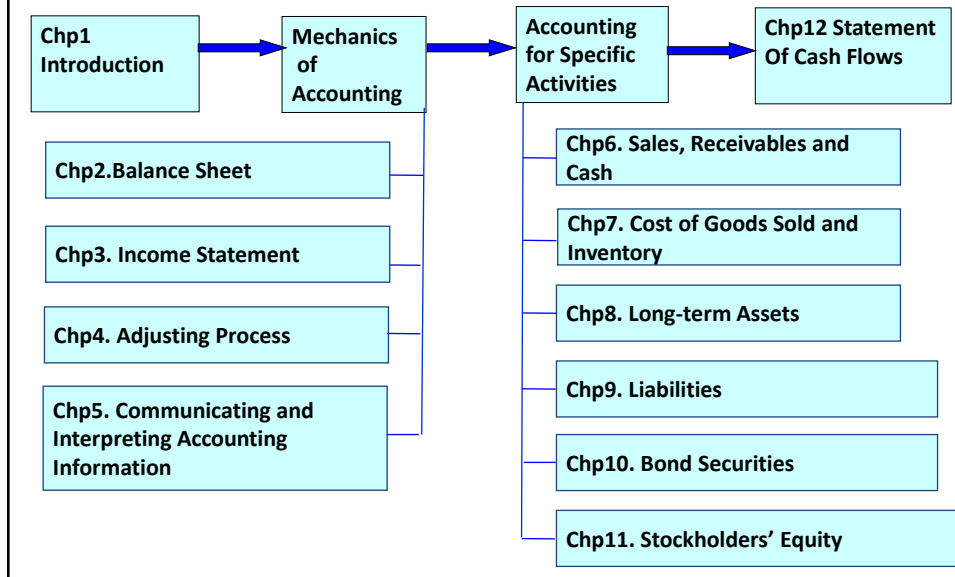


Financial Accounting: Outline



What is Accounting

Bookkeeping? 记账

A lot of calculations? 大量计算

No room for judgement? 机械重复无需判断

Only accountant need to learn? 局限于会计人员

企业会计职业发展阶梯

- ①基础会计-会计经理（企业财务合规、税务合规、信息化系统建设）
 - ②FP&A（预算预测、管理会计）
 - ③财务BP（业财融合、商业分析）
 - ④财务负责人（上市及合规、融资）
 - ⑤CFO
- 越来越多的传统会计工作被系统和自动化所取代，管理会计和财务分析工作显得更加重要和不可替代

1-3

Accounting

- Is a process of identifying, recording, and summarizing economic information and reporting it to decision makers.
 - For decision making
 - A system for providing quantitative, financial information; Often called the “language of business”

**Identifying
Business
Activities**



**Recording
Business
Activities**



**Communicating
Business
Activities**

1-4

chapter 1 Financial Statements and Business Decisions

Financial Accounting

Libby • Libby • Hodge

Learning Objectives

After studying this chapter, you should be able to:

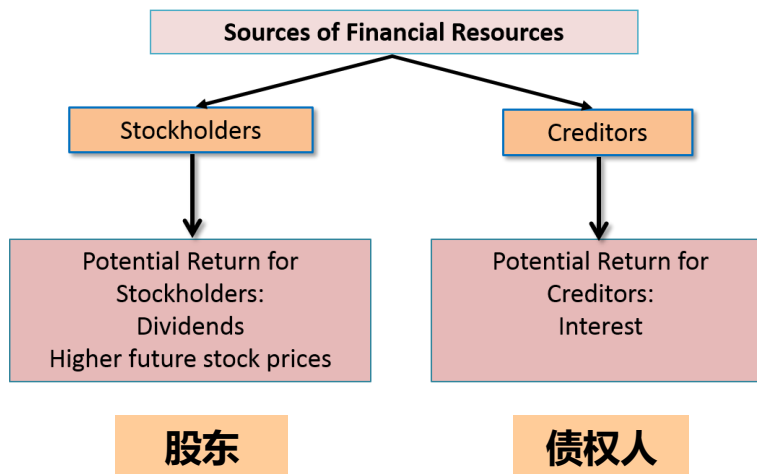
- 1-1** Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).
- 1-2** Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

Learning Objective 1-1

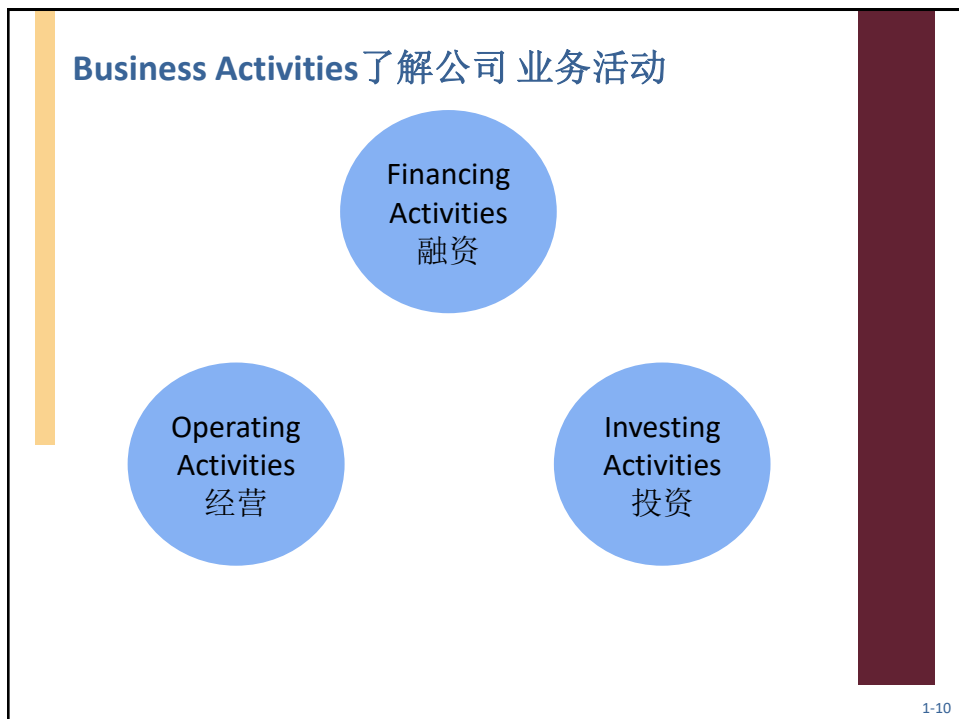
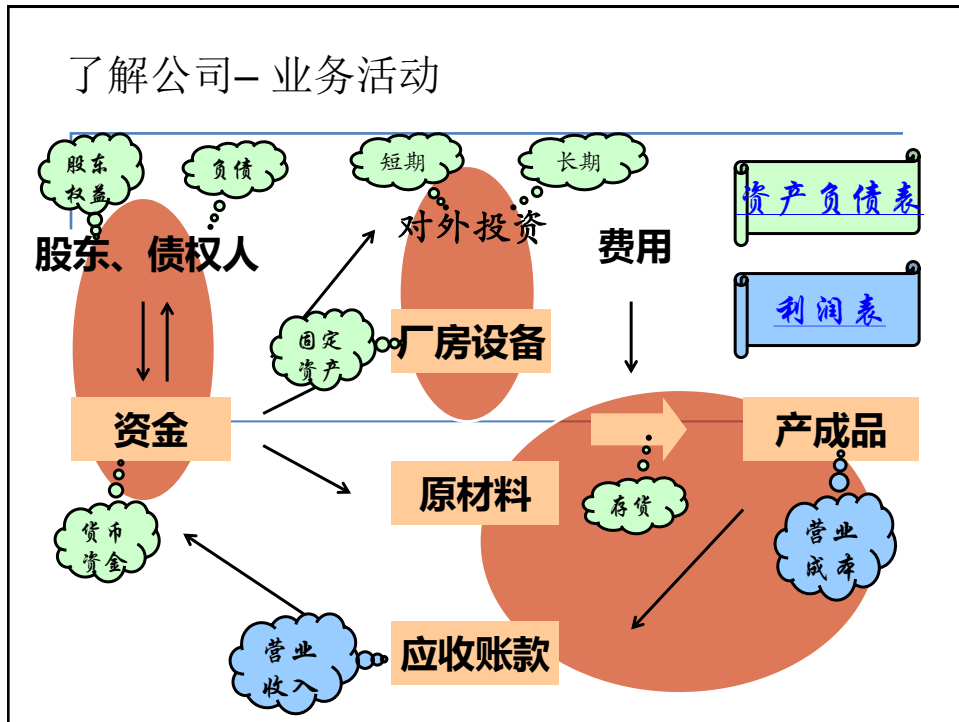
1-1 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors, creditors, and managers).

