, but an increase in a liability. By the same token, expenses are the way of describing how an asset has been used. Thus, cash paid for interest on a loan is an expense, but cash paid to buy a building represents the exchange of one asset for another.

How do revenue and expenses fit into the accounting equation? Remember that revenue minus expenses equals net income; and net income is a major source of change in owner's equity from one accounting period to the next. Revenue and expenses are thought of as temporary subdivision of owner's equity. Revenue increases owner's equity and expenses decrease owner's equity.

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

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity} + \text{Net Incomes}$$

$$= \text{Liabilities} + \text{Owner's Equity} + \text{Revenue} - \text{Expenses}$$

$$\text{Assets} + \text{Expenses} = \text{Liabilities} + \text{Owner's Equity} + \text{Revenue}$$



On the basis of the accounting equation, the financial position and the operating result of a business can be recorded and reported to the interested users of accounting information.



2.3 The Effect of Business Transactions upon the Accounting Equation

Some activities or the day-to-day events of a business are known as transactions. In accounting, a transaction is any event that both affects the financial position of the business entity and can be reliably recorded. Every transaction of a business affects the assets and (or) equities (liabilities and owner's equity). Each business transaction will cause one of the following results:

- (1) Increase an asset and increase an equity;
- (2) Decrease an asset and decrease an equity;
- (3) Increase one asset and decrease another asset;
- (4) Decrease one equity and increase another equity.

We now consider the following nine events and analyze each in terms of its effect on the accounting equation.

[Example 2-1]

During the month of January 2009, Mr. S. Smith, psychologist

- (1) *Invested \$ 4 000 to open his counseling practice.*
- (2) *Bought supplies (stationery, forms, pencils, and so on) for cash, \$ 300.*
- (3) *Bought office furniture from Robinson Furniture Company on account, \$ 2 000.*
- (4) *Received \$ 2 500 in fees earned during the month.*
- (5) *Paid office rent for January, \$ 500.*
- (6) *Paid salary for part-time help, \$ 200.*
- (7) *Paid \$ 1 200 to Robinson Furniture Company on account.*
- (8) *After taking an inventory at the end of the month, Mr. S. Smith found he had used \$ 200 worth of supplies.*
- (9) *Withdrew \$ 400 for personal use.*

These transactions might be analyzed and recorded as follows:

Transaction (1): Mr. S. Smith invested \$ 4 000 to open his counseling practice.

Two accounts are affected: the asset Cash is increased and the Capital of the firm is



increased by the same amount.

Assets	=	Liabilities	+	Owner's Equity
Cash				S. Smith, Capital
\$ 4 000	=		+	\$ 4 000

Transaction (2) : Bought supplies for cash, \$ 300.

In this case, Mr. S. Smith is substituting one asset for another. He is receiving (+) the asset Supplies and paying out (-) the asset Cash. Note that the Capital of \$ 4 000 remains unchanged.

Assets		=	Liabilities + Owner's Equity	
Cash	+	Supplies		S. Smith, Capital
\$ 4 000				\$ 4 000
<u>- \$ 300</u>		<u>+ \$ 300</u>		
\$ 3 700	+	\$ 300	=	+ \$ 4 000

Transaction (3) : Bought office furniture from Robinson Furniture Company on account, \$ 2 000.

Mr. S. Smith is receiving the asset of Furniture but is not paying for it with the asset Cash. Instead, he will owe the money to the Robinson Furniture Company. Therefore, he will pay this amount in the future, thus creating the liability Accounts Payable.

Assets			=	Liabilities	+	Owner's Equity		
Cash	+	Supplies + Furniture		Accounts Payable		S. Smith, Capital		
\$ 3 700		\$ 300				\$ 4 000		
		<u>+ \$ 2 000</u>		<u>+ \$ 2 000</u>				
\$ 3 700	+	\$ 300	+	\$ 2 000	=	\$ 2 000	+	\$ 4 000

Transaction (4) : Received \$ 2 500 in fees earned during the month.

Because Mr. S. Smith received \$ 2 500, the asset Cash increased, and also his Capital increased. It is important to note that he labels the \$ 2 500 revenue increase of owner's equity.

Assets			=	Liabilities	+	Owner's Equity		
Cash	+	Supplies + Furniture		Accounts Payable		S. Smith, Capital		
\$ 3 700		\$ 300 + \$ 2 000		\$ 2 000		\$ 4 000		
<u>+ \$ 2 500</u>						<u>+ \$ 2 500 (revenue)</u>		
\$ 6 200	+	\$ 300	+	\$ 2 000	=	\$ 2 000	+	\$ 6 500

Transaction (5) : Paid office rent for January, \$ 500.

When the word “paid” is stated, you know it means a deduction of cash, since Mr. S. Smith is paying out his asset Cash. Payment of expense is a decrease of owner’s equity. It is termed Rent Expense.

Assets			=	Liabilities	+	Owner’s Equity		
Cash	+	Supplies	+	Furniture	=	Accounts Payable	+	S. Smith, Capital
\$ 6 200		\$ 300		\$ 2 000		\$ 2 000		\$ 6 500
<u>- \$ 500</u>								<u>- \$ 500 (Rent Expense)</u>
\$ 5 700	+	\$ 300	+	\$ 2 000	=	\$ 2 000	+	\$ 6 000

Transaction (6) : Paid salary for part-time help, \$ 200.

Again, the word “paid” means a deduction of cash and a reduction in owner’s equity. This time it refers to Salary Expense.

Assets			=	Liabilities	+	Owner’s Equity		
Cash	+	Supplies	+	Furniture	=	Accounts Payable	+	S. Smith, Capital
\$ 5 700		\$ 300		\$ 2 000		\$ 2 000		\$ 6 000
<u>- \$ 200</u>								<u>- \$ 200 (Salary Expense)</u>
\$ 5 500	+	\$ 300	+	\$ 2 000	=	\$ 2 000	+	\$ 5 800

Transaction (7) : Paid \$ 1 200 to Robinson Furniture Company on account.

