

CHAPTER 1

Accounting 會計

An Overview and Analysis

Accounting Principles, Eighth Edition

What is Accounting?

The purpose of accounting is to:

確認

記錄

傳遞

- (1) **identify, record, and communicate** the economic events of an
- (2) organization to
- (3) interested users.

Three Activities

Identification



Select economic events (transactions)

Recording



Record, classify, and summarize

Communication



Prepare accounting reports



Analyze and interpret for users

BOOKKEEPING DISTINGUISHED FROM ACCOUNTING

- **Accounting** 會計

Includes bookkeeping

Also includes much more

- **Bookkeeping** 簿記

The recording of economic events

One part of accounting

Who Uses Accounting Data?

Internal Users

Management

IRS

Investors

Human Resources

Labor Unions

Finance

Creditors

Marketing

Customers

SEC

External Users



QUESTIONS ASKED BY INTERNAL USERS 内部使用者

Questions Asked by Internal Users



Finance

Is cash sufficient to pay dividends to **Microsoft** stockholders?



Marketing

What price for an **Apple** iPod will maximize the company's net income?



Human Resources

Can we afford to give **General Motors** employees pay raises this year?



Management

Which **PepsiCo** product line is the most profitable? Should any product lines be eliminated?

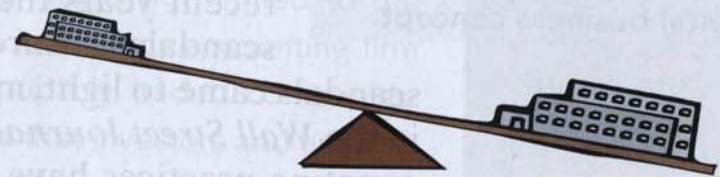
QUESTIONS ASKED BY EXTERNAL USERS 外部使用者

Questions Asked by External Users



Investors

Is **General Electric** earning satisfactory income?



Investors

How does **Disney** compare in size and profitability with **Time Warner**?



Creditors

Will **United Airlines** be able to pay its debts as they come due?



- **Financial Accounting** 財務會計
資訊使用者 → 外部使用者
- **Managerial Accounting** 管理會計
資訊使用者 → 內部使用者

財務會計

財務報表 - 資訊的傳達工具

Various users
need financial
information



Financial Statements

- Balance Sheet
- Income Statement
- Statement of Owners' Equity
- Statement of Cash Flows
- Note Disclosure

一般公認會計原則



The accounting profession
has attempted to develop
a set of standards that
are generally accepted
and universally practiced.



**Generally Accepted
Accounting
Principles (GAAP)**

Organizations Involved in Standard Setting:



Securities and Exchange Commission (SEC)

<http://www.sec.gov/>



Financial Accounting Standards Board (FASB)

<http://www.fasb.org/>



International Accounting Standards Board
(IASB)

<http://www.iasb.org/>

成本原則（歷史成本原則）

Cost Principle (Historical Cost Principle) - dictates that companies record assets at their cost.

Issues:

- Reported at cost when purchased and also over the time the asset is held.
- Cost easily verified, whereas market value is often subjective.
- Fair value information may be more useful.

Assumptions 假設

Monetary Unit Assumption 貨幣單位假設

include in the accounting records only transaction data that can be expressed in terms of money.

Economic Entity Assumption 經濟個體假設

requires that activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

- Proprietorship. 獨資
- Partnership. 合夥
- Corporation. 公司

Forms of
Business Ownership

Forms of Business Ownership

Proprietorship

- Generally owned by one person.
- Often small service-type businesses
- Owner receives any profits, suffers any losses, and is personally liable for all debts.

Partnership

- Owned by two or more persons.
- Often retail and service-type businesses
- Generally unlimited personal liability
- Partnership agreement

Corporation

- Ownership divided into shares of stock
- Separate legal entity organized under state corporation law
- Limited liability

The Basic Accounting Equation 會計方程式

$$\begin{array}{ccc} \boxed{\text{Assets}} & = & \boxed{\text{Liabilities}} + \boxed{\text{Owners' Equity}} \\ \text{資產} & & \text{負債} \quad \quad \quad \text{業主權益} \end{array}$$

Provides the **underlying framework** for recording and summarizing economic events.