1-7

Understanding the Business 了解公司 资金来源

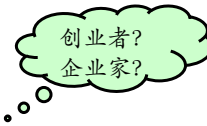


1-8



Why Study Financial Accounting? 了解公司 参与者

- Stockholder 股东/Investors 投资人
 - Controlling shareholder/ Minority shareholder
 - Professional investor/Retail investor
- Creditors 债权人
 - Bank
 - Bondholder
- Managers 管理者
 - CEO/CFO
 - Marketing managers/Supply chain managers/Human resource managers



1-11

Investors' Use of Accounting

大智慧利润表摘要（单位：万元）

	2008	2009	2010	2011	2012	2013	2014	2015
营业总收入	25,890	44,499	56,708	57,083	47,014	78,562	92,456	65,417
营业总成本	19,915	23,688	41,359	46,560	76,294	111,596	160,877	133,489
营业利润	5,931	20,908	15,350	10,633	-28,724	-12,789	24,720	-42,301
利润总额	6,118	21,619	17,880	12,077	-26,006	-9,059	28,243	-42,382
净利润	6,460	18,766	16,070	10,600	-27,193	-10,726	24,081	-44,568

	2008	2009	2010	2011	2012	2013	2014	2015
营业总收入	100%	100%	100%	100%	100%	100%	100%	100%
营业总成本	77%	53%	73%	82%	162%	142%	174%	204%
营业利润	23%	47%	27%	19%	-61%	-16%	27%	-65%
利润总额	24%	49%	32%	21%	-55%	-12%	31%	-65%
净利润	25%	42%	28%	19%	-58%	-14%	26%	-68%

1-12

大智慧

	2016	2017	2018	2019	2020	2021	2022
营业总收入	113,056	63,824	59,364	68,334	70,776	81,866	78,025
营业总成本	271,479	73,413	60,793	61,948	63,368	80,403	87,103
营业利润	-156,504	42,034	17,340	9,136	8,532	2,602	-8,358
利润总额	-173,594	39,551	11,978	1,526	8,605	2,615	-8,362
净利润	-176,011	38,283	10,831	596	7,248	1,605	-9,253

	2016	2017	2018	2019	2020	2021	2022
营业总收入	100%	100%	100%	100%	100%	100%	100%
营业总成本	240%	115%	102%	91%	90%	98%	112%
营业利润	-138%	66%	29%	13%	12%	3%	-11%
利润总额	-154%	62%	20%	2%	12%	3%	-11%
净利润	-156%	60%	18%	1%	10%	2%	-12%

1-13

	2007	2008	2009	2010	2011	2012	2013	2014	2015
货币资金	7188.41	11010.35	74414.07	56718.91	256769.54	194880.86	145088.26	43569.92	61381.53
流动资产合计	9902.61	14466.56	77372.41	78622.55	273147.73	221701.18	219523.81	208106.42	192566.55
非流动资产合计	2878.5	3299.76	3080.84	21387.03	67472.57	86624.51	123870.14	117717.91	96947.98
流动负债合计	5905.18	5089.99	14211.56	17801.09	15905.48	16993.77	58594.02	23672.33	30613.28
负债合计	5910.39	5090.35	14211.56	17814.89	16116.41	17645.63	59975.17	24864.48	31515.04
实收资本(或股本)	2200	2200	45000	58500	69500	139000	180700	198770	198770
资本公积金	633.74		6,722.52	8.84	231,414.98	162,059.67	120,354.24	102,299.01	104,051.82
未分配利润	3982.1	10416.36	14353.22	21404.85	20466.78	-13928.74	-25722.07	-4796.21	-49541.42
所有者权益合计	6870.73	12675.98	66241.7	82194.69	324503.89	290680.06	283418.78	300959.85	257999.49
	2007	2008	2009	2010	2011	2012	2013	2014	2015
货币资金	56%	62%	92%	57%	75%	63%	42%	13%	21%
流动资产合计	77%	81%	96%	79%	80%	72%	64%	64%	67%
非流动资产合计	23%	19%	4%	21%	20%	28%	36%	36%	33%
流动负债合计	46%	29%	18%	18%	5%	6%	17%	7%	11%
负债合计	46%	29%	18%	18%	5%	6%	17%	8%	11%
实收资本(或股本)	17%	12%	56%	58%	20%	45%	53%	61%	69%
资本公积金	5%	0%	8%	0%	68%	53%	35%	31%	36%
未分配利润	31%	59%	18%	21%	6%	-5%	-7%	-1%	-17%
所有者权益合计	54%	71%	82%	82%	95%	94%	83%	92%	89%