Here Mr. S. Smith is reducing the asset Cash because he is paying \$ 1 200, and he is also reducing the liability Accounts Payable. He will now owe \$ 1 200 less.

Assets			=	Liabilities	+	Owner’s Equity		
Cash	+	Supplies	+	Furniture	=	Accounts Payable	+	S. Smith, Capital
\$ 5 500		\$ 300		\$ 2 000		\$ 2 000		\$ 5 800
<u>- \$ 1 200</u>						<u>- \$ 1 200</u>		
\$ 4 300	+	\$ 300	+	\$ 2 000	=	\$ 800	+	\$ 5 800

Transaction (8) : After taking an inventory at the end of the month, Smith found he had used \$ 200 worth of supplies.

The original amount of supplies purchased has been reduced to the amount that was found to be left at the end of the month. Therefore, the difference was the amount used (\$ 300 - \$ 200 = \$ 100). This reduces the asset Supplies by \$ 200 and reduces owner’s equity by the same amount. It is termed Supplies Expense.



Assets			=	Liabilities	+ Owner's Equity
Cash	+ Supplies	+ Furniture		Accounts Payable	S. Smith, Capital
\$ 4 300	\$ 300			\$ 800	\$ 5 800
	<u>– \$ 200</u>				<u>– \$ 200 (Supplies Expense)</u>
<u>\$ 4 300</u>	<u>+ \$ 100</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 800</u>	<u>+ \$ 5 600</u>

Transaction (9) : Withdrew \$ 400 for personal use.

The withdrawal of cash is a reduction not only in Mr. S. Smith's cash position but also in his capital. This is not an expense but a personal withdraw, a reduction of the amount invested.

Assets			=	Liabilities	+ Owner's Equity
Cash	+ Supplies	+ Furniture		Accounts Payable	S. Smith, Capital
\$ 4 300	\$ 100	\$ 2 000		\$ 800	\$ 5 600
	<u>– \$ 400</u>				<u>– \$ 400 (Withdrawal)</u>
<u>\$ 3 900</u>	<u>+ \$ 100</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 800</u>	<u>+ \$ 5 200</u>

Summary of transactions in the month of January 2009

Assets			=	Liabilities	+ Owner's Equity
Cash	+ Supplies	+ Furniture		Accounts Payable	S. Smith, Capital
(1) <u>\$ 4 000</u>					<u>\$ 4 000</u>
(2) <u>– \$ 300</u>	<u>+ \$ 300</u>				
<u>\$ 3 700</u>	<u>+ \$ 300</u>		<u>=</u>		<u>\$ 4 000</u>
(3)		<u>+ \$ 2 000</u>		<u>+ \$ 2 000</u>	
<u>\$ 3 700</u>	<u>+ \$ 300</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 2 000</u>	<u>+ \$ 4 000</u>
(4) <u>+ \$ 2 500</u>					<u>+ \$ 2 500 (Revenue)</u>
<u>\$ 6 200</u>	<u>+ \$ 300</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 2 000</u>	<u>+ \$ 6 500</u>
(5) <u>– \$ 500</u>					<u>– \$ 500 (Rent Expense)</u>
<u>\$ 5 700</u>	<u>+ \$ 300</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 2 000</u>	<u>+ \$ 6 000</u>
(6) <u>– \$ 200</u>					<u>– \$ 200 (Salary Expense)</u>
<u>\$ 5 500</u>	<u>+ \$ 300</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 2 000</u>	<u>+ \$ 5 800</u>
(7) <u>– \$ 1 200</u>				<u>– \$ 1 200</u>	
<u>\$ 4 300</u>	<u>+ \$ 300</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 800</u>	<u>+ \$ 5 800</u>
(8)	<u>– \$ 200</u>				<u>– \$ 200 (Supplies Expense)</u>
<u>\$ 4 300</u>	<u>+ \$ 100</u>	<u>+ \$ 2 000</u>	<u>=</u>	<u>\$ 800</u>	<u>+ \$ 5 600</u>



$$\begin{array}{r}
 (9) - \$ 400 \\
 \hline
 \$ 3\,900 \quad + \$ 100 \quad + \$ 2\,000 \quad = \quad \$ 800 \quad - \$ 400(\text{Withdrawal}) \\
 \hline
 + \$ 5\,200
 \end{array}$$

From the illustration showed above, we can see that no matter how the economic transaction changes in the business, the accounting equation remains in balance.



Key Words and Expressions

核心词汇

1. element	<i>n.</i> 要素,基本部分
2. owner's equity	<i>n.</i> 所有者权益
3. net income	<i>n.</i> 净利润,纯收入
4. current assets	流动资产
5. long-term assets	非流动资产,长期资产
6. operating cycle	经营周期
7. cash	<i>n.</i> 现金
8. accounts receivable	应收账款
9. intangible assets	无形资产
10. notes payable	应付票据
11. accounts payable	应付账款
12. claim	<i>n.</i> 声明,宣称
13. net assets	净资产
14. capital	<i>n.</i> 资本
15. shareholder's equity	股东权益
16. outflow	<i>n.</i> 流出
17. administrative expense	管理费用
18. selling expense	销售费用
19. financial expense	财务费用
20. liability	<i>n.</i> 负债
21. on account	赊账
22. inventory	<i>n.</i> 存货
23. withdrawal	<i>n.</i> 提款




Special Terms

专业术语

1. accounting elements

会计要素。会计要素是组成会计报表的基本单位,是对会计对象进行的基本分类,是会计核算对象的具体化。我国《企业会计准则》规定,会计要素包括资产、负债、所有者权益、收入、费用和利润六个方面。

2. accounting equation

会计等式,会计恒等式。会计等式也称 balance sheet equation,即资产 = 负债 + 所有者权益,是复式记账方法的理论依据。

3. creditor

债权人。债权人也称 lender,是指拥有资金并授信于债务人的企业或个人,与债务人 (debtor) 相对应。

4. owner

所有者,业主。所有者狭义仅指独资企业产权的所有者;广义则指任何企业组织形式产权的所有者。

5. expanded accounting equation

扩展会计等式。扩展会计等式即是把收入和费用加入会计恒等式:资产 + 费用 = 负债 + 所有者权益 + 收入。

6. supplies

辅料,物料。辅料是指零星用品,即次要的、价值较低的材料和工具,有时还指办公用品,如文具、纸张等。



Exercises

习题

1. Read the following sentences carefully and fill in the blanks with appropriate words.

(1) The basic accounting equation is _____ = _____ + _____.



