



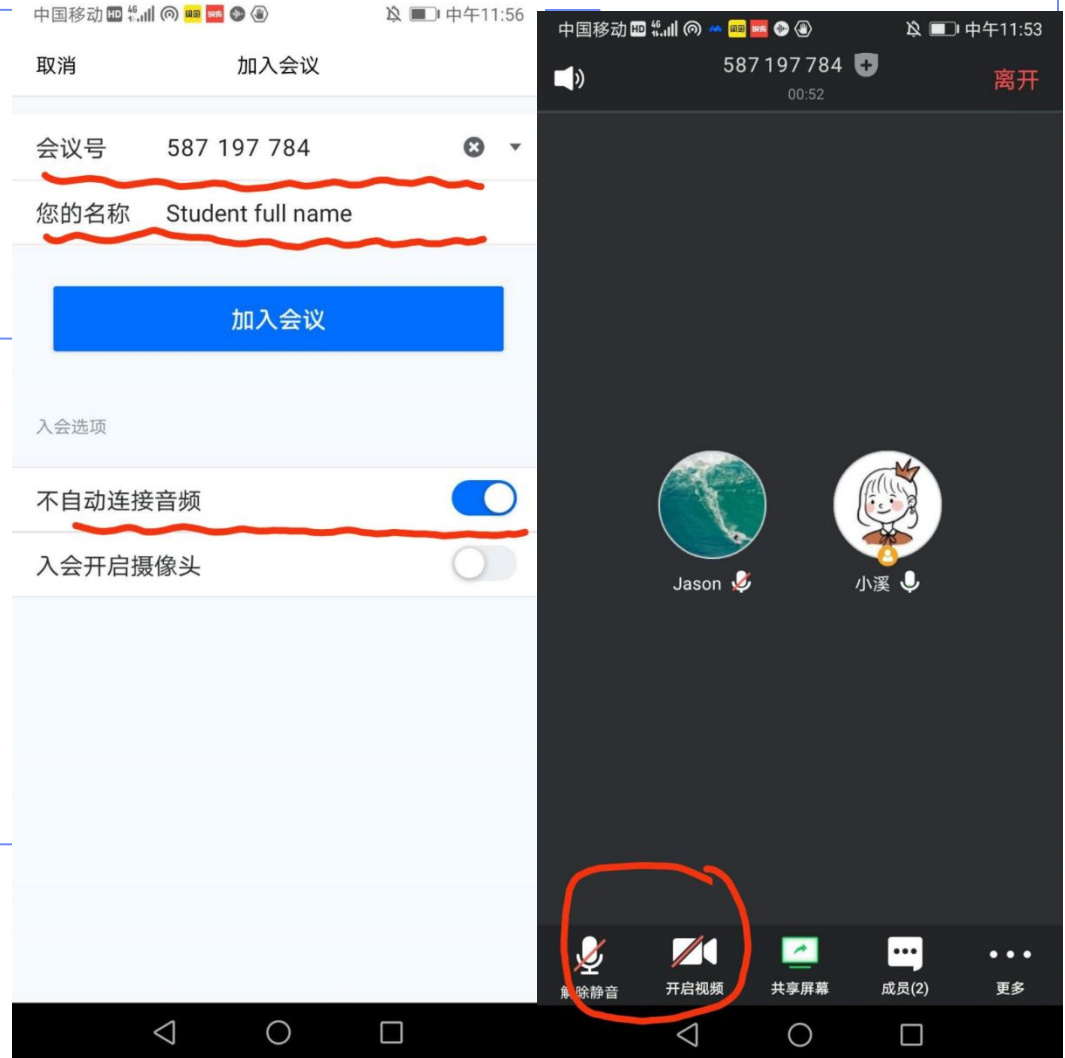
# Accounting



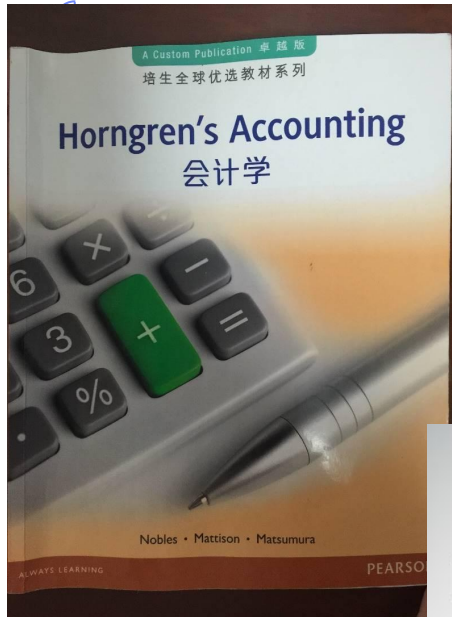
## Lecture 1: Accounting and Business Environment Lisa, Li