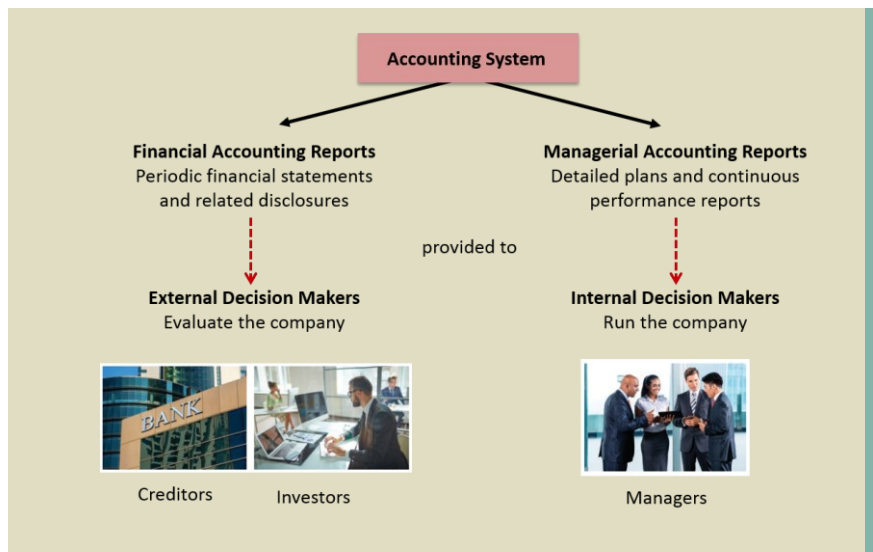
1-14

	2016	2017	2018	2019	2020	2021	2022
货币资金	53276.98	59629.78	111011.68	125028.33	110704.63	161630.3	151537.95
流动资产合计	78721.65	90002.31	132866.72	146444.8	150675.57	176676.05	167565.43
非流动资产合计	86151.86	110116.66	70271.44	58636.14	46876.57	56141.03	66087.59
流动负债合计	50608.2	41994.24	41371.44	49084.62	43708.56	66234.07	63211.45
负债合计	70281.38	63876.13	58841.99	58252.67	45866.76	75176.44	71734.76
实收资本(或股本)	198770	198770	198770	198770	198770	202822.4	203587.02
资本公积金	114,182.73	118,905.25	114,530.73	114,530.73	114,530.73	133,142.55	137,073.17
未分配利润	-225543.91	-187251.44	-176420.11	-174735.66	-167555.16	-166045.02	-174872.55
所有者权益合计	94592.13	136242.85	144296.17	146828.26	151685.38	157640.65	161918.25
	2016	2017	2018	2019	2020	2021	2022
货币资金	32%	30%	55%	61%	56%	69%	65%
流动资产合计	48%	45%	65%	71%	76%	76%	72%
非流动资产合计	52%	55%	35%	29%	24%	24%	28%
流动负债合计	31%	21%	20%	24%	22%	28%	27%
负债合计	43%	32%	29%	28%	23%	32%	31%
实收资本(或股本)	121%	99%	98%	97%	101%	87%	87%
资本公积金	69%	59%	56%	56%	58%	57%	59%
未分配利润	-137%	-94%	-87%	-85%	-85%	-71%	-75%
所有者权益合计	57%	68%	71%	72%	77%	68%	69%

1-15

Exhibit 1.1

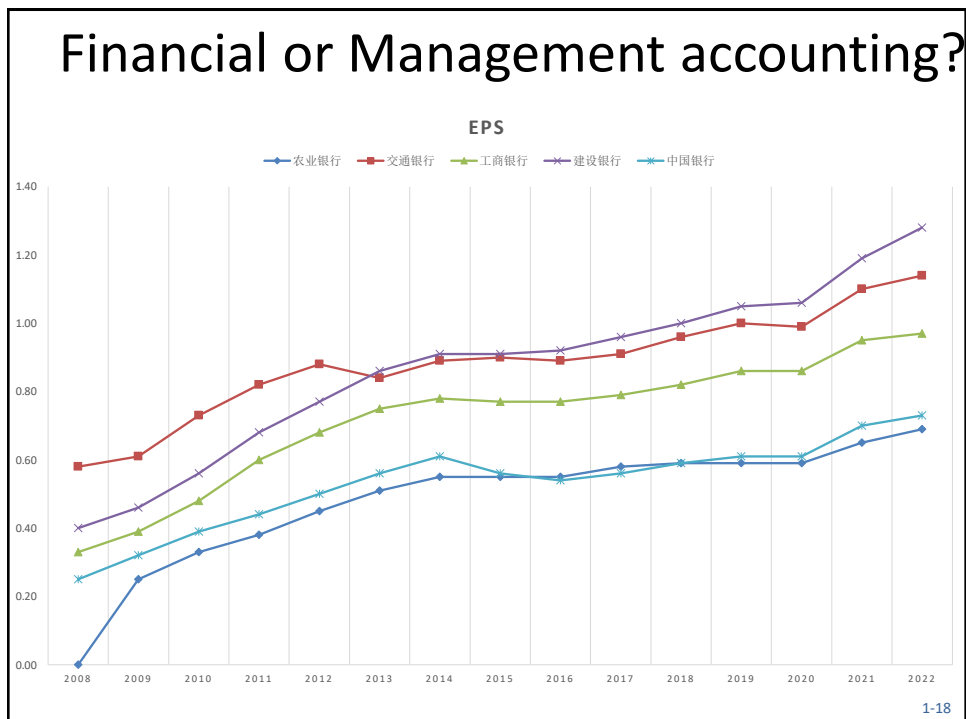
The Accounting System and Decision Makers 了解公司 会计系统

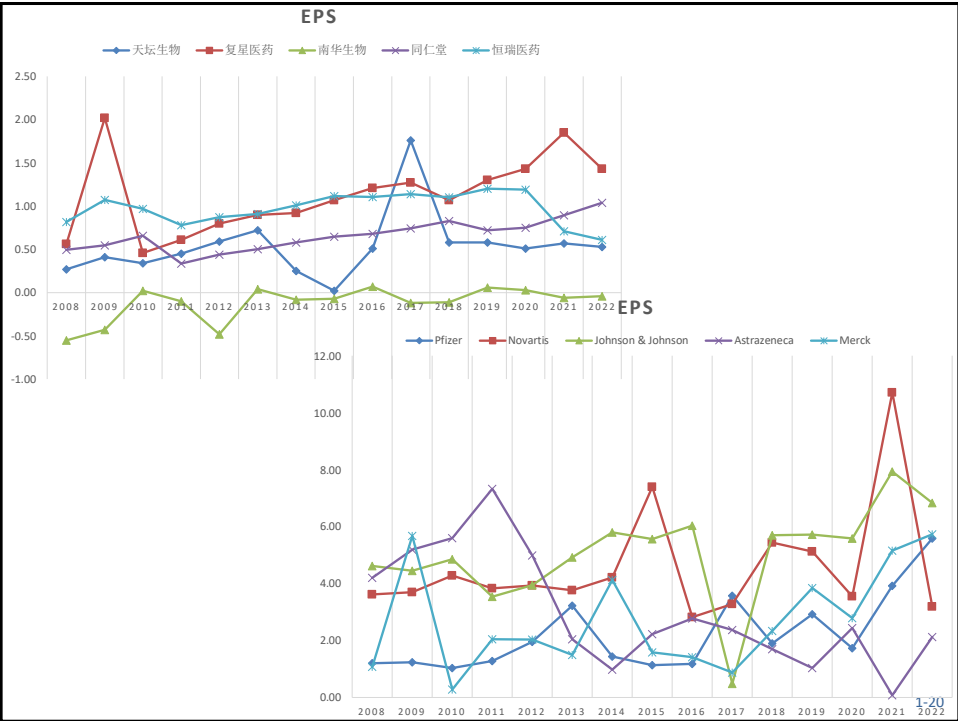
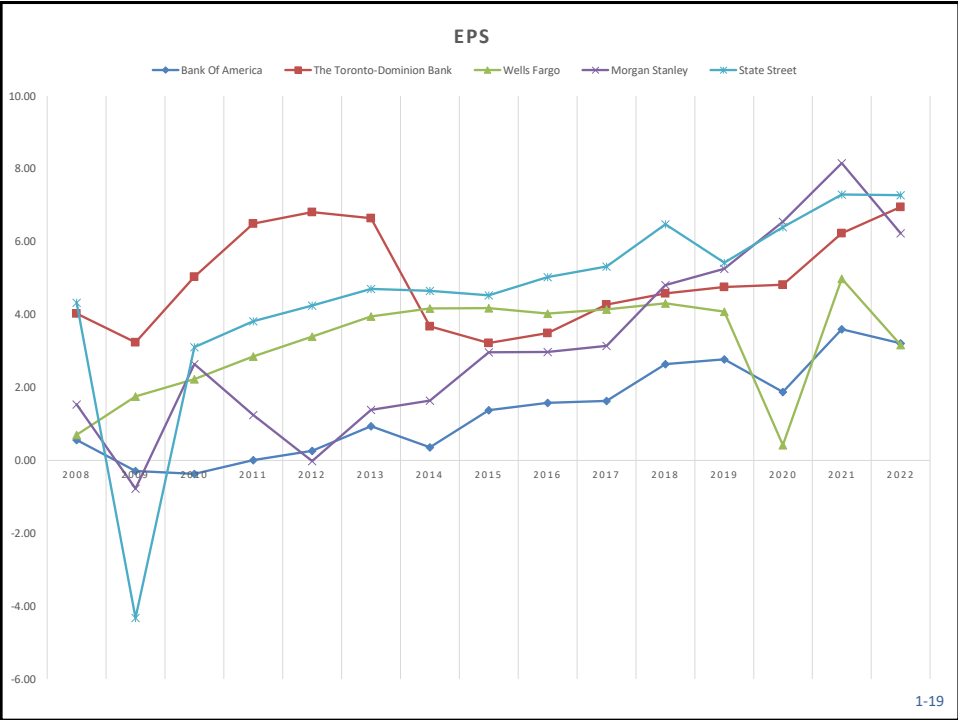