- (2) Items owned by a business that have money value are known as _____.
- (3) _____ is the interest or the claim of the owners in a business.
- (4) Liabilities are generally classified into _____ and _____.
- (5) The difference between the amount of assets and the amount of liabilities is _____.
- (6) An investment in the business increase _____ and _____.
- (7) When revenue exceeds expenses, _____ occurs, otherwise _____ occurs.
- (8) When the word “paid” occurs, it means a deduction of _____.

2. Determine the missing amount in each of the accounting equation below.

	Assets	=	Liabilities	+	Owner's Equity
(1)	\$ 7 200	=	\$ 2 800	+	?
(2)	\$ 7 200	=	?	+	\$ 4 800
(3)	?	=	\$ 2 800	+	\$ 4 800
(4)	\$ 20 000	=	\$ 5 600	+	?
(5)	\$ 18 000	=	?	+	\$ 6 000
(6)	?	=	\$ 4 280	+	\$ 8 240

3. Indicate whether each of the following is identified with an asset (A), a liability (L) or capital (C).

- | | |
|----------------------------|-------------------------------|
| (1) Cash _____ | (2) Owner's Investment _____ |
| (3) Supplies _____ | (4) Land _____ |
| (5) Accounts Payable _____ | (6) Accounts Receivable _____ |
| (7) Notes Payable _____ | (8) Equipment _____ |

4. John Brown invested in his new firm \$ 8 600 in cash, \$ 4 000 worth of supplies, equipment and machinery valued at \$ 12 000, and a \$ 5 000 notes payable based upon the equipment and machinery. What is the capital of the firm?

5. Financial information of B. Glatt Carpenter for December is presented below:

- (1) Began business by investing \$ 140 000 cash and \$ 6 000 equipment in the business.
- (2) Bought additional equipment for \$ 2 000 on account.
- (3) Purchased supplies, \$ 600, for cash.
- (4) Paid \$ 500 to creditor on account.
- (5) Received \$ 2 400 in fees earned during the month.
- (6) Paid salary of part-time assistant, \$ 300.



- (7) Paid general expenses, \$ 400.
 - (8) Paid balance due on equipment.
 - (9) Withdrew \$ 700 for personal use.
 - (10) Cost of supplies used during the month, \$ 450.
- Enter each transaction in the form of accounting equation.

6. M. Boyd operates a taxi company known as the Boyd Taxi Co. The balance of his accounts in July of the current year was as follows: Cash \$ 6 400, Supplies \$ 800, Automobile \$ 4 500, Accounts Payable \$ 2 000, Capital \$ 9 700.

The transactions of the firm during the month of July are shown below:

- (1) Paid the balance owed to the creditor.
 - (2) Income (cash) for the month, \$ 8 200.
 - (3) Paid wages for the month, \$ 1 900.
 - (4) Paid for advertising, \$ 200.
 - (5) Purchased an additional taxi for \$ 5 000, terms half in cash and the balance on account.
 - (6) Paid \$ 425 for maintenance of automobiles.
 - (7) Sold \$ 100 of supplies at cost.
 - (8) Withdrew \$ 800 for personal use.
 - (9) Inventory of supplies at the end of the month, \$ 350.
- Enter each transaction in the form of accounting equation.



The Users of Accounting Information

The accounting system generates output in the form of financial statements. Examples of users of the information contained in the financial statements, along with other available information, are described in the following paragraphs.

Lenders

Lenders are interested in one thing—being repaid with interest. Banks use companies' financial statements in making decisions about commercial loans. The financial statements are useful because they help the lenders predict the future ability of the borrower to repay the loan.



Investors

Investors want information to help them estimate how much cash they can expect to receive in the future if they invest in a business now. Financial statements, coupled with knowledge of business plans, market forecasts, and character of management, can aid investors in assessing these future cash flows.

Obviously, millions of Americans invest in McDonald, Microsoft, and General Electric without ever seeing the financial statements of these companies. Investors can feel justifiably safe in doing this because large companies are followed by armies of financial analysts who would quickly blow the whistle if they found information suggesting that investors in these companies were at serious risk. But what about investing in a smaller company, one that the financial press doesn't follow, or in a local family business that is seeking outside investors for the first time? In cases such as these, investing without looking at the financial statements is like jumping off the high dive without looking first to see if there is any water in the pool.

Managers

In addition to using management accounting information available only to those within the firm, managers of a company can use the general financial accounting information that is also made available to outsiders. Company goals are often stated in terms of financial accounting numbers, such as a target of sales growth in excess of 5%. Also, reported "net income" is frequently used in calculating management bonuses. Finally, managers of a company can analyze the general-purpose financial statements in order to pinpoint areas of weakness about which more detailed management accounting information can be sought.

Other Users of Financial Information

There are many other external users of financial information, including suppliers, customers, employees, competitors, government agencies, and the press. These are described below.

Suppliers and Customers. In some settings, suppliers and customers are interested in the long-run staying power of a company. Financial statements provide information that suppliers and customers can use to assess the long-run prospects of a company. Business customers can use financial information to help them ascertain the company's ability to survive and have the resources to fix glitches and provide upgrades as the technology improves.

