

LECTURE

# 1 | Accounting Overview

## LEARNING OBJECTIVES

*After studying this chapter, you should be able to:*

1. Understand the development of accounting
2. Explain what accounting is.
3. Identify the users and uses of accounting
4. Understand what is an accounting period
5. Understand units, text and numbers for accounting in Vietnam
6. Understand why ethics is a fundamental business concept
7. Explain accounting standards and measurement principles

1-2

## History and Development of Accounting

**Learning Objective 1**  
*Understand the development of accounting*

- Various evidences reveal that the presence of record-keeping was found in most ancient civilizations.
- The first complete description of the double entry bookkeeping system appeared in 1494, authored by Luca Paciolo.
- In 1973, the International Accounting Standard Committee (IASC) was established.

1-3

## What is Accounting?

**Learning Objective 2**  
*Explain what accounting is.*

**Accounting** consists of three basic activities—it

- ♦ identifies,
- ♦ records, and
- ♦ communicates

the economic events of an organization to interested users.

1-4

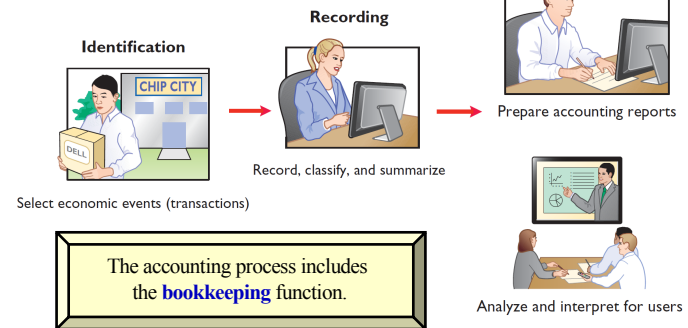
## What is Accounting?

1-5

## Three Activities

Illustration 1-1

The activities of the accounting process



LO 1

## Review Question

Which of the following is **not** a step in the accounting process?

- a. Identification.
- b. Recording.
- c. Economic entity.
- d. Communication


1-7

## The differences between a Bookkeeper and an Accountant

1-8


## Who Uses Accounting Data?

### INTERNAL USERS




**Marketing**

What price for a **Nokia** cell phone will maximize the company's net income?




**Management**

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



**Finance**

Is cash sufficient to pay dividends to **SAP** shareholders?



**Human Resources**


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

**Illustration 1-2**  
Questions that internal users ask

1-9


## Who Uses Accounting Data?

### EXTERNAL USERS



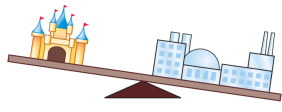
**Investors**

Is **Royal Dutch Shell** earning satisfactory income?



**Creditors**

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



**Investors**

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

**Illustration 1-3**  
Questions that external users ask

**Learning Objective 2**  
Identify the users and uses of accounting.

1-10

## > DO IT!

Indicate whether the following statements are **true or false**.

- The three steps in the accounting process are identification, recording, and communication.
- Bookkeeping encompasses all steps in the accounting process.
- Accountants prepare, but do not interpret, financial reports.
- The two most common types of external users are investors and company officers.
- Managerial accounting activities focus on reports for internal users.

1-11

## Accounting period

- A period of time in which every accounting information data is recorded, from the establishment to the shutdown of the business
- Accounting periods include annual accounting periods, quarterly accounting periods, and monthly accounting periods
- *Notice:* - The first accounting periods of new firms and;  
- The last accounting periods of divided, consolidated, merged, converted, transferred, dissolved, shut down, or bankrupt firms

**Learning Objective 4**  
Understand what is an accounting period

1-12

## Units for accounting in Vietnam

- The accounting currency is Vietnam dong; its Vietnamese symbol is “đ” and international symbol is “VND”.
- A transaction in a foreign currency must be recorded in VND at the actual exchange rate, unless otherwise prescribed by law
- Items and working hours used as units for accounting are legal units of measurement of Socialist Republic of Vietnam

**Learning Objective 5**  
*Understand units, text and numbers for accounting in Vietnam.*

1-13

## Text and numbers for accounting

- The language of accounting shall be Vietnamese
- Numbers used for accounting are Arabic numerals; the thousands separator is a dot (.); and the decimal mark is a comma (.)

1-14

## The Building Blocks of Accounting

### Ethics in Financial Reporting

Standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair, are **ethics**.

- ◆ Recent financial scandals include: **Enron** (USA), **Parmalat** (ITA), **Satyam Computer Services** (IND), **AIG** (USA), and others.
- ◆ Effective financial reporting depends on sound ethical behavior.

**Learning Objective 6**  
*Understand why ethics is a fundamental business concept.*

1-15

## Ethics in Financial Reporting

### 1. Recognize an ethical situation and the ethical issues involved.

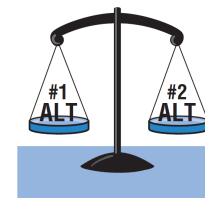
Use your personal ethics to identify ethical situations and issues. Some businesses and professional organizations provide written codes of ethics for guidance in some business situations.

### 2. Identify and analyze the principal elements in the situation.

Identify the **stakeholders**—persons or groups who may be harmed or benefited. Ask the question: What are the responsibilities and obligations of the parties involved?