Assets are claimed by either creditors or owners.

Claims of creditors must be paid before ownership claims.

Assets

資產

- Resources a business owns.
- Provide future services or benefits.
- Cash, Supplies, Equipment, etc.

Liabilities

負債

- Claims against assets (debts and obligations).
- Creditors - party to whom money is owed.
- Accounts payable, Notes payable, etc.

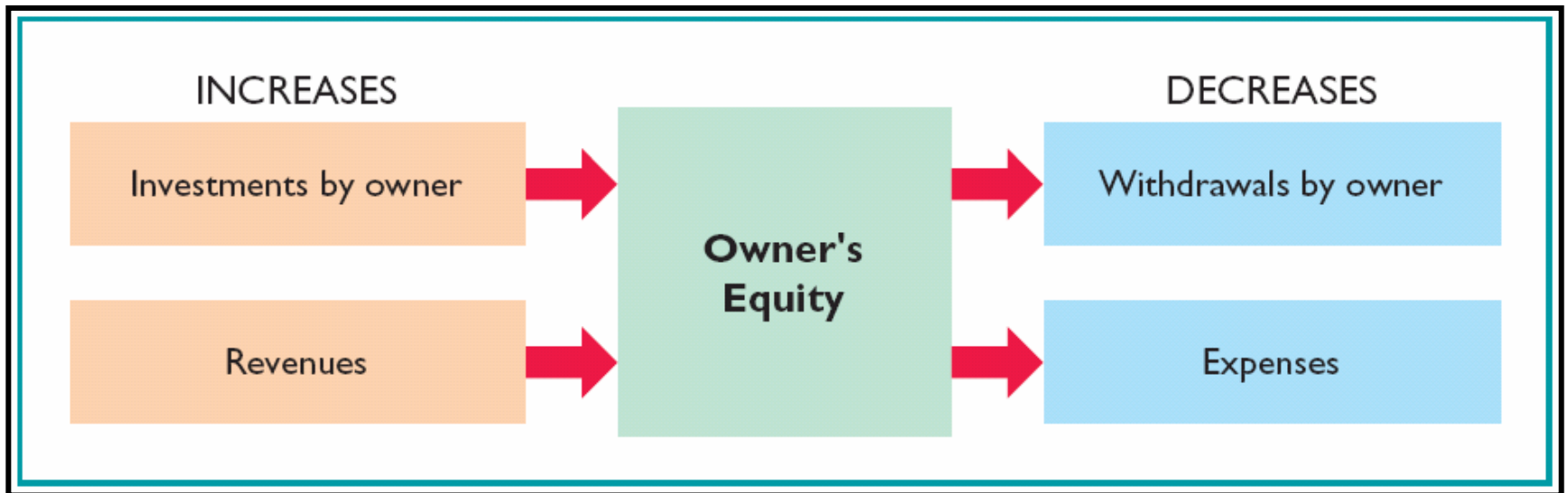
Owners' Equity

業主權益

- Ownership claim on total assets.
- Referred to as residual equity.
- Capital, Drawings, etc. (Proprietorship or Partnership).

Subdivisions of Owner's Equity:

- 1 Capital or Investments by Owner (+)
- 2 Drawing (-)
- 3 Revenues (+)
- 4 Expenses (-)



Investments 投資

- are the assets the owner puts in the business

Drawings 提取

- are withdrawals of cash or other assets by the owner for personal use

收入

Revenues result from business activities entered into for the purpose of earning income.

Common sources of revenue are: sales, fees, services, commissions, interest, dividends, royalties, and rent.

費用

Expenses are the cost of assets consumed or services used in the process of earning revenue.

Common expenses are: salaries expense, rent expense, utilities expense, tax expense, etc.

