Chapter 1

Introduction to Accounting
Learning Objective 1

Describe the purpose of accounting.
The Purpose of Accounting

- To provide:
- Financial information about the current operations and financial condition of a business to individuals and organizations
Who Are the Users of Accounting Information?

- Owners
- Managers
- Creditors
- Government Agencies
Learning Objective 2

Describe the accounting process.
Accounting is a system of:

- Gathering financial information about a business and reporting this information to users
Step One

ANALYZING

Looking at events that have taken place and thinking about how they affect the business.
Step Two

Entering financial information about events into the accounting system.
Step Three

CLASSIFYING

Sorting and grouping similar items together rather than merely keeping a simple, diary-like record of numerous events.
Step Four

The aggregation of many similar events to provide information that is easy to understand.
Step Five

Telling the results. Use of numbered tables in accounting is common.
Step Six

INTERPRETING

Deciding the meaning and importance of the information in various reports.
Define GAAP and describe the process used by FASB to develop these principles.
Generally Accepted Accounting Principles (GAAP)

Developed by the Financial Accounting Standards Board (FASB)

Procedures and guidelines to be followed in the accounting and reporting process
Process Used by FASB to Develop GAAP

- Identify an accounting issue
- Place on the agenda
- Research an issue
- FASB issues Preliminary Views document to identify pros and cons of treatments
- Hold public hearings
- Issue an exposure draft
- The Board issues an Accounting Standards Update which updates the FASB Accounting Standards Codification.
Define three types of business ownership structures.
Three Types of Ownership Structures

- Sole proprietorship
- Partnership
- Corporation
Sole Proprietorship

- One owner
- Owner assumes all risk
- Owner makes all decisions
Partnership

- Two or more partners
- Partners share risks
- Partners may disagree on how to run the business
Stockholders

Stockholders have limited risk

Stockholders may have little influence on business decisions
Learning Objective 5

Classify different types of businesses by activities.
Types of Businesses

- Service business
- Merchandising business
- Manufacturing business
A business that provides a service.

- Travel Agency
- Physician
- Computer Consultant
A business that buys a product from another business to sell to customers.

Department Store

Pharmacy

Jewelry Store
A business that **makes** a product to sell.

- **Automobile Manufacturer**
- **Furniture Maker**
- **Toy Factory**
Learning Objective 6

Identify career opportunities in accounting.
Career Opportunities

- Accounting Clerks
- Bookkeepers and Para-accountants
- Accountants
Accountants

- Design the accounting information system
- Focus on analyzing and interpreting information
- Look for important trends in the data
- Study the impact of alternative decisions
- Enter the field with a college degree in accounting
### FIGURE 1-5 Accounting Careers

<table>
<thead>
<tr>
<th>ACCOUNTING CAREERS</th>
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<tbody>
<tr>
<td><strong>Public Accounting</strong></td>
</tr>
<tr>
<td>• Auditing</td>
</tr>
<tr>
<td>• Taxation</td>
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<tr>
<td>• Management Advisory Services</td>
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<tr>
<td><strong>Private Accounting</strong></td>
</tr>
<tr>
<td>• Accounting Information Systems</td>
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<tr>
<td>• Financial Accounting</td>
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<tr>
<td>• Cost Accounting</td>
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<tr>
<td>• Budgeting</td>
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<tr>
<td>• Tax Accounting</td>
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<tr>
<td>• Internal Auditing</td>
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<tr>
<td><strong>Governmental and Not-for-Profit Accounting</strong></td>
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</tbody>
</table>
Public Accounting

- Offer services to the public
- CPA (Certified Public Accountant)
- Auditing, Taxation, Management Advisory Services
Private Accounting

- Employees of private businesses
- Controller
- Accounting Information Systems; Financial, Cost, and Tax Accounting; Budgeting; and Internal Auditing
- CMA (Certified Managerial Accountant)
- CIA (Certified Internal Auditor)
Governmental and Not-for-Profit Accounting

- Work in all levels of government
- Also employed by universities, hospitals, charities, etc.
- Gather and report financial information
The growth in the number of new jobs from 2010 to 2020 will vary according to industry. The major area of growth will be in health care, construction, and professional and business services. Moderate growth is expected in education services and transportation and warehousing. Slower growth is expected in the remaining industries. Total employment for all industry sectors is projected to grow by 14.3% over the decade, resulting in 20.5 million new jobs.