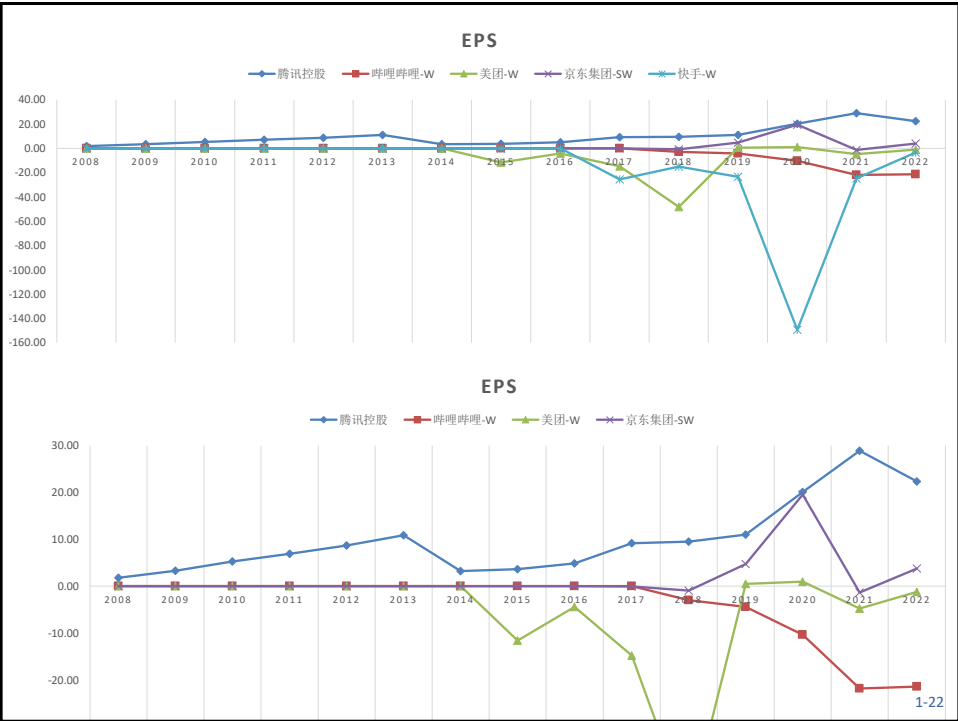
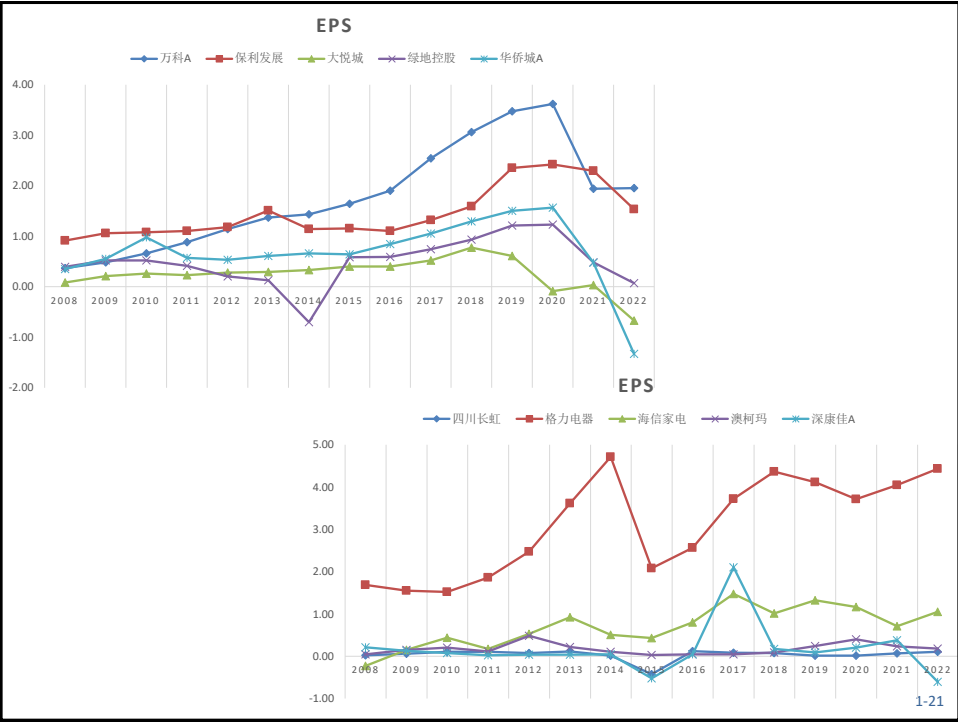
1-16

Financial Accounting	↔	Management Accounting
<ol style="list-style-type: none"> 1. Externally focused 2. Must follow external imposed rules, GAAP 3. Objective financial information 4. Historical orientation 5. Information about the firm as a whole 6. More self-contained 		<ol style="list-style-type: none"> 1. Internally focused 2. No mandatory rules 3. Financial and non-financial information; subjective information possible 4. Emphasis on the future 5. Internal evaluation and decisions based on very detailed information 6. Broad, multi-disciplinary

1-17







Your Goals for Chapter 1

四大报表:

- **内容Content:** the categories, or elements, reported on each statement
- **格式Structure:** the equation that shows how the elements within each statement are organized and related
- **用途Use:** how the information is used by stockholders and creditors to make decisions

Note: Rather than trying to memorize the definitions of every term used in this chapter, try to focus your attention on learning the general content, structure, and use of the statements.

1-23

The Four Basic Financial Statements四大报表

资产负债表BALANCE SHEET – reports the financial position (amount of assets, liabilities, and stockholders' equity) of an accounting entity at a point in time.时点

利润表INCOME STATEMENT – reports the revenues less the expenses during the accounting period.期间

所有者权益变动表STATEMENT OF STOCKHOLDERS' EQUITY – reports the changes in each of the company's stockholders' equity accounts, including the change in the retained earnings balance caused by net income and dividends, during the reporting period.期间

现金流量表STATEMENT OF CASH FLOWS – reports inflows and outflows of cash during the accounting period in the categories of operating, investing, and financing.期间

The notes are an integral part of these financial statements.