# Join the Tencent Meeting Class

- Please enter your full name, not your nickname
- Chat window will help us a lot
- When you join in our class ,please keep your Microphone silenced. During the discussion, you can reopen it by yourself.



# Materials of the Course

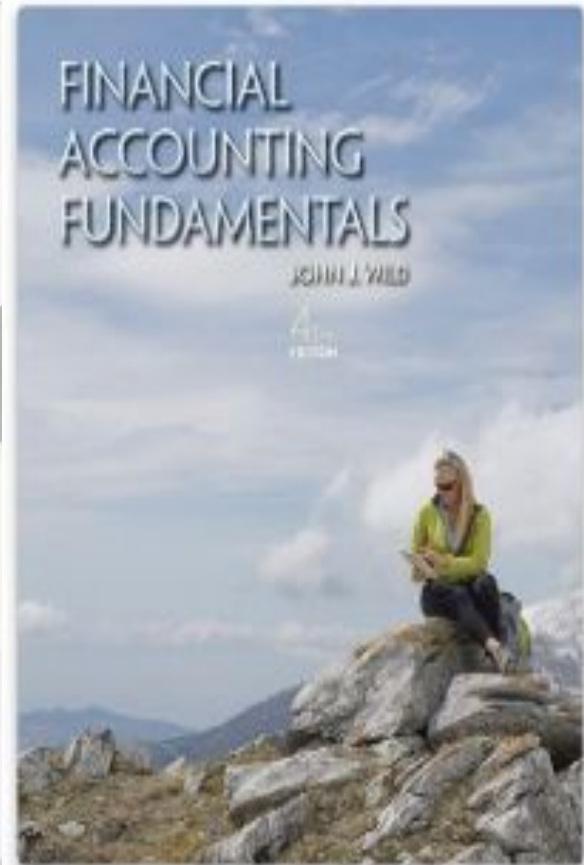
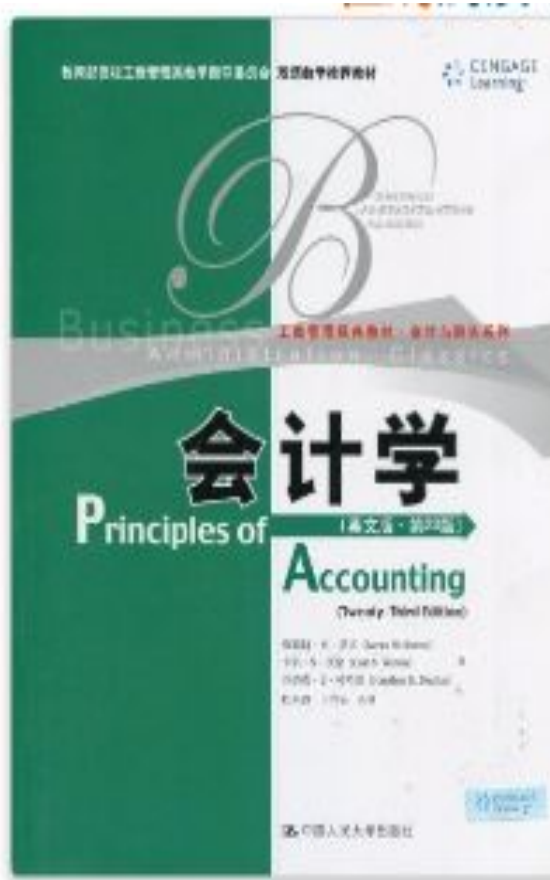
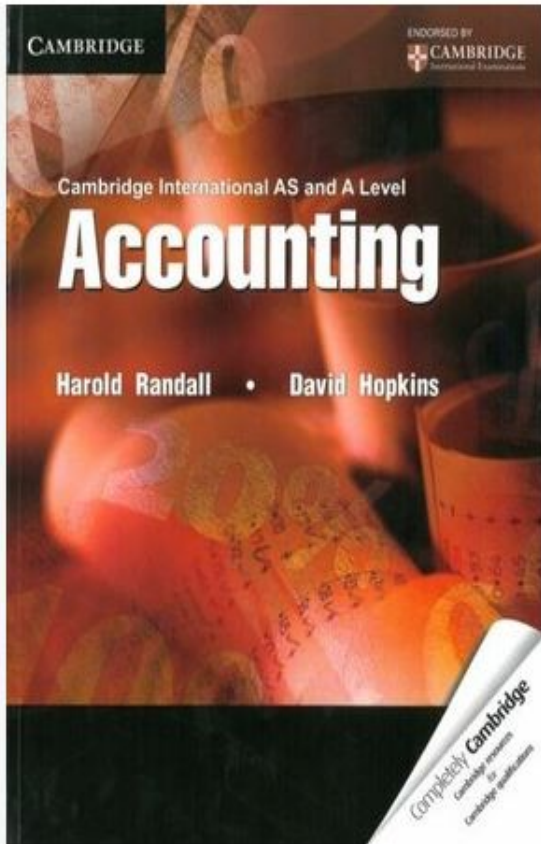