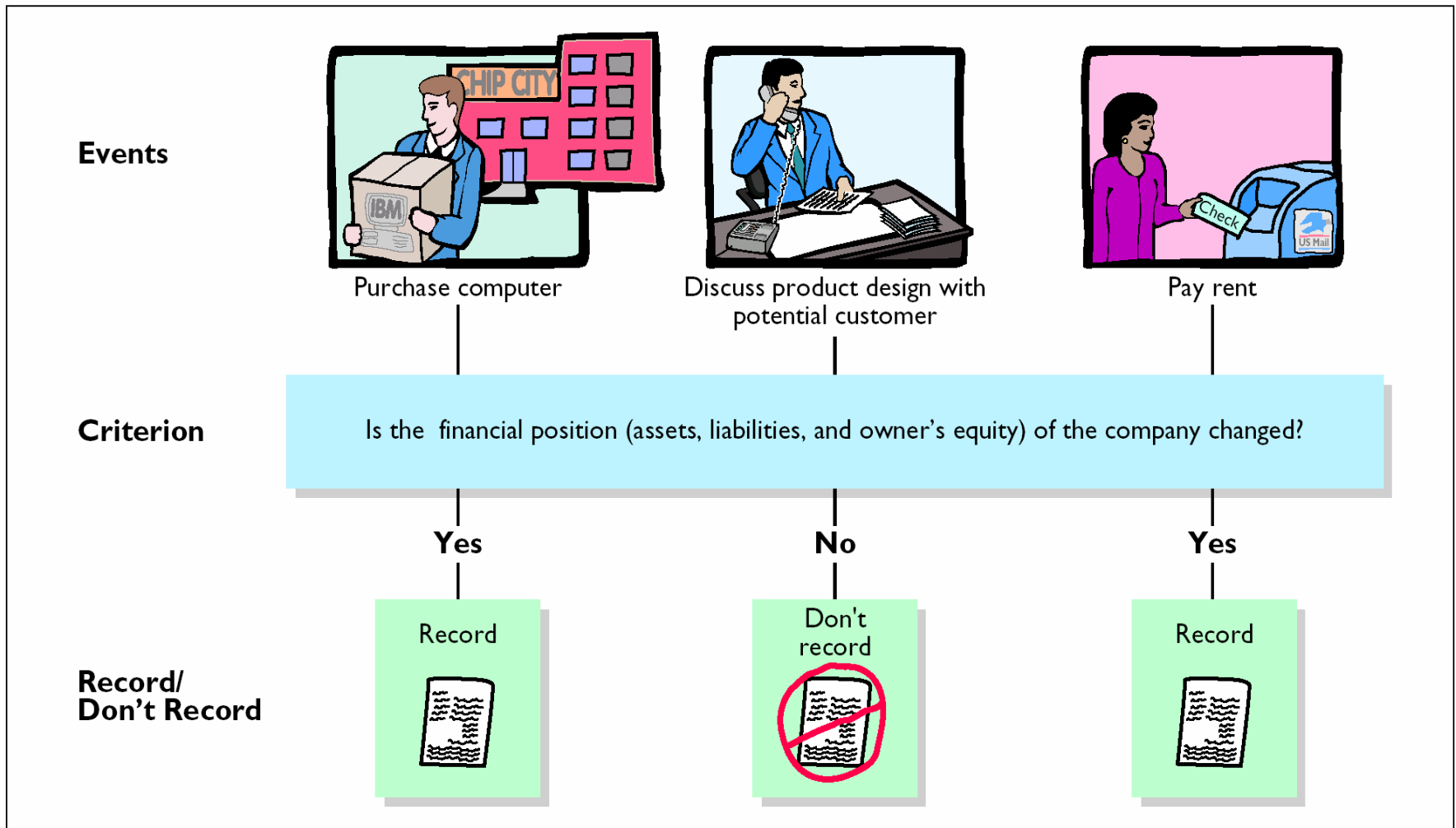
Using The Basic Accounting Equation

Transactions 交易 are a business's economic events *recorded* by accountants.