1-24

Financial Statement Time Period & Structure

The four basic financial statements can be prepared at any point in time such as:

- **End of the year** (for the year ended, annual reports)
- **Quarterly** (for the quarter ended, quarterly reports)
- **Monthly** (for the month ended, monthly reports)

The financial statement heading includes:

- **Name of the entity (Company name)**
- **Title of the statement (e.g., Balance Sheet)**
- **Specific date of the statement (e.g., at December 31, 2018)**
- **Unit of measure (in millions of dollars)**

1-25

Balance Sheet

Assets

Cash
Short-Term Investments
Accounts Receivable
Notes Receivable
Inventory (to be sold)
Supplies
Prepaid Expenses
Long-Term Investments
Equipment
Buildings
Land
Intangibles

Elements of the
Balance Sheet

Liabilities

Accounts Payable
Accrued Expenses
Notes Payable
Taxes Payable
Unearned Revenue
Bonds Payable

*The Balance Sheet is a
financial snapshot at a
specific point in time.*

Stockholders' Equity

Common Stock
Retained Earnings

1-26

Assets are economic resources owned by the business.

Cash	Amount of cash in the company's bank accounts.
Accounts receivable	Amounts owed by customers from prior sales.
Notes receivable	Claims for which formal instruments of credit are issued as evidence of debt, such as a promissory note.
Inventories	Parts and completed but unsold products.
Plant and equipment	Factories and production machinery.
Land	Land on which factories are built.

1-27

Assets 资产：企业拥有的经济资源

Cash 现金	公司银行账户中现金和存款
Accounts receivable 应收账款	赊销形成的债权_顾客在之前的交易中未付的账款
Notes receivable 应收 票据	收到商业票据而形成的债权
Inventories 存货	未销售的产品或者在产品
Plant and equipment 固定资产	厂房及生产设备
Land 土地	建造厂房占用的土地

1-28

Liabilities are debts or obligations of the business that result from past transactions.

负债：由于过去的交易形成的预期导致经济利益流出的现时义务

Accounts payable	Amounts owed to suppliers for prior purchases.
应付账款	赊购形成的债务_购买商品形成的应付未付款
Notes payable	Amounts owed on written debt contracts.
应付票据	以书面合同形式(票据)存在的尚未支付款项

1-29

Stockholders' Equity is the stockholders' claims on an organization's assets, or total assets less total liabilities.

股东权益是企业资产扣除负债后由股东(所有者)享有的剩余权益(residual claimer),亦称净资产(net assets).

Common Stock 实收资本	Amounts invested in the business by stockholders. 股东投入的资本金
Retained Earnings 留存收益	the cumulative net earnings or profit of a firm after accounting for dividends. 分配红利后收益的累积

1-30

Exhibit 1.2

Balance Sheet

LE-NATURE'S INC. Balance Sheet At December 31, 2015 (in millions of dollars)		EXPLANATION
		Name of the entity
		Title of the statement
		Specific date of the statement
		Unit of measure
Assets:		Resources controlled by the company
Cash	\$ 10.6	Amount of cash in the company's bank accounts
Accounts receivable	6.6	Amounts owed by customers from prior sales
Inventories	51.2	Ingredients and beverages ready for sale
Property, plant, and equipment	459.0	Factories, production equipment, and land
Total assets	\$527.4	Total amount of company's resources
Liabilities		Sources of financing for company's resources
Accounts payable	\$ 26.0	Financing supplied by creditors
Notes payable to banks	381.7	Amounts owed to suppliers for prior purchases
Total liabilities	407.7	Amounts owed to banks on written debt contracts
Stockholders' equity		Financing provided by stockholders
Common stock	55.7	Amounts invested in the business by stockholders
Retained earnings	64.0	Past earnings not distributed to stockholders
Total stockholders' equity	119.7	Total sources of financing for company's resources
Total liabilities and stockholders' equity	527.4	

The notes are an integral part of these financial statements.

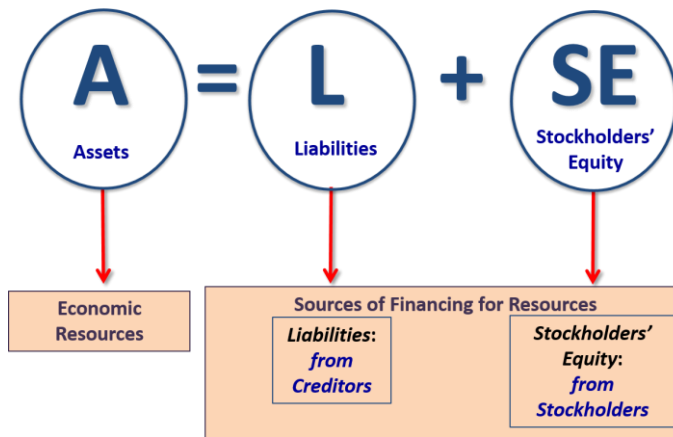
1-31

资产负债表

- 反映企业某一特定时间点的财务状况，静态报表
- 资产-我们拥有的
 - 企业所拥有的、由以往经济业务事项产生的、能以货币计量、预期会带来未来经济利益的资源
 - 各类财产、对外投资、债权和其它权利
 - 已报废的房屋设备？五粮液的商标品牌？未来购买协议？良好客户关系？CEO的私人豪宅？
- 负债-我们欠别人的
 - 企业所承担的、由以往经济业务事项产生的、要用资产或服务来偿还的债务或义务
 - 银行借款、应付账款
- 股东权益-资产和负债的差额
 - 该剩余索取权属于所有者
 - 股东的投资和再投资（留存收益）的总和

1-32

The Accounting Equation



The balance sheet reports a company's assets, liabilities, and stockholders' equity at a specific point in time.

1-33

Income Statement

Revenues

Cash and promises received from delivery of goods and services.

Examples:

Sales Revenue
Fee Revenue
Interest Revenue
Rent Revenue

The Income Statement is a measure of performance of the business.

Elements of the Income Statement

Expenses

Resources used to earn period's revenues.

Examples:

Cost of Goods Sold
Wages Expense
Rent Expense
Depreciation Expense
Insurance Expense
Repair Expense
Income Tax Expense

1-34

Revenues(sales, sales revenue) are increases in net assets resulting from daily selling products or services. Revenue increase owners' equity, not common stock.

收入：企业出售产品或者提供劳务取得收入（日常活动；增加所有者权益，但与实收资本无关）

Revenue is recognized in the period in which goods and services are sold, not necessarily the period in which cash is received. 企业提供产品或者劳务时就可以确认当期收入，而不必等收到现金时。

Expenses are **decreases in net assets** as a result of consuming or giving up resources in the process of are the dollar amount of resources used by the entity **to earn revenues** during a period.

1-35

费用：企业为获取收入而付出的经济资源，是净资产的减少

Cost of goods sold 销货成本	The cost to produce products sold this period. 本会计期间已销售产品的成本
Selling, general and administrative 销售与管理费用	Operating expenses not directly related to production. 与生产没有直接联系的期间费用
Research and development 研发费用	Expenses incurred to develop new products. 用于开发新产品的支出
Interest expense 财务费用	The cost of using borrowed funds. 使用借入资金的成本
Income tax expense 企业所得税费用	Income taxes on current period's pretax income. 本期应交的所得税支出

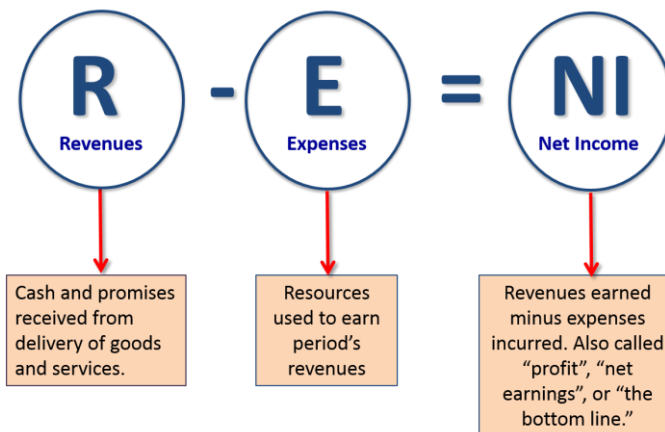
1-36

利润表

- 反映企业**某一特定时期内**业务活动成果，动态报表
- 收入-企业在业务运营过程中依法取得的非偿还性资金（营业收入、利息收入）
- 费用-企业在开展服务活动中发生的资金消耗和损失（营业成本、职员薪水企业）
- 利润-收入和费用的差额

1-37

The Income Statement Equation



If total expenses exceed total revenues, a net loss is reported.