- **Textbook:**  
**Horngren's Accounting, Pearson, 10<sup>th</sup> Global edition**
- **Learning Objectives,**
- **Chapter Summary handout (preview)**
- **PPT slides (preview)**
- **'Try it' Questions,**
- **Chapter Overview,**
- **10-mins quizzes and Review Q (homework)**
- **Short Exercises, and critical thinking cases**

# Materials of the Course (cont'd)

- **Textbook:** Noble, L. Tracie; Mattison, L. Brenda & Matsumura Mae Ella, Horngren's Accounting, Pearson, 10<sup>th</sup> edition, Global edition
- **Other Reference Books:**
  - Randall & Hopkins, Cambridge International AS and A Level Accounting
  - Warren, C. Reeve, J. & Fess P. Principles of Accounting (23<sup>rd</sup> ed)
  - by and Wild, J. Financial Accounting Fundamentals

# Materials of the Course (cont'd)



# Study Guide

- **Part 1: Introduction of accounting**
- Accounting and Business Environment
- Financial Accounting vs. Managerial Accounting
- Five Groups (elements) of Accounts
- Basic Accounting Principles
- The Accounting Process
- Mid-term exam



# Study Guide

- **Part 2: Prepare Financial Statement**
- Adjusting process
- Closing process
- The Accounting cycle
- Common Accounting ratios
- Final examination

# Unit Assessment Task

- **In class practice** **15%**

- multiple choices, 'try it' Q, practices in class

- **Mid-term Exam** **15%**

- textbook and PowerPoint

- **Final Exam** **70%**

- textbook, PowerPoint and practices in class

- multiple choices, short answers and accounting cases

More than 60% of total marks will pass



# Tips for success in the course

- Experience of Learning Accounting
- Spend more time on the beginning part (Chapter 1,2)
- Theory → Practice → Theory
- professional business language
- Materials: textbook, PPTs and reference books
- Download IAS, IFRS and AASB from official website

# Chapter 1: Learning Objectives

- Introduction
- Importance of Accounting
- Governing Organizations and Guidelines
- Basic Accounting assumptions
- Accounting Principles
- Two basic branches of accounting:  
MA and FA

# Introduction of Accounting

## What Is **Accounting**?

Accounting is an information process, which is related with collecting and recording financial information from business organizations, and communicating relevant financial information to stakeholders.

- **information process:** identifying, collecting, classifying, recording and communicating
- **stakeholders:** persons or entities have interest in the economic performance of the business. e.g. managers, creditors, bankers
- **Global and professional business language**

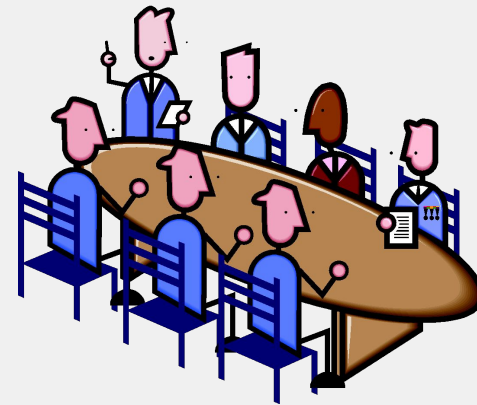
# Users of Accounting Information

## External Users



Creditors  
Shareholders  
Tax Authorities  
Outside Investors  
External Auditors  
Customers  
Bankers

## Internal Users



•Managers  
•Board of Directors  
•Internal Auditors  
•Sales Staff  
•Budget Officers  
•Controllers  
•CEO, CFO

# Multiple Choices

2mins

Which of the following are external users of a business's financial information?