### 3. Identify the alternatives, and weigh the impact of each alternative on various stakeholders.

Select the most ethical alternative, considering all the consequences. Sometimes there will be one right answer. Other situations involve more than one right solution; these situations require an evaluation of each and a selection of the best alternative.



**Illustration 1-4**  
Steps in analyzing ethics cases and situations

1-16

## Ethics Insight

**Dewey & LeBoeuf (USA)**

### I Felt the Pressure—Would You?

“I felt the pressure.” That’s what some of the employees of the now-defunct law firm of **Dewey & LeBoeuf LLP** (USA) indicated when they helped to overstate revenue and use accounting tricks to hide losses and cover up cash shortages. These employees worked for the former finance director and former chief financial officer (CFO) of the firm. Here are some of their comments:

- “I was instructed by the CFO to create invoices, knowing they would not be sent to clients. When I created these invoices, I knew that it was inappropriate.”
- “I intentionally gave the auditors incorrect information in the course of the audit.”

(continued)

1-17

## Ethics Insight

**Dewey & LeBoeuf (USA)**

### I Felt the Pressure—Would You?

What happened here is that a small group of lower-level employees over a period of years carried out the instructions of their bosses. Their bosses, however, seemed to have no concern as evidenced by various e-mails with one another in which they referred to their financial manipulations as accounting tricks, cooking the books, and fake income.

Source: Ashby Jones, “Guilty Pleas of Dewey Staff Detail the Alleged Fraud,” *Wall Street Journal* (March 28, 2014).

1-18

## Accounting Standards

**International Accounting Standards Board (IASB)** <http://www.iasb.org/>



International Financial  
Reporting Standards

### Learning Objective 4

Explain accounting  
standards and the  
measurement  
principles.



**Financial Accounting Standards Board (FASB)** <http://www.fasb.org/>

Generally Accepted Accounting Principles (GAAP)

1-19

## Measurement Principles

**HISTORICAL COST PRINCIPLE** (or cost principle)

dictates that companies record assets at their cost.

**FAIR VALUE PRINCIPLE** states that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

### Helpful Hint

Relevance and faithful  
representation are two  
primary qualities that  
make accounting  
information useful for  
decision-making.

1-20

## Global Insight    The Korean Discount

If you think that accounting standards don't matter, consider recent events in South Korea. International investors expressed concerns that the financial reports of some South Korean companies were inaccurate. Accounting practices sometimes resulted in differences between stated revenues and actual revenues. Because investors did not have complete faith in the accuracy of the numbers, they were unwilling to pay as much for the shares of these companies relative to shares of comparable companies in different countries. This difference in share price was referred to as the "Korean discount." In response, Korean regulators decided to require companies to comply with international accounting standards. This change was motivated by a desire to "make the country's businesses more transparent" in order to build investor confidence and spur economic growth. Many other Asian countries, including China, India, Japan, and Hong Kong, have also decided either to adopt international standards or to create standards that are based on the international standards.

Source: Evan Ramstad, "End to 'Korea Discount'?" *Wall Street Journal* (March 16, 2007).

1-21

## Review Question

The historical cost principle states that:

- assets should be initially recorded at cost and adjusted when the fair value changes.
- activities of an entity are to be kept separate and distinct from its owner.
- assets should be recorded at their cost.
- only transaction data capable of being expressed in terms of money be included in the accounting records.

1-22

## Accounting Across the Organization

### Spinning the Career Wheel

One question that students frequently ask is, "How will the study of accounting help me?" A working knowledge of accounting is desirable for virtually every field of endeavor. Some examples of how accounting is used in other careers include:

**General management:** Imagine running **Volkswagen** (DEU), **Saudi Telecom** (SAU), a **Subway** (USA) franchise, or a **Fuji** (JPN) bike shop. All general managers need to understand where the company's cash comes from and where it goes in order to make wise business decisions.

**Marketing:** Marketing specialists at a company like **Hyundai Motor** (KOR) develop strategies to help the sales force be successful. But making a sale is meaningless unless it is profitable. Marketing people must be sensitive to costs and benefits, which accounting helps them quantify and understand.

(continued)

1-23

## Accounting Across the Organization

### Spinning the Career Wheel

**Finance:** Do you want to be a banker for **Société Générale** (FRA) or a financial analyst for **ICBC** (CHN)? These fields rely heavily on accounting. In all of them, you will regularly examine and analyze financial statements. In fact, it is difficult to get a good finance job without two or three courses in accounting.

**Real estate:** Are you interested in being a real estate broker for **Sotheby's International Realty** (GBR)? Because a third party—the bank—is almost always involved in financing a real estate transaction, brokers must understand the numbers involved: Can the buyer afford to make the payments to the bank? Does the cash flow from an industrial property justify the purchase price? What are the tax benefits of the purchase?

1-24

### Copyright

---

“Copyright © 2016 John Wiley & Sons, Inc. All rights reserved. Reproduction or translation of this work beyond that permitted in Section 117 of the 1976 United States Copyright Act without the express written permission of the copyright owner is unlawful. Request for further information should be addressed to the Permissions Department, John Wiley & Sons, Inc. The purchaser may make back-up copies for his/her own use only and not for distribution or resale. The Publisher assumes no responsibility for errors, omissions, or damages, caused by the use of these programs or from the use of the information contained herein.”