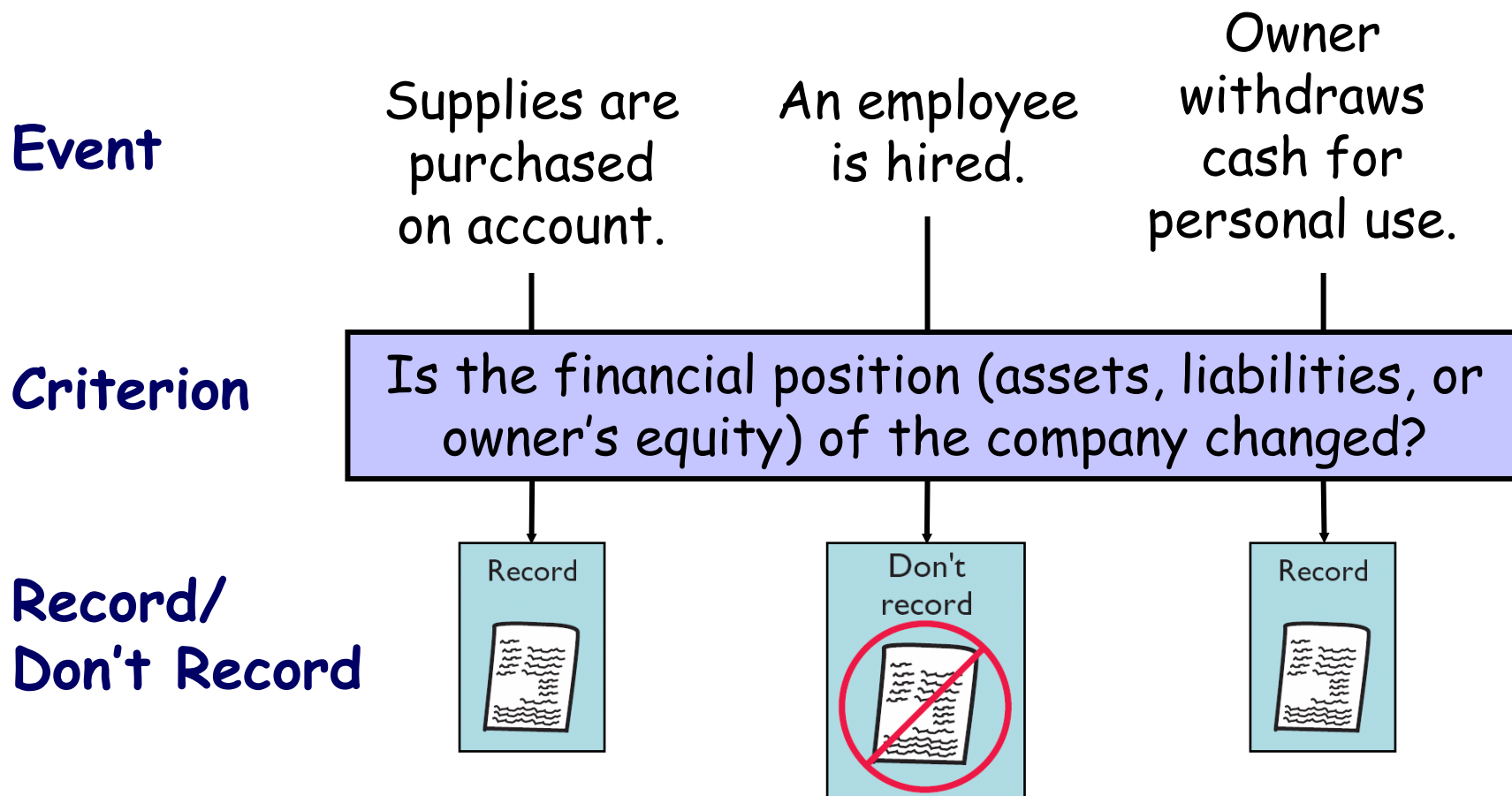
- May be external or internal.
- Not all activities represent transactions.
- Each transaction has a **dual effect** on the accounting equation.

Transaction identification process

p.15



Q: Are the following events recorded in the accounting records?



TRANSACTION ANALYSIS

- **Ray Neal** decides to open a computer programming service which he names **Softbyte**.



TRANSACTION ANALYSIS

(1) On September 1, 2008, he invests \$15,000 cash in the business.


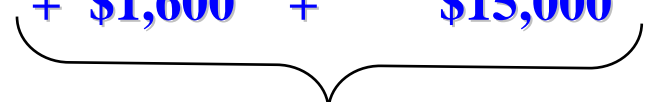
	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
	<u>Cash</u>				<u>R. Neal, Capital</u>
(1)	<u>+ 15,000</u>			<u>+ 15,000</u>	Investment
	15,000	=		15,000	

(2) Softbyte purchases computer equipment for \$7,000 cash.