Employees. Employees are interested in financial accounting information for a variety of reasons. As mentioned earlier, financial statement data are used in determining employee bonuses; In addition, financial accounting information can help an employee evaluate the likelihood that the employer will be able to fulfill its long-run promises, such as pensions and retiree health-care benefits. Financial statements are also important in contract negotiations between labor and management.



Competitors. If you were a manager at PEPSICO, would you be interested in knowing the relative profitability of Coca-Cola's operations in the United States, Brazil, Japan, and France? Of course you would, because that information could help you identify strategic opportunities for marketing pushes where potential profits are high or where your competitors is weak. Every business can use the information in financial statements to track its competitors and identify new opportunities to grow and use its market share in every side to increase its revenues.

Government Agencies. Government agencies make frequent use of financial accounting information. For example, to make sure that investors have sufficient information to make informed investment decisions, the Securities and Exchange Commission monitors the financial accounting disclosures of companies.

The Press. Financial statement is a great place for a reporter to find background information to flesh out a story about a company. For example, a story about Microsoft can be enhanced by using the sales data shown in its annual report. In addition, a surprising accounting announcement, such as a large drop in reported profits, is a trigger for an investigative reporter to write about what is going on in a company. When the Justice Department proposed the breakup of Microsoft, *The Wall Street Journal* reported analysts' estimates of the value of the company's various parts based on past revenue figures. For example, one analyst estimated that Microsoft's consumer business would be worth 50 times its revenue.

Unit 3

The Double-entry Accounting System 复式记账法



Learning Objectives

学习目标

After studying this unit, you should be able to:

- ◆ Define the account;
- ◆ Identify the chart of accounts for a typical company;
- ◆ Analyse transactions using debits and credits;
- ◆ Learn different types of accounts;
- ◆ Understand the double-entry accounting system and single-entry system.



3.1 What is the Account

An account is a specific accounting record that provides an efficient way to categorize transactions. Thus, we may designate asset accounts, liability accounts, owner's equity accounts, revenue accounts and expense accounts. Examples of asset accounts are Cash, Inventory, and Equipment. Liability accounts include Accounts Payable and Notes Payable. The owner's equity accounts for a corporation are Capital Stock and Retained Earnings. Revenue accounts include sales. Expense accounts include interest expense, salaries expense and so on. You can think of an individual account as a summary of every transaction affecting a certain item (such as Cash). The summary may be recorded on one page of a book, or in one computer file, or in one column of a spreadsheet.



3.2 Chart of Accounts for a Typical Company

A particular company will have as many (or as few) accounts as it needs to provide a reasonable classification of its transactions. The list of accounts used by a company is known as its chart of accounts. The normal order of a chart of accounts is assets, then liabilities, followed by owners' equity, revenue, and expenses.

Generally, blocks of numbers are assigned to accounts. A simple chart structure is to have the various groups of the major group in which the account is located. Thus, the account which have numbers beginning with 1 are assets; 2 are liability; 3 are capital; 4 are revenue; and 5 are expenses. The second or the digit designates the position of the account in the group.

Small companies often use three-digit account numbering system. More complex businesses use four, five, or more digits as account numbers. The account number can also identify whether an account appears on the balance sheet or the income statement. Exhibit 3-1 shows some accounts that might appear in a typical company's chart of accounts.

Exhibit 3-1 Chart of Accounts for a Typical Company

Assets (100 ~ 199)

Current assets (100 ~ 150) :

101 Cash

103 Notes receivable

105 Accounts receivable

Owner's Equity (300 ~ 399)

301 Capital stock

330 Retained earnings



107 Inventory	
108 Supplies	
Long-term assets (151 ~ 199) :	
151 Land	<u>Revenue (400 ~ 499)</u>
152 Building	400 Sales
154 Office Furniture or Equipment	
	<u>Expenses (500 ~ 599)</u>
	500 Cost of goods sold
<u>Liabilities (200 ~ 299)</u>	501 Sales salaries and commissions
Current liabilities (200 ~ 219) :	523 Rent expense
201 Notes payable	528 Advertising expense
202 Accounts payable	551 Officers' salaries
203 Salaries payable	553 Administrative salaries
204 Interest payable	570 Payroll taxes
206 Income taxes payable	571 Office supplies expense
	573 Utilities expense
Long-term liabilities (220 ~ 239) :	578 Office equipment rent expense
222 Mortgage payable	579 Legal fees

In designing a numbering structure for the accounts, it is important to provide adequate flexibility to permit expansion without having to revise the basic system. There are various systems of coding, depending on the needs and desires of the company.



3.3 Debit and Credit

Accountants often use T-account as a visual aid for seeing the effect of the debit and credit on the two (or more) accounts. This form of an account is known as a T-account because of its similarity to the letter T.

The account title (for example, Cash) appears at the top of the account. Transaction amounts may be recorded on both the left side and the right side of the T-account. Instead of using the terms left and right to indicate which side of a T-account is affected, terms unique to accounting were developed. Debit is used to indicate the left side of a T-account, and credit is used to indicate the right side of a T-account. Debit means left, credit means right—nothing more, nothing less.

Besides representing the left and right sides of an account, the terms debit (abbreviated



as Dr.) and credit (abbreviated as Cr.) take on additional meaning when coupled with a specific account. By convention, for asset accounts, debits refer to increase and credits to decreases. For example, to increase the cash account, we debit it; to decrease the cash account, we credit it. Since we expect the total increases in the cash account to be greater than the decreases, the cash account will usually have a debit balance after accounting for all transactions. Thus, we can make this generalization—asset accounts will have debit balances. The opposite relationship is true of liability and owners' equity accounts; they are decreased by debits and increased by credits. As a result, liability and owners' equity accounts will typically have credit balances. The effect of this system is shown here, with an increase indicated by (+) and a decrease by (-).