1-38

Exhibit 1.3

Income Statement

LE-NATURE'S INC. Income Statement For the Year Ended December 31, 2015 (in millions of dollars)		EXPLANATION
Revenues		<i>Name of the entity</i>
Sales revenue	\$275.1	<i>Title of the statement</i>
Expenses		<i>Accounting period</i>
Cost of goods sold	140.8	<i>Unit of measure</i>
Selling, general, and administrative expenses	77.1	<i>Cash and promises received from sale of beverages</i>
Interest expense	<u>17.2</u>	<i>Cost to produce beverages sold</i>
Income before income taxes	40.0	<i>Other operating expenses (utilities, delivery costs, etc.)</i>
Income tax expense	<u>17.1</u>	<i>Cost of using borrowed funds</i>
Net income	<u>\$22.9</u>	<i>Income taxes on period's income before income taxes</i>
The notes are an integral part of these financial statements.		<i>Revenues earned minus expenses incurred</i>

1-39

Statement of Stockholders' Equity (1 of 2)

Common Stock

Amounts invested in the business by stockholders.

Beginning Common Stock
+ *Stock Issuance*

Ending Common Stock

Elements of the
Statement of
Stockholders'
Equity

Retained Earnings

Past earnings not distributed to stockholders.

Beginning Retained Earnings
+ *Net Income*
– *Dividends declared*

Ending Retained Earnings

The Statement of Stockholders' Equity reports the change in each stockholders' equity account during the period.

1-40

Exhibit 1.4

Statement of Stockholders' Equity

LE-NATURE'S INC. Statement of Stockholders' Equity For the Year Ended December 31, 2015 (in millions of dollars)			EXPLANATION
	Common Stock	Retained Earnings	Name of the entity
			Title of the statement
			Accounting period
			Unit of measure
Balance December 31, 2014	\$55.7	\$43.1	
Net income for 2015		22.9	Last period's ending balances
Dividends for 2015		(2.0)	Net income reported on the income statement
Balance December 31, 2015	\$55.7	\$64.0	Dividends declared during the period
The notes are an integral part of these financial statements.			Ending balances on the balance sheet

1-41

Statement of Cash Flows

+/-	Cash Flows from Operating Activities (CFO)
+/-	Cash Flows from Investing Activities (CFI)
+/-	Cash Flows from Financing Activities (CFF)
	Change in Cash
+	Beginning Cash Balance
	Ending Cash Balance

+/- Note that each of the three cash flow sources can be **positive** (net cash inflow) or **negative** (net cash outflow)

1-42

Statement of Cash Flows (2 of 2)

Cash Flows from Operating Activities

Cash collected from customers less cash paid for operating expenses such as cash paid to suppliers and employees.

Cash Flows from Investing Activities

Cash flows related to acquisition or sale of the company's plant and equipment and investments.

Cash Flows from Financing Activities

Cash flows from the receipt or payment of money to investors and creditors (except suppliers)

The Statement of Cash Flows reports inflows and outflows of cash during the accounting period.

Elements of the
Statement of
Cash Flows

1-43

Exhibit 1.5 Statement of Cash Flows

LE-NATURE'S INC. Statement of Cash Flows (Summary) For the Year Ended December 31, 2015 (in millions of dollars)		EXPLANATION
Cash flows from operating activities	\$ 87.5	Name of the entity
Cash flows from investing activities	(125.5)	Title of the statement
Cash flows from financing activities	47.0	Accounting period
Net increase (decrease) in cash	9.0	Unit of measure
Cash balance December 31, 2014	1.6	Cash flows directly related to earning income
Cash balance December 31, 2015	\$10.6	Cash flows from purchase/sale of plant, equipment, & investments
<i>The notes are an integral part of these financial statements.</i>		Cash flows from investors and creditors
		Change in cash during the period
		Last period's cash on the balance sheet
		Ending cash on the balance sheet

1-44

现金流量表

反映企业**某一特定时期内**现金流入与流出的情况，动态报表

- **经营活动现金流：**出售商品和提供服务，以及其它经营活动- 计入净收益的大部分经济业务事项
- **投资活动现金流：**与购买和出售证券、财产、厂房、设备及其它通常持有目的不是为了转售的资产相关的经济业务事项
- **融资活动现金流：**从所有者和债权人处获得资源或将资源偿还给所有者和债权人的经济业务事项

1-45

Interpreting the Cash Flow Statement

Analyze cash flow from operations in order to check the following:

FINANCIAL ANALYSIS

- Ability to repay creditors
- Opportunity for expansion
- Ability to distribute cash dividends



The Operating Activities section indicates the company's ability to generate cash from sales to meet the company's current cash needs.

1-46

Exhibit 1.6

Relationships Among Le-Nature's Statements

Revenues	\$ 275.1
- Expenses	252.2
Net Income	\$ 22.9

	Common Stock	Retained Earnings
Beginning	\$55.7	\$43.1
+ Net Income		22.9
- Dividends		(2.0)
Ending	\$55.7	\$64.0

+/- Cash Flows from Operating Activities	\$ 87.5
+/- Cash Flows from Investing Activities	(125.5)
+/- Cash Flows from Financing Activities	47.0
Change in Cash	9.0
+ Cash at Beginning of Period	1.6
Cash at End of Period	\$ 10.6

Cash	\$ 10.6
Other Assets	516.8
Total Assets	\$527.4
Liabilities	\$407.7
Common Stock	55.7
Retained Earnings	64.0
Total Liabilities & Stockholders' Equity	\$527.4

1-47

Notes

The notes are an integral part of these financial statements.

Did you notice this sentence at the bottom of each financial statement?

All financial statements should be accompanied by notes that provide the reader with supplemental information to help the reader better understand the financial statements.

The notes are also called footnotes.

1-48

Financial Statement Formats

LE-NATURE'S INC.*
Balance Sheet
At December 31, 2015
(in millions of dollars)

Assets:	
Cash	\$ 10.6
Accounts receivable	6.6
Inventories	51.2
Property, plant, and equipment	459.0
Total assets	\$527.4
Liabilities and stockholders' equity:	
Liabilities	
Accounts payable	\$ 26.0
Notes payable to banks	381.7
Total liabilities	407.7
Stockholders' equity	
Common stock	55.7
Retained earnings	64.0
Total stockholders' equity	119.7
Total liabilities and stockholders' equity	\$527.4

The notes are an integral part of these financial statements.

Assets are listed on the balance sheet by ease of conversion to cash.

Liabilities are listed by the maturity (due date).




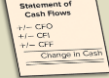
Place a single underline below the last item in a group before a total or subtotal, and a double underline below the group totals.