	<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
	<u>Cash</u>	+ <u>Equipment</u>	=		+	<u>R. Neal, Capital</u>
Old Bal.	\$15,000		=			\$15,000
	(2) - <u>7,000</u>	+ <u>7,000</u>				
New Bal.	\$8,000	+ \$7,000	=			\$15,000



(3) Softbyte purchases supplies expected to last for several months for \$1,600 from Acme Supply Company. Acme agrees to allow Softbyte to pay this bill next month.

- This transaction is referred to as a **purchase on account** or a **credit purchase**.


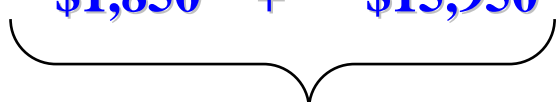
	<u>Assets</u>		=	<u>Liabilities</u>		+	<u>Owner's Equity</u>
	<u>Cash</u> + <u>Supplies</u> + <u>Equip.</u>		=	<u>Accts. Pay.</u>		+	<u>R. Neal, Capital</u>
Old	\$8,000	+ \$7,000	=				\$15,000
(3)	+ \$1,600			+ \$1,600			
New	\$8,000	+ \$1,600	+ \$7,000	=	+ \$1,600	+	\$15,000
							
	\$16,500				\$16,500		

(4) **Softbyte** receives \$1,200 cash from customers for programming services it has provided.



- This transaction represents the **Softbyte's** principal revenue-producing activity.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>	
	<u>Cash</u> + <u>Supplies</u> + <u>Equip.</u>	=	<u>Accts. Pay.</u>	+	<u>R. Neal., Capital</u>	
Old	\$8,000 + \$1,600 + \$7,000	=	\$1,600	+	\$15,000	
(4)	+ 1,200				+ 1,200	Service
New	\$9,200 + \$1,600 + \$7,000	=	\$1,600	+	\$16,200	Revenue
						
	\$17,800		\$17,800			

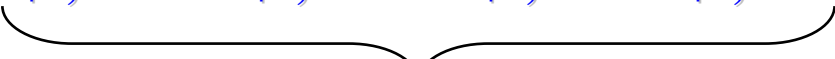

(5) Softbyte receives a bill for \$250 from the Daily News for advertising but postpones payment of the bill until a later date.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>	
	<u>Cash</u> + <u>Supplies</u> + <u>Equip.</u>	=	<u>Accts. Pay.</u>	+	<u>R. Neal, Capital</u>	
Old	\$9,600 + \$1,600 + \$7,000	=	\$1,600	+	\$16,200	
(5)			+ 250		- 250	Advertising
New	\$9,600 + \$1,600 + \$7,000	=	\$1,850	+	\$15,950	Expense
						
	\$17,800		\$17,800			

(6) Softbyte provides \$3,500 of programming services for customers. Cash of \$1,500 is received from customers, and the balance of \$2,000 is billed on account.

<u>Assets</u>				=	<u>Liabilities</u>	+	<u>Owner's Equity</u>	
<u>Cash</u>	+ <u>Accts. Rec.</u>	+ <u>Supplies</u>	+ <u>Equip.</u>	=	<u>Accts. Pay.</u>	+	<u>R. Neal, Capital</u>	
Old	\$9,600	+ \$1,600	+ \$7,000	=	\$1,850	+	\$15,950	
(6)	+ 1,500	+ 2,000		=		+	3,500	Service
New	\$10,700	+ \$2,000	+ \$1,600	=	\$1,850	+	\$19,450	Revenue
				=				
	\$21,300				\$21,300			



(7) Expenses paid in cash for September are store rent, \$600; employees' salaries, \$900; and utilities, \$200.

<u>Assets</u>				=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
<u>Cash</u>	+ <u>Accts. Rec.</u>	+ <u>Supplies</u>	+ <u>Equip.</u>	=	<u>Accts. Pay.</u>	+	<u>R. Neal, Capital</u>
Old \$19,450	+ \$2,000	+ \$1,600	+ \$7,000	=	\$1,850	+	\$19,450
(7) - 1,700							- 600 Rent Expense
							- 900 Salaries Expense
							- 200 Utilities Expense
New \$9,000 + \$2,000 + \$1,600 + \$7,000				=	\$1,850	+	\$17,750
							
\$19,600					\$19,600		



(8) Softbyte pays its \$250 Daily News advertising bill in cash.