Assets		=	Liabilities		+	Owner's Equity	
Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
(+)	(-)		(-)	(+)		(-)	(+)



3.4 Types of Accounts

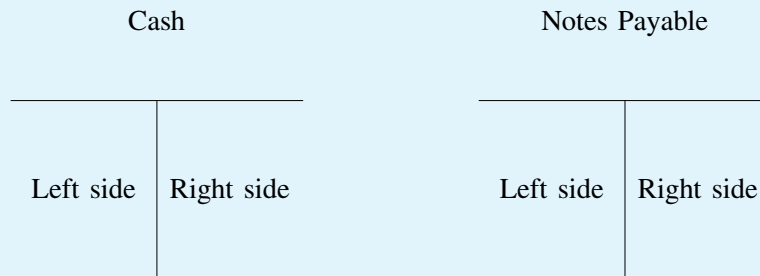
Accounts are basic records that are used to show changes—both increase and decrease—in assets, liabilities, and owner's equity. A separate account is kept for each financial statement element. This enables accountants to effectively and accurately maintain accounting records.

The simplest form of an account has three parts: (1) a title, which is the name of the item recorded in the account; (2) a space for recording increases in the amount of the item, in the terms of money; (3) a space for recording decrease in the amount of the item, also in monetary terms. Transactions are entered in T-accounts as follows:

(1) Decreases in an account are entered on one side of the T, and increases are entered on the other side.

(2) The account balance is determined by subtracting the total decreases from the total increases.

The left side of the account is called the debit side and the right side is called the credit side. Amounts entered on the left side of an account are called debits to the account, and the account is said to be debited. Amounts entered on the right side of an account are called credits to the account, and the account is said to be credited. For example, the format of the cash and notes payable accounts is as follows (Exhibit 3-2) :

Exhibit 3-2 The Format of T-Account

When deciding what type of account is affected by a transaction and whether a debit or credit is required, it is helpful to group accounts into five categories—assets, liabilities, owner’s equity, revenue, and expenses.

Asset Accounts

Asset accounts carry their balances forward from one period to the next. Examples of asset accounts include Cash (on hand and in bank), Receivables, Office Furniture or Equipment, Buildings, and Land. The left side of asset accounts is used for recording increases and the right side is used for recording decreases.

Liability Accounts

Liability accounts also carry their balances forward from one period to the next. Examples of liability accounts are Notes Payables, Accounts Payables and other liabilities (wages, taxes, interest). The right side of liability accounts is used for recording increases and naturally the left side is used for recording decreases.

Owner’s Equity Account

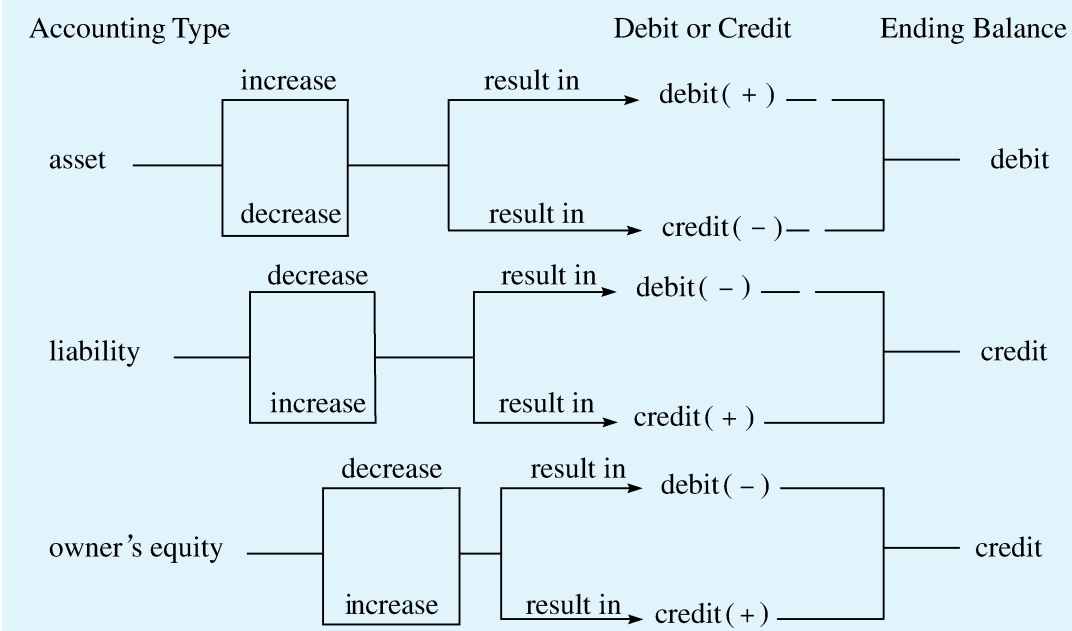
For a company, an owner’s equity account is used to record the original investment and any permanent additional increases or decreases in owner’s equity. The right side of capital accounts is used for recording increases and naturally the left side is used for recording decreases. The balance in the owner’s equity account carries forward to the next accounting period.

Assets accounts, liability accounts, and owners’ equity accounts are called the balance sheet accounts, because the balances of the accounts reported in the balance sheet are carried forward from year to year.

Before proceeding any further, let’s stop for a moment and review the relationship between the balance sheet accounts and these debits and credits. It is in your best interest not to go on until you understand these relationships showing in Exhibit 3-3.



Exhibit 3-3 The Relationship among Various Types of Accounts and Debits and Credits



Revenue and Expense Accounts

Revenue increases capital. Just as increases in capital are recorded as credits, increases in revenues during an accounting period are recorded as credits. Expenses have the effect of decreasing capital, and just as decreases in capital are recorded as debits, increases in expense accounts are recorded as debits.

Examples of revenue accounts include revenues from repairs, commissions earned, legal fees earned, rent earned, and interest earned. Examples of expense accounts include advertising expenses, office supplies expenses, salaries expenses, rent expenses, utilities expenses, and insurance expenses.