Include the monetary unit sign (\$) beside the first dollar amount in a group of items and by group total

1-49

Exhibit 1.7

Summary of the Four Basic Financial Statements

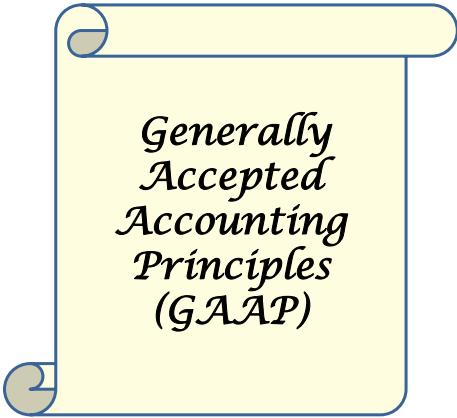
Financial Statement	Purpose	Structure	Examples of Content
Balance Sheet (Statement of Financial Position)	Reports the financial position (economic resources and sources of financing) of an accounting entity <i>at a point in time</i> .		Cash, accounts receivable, plant and equipment, long-term debt, common stock
Income Statement (Statement of Income, Statement of Earnings, Statement of Operations)	Reports the accountant's primary measure of economic performance <i>during the accounting period</i> .		Sales revenue, cost of goods sold, selling expense, interest expense
Statement of Stockholders' Equity	Reports changes in the company's common stock and retained earnings <i>during the accounting period</i> .		Beginning and ending stockholders' equity balances, stock issuances, net income, dividends
Statement of Cash Flows (Cash Flow Statement)	Reports inflows (receipts) and outflows (payments) of cash <i>during the accounting period</i> in the categories of operating, investing, and financing.		Cash collected from customers, cash paid to suppliers, cash paid to purchase equipment, cash borrowed from banks

Learning Objective 1-2

1-2 Identify the role of generally accepted accounting principles (GAAP) in determining financial statement content and how companies ensure the accuracy of their financial statements.

1-51

Rules that Determine Content of Financial Statements



*Generally
Accepted
Accounting
Principles
(GAAP)*

1-52

History of Financial Reporting

The accounting system in use today has a long history. Its foundations are normally traced back to the works of an Italian monk and mathematician, Fr. Luca Pacioli, published in 1494.

Prior to 1933, the management teams of most companies were largely free to choose their own financial reporting practices.

1-53

Generally Accepted Accounting Principles (1 of 2)

Congress created the Securities and Exchange Commission (SEC) and gave it broad powers to determine measurement rules for financial statements for publicly traded companies.



The SEC has worked closely with the accounting profession to work out the detailed rules that have become known as GAAP.



Currently, the Financial Accounting Standards Board (FASB) is recognized as the body to formulate GAAP. The official pronouncements of the FASB are called the FASB Accounting Standards Codification.

1-54

Generally Accepted Accounting Principles (2 of 2)

Companies incur the cost of preparing the financial statements and bear the following economic consequences of their publication:

Effects on the selling price of stock
Effects on the amount of bonuses received by management and other employees
Loss of competitive information to other companies

1-55

International Perspective

Since 2002, there has been substantial movement toward the adoption of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Examples of jurisdictions requiring the use of IFRS:

- European Union
- Australia and New Zealand
- Hong Kong, Malaysia, and Republic of Korea
- Israel and Turkey
- Brazil and Chile
- Canada and Mexico

In the U.S., the SEC now allows foreign companies whose stock is traded in the United States to use IFRS.

1-56

Ethical Conduct

Intentional misreporting of financial statements is unethical and illegal. However many situations are less clear-cut and required individuals to weigh one moral principal (e.g., honesty) against another (e.g., loyalty to a friend).

Three-Step Process for Making Ethical Decisions

1. Identify the benefits of a decision (often to the manager or employee involved) and who will be harmed (other employees, owners, creditors, the environment).
2. Identify alternative courses of action.
3. Choose the one you would like your family and friends to see reported on your local news.

1-57

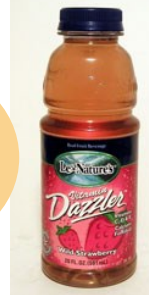
Consequences of Unethical Behavior

After it was determined that the financial statements for Le-Nature's Inc. were misleading, the consequences for the defendants were severe.

What if the numbers are wrong?

The Prison Tally	
Defendant	Sentence
Gregory Podlucky, CEO	20 years in federal prison
Robert Lynn, President	15 years in federal prison
Andrew Murin, Consultant	10 years in federal prison
Jonathan Podlucky, COO	5 years in federal prison
Karla Podlucky (CEO's wife)	4½ years in federal prison
G. Jesse Podlucky (CEO's son)	9 years in federal prison
Donald Pollinger, Businessman	5 years in federal prison
Tammy Jo Andreyckak, Bookkeeper	5 years in federal prison

Crime did not pay for Podlucky and his co-conspirators!



1-58



Former CEO of bankrupt Pennsylvania soft drink maker Le-Nature's Inc., Gregory Podlucky arrives for his sentencing at Federal Court in Pittsburgh on Thursday, Oct. 20, 2011. Podlucky faces up to 20 years in prison for a massive financial fraud.....

In 2005 alone, Le-Nature's reported gross sales of \$287 million, about \$247 million of which was fabricated using fake invoices and deposit records Andreyck prepared." Andreyck was the accounting director of Le-Nature. Podlucky, the CEO of Le-Nature, also "diverted more than \$7.1 million to himself and should have paid more than \$1 million in taxes."

1-59

Responsibility and the Need for Controls

To ensure the accuracy of a company's financial information, management:

- **Maintains a system of controls over the records and assets.**
- **Hires external independent auditors.**
- **Forms a committee of the board of directors to review these other two safeguards.**

Three steps to ensure the accuracy of records:

System of Controls

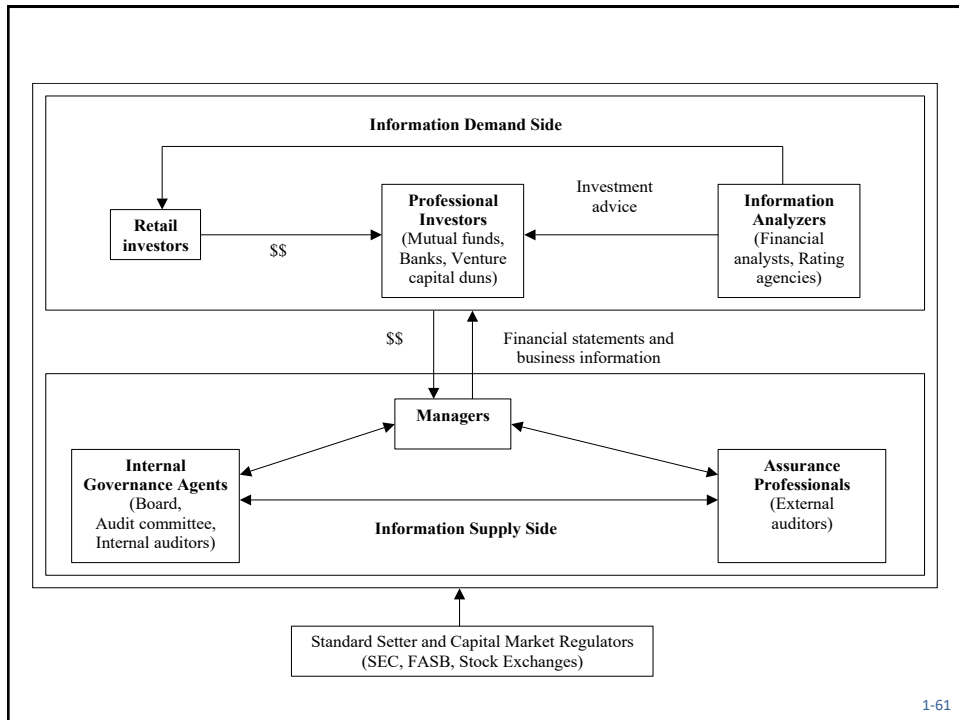
External Auditors

Board of Directors



Safe: ©PhotoDisc/Getty Images; Officer: ©LifetimeStock/Shutterstock; Auditor: ©anekoho/Shutterstock; Board: ©anekoho/Shutterstock