<u>Assets</u>				=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
<u>Cash</u>	+ <u>Accts. Rec.</u>	+ <u>Supplies</u>	+ <u>Equip.</u>	=	<u>Accts. Pay.</u>	+	<u>R. Neal, Capital</u>
Old	\$9,000	+ \$2,000	+ \$1,600 + \$7,000	=	\$1,850	+	\$17,750
(8)	- 250			=	- 250	+	.
New	\$8,750	+ \$2,000	+ \$1,600 + \$7,000	=	\$1,600	+	\$17,750
	\$19,350				\$19,350		

(9) The sum of \$600 in cash is received from customers who have previously been billed for services (in Transaction 6).

<u>Assets</u>				=	<u>Liabilities</u>	+	<u>Owner's Equity</u>					
<u>Cash</u>	+	<u>Accts. Rec.</u>	+	<u>Supplies</u>	+	<u>Equip.</u>	=	<u>Accts. Pay.</u>	+	<u>R. Neal, Capital</u>		
Old		\$8,750	+	\$2,000	+	\$1,600	+	\$7,000	=	\$1,600	+	\$17,750
(9)		+ 600		- 600					=			
		\$9,350	+	\$1,400	+	\$1,600	+	\$7,000	=	\$1,600	+	\$17,750
												
		\$19,350						\$19,350				

(10) Ray Neal withdraws \$1,300 in cash from the business for his personal use.

<u>Assets</u>				=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
<u>Cash</u>	+ <u>Accts. Rec.</u>	+ <u>Supplies</u>	+ <u>Equip</u>	=	<u>Accts. Pay.</u>	+	<u>R. Neal, Capital</u>
Old Bal. \$9,350	+ \$1,400	+ \$1,600	+ \$7,000	=	\$1,600	+	\$17,750
(10) - 1,300							- 1,300 Drawing
New Bal. \$8,050	+ \$1,400	+ \$1,600	+ \$7,000	=	\$1,600	+	\$16,450
							
\$18,050					\$18,050		

FINANCIAL STATEMENTS

財務報表

- **Income Statement** 損益表
revenues and expenses and resulting net income or net loss for a specific period of time
- **Owner's Equity Statement** 業主權益變動表
changes in owner's equity for a specific period of time
- **Balance Sheet** 資產負債表
assets, liabilities, and owner's equity at a specific date
- **Statement of Cash Flows** 現金流量表
cash inflows (receipts) and outflows (payments) for a specific period of time

損益表

SOFTBYTE, INC.

Income Statement

For the Month Ended September 30, 2008

Revenues

Service revenue		\$ 4,700
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Expenses

Salaries expense	\$ 900	
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Rent expense	600	
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Advertising expense	250	
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Utilities expense	200	
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Total expenses	<u>1,950</u>	
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Net income		<u><u>\$ 2,750</u></u>
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業主權益變動表

SOFTBYTE, INC.		
Owner's Equity Statement		
For the Month Ended September 30, 2008		
R. Neal, Capital September 1		\$ -0-
Add: Investments	\$ 15,000	
Net income	<u>2,750</u>	<u>17,750</u>
		17,750
Less: Drawings		<u>1,300</u>
R. Neal, Capital, September 30, 2008		<u><u>\$16,450</u></u>

資產負債表

SOFTBYTE, INC.
Balance Sheet
September 30, 2008

Assets

Cash	\$ 8,050
Accounts receivable	1,400
Supplies	1,600
Equipment	7,000
Total assets	<u>\$ 18,050</u>

Liabilities and Owner's Equity

Liabilities	
Accounts payable	\$ 1,600
Owner's equity	
R. Neal, capital	16,450
Total liabilities and owner's equity	<u>\$ 18,050</u>

現金流量表

SOFTBYTE, INC.		
Statement of Cash Flows		
For the Month Ended September 30, 2008		
Cash flows from operating activities		
Cash receipts from revenues		\$ 3,300
Cash payments for expenses		<u>(1,950)</u>
Net cash provided by operating activities		1,350
Cash flows from investing activities		
Purchase of equipment		(7,000)
Cash flows from financing activities		
Sale of common stock	\$ 15,000	
Payment of cash dividends	<u>(1,300)</u>	
Net cash provided by financing activities		<u>13,700</u>
Net increase in cash		8,050
Cash at the beginning of the period		<u>-0-</u>
Cash at the end of the period		<u><u>\$ 8,050</u></u>

Transactions Problem

Barone's Repair Shop was started on May 1, 2007 by Nancy. Prepare a tabular analysis of the following transactions for the month of May.