Periodically, usually at the end of the accounting year, all revenue and expense account balances are transferred to a summarizing account, and the accounts are then said to be closed. The balance in the summarizing account, which is the net income or net loss for the period, is then transferred to the capital account (to the retained earnings account for a corporation), and the summarizing account is also closed.

Revenue and expense accounts are called the income statement accounts. The income statement accounts have balances only during an accounting period. The balances in these accounts are not carried forward to the next accounting period. The theory of debit and credit in its application to revenue and expense accounts is based on the relationship between these accounts and capital. The net income or the net loss for a period, as reported on the income



statement, is the net increase or the net decrease in capital resulting from operations.

Here we will take the transactions as an example to see how transactions be recorded by using T-accounts.

1. Mr. S. Smith invested \$ 4 000 to open his counseling practice.

Cash	Capital
(1) 4 000	(1) 4 000

2. Bought supplies (stationery, forms, pencils and so on) for cash, \$ 300.

Supplies	Cash
(2) 300	(1) 4 000 (2) 300

3. Bought office furniture from Robinson Furniture Company on account \$ 2 000.

Office Furniture	Accounts Payable
(3) 2 000	(3) 2 000

4. Received \$ 2 500 in fees earned during the month.

Cash	Fees Income
(1) 4 000 (2) 300 (4) 2 500	(4) 2 500

5. Paid office rent for January, \$ 500.

Rent Expense	Cash
(5) 500	(1) 4 000 (2) 300 (4) 2 500 (5) 500



6. Paid salary for last month, \$ 200.

Salary Expense	Cash
(6) 200	(1) 4 000 (2) 300
	(4) 2 500 (5) 500
	(6) 200

7. Paid \$ 1 200 to Robinson Furniture Company on account.

Account Payable	Cash
(7) 1 200	(1) 4 000 (2) 300
(3) 2 000	(4) 2 500 (5) 500
	(6) 200
	(7) 1 200

8. After taking an inventory at the end of the month, Mr. S. Smith found he had used \$ 200 worth of supplies.

Supplies Expense	Supplies
(8) 200	(2) 300 (8) 200

9. Mr. S. Smith drew (withdrawal) \$ 400 for personal use.

Drawing (withdrawal)	Cash
(9) 400	(1) 4 000 (2) 300
	(4) 2 500 (5) 500
	(6) 200
	(7) 1 200
	(9) 400



3.5 The Double-entry Accounting System and Single-entry System

1. The Double-entry Accounting System

Double-entry accounting system means that the amounts of debit and credit entries must



be equal when accounts record every business transactions. Where there are only two accounts affected, the debit and credit amounts are equal. If more than two accounts are affected, the total of the debit entries must equal the total of credit entries. The double-entry accounting system is used by virtually every business organization, regardless of whether the company's accounting records are maintained manually or by computers. By applying the double-entry accounting system, accountants can locate some type of errors which might be made while maintaining accounting records. Nowadays, the double-entry accounting system is used in the world widely.

In addition to assets equaling liabilities and owners' equity, debits also equal credits. If you fully grasp the meaning of these two equalities, you are well on your way to mastering the mechanics of accounting. Debits and credits allow us to take a shortcut to ensure that the accounting equation balances. If for every transaction, debits equal credits, the accounting equation will balance.



To understand why this happens, keep in mind the following three basic facts regarding the double-entry accounting system:

- (1) Debits are always entered on the left side of an account and credits on the right side.
- (2) For every transaction, there must be at least one debit and one credit.
- (3) Debits must always equal credits for each transaction.

Now notice what this means for one of the business transactions shown earlier—investment by owners. An asset account (Cash) is debited; it is increased. An owners' equity account (Capital Stock) is credited; it is also increased. There is both a debit and a credit for the transaction, and we have increased accounts on both sides of the equation by an equal amount, thus keeping the accounting equation in balance.

Be careful not to let the general, non-accounting meanings of the words credit and debit confuse you. In general conversation, credit has an association with plus and debit with minus. But on the asset side of the accounting equation, where debit means increase and credit means decrease, this association can lead you astray. In accounting, debit simply means left and credit simply means right. Note that every time an account is debited, other accounts have to be credited for the same amount. This is the major characteristic of the double-entry accounting system; the debits must always equal the



credits. This important characteristic creates a practical advantage: the opportunity for “self-checking”. If debits do not equal credits, an error has been made in analyzing and recording the entity’s activities.

2. The Single-entry System

The single-entry system is similar to a check book register and is characterized by the fact that there is only a single line entered in the account for each transaction.



The single-entry bookkeeping is limited in its ability to provide detailed financial information. Some disadvantages of a single-entry system include:

- (1) It does not track asset and liability account. These must be tracked separately.
- (2) It facilitates the calculation of income but not of financial position. There is no direct linkage between income and the balance sheet.
- (3) Errors may go undetected and often are identified only through bank statement reconciliation.

The single-entry tends to be suitable only for small companies with simple financial statements.



3.6 Accounting Entry

With our knowledge of the different types of accounts, and the use of the terms debit and credit, we are now ready to actually record the effects of transactions.

A specific format is used in journalizing (recording) transactions in a general journal. The debit account is listed first; the credit account is listed second and is indented to the right. Normally, the date and a brief explanation of the transaction are considered essential parts of the accounting entry. Dollar signs are usually omitted. The format will be used whenever an accounting entry is presented.

Accounting Entry Format

Date	Debit Account.	amounts
	Credit Account.	amounts
	Explanation	



When preparing an accounting entry, a systematic method may be used in analyzing every transaction. A Journal entry involves a three-step process:

- (1) Identify which accounts are involved.
- (2) For each account, determine if it is increased or decreased.
- (3) For each account, determine by how much it has changed.