1-60



Supplement A: Types of Business Entities

个人独资 Sole Proprietorship: owned by a single individual

合伙 Partnership: owned by two or more individuals

公司 Corporation: ownership represented by shares of stock that can be bought and sold and operates separately from its owners

Advantages of a Corporation:

- Stockholders have limited liability
- Continuity of life
- Ease in transferring ownership (stock)
- Opportunity to raise large amounts of money by selling shares of stock to a large number of people

Disadvantage of a Corporation:

- Double taxation (income is taxed when earned and again when distributed to stockholders as dividends)

Supplement B: Employment in the Accounting Profession Today

Career Opportunities

PROFESSIONAL DESIGNATIONS

Public Accounting

- Audit or Assurance Services
- Management Consulting or Advisory Services
- Tax Services

CPA

CMA

CIA

Employment by Organizations

- Internal Accounting
- External Reporting
- Tax Planning
- Various Other Functions

Employment in the Public and Not-for-Profit Sector

- Not-for-Profit hospitals and universities
- Government agencies such as the SEC, GAO, and FCC

1-63

Exercise 1-1

P30 E1-3

1-64

Exercise 1-2

As a U.S. company, John Doe Company follows U.S. GAAP and reports its financial statements in millions of dollars. Its recent balance sheet contained the following items (in millions):

Accounts payable and other current liabilities	\$ 5,297
Cash and cash equivalents	864
Common stock	324
Inventories	1,555
Investments	799
Long-term debt	2,417
Net property, plant and equipment	2,685
Other assets	7,805
Other liabilities	1,899
Retained earnings	4,839
Total assets	?
Total liabilities	9,613
Total liabilities and stockholders' equity	14,776
Total stockholders' equity	5,163
Trade accounts, notes, and other receivables	1,068

Required:

Prepare a balance sheet as of April 30, current year, solving for the missing amount.

1-65

JOHN DOE COMPANY

Balance Sheet At April 30, Current Year (in millions of dollars)

Assets	
Cash and cash equivalents	\$ 864
Trade accounts, notes, and other receivables	1,068
Inventories	1,555
Investments	799
Net property, plant, and equipment	2,685
Other assets	7,805
Total assets	<u>\$14,776</u>
Liabilities and stockholders' equity	
Liabilities:	
Accounts payable and other current liabilities	\$ 5,297
Long-term debt	2,417
Other liabilities	1,899
Total liabilities	9,613
Stockholders' equity:	
Common stock	324
Retained earnings	4,839
Total stockholders' equity	5,163
Total liabilities and stockholders' equity	<u>\$14,776</u>

1-66

Exercise 1-3

Mr. Bradley's Bread Store bakes and sells fresh breads. A simplified version of its recent income statement contained the following items (in million). Solve the missing amounts and prepare an income statement for the quarter ended October 31, Year 1.

Cost of sales	\$ 27,500
Income taxes	672
Interest expense	25
Net earnings	?
Sales	45,400
Earnings before income taxes	?
Selling, general, and administration expense	5,462
Other revenues	16
Total expenses	?
Total revenues	?

1-67

MR. BRADLEY'S BREAD STORE	
Income Statement	
For the Quarter Ended October 31, Year 1	
(in millions of dollars)	
Revenues	
Sales	\$45,400
Other revenues	16
Total revenues	\$45,416
Expenses	
Cost of sales	27,500
Selling, general, and administration expenses	5,462
Interest expense	25
Total expenses	32,987
Earnings before income taxes	12,429
Income tax expense	672
Net income	<u><u>\$11,757</u></u>

1-68

Exercise 1-4

Master Chef Corporation was organized by five individuals on November 1, Year 1. At the end of November, Year 1, the following monthly financial data are available:

Total revenues	\$295,000
Total expenses (excluding income taxes)	177,066
Income tax expense (all unpaid as of November 31)	2,814
Cash balance, November 30	26,906
Receivables from customers (all considered collectible)	110,188
Merchandise inventory (by inventory count at cost)	59,156
Payables to suppliers for merchandise purchased from them (will be paid during December, Year 1)	8,116
Common stock	70,200

No dividends were declared or paid during November.

1-69

Required:

Complete the following statement.

MASTER CHEF CORPORATION Income Statement For the Month of November, Year 1	
Total revenues	\$ _____
Less: Total expenses (excluding income tax)	_____
Income before income taxes	_____
Less: Income tax expense	_____
Net income	\$ <u>_____</u>

1-70

Required:

Complete the following statement.

MASTER CHEF CORPORATION Balance Sheet At November 30, Year 1	
Assets	
Cash	\$ _____
Accounts Receivable	_____
Merchandise inventory	_____
Total assets	<u>\$ _____</u>
Liabilities	
Payables to suppliers	\$ _____
Income taxes payable	_____
Total liabilities	_____
Stockholders' equity	
Common stock	_____
Retained earnings	_____
Total stockholders' equity	_____
Total liabilities and stockholders' equity	<u>\$ _____</u>

1-71

MASTER CHEF CORPORATION Income Statement For the Month Ended November 30, Year 1	
Total revenues	\$295,000
Less: Total expenses (excluding income tax)	<u>177,066</u>
Income before income taxes	117,934
Less: Income tax expense	<u>2,814</u>
Net income	<u>\$115,120</u>

1-72

MASTER CHEF CORPORATION**Balance Sheet**
At November 30, Year 1**Assets**

Cash	\$ 26,906
Accounts receivable	110,188
Merchandise inventory	59,156
Total assets	<u>\$196,250</u>

Liabilities

Accounts payable	\$ 8,116
Income taxes payable	2,814
Total liabilities	<u>10,930</u>

Stockholders' equity

Common stock	70,200
Retained earnings (from income statement above)	115,120
Total stockholders' equity	<u>185,320</u>
Total liabilities and stockholders' equity	<u>\$196,250</u>

1-73

Exercise 1-5

Bartles and James Corporation was organized on January 1, Year 1. For its first two years of operations, it reported the following:

Net income for Year 1	\$ 65,000
Net income for Year 2	61,000
Dividends for Year 1	45,500
Dividends for Year 2	22,000
Total assets at the end of Year 1	265,000
Total assets at the end of Year 2	302,000
Common stock at the end of Year 1	200,000
Common stock at the end of Year 2	200,000

Required:

On the basis of the data given, prepare a statement of stockholders' equity for Year 2. Show computations.

1-74

BARTLES AND JAMES CORPORATION Statement of Stockholders' Equity For the Year Ended December 31, Year 2		
	Common Stock	Retained Earnings
Balance December 31, Year 1	\$200,000	\$19,500
Net income for Year 2		61,000
Dividends for Year 2		(22,000)
Balance December 31, Year 2	<u>\$200,000</u>	<u>\$58,500</u>

Beginning Retained Earnings + Net Income – Dividends = Ending Retained Earnings

For Year 1: \$0 + \$65,000 – \$45,500 = \$19,500

Ending Retained Earnings for Year 1 becomes beginning retained earnings for Year 2.

1-75

HW1

P29 E1-2

P30 E1-5

P33 E1-11

P34 E1-13

1-76