- Invested \$10,000 cash to start the repair shop.

Assets			Liabilities	Equity	
Cash	Accounts Receivable	Equipment	Accounts Payable	Barone, Capital	
1. +10,000				+10,000	Investment

2. Purchased equipment for \$5,000 cash.

Assets			Liabilities	Equity	
Cash	Accounts Receivable	Equipment	Accounts Payable	Barone, Capital	
1. +10,000				+10,000	Investment
2. -5,000		+5,000			

3. Paid \$400 cash for May office rent.

		Assets			Liabilities		Equity		
		Cash	Accounts Receivable	Equipment	=	Accounts Payable	+	Barone, Capital	
1.	+10,000							+10,000	Investment
2.	-5,000			+5,000					
3.	-400							-400	Expense

4. Received \$5,100 from customers for repair service.

	Assets			=	Liabilities	+	Equity	
	Cash	+ Accounts Receivable	+ Equipment		Accounts Payable		Barone, Capital	
1.	+10,000						+10,000	Investment
2.	-5,000		+5,000					
3.	-400						-400	Expense
4.	+5,100						+5,100	Revenue

5. Withdrew \$1,000 cash for personal use.

		Assets			Liabilities		Equity		
		Cash	Accounts Receivable	Equipment	=	Accounts Payable	+	Barone, Capital	
1.	+10,000							+10,000	Investment
2.	-5,000			+5,000					
3.	-400							-400	Expense
4.	+5,100							+5,100	Revenue
5.	-1,000							-1,000	Drawings

6. Paid part-time employee salaries of \$2,000.

		Assets			Liabilities		Equity		
		Cash	Accounts Receivable	Equipment	=	Accounts Payable	+	Barone, Capital	
1.	+10,000							+10,000	Investment
2.	-5,000			+5,000					
3.	-400							-400	Expense
4.	+5,100							+5,100	Revenue
5.	-1,000							-1,000	Drawings
6.	-2,000							-2,000	Expense

7. Incurred \$250 of advertising costs, on account.

		Assets			Liabilities		Equity		
		Cash	Accounts Receivable	Equipment	=	Accounts Payable	+	Barone, Capital	
1.	+10,000							+10,000	Investment
2.	-5,000			+5,000					
3.	-400							-400	Expense
4.	+5,100							+5,100	Revenue
5.	-1,000							-1,000	Drawings
6.	-2,000							-2,000	Expense
7.						+250		-250	Expense

8. Provided \$750 of repair services on account.

	Assets			=	Liabilities	+	Equity	
	Cash	Accounts Receivable	Equipment		Accounts Payable		Barone, Capital	
1.	+10,000						+10,000	Investment
2.	-5,000		+5,000					
3.	-400						-400	Expense
4.	+5,100						+5,100	Revenue
5.	-1,000						-1,000	Drawings
6.	-2,000						-2,000	Expense
7.					+250		-250	Expense
8.		+750					+750	Revenue

9. Collected \$120 cash for services previously billed.

	Assets			=	Liabilities	+	Equity	
	Cash	Accounts Receivable	Equipment		Accounts Payable		Barone, Capital	
1.	+10,000						+10,000	Investment
2.	-5,000		+5,000					
3.	-400						-400	Expense
4.	+5,100						+5,100	Revenue
5.	-1,000						-1,000	Drawings
6.	-2,000						-2,000	Expense
7.					+250		-250	Expense
8.		+750					+750	Revenue
9.	+120	-120						
	6,820	+ 630	+ 5,000	=	250	+	12,200	

Income Statement

Barone's Repair Shop	
Income Statement	
For the Month Ended May 31, 2007	
Revenues:	
Service revenue	\$ 5,850
Expenses:	
Salary expense	2,000
Rent expense	400
Advertising expense	250
Total expenses	2,650
Net income	\$ 3,200

- Reports the revenues and expenses for a specific period of time.
- Net income - revenues exceed expenses.
- Net loss - expenses exceed revenues.