- A. Taxing authorities
- B. Customers
- C. Employees
- D. Creditors
- E. Board of Directors

(tip: two or more than two correct answers)

# True or False Questions **5mins**

1. Shareholders primarily use accounting information for decision-making purposes.
2. Local, state, and federal governments use accounting information to calculate firm's income tax.
3. A creditor is a person who owes money to the business.
4. Different users of financial statements focus on the different parts of the financial statements for the information they need.

# Importance of Accounting

## For individual

- **Saving and Managing money**

Statement of Financial Performance (oversea student)

<b>Accounts</b>	<b>Debit (\$)</b>	<b>Credit(\$)</b>	<b>Balance (\$)</b>
<b>Revenue</b>			
Study award		5,000	
salary of part time job		1,000	6,000
<b>Expenses</b>			
accommodation fee	400		
tuition fee	4,000		4,400
<b>Net profit</b>			<u>1,600</u>

# Importance of Accounting

## accounting positions for the careers

- External auditors, **BIG 4 Accounting Firms**
- Internal auditors,
- Controllers,
- finance and accounting specialists
- Tax accountants (CPAs)
- cost accountants(CMAs),
- Business system analysts, Financial analysts





# BIG 4 Auditors - How Big ?

- **leading firms:** Account for  $\frac{3}{4}$  auditing markets,
- **Company's Income** : more than \$20 billion/year
- **"Famous customers"**: majority customers are world's top 500 enterprises.

Eg. Walmart, Alibaba, Google, HSBC

- **Employment:** 17,000-20,000 staffs in 70 countries, including 10,000 Chinese employees.

Departments: auditing, taxes, advisory



Tax

Advisory

Auditing

# Importance of Accounting

## for Business Firms

All the businesses and organizations need accountants.

- Financial Annual Reports—public firms
- Budget, project plan, Managerial report
- Internal Control – accounting information system
- Financial and Strategic Decisions



# How to govern accounting?

## I. Governing Organizations

**SEC**

**FASB in USA**

**IASB in UK**

## II. Guidelines for Accounting Information

**GAAP**

**IFRS**

## III. Basic Accounting assumption and Principles



# I. Governing Organizations

- Governing organizations are:
  - **Securities and Exchange Commission (SEC)**
  - **Financial Accounting Standards Board (FASB)**
  - **International Accounting Standard Board (IASB)**, which publish International Financial Report Standard (IFRS)
- the importance of the convergence of accounting standards at a global level.

# I. Governing Organizations

- **Securities and Exchange Commission**
- SEC is an U.S. governmental agency that oversees the US financial markets. It also oversees FASB.
- The SEC was established by the Securities Act of 1934
- the SEC requires that all publicly traded companies have an annual financial statement audit that is conducted by a Certified Public Accountant.
- The SEC delegated that standard-setting responsibility to the accounting profession



# I. Governing Organizations

## • **FASB in USA**

- the Financial Accounting Standard Board (FASB) is a private organization.
- Creates the rules and standards that govern financial accounting
- It oversees the creation and governance of U.S.GAAP (accounting standards).

## • **IASB in UK**

the International Accounting Standards Board (IASB), located in London, has established a body of International Financial Reporting Standards, IFRS, that are used by a majority of other countries.

# II. Guidelines for accounting information

- **Generally Accepted Accounting Principles (GAAP)**
- It is the main US accounting rule book and is issued by the FASB.
- GAAP rests on a conceptual framework that identifies the objectives, characteristics, elements and implementation of FS and create the acceptable accounting practices.
- The SEC requires that American businesses follow U.S. GAAP.

# Generally Accepted Accounting Principles (GAAP)

- Issued by the FASB.
- Establishes the rules for recording transactions and preparing financial statements.
- Published online as part of the Accounting Standards Codification.
- Requires that information be *useful*.

