

- Yes, because they are called on to make accounting judgments and estimates that impact the reported performance of a company.
- Do accountants use computers?
  - Yes, computers have changed the way accounting information is collected, analyzed, and used. However, computers have not replaced the accountant nor eliminated the need for qualified decision makers.

## LO 4 Analyze the reasons for studying accounting.

- Everyone is affected by accounting.
- Each individual needs some accounting skills in order to organize his or her personal finances.
- Each person in a business, charity, or other organization can use accounting information to make better decisions.

## Key Terms & Concepts

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|--|---|--|
| • accounting, 5  | • business, 6   | • International Accounting Standards Board (IASB), 13    |
| • accounting cycle, 7  | • certified public accountant (CPA), 14               | • International Financial Reporting Standards (IFRS), 13 |
| • Accounting Research and Development Foundation, 12             | • financial accounting, 9                             | • management accounting, 8                               |
| • accounting system, 4   | • Financial Accounting Standards Board (FASB), 13     | • nonprofit organization, 6                              |
| • American Institute of Certified Public Accountants (AICPA), 14 | • financial statements, 9                             | • Securities and Exchange Commission (SEC), 14           |
| • annual report, 9   | • generally accepted accounting principles (GAAP), 12 |  |
| • bookkeeping, 4   | • Internal Revenue Service (IRS), 14                  |  |

## Put it on Paper

## DISCUSSION QUESTIONS

1. What are the three functions of an accounting system?
2. What are the essential elements in decision making, and how does accounting fit into the process?
3. What types of personal decisions have required you to use accounting information?
4. What does the term “business” mean to you?
5. Why is accounting often referred to as the “language of business”?
6. In what ways are the needs of internal and external users of accounting information the same? In what ways are they different?
7. What does IFRS stand for? Who sets up the IFRS and are there many countries adopting IFRS? What is the advantage to adopt IFRS?
8. What are generally accepted accounting principles (GAAP)? What is the purpose of GAAP? Who currently develops and issues the U.S. GAAP?
9. Why is it important for financial statements and other external reports to be based on generally accepted accounting principles?
10. What are the respective roles of the Securities and Exchange Commission (SEC) and the Internal Revenue Service (IRS) in the setting of accounting standards?
11. For you as a potential investor, what is the problem with different countries having different accounting standards? For you as the president of a multinational company, what is the problem with different countries having different accounting standards?
12. Ethical considerations affect all society. Why are ethical considerations especially important for accountants?
13. Given significant technological advances, can we expect to see less demand for accountants and accounting-type services?
14. Other than that it is a requirement for your major or that your mom or dad is making you, why should you study accounting?

## PRACTICE EXERCISES

PE 1-1

LO 1

### The Role and Importance of Accounting

Assume that you are applying for a part-time job as an accounting clerk in a retail clothing establishment. During the interview, the store manager asks how you expect to contribute to the business. How would you respond?

PE 1-2

LO 1

### Bookkeeping Is Everywhere

Describe how bookkeeping is applied in each of the following settings:

- Your college English class
- The National Basketball Association
- A hospital emergency room
- Jury selection for a major murder trial
- Four college roommates on a weekend skiing trip

PE 1-3

LO 1

### Accounting Information and Decision Making

You are the owner of Automated Systems, Inc., which sells Apple computers and related data processing equipment. You are currently trying to decide whether to continue selling the Apple computer line or to distribute Windows-based computers instead. What information do you need to consider in order to determine how successful your business is or will be? What information would help you decide whether to sell the Apple or the Windows-based personal computer line? Use your imagination and general knowledge of business activity.

PE 1-4

LO 1

### Allocation of Limited Resources

Assume you are a small business owner trying to increase your company's profits. How can accounting information help you efficiently allocate your limited resources to maximize your business profit?

PE 1-5

LO 2

### Users of Financial Information

Why might each of the following individuals or groups be interested in a firm's financial statements?

- The current stockholders of the firm
- The creditors of the firm
- The management of the firm
- The prospective stockholders of the firm
- The IRS
- The SEC
- The firm's major labor union

PE 1-6

LO 2

### Structuring Information for Use in Evaluation

You work in a small convenience store. The store is very low-tech; you ring up the sales on an old-style cash register that merely records the amount of the sale. The store owner uses this cash register tape at the end of each day to verify that the correct amount of cash is in the cash register drawer.

In addition to verifying the cash amount, how else could the information on the cash register tape be used to evaluate the store's operation? What additional bookkeeping procedures would be necessary to make these additional uses possible?

PE 1-7

LO 2

### Investing in the Stock Market

Assume your grandparents have just given you \$20,000 on the condition that you invest the money in the stock market. As you contemplate making your investment choices, what accounting information do you want to help identify companies that will have high future rates of return?

PE 1-8

LO 2

### Management versus Financial Accounting

Contrast management and financial accounting with respect to the following:

- Overall purpose
- Type of financial reports used (i.e., external, internal, or both)
- Users of the information

Also, in what ways are these two fields of accounting similar?