The answer to step 1 tells you if the accounts involved are asset, liability, or owners' equity accounts. The answer to step 2, when considered in light of your answer to step 1, tells you if the accounts involved are to be debited or credited. Consider the instance where \$25 000 is borrowed from a bank. The two accounts involved are Cash and Notes Payable. Cash increased, and since Cash is an asset and assets increase with debits, then Cash must be debited. Notes Payable increased (we owe more money), and since Notes Payable is a liability and liabilities increase with credits, then Notes Payable must be credited. The answer to step 3 completes the journal entry, Cash is debited for \$25 000, and Notes Payable is credited for \$25 000.

Accounting entries are used to summarize the effects of business transactions. They are prepared or analyzed by answering three questions: (1) What accounts are involved? (2) Did those accounts increase or decrease? (3) How much did each account change? By correctly answering these three questions, transactions will be properly accounted for, and the accounting equation will always be in balance.

According to the above example, we will prepare these transactions of accounting entries as follows:

(1) Mr. S. Smith invested \$4 000 to open his counseling practice.

Cash 4 000

 Mr. S. Smith, Capital 4 000

To record having invested \$4 000 cash to open the business.

(2) Bought supplies (stationery, forms, pencils and so on) for cash, \$300.

Supplies 300

 Cash 300

To record having paid supplies \$300 for cash.

(3) Bought office furniture from Robinson Furniture Company on account, \$2 000.

Office Furniture 2 000



Accounts Payable 2 000

To record having bought office furniture \$ 2 000 on account.

(4) Received \$ 2 500 in fees earned during the month.

Cash 2 500

Fees Income 2 500

To record having earned the fees revenue \$ 2 500.

(5) Paid office rent for January, \$ 500.

Rent Expenses 500

Cash 500

To record having paid the rent expenses \$ 500.

(6) Paid salary for last month, \$ 2 000.

Salary Payable 2 000

Cash 2 000

To record having paid last month's salary \$ 2 000.

(7) Paid \$ 1 200 to Robinson Furniture Company on account.

Accounts Payable 1 200

Cash 1 200

To record having paid \$ 1 200 to creditor.

(8) After taking an inventory at the end of the month. Smith found he had used \$ 200 worth of supplies.

Supplies Expenses 200

Supplies 200

To record having used supplies \$ 200 this month.

(9) Mr. S. Smith drew \$ 400 for personal use.

Mr. S. Smith, Drawing 400

Cash 400

To record having drawn cash \$ 400 for personal use.



Key Words and Expressions

核心词汇

- | | |
|------------------|-----------------|
| 1. designate | v. 指定; 标明, 标示 |
| 2. capital stock | 股本 |
| 3. interest | n. 利息; 利益, 利益关系 |



4. spreadsheet	<i>n.</i> 试算表
5. assign	<i>v.</i> 分配, 布置
6. balance	<i>n.</i> 余额; 平衡; 结算, 抵消
7. interest payable	应付利息
8. supplies expense	物料费用
9. debit	<i>n.</i> 借, 借方; 借记, 记入借方
10. credit	<i>n.</i> 贷, 贷方; 贷记, 记入贷方
11. increase	<i>n.</i> 增加
12. decrease	<i>n.</i> 减少
13. balance sheet account	资产负债表账户
14. income statement account	损益表账户
15. salary	<i>n.</i> 工薪, 工资
16. reconciliation	<i>n.</i> 协调; 调解, 和解
17. entry	<i>n.</i> 分录
18. journal entry	日记账分录
19. salary payable	应付工资



1. chart of accounts

会计科目表。它是系统地编列一个企业账户的名称和编号的一览表。在大企业中常需要比较复杂的编号, 如有的公司每一账户均用三位数表示, 而每位数字对分类均有特殊的意义。在会计科目表中通常还有各账户的使用说明。

2. retained earnings

留存收益。留存收益是公司在经营过程中所创造的, 但由于公司经营发展的需要或由于法定的原因等, 没有分配给所有者而留存在公司的盈利。留存收益是指企业从历年实现的利润中提取或留存于企业的内部积累。它来源于企业的生产经营活动所实现的净利润, 包括企业的盈余公积和未分配利润两个部分, 其中盈余公积是有特定用途的累积盈余, 未分配利润是没有指定用途的累积盈余。

3. double-entry accounting system

复式记账法。复式记账法从两个方面反映一项经济业务, 在借贷两方记录相等的金额。公



元 1300 年,意大利北部城市首先使用复式记账法,1494 年 L. Pacioli 所著的《算术、几何和比例概要》一书,是阐述复式记账法的第一部著作。复式记账法的产生在会计发展史上具有重大的意义。复式记账规则可以用会计恒等式来说明,即资产 = 负债 + 所有者权益。

4. single-entry system

单式记账法。单式记账法是一种不完整的记账方法,对于部分经济业务只在一个账户中进行记录。采用单式记账法,手续比较简单,但不能全面地、系统地反映经济业务的全貌,不便于检查账户记录的准确性,因此是一种不完整的记账方法,现已很少使用。

5. accounting entry

会计分录。会计分录是指对某项经济业务标明其应借应贷账户及其金额的记录,简称分录。会计分录是由应借应贷方向、对应账户(科目)名称及应记金额三要素构成。按照所涉及账户的多少,分为简单会计分录和复合会计分录。简单会计分录指只涉及一个账户借方和另一个账户贷方的会计分录,即一借一贷的会计分录;复合会计分录指由两个以上(不含两个)对应账户所组成的会计分录,即一借多贷、一贷多借或多借多贷的会计分录。

6. capital account

资本账户。它指用以核算和监督投资者投入的资本或留存收益的增减变动及其结存情况的账户。这类账户的贷方登记投入资本或留存收益的增加数;借方登记投入资本或留存收益的减少数;期末余额在贷方,表示投入资本或留存收益的结存数额,属于资本账户的有“实收资本”、“资本公积”和“盈余公积”等账户。



1. Read the following sentences carefully and fill in the blanks with appropriate words.

(1) An _____ may be defined as a record of the increases, decreases and balances in an individual item of assets, liability, capital, revenue, or expenses.