**Relevant** = The info allows users to make a decision.

**Faithfully Representative** = The info is complete, neutral, and free from material error.



# II. Guidelines for accounting information

- **International Financial Report Standards (IFRS)**
- A set of global accounting guidelines , formulated by the International Accounting Standard Board.
- IFRS is a set of global accounting standards that are used or required by more than 120 nations.
- A publicly traded company in the United States come under SEC regulations as long as it follows the rules of GAAP.

# Multiple Choice

The guidelines for accounting information are called:

- a) Globally Accepted and Accurate Policies.
- b) Global Accommodation Accounting Principles.
- c) Generally Accredited Accounting Policies.
- d) Generally Accepted Accounting Principles.

# III. Basic Accounting Assumption and Principle

1. Economic Entity Assumption
2. Goning Concern Assumption
3. Monetary Unit assumption
4. The Cost principle
5. The Accounting Equation
6. Profit Determination
7. Double-entry bookkeeping
8. Matching principle
9. Reporting Principle



# 1. Economic Entity Assumption

- **Proprietorship (sole trader)** means one person or a family owns the firm and control business, **small business such as laundries, repair shop, newsstand.**
- **Partnership** multiple individuals, called general partners, manage the business and are equally liable for its debts. **e.g. dentist office, law firms.**
- **Corporation** Firm that meets certain legal requirements to be recognized as having a legal existence, as an entity separate and distinct from its owners. **e.g. General Motor, IBM**
- **Limited-Liability Company (LLC)** a company in which each member is only liable for his or her own actions. Indefinite life. **e.g. Big 4 Auditors**

## Exhibit 1-3 Business Organizations

	Sole Proprietorship	Partnership	Corporation	Limited-Liability Company (LLC)
<b>Definition</b>	A business with a single owner	A business with two or more owners and not organized as a corporation	A business organized under state law that is a separate legal entity	A company in which each member is only liable for his or her own actions
<b>Number of owners</b>	One (called the proprietor)	Two or more (called partners)	One or more (called stockholders)	One or more (called members or partners)
<b>Life of the organization</b>	Terminates at owner's choice or death	Terminates at a partner's choice or death	Indefinite	Indefinite
<b>Personal liability of the owner(s) for the business's debts</b>	Owner is personally liable	Partners are personally liable	Stockholders are not personally liable	Members are not personally liable
<b>Taxation</b>	Not separate taxable entities. The owner pays tax on the proprietorship's earnings.	Partnership is not taxed. Instead partners pay tax on their share of the earnings.	Separate taxable entity. Corporation pays tax.	LLC is not taxed. Instead members pay tax on their share of earnings.
<b>Type of business</b>	Small businesses	Professional organizations of physicians, attorneys, and accountants	Large multinational businesses	An alternative to the partnership

## 2. Going Concern Assumption

- Financial statements are prepared under the assumption that the entity will continue to operate for the foreseeable future.
- This assumption is essential if we expect businesses to engage in long term agreements. For example, a manufacturer would not likely enter into a long-term sales agreement with a customer, if it believed that that customer would soon be out of business.

# 3. Monetary Unit Assumption

- **The assumption that requires the items on the financial statements to be measure in terms of a monetary unit.**
- In the United States, we record transaction in American dollars(\$).
- In UK, we record transaction in Yuan (¥). Pound( £ ).
- In china, we record transaction in Chinese Yuan (¥)

Albaba, big multinational Chinese company, should be record in American dollars or Chinese Yuan? And why?

# 4. The Cost Principle

- **assets should be recorded at their actual cost (historical cost) on the date of acquisition.**
- **all liabilities should be recorded at their actual cost, when it happened.**
- **We record a transaction at the amount shown on the receipt(or contracts)-actual amount paid.**
- **Not at “expected cost” or “current relevant market value”.**
- **Eg. the company bought the Land with building at \$300,000 20 years ago, now the land price increases dramatically.**



# Accounting Assumptions

**Economic  
Entity  
Assumption**

**Cost  
Principle**

**Monetary  
Unit  
Assumption**

**Going  
Concern  
Assumption**

# Multiple Choices

2mins

- The formation of a partnership firm requires a minimum of:
- A) four partners.
- B) three partners.
- C) one partner.
- D) two partners.