PE 1-9 LO 2	<b>IFRS</b> Given that almost each country has its own generally accepted accounting principles, why do we need a set of internationally accepted accounting standards such as IFRS?
PE 1-10 LO 2	<b>Conflicts between Lenders and Investors</b> Lenders and investors both provide monetary resources to a company. What do they expect from the company? What are the potential conflicts of interest between lenders and investors?
PE 1-11 LO 2	<b>Conflicts between Management and Investors (Shareholders)</b> Management runs the operation of a company with little or even no investment of money in the company, while investors (shareholders) invest their money in the company without paying attention to the company's daily operations, giving rise to the agency relationship in which the management is the agent and the investors are the principal. To motivate the agent to work harder, the principal provides incentives that are based on accounting numbers such as net income earned in a period. As the management of the company, what actions will he/she be induced to take? Will the integrity of financial statements be affected? Why is ethics so important in such a setting?
PE 1-12 LO 3	<b>Ethics in Accounting</b> The text has pointed out that ethics is an important topic, especially for CPAs. Derek Bok, former law professor and president of Harvard University, has suggested that colleges and universities have a special opportunity and obligation to train students to be more thoughtful and perceptive about moral and ethical issues. Other individuals have concluded that it is not possible to "teach" ethics. What do you think? Can ethics be taught? If you agree that colleges and universities can teach ethics, how might the ethical dimensions of accounting be presented to students?
PE 1-13 LO 3	<b>Challenges to the Accounting Profession</b> As the business world continues to change the way in which business is conducted, accountants are faced with the challenge of accounting for these changes. Who, for example, could have anticipated the risks associated with asbestos? Or the decline of communism? Or the increasingly litigious environment in the United States? Each of these events, and many more, has influenced business—which has, in turn, influenced accounting. From your general understanding of accounting and the current business environment, what are some of the challenges you see facing the accounting profession?
PE 1-14 LO 3	<b>Environment of Accounting</b> FASB, GAAP, SEC, CPA, AICPA, IRS, IASB, IFRS are all acronyms used in accounting. For the preceding list of acronyms, state what the acronym stands for and then give a definition of each acronym.
PE 1-15 LO 4	<b>Why Do I Need to Know Accounting?</b> One of your college friends recently graduated from school with a major in music (specifically piano). He has told you that he is going to start his own piano instructional business. He plans to operate the business from home. You ask him how he is going to account for his business, and his reply is, "I graduated in music, not accounting. I am going to teach music, not number crunching. I didn't need accounting in college and I don't need it now!" Is your friend right? What financial information might he find useful in operating his business?
PE 1-16 LO 4	<b>Career Opportunities in Accounting</b> You are scheduled to graduate from college with a degree in accounting and your mother would like to know what you plan to do with the rest of your life. She assumes that your only option is to be a bookkeeper like Bob Cratchit in the story <i>A Christmas Carol</i> . What can you tell Mom regarding the options available to you with your degree in accounting?

## ANALYTICAL ASSIGNMENTS

AA 1-1 Discussion	<b>To Lend or Not To Lend—That Is the Question</b> Sam Love is vice president and chief lending officer of the Meeker First National Bank. Recently, Bill McCarthy, a new farmer, moved to town. Sam has not dealt with Bill previously and knows little about
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the Mountain Meadow Ranch that Bill operates. Bill would like to borrow \$100,000 to purchase some equipment and yearling steers for his ranch. What information does Sam need to help make the lending decision? What type of information should Bill collect and analyze before even requesting the loan?

**AA 1-2***Discussion***Information Needs to Remain Competitive**

According to the 2015 annual report of President Chain Store Corporation (PCSC), PCSC accounts for 50% of market share (in terms of the number of convenience stores) in Taiwan, whereas Taiwan Family Mart accounts for 29%. What type of information, accounting or otherwise, do you think the management of Taiwan Family Mart may want and need as they try to compete with PCSC and other companies?

**AA 1-3***Discussion***We Don't Have Time for Good Accounting!**

Your sister and her business partner have just launched their own software company. They have developed software that compresses and packages email text and voice messages, allowing email and phone messages to be safely transmitted over a wireless network even while flying in a commercial airliner. Orders for the software have been pouring in, and your sister and her business partner estimate that they will make at least \$10 million within the next three months. You suggest to your sister that she hire an accountant and begin to set up an accounting system within her new company. Your sister replies that accounting systems are for old-fashioned companies such as General Electric and Procter & Gamble; she wants to focus her time on hiring new software developers and on working on ideas for her company's next generation of software products. Is your sister correct? Explain.

**AA 1-4***Judgment Call***You Decide: How much education is necessary for an accountant?**

You are at your family reunion when some relatives start asking you about your studies and plans after school. Upon learning your intentions to be an accountant, everyone was alarmed that it took five to six years to get a master's degree in accounting. Your uncle says, "All you have to do is go to a computer store and pick up a copy of QuickBooks. Computers do everything these days. The computer will do all the work and you can collect a paycheck!" Is five to six years too much time and effort to prepare to be an accountant, or is it necessary?

**AA 1-5***Real Company Analysis***TSMC**

Visit the Web site of Taiwan Semiconductor Manufacturing Company (TSMC) to look into its 2015 annual report. How many areas (categories) of information are presented in the annual report? How many pages are devoted to financial information? Aside from financial information, do you find any information on corporate social responsibility? How does an annual report differ from financial statements?

**AA 1-6***International***Should the SEC Choose the FASB or the IASB?**

Congress gave the SEC the legal authority to set accounting standards in the United States. Historically, the SEC has allowed the FASB to set those standards. Now the SEC is allowing non-U.S. companies to list on U.S. stock exchanges using IASB accounting standards. As a result, the number of foreign companies listing their shares on U.S. stock exchanges is increasing. However, the SEC still requires U.S. companies to use accounting standards developed by the FASB. Do you think the SEC should allow U.S. companies to use IASB accounting standards? Explain.

**AA 1-7***Ethics***Disagreement with the Boss**

You recently graduated with your degree in accounting and have accepted an entry-level accounting position with BigTec, Inc. One of your first responsibilities is to review expense reports submitted by various executives. The expense reports include such items as receipts for taking clients to dinner and hotel receipts for business travel. In conducting this review, you note that your boss has submitted for reimbursement several items that are clearly outside the established guidelines of the corporation. In questioning your boss about the items, he told you to process the items and not worry about them. What would you do?