Income Statement

Owners' Equity Statement

Barone's Repair Shop Income Statement For the Month Ended May 31, 2007	
Revenues:	
Service revenue	\$ 5,850
Expenses:	
Salary expense	2,000
Rent expense	400
Advertising expense	250
Total expenses	2,650
Net income	\$ 3,200

Barone's Repair Shop Owners' Equity Statement For the Month Ended May 31, 2007	
Barone's, Capital May 1	\$ -
Add: Investment	10,000
Net income	3,200
	13,200
Less: Drawings	1,000
Barone's, Capital May 31	\$ 12,200

Net income is needed to determine the ending balance in owner's equity.

Owners' Equity Statement

- Statement indicates the reasons why owner's equity has increased or decreased during the period.

Barone's Repair Shop	
Owners' Equity Statement	
For the Month Ended May 31, 2007	
Barone's, Capital May 1	\$ -
Add: Investment	10,000
Net income	3,200
	<hr/>
	13,200
Less: Drawings	1,000
Barone's, Capital May 31	<hr/>
	\$ 12,200

Balance Sheet

Barone's Repair Shop Balance Sheet May 31, 2007	
Assets	
Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	<u>\$ 12,450</u>
Liabilities	
Accounts payable	\$ 250
Owners' Equity	
Barone's, capital	12,200
Total liab. & equity	<u>\$ 12,450</u>

Owners' Equity Statement

Barone's Repair Shop Owners' Equity Statement For the Month Ended May 31, 2007	
Barone's, Capital May 1	\$ -
Add: Investment	10,000
Net income	3,200
	<u>13,200</u>
Less: Drawings	1,000
Barone's, Capital May 31	<u>\$ 12,200</u>

The ending balance in owner's equity is needed in preparing the balance sheet

Balance Sheet

Barone's Repair Shop	
Balance Sheet	
May 31, 2007	
Assets	
Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	<u>\$ 12,450</u>
Liabilities	
Accounts payable	\$ 250
Owners' Equity	
Barone's, capital	12,200
Total liab. & equity	<u>\$ 12,450</u>

- Reports the assets, liabilities, and owner's equity at a specific date.
- Assets listed at the top, followed by liabilities and owner's equity.
- Total assets must equal total liabilities and owner's equity.

Balance Sheet

Barone's Repair Shop Balance Sheet May 31, 2007	
Assets	
Cash	\$ 6,820
Accounts receivable	630
Equipment	5,000
Total assets	<u>\$ 12,450</u>
Liabilities	
Accounts payable	\$ 250
Owners' Equity	
Barone's, capital	12,200
Total liab. & equity	<u>\$ 12,450</u>

Statement of Cash Flows

Barone's Repair Shop Statement of Cash Flows For the Month Ended May 31, 2007	
Cash flow from Operations	
Cash receipts from customers	\$ 5,220
Cash paid for expenses	(2,400)
Cash provided by operations	<u>2,820</u>
Cash flow from Investing	
Purchase of equipment	(5,000)
Cash flow from Financing	
Investment by owners	10,000
Drawings by owners	(1,000)
Cash provided by financing	<u>9,000</u>
Net increase in cash	<u>6,820</u>
Cash balance, May 1	-
Cash balance, May 31	<u>\$ 6,820</u>

- Information for a specific period of time.
- Answers the following:
 1. Where did cash come from?
 2. What was cash used for?
 3. What was the change in the cash balance?

Statement of Cash Flows

Barone's Repair Shop	
Statement of Cash Flows	
For the Month Ended May 31, 2007	
Cash flow from Operations	
Cash receipts from customers	\$ 5,220
Cash paid for expenses	(2,400)
	2,820
Cash flow from Investing	
Purchase of equipment	(5,000)
Cash flow from Financing	
Investment by owners	10,000
Drawings by owners	(1,000)
	9,000
Net increase in cash	6,820
Cash balance, May 1	-
Cash balance, May 31	\$ 6,820