(2) A _____ is a list of all accounts used in a company.

(3) When an amount is entered on the left side of an account, it is a _____, and the account is said to be _____.

(4) When an amount is entered on the right side, it is a _____, and the account is said to be _____.

(5) The two fold effect of every entry is recorded in _____.

(6) Increases in all asset accounts are _____.



(7) Increase in all liability accounts are _____.

(8) Increase in all capital accounts are _____.

2. Indicate in the columns below the increases and decreases in each account by placing a check in the appropriate column.

Economic event	Dr.	Cr.
(a) Capital is increased		
(b) Cash is decreased		
(c) Accounts Payable is increased		
(d) Rent Expense is increased		
(e) Equipment is increased		
(f) Fees Income is increased		
(g) Capital is decreased (through drawing)		

3. For each transaction in the table below, indicate the account to be debited and the account to be credited by placing the letter representing the account in the appropriate column.

The accounts:

- (a) Accounts Payable (b) Capital (c) Cash (d) Drawing
 (e) Equipment (f) Fees Income (g) Notes Payable (h) Rent Expenses
 (i) Salaries Expenses (j) Supplies (k) Supplies Expenses

Transactions	Dr.	Cr.
1. Invested cash in the firm		
2. Paid rent for month		
3. Received cash fees for services		
4. Paid salaries		
5. Bought equipment on account		
6. Paid balance on equipment		
7. Bought supplies on account		
8. Borrowed money from bank, giving a note in change		
9. Supplies inventory showed 1/3 used during the month		
10. Withdrew cash for personal use		



4. Translate the following passage into Chinese.

The objective of the accounting procedures is to gather and transform raw data into useful information that measures and communicates the results of economic activities for a business. The financial data needed by individuals and external parties are obtained primarily from the accounting information system. Managers need additional information that is supplied by a broader managerial information system. An accounting system may be manual or automated, depending on the company's requirements. In designing and implementing an accounting system, a company should consider the system's efficiency, the timelines of the reports provided by it, and its overall cost and benefits.

The accounting procedures are based on double-entry accounting and the fundamental accounting equation. The double-entry system of accounting must assure that the accounting equation will always balance because the amount of debit entries should be equal to the amount of credit entries when the transactions are properly recorded.

In conducting economic activities, the businesses and the other types of entities enter into transaction processes. These transactions form the basis of accounting records. The procedures used in illustrating the transactions are known as the accounting cycle.



Evolution of the Double-entry Accounting System

People in all civilizations have maintained various types of records of business activities. The oldest known are clay tablet records of the payment of wages in Babylonia around 3600 B. C. There are numerous evidences of record keeping and systems of accounting control in ancient Egypt and in the Greek City States.

The evolution of the system of record keeping which came to be called double-entry was strongly influenced by Venetian merchants. The first known description of the system was published in Italy in 1494. The author, a Franciscan monk by the name of Luca Pacioli, was a mathematician who taught in various universities in Perugia, Naples, Pisa, and Florence. Goethe, the German poet, novelist, scientist, and universal genius, wrote about double-entry as follows: "It is one of the most beautiful inventions of the human spirit, and every good businessman should use it in his economic undertakings." In spite of the tremendous development of business operations since 1494, and the ever increasing complexities of



business and governmental organizations, the basic elements of the double-entry system have continued virtually unchanged.

The industrial Revolution, which occurred in England from the mid-eighteen century, brought many social and economic changes, notably a change from the handicraft method of producing marketable goods to the factory system. The use of machinery in turning out many identical products gave rise to the need to determine the cost of a large volume of machine-made products instead of the cost of a relatively small number of individually hand-crafted products. The specialized field of cost accounting emerged to meet the need for the analysis of various costs and for recording techniques.

In the early days of manufacturing operations, when business enterprises were relatively small and often isolated geographically, competition was frequently not very keen. Cost accounting was primitive and focused primarily on providing management with records of reports on past operations. As manufacturing enterprises became larger and more complex and as competition among manufacturers increased, the “scientific management concept” evolved. This concept emphasized a systematic approach to the solution of management problems. Paralleling this trend was the development of more sophisticated cost accounting concepts to supply management with analytical techniques for measuring the efficiency of current operations and in planning for future operations. This trend was accelerated in the twentieth century by the advent of the electronic computer with its capacity for manipulating large masses of data and its ability to determine the potential effect of alternative courses of action.

The expanded business operations initiated by the Industrial Revolution required increasingly large amounts of money to build purchase machinery. This need for large amounts of capital resulted in the development of the corporate form of organization, which was first legally established in England in 1845. The Industrial Revolution spread rapidly to the United States, which became one of the world’s leading industrial nations shortly after the Civil War. The accumulation of large amounts of capital was essential for establishment of new businesses in industries such as manufacturing, transportation, mining, electronic power, and communications. In the United States, as in England, the corporation was the form of organization that facilitated the accumulation of the substantial amounts of capital needed.

Almost all large American business enterprises, and many small ones, are organized as corporations largely because ownership is evidenced by readily transferable shares of stock. The shareholders of a corporation control the management of corporate affairs only indirectly. They elect a board of directors, which establishes general policies and selects officers who actively manage the corporation. The development of a class of owners far removed from active participation in the management of the business created an additional



dimension for accounting. Accounting information was needed not only by management in directing the affairs of the corporation but also by the shareholders, who required periodic financial statement in order to appraise management's performance.

As corporations became larger, an increasing number of individuals and institutions looked to accountants to provide economic information about these enterprises. Prospective shareholders and creditors sought information about a corporation's financial status and its prospects for the future. Government agencies required financial information for purpose of taxation and regulation. Employees, union representatives, and customers demanded information upon which to judge the stability and profitability of corporate enterprises. Thus accounting began to expand its function of needs of a relatively few owners to public role of meeting the needs to a variety of interested parties.