# Multiple Choices

2mins

According to which of the following accounting concepts should the acquired assets be recorded at the amount actually paid rather than at the estimated market value?

- a) Monetary unit assumption
- b) Cost principle
- c) Economic entity assumption
- d) Going concern assumption

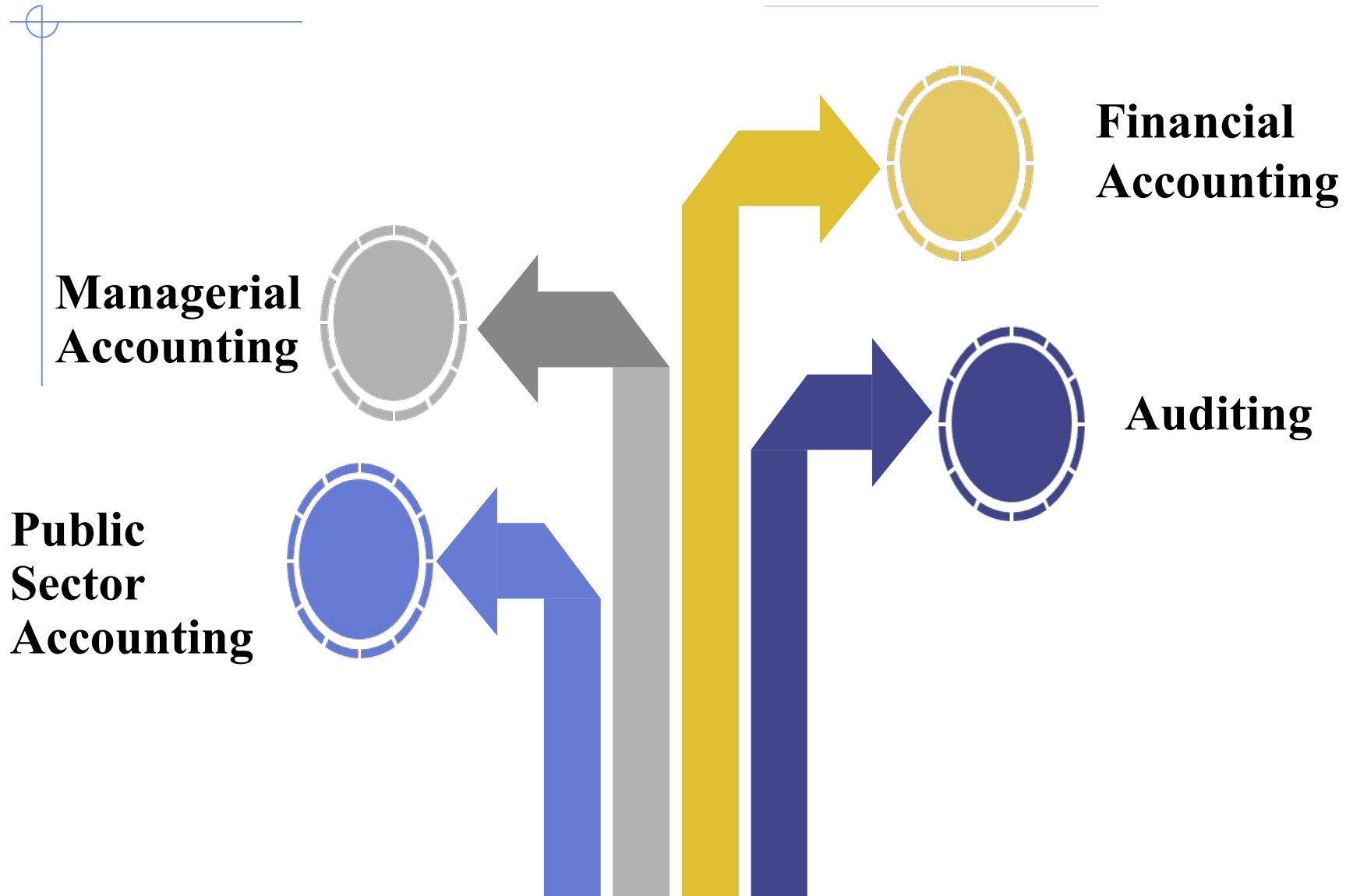
Match the accounting terminology to the definition

Benefit	Definition
7. Cost principle	a. Oversees the creation and governance of accounting standards in the United States.
8. GAAP	b. Requires an organization to be a separate economic unit.
9. Faithful representation	c. Oversees US financial markets.
10. SEC	d. States that acquired assets and services should be recorded at their actual cost.
11. FASB	e. Creates International Financial Reporting Standards.
12. Monetary unit assumption	f. The main US accounting rule book.
13. Economic entity assumption	g. Assumes that an entity will remain in operation for the foreseeable future.
14. Going concern assumption	h. Assumes that the financial statements are recorded in a monetary unit.
15. IASB	i. Requires information to be complete, neutral, and free from material error.

# Accounting Fields

- Financial Accounting
- Managerial Accounting
- Auditing
- Public Sector Accounting
  - governments

# Accounting Fields



# Two basic branches of accounting

- **Management accounting(MA)**
- special requirement for the purposes to make better decisions for the organization and improve the efficiency
- IMA: large U.S. professional organization of accountants, focus on internal accounting
- Licensed as **Certified Management Accountant(CMA)**
- **Financial accounting(FA)**
- Stakeholders, particular external parties - comply with IASs, GAAP;external users
- Licensed as **Certified Public Accountant(CPA)**

# Comparison of FA and MA

	<b>Financial Accounting</b>	<b>Managerial Accounting</b>
<b>1. Users</b>	External persons who make financial decisions	Managers who plan for and control an organization
<b>2. Time focus</b>	Historical perspective	Future emphasis
<b>3. Verifiability versus relevance</b>	Emphasis on verifiability	Emphasis on relevance for planning and control
<b>4. Precision versus timeliness</b>	Emphasis on precision	Emphasis on timeliness
<b>5. Subject</b>	Primary focus is on the whole organization	Focuses on segments of an organization
<b>6. GAAP</b>	Must follow GAAP and prescribed formats	Need not follow GAAP or any prescribed format
<b>7. Requirement</b>	Mandatory for external reports	Not Mandatory



# Comparison of FA and MA

The data used to prepare financial accounts and management accounts are the same. The differences between these accounts arise because the data is analysed differently.

## Financial accounts

Prepared for external individuals  
Show performance of a defined period  
Legal requirements for limited companies to prepare FA  
Format of published FA determined by

- Law
- IASs
- IFRSs

FA cover business as a whole  
FA information monetary (mostly)  
Historic picture of past operations

## Management accounts

- Prepared for internal managers of an organisation
- Aid management in recording, planning and controlling organisation's activities
- Help decision-making process
- No legal requirements to prepare MA
- Format of MA at discretion of management
- MA can focus on specific areas of an organisation's activities
- MA incorporate non-monetary measures
- Historic record *and* future planning tool

# Users of Financial Information

## Exhibit 1-1 | Decision Making: Financial versus Managerial Accounting

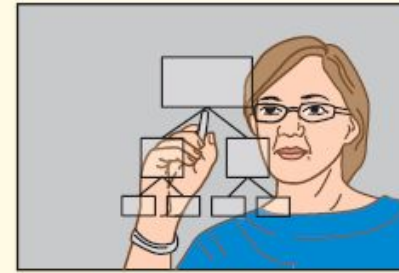
### Financial Accounting



#### External Decision Makers:

- Should I invest in the business?
- Is the business profitable?
- Should we lend money to the business?
- Can the business pay us back?

### Managerial Accounting



#### Internal Decision Makers:

- How much money should the business budget for production?
- Should the business expand to a new location?
- How do actual costs compare to budgeted costs?

# Multiple Choices

2mins

Managerial accounting information is used by:

- a) taxing authorities.
- b) auditors.
- c) lenders.
- d) internal decision makers.

# Relationship between MA and FA

- **Both of them are parts of the accounting information system.**
- **Management accounting makes use of the outcome of financial accounting.**

# Homework-Matching

Match the accounting terminology to the definition

Benefit	Definition
1. Certified management accountants	a. The information system that measures business activities, processes that information into reports, and communicates the results to decision makers.
2. Accounting	b. Licensed professional accountants who serve the general public.
3. Managerial accounting	c. Any person or business to whom a business owes money.
4. Certified public accountants	d. The field of accounting that focuses on providing information for internal decision makers.
5. Financial accounting	e. Certified professionals who work for a single company.
6. Creditor	f. The field of accounting that focuses on providing information for external decision makers.