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The highest number of jobs available will be for bookkeepers, accounting and auditing clerks, and accountants and auditors. The growth for each area shown from 2010 to 2020 will be as follows:

<table>
<thead>
<tr>
<th>Area</th>
<th>Thousands</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountants and auditors</td>
<td>191</td>
<td>15.7%</td>
</tr>
<tr>
<td>Budget analysts</td>
<td>6</td>
<td>10.3%</td>
</tr>
<tr>
<td>Bookkeeping, accounting, and auditing clerks</td>
<td>259</td>
<td>13.6%</td>
</tr>
<tr>
<td>Billing and posting clerks, and machine operators</td>
<td>100</td>
<td>19.7%*</td>
</tr>
</tbody>
</table>

*Difference due to rounding
Job Descriptions in the Accounting Profession

**FIGURE 1-8** Accounting Positions according to Salary.com, 2012

**ACCOUNTING CLERK I**
Performs routine accounting activities such as maintenance of the general ledger, preparation of various accounting statements and financial reports and accounts payable or receivable functions. Requires a high school diploma or its equivalent with 0–2 years of experience in the field or in a related area. Has knowledge of commonly used concepts, practices, and procedures within a particular field. Typically reports to a supervisor or manager.

**BOOKKEEPER**
Maintains and records business transactions. Balances ledgers, reconciles accounts, and prepares reports. Follows bookkeeping procedures established by the organization. May require an associate’s degree or its equivalent with 2–4 years of experience in the field or in a related area. Familiar with standard concepts, practices, and procedures within a particular field. A certain degree of creativity and latitude is required. Typically reports to a manager or head of a unit/department.

**BUDGET ANALYST I**
Analyzes accounting records to determine financial resources required to implement programs and makes recommendations for budget allocations to ensure conformance to budgetary limits. Also responsible for reviewing operating budgets periodically in order to analyze trends affecting budget needs. Requires a bachelor’s degree and 0–2 years of experience in the field or in a related area. Has knowledge of commonly used concepts, practices, and procedures within a particular field. Typically reports to a supervisor or manager.
Your Perspective: Vehicle Emissions Technician

As you work on different cars and trucks each day, all vehicles tested as well as their costs are maintained in an accurate record. Behind the scenes of your daily duties, your manager uses the information to make important operating decisions. Accounting is the language of business and the eyes and ears of management.
Accounting Clerk

- Record, sort, and file accounting information
- Often specialize in one area (such as cash, payroll, accounts receivable, accounts payable, inventory, or purchases)
- Usually have at least one year of accounting education
Bookkeepers

- Supervise the work of accounting clerks
- Help with daily accounting work
- Summarize accounting information
- Help managers and owners interpret accounting information
- Usually have one to two years of accounting education and experience as an accounting clerk
Budget Analyst

- Analyzes accounting records for budget allocations.
- Reviews operating budgets to analyze trends affecting budget needs.
- Bachelor’s degree required and 2 or more years experience.
Job Descriptions in the Accounting Profession

ACCOUNTS PAYABLE MANAGER
Responsible for all activities in the accounts payable function. Ensures timely payments of vendor invoices and expense vouchers and maintains accurate records and control reports. May require a bachelor’s degree in a related area and at least 7 years of experience in the field. Familiar with a variety of the field’s concepts, practices, and procedures. Performs a variety of tasks. Leads and directs the work of others. A wide degree of creativity and latitude is expected. Typically reports to a head of a unit/department.

CONTROLLER
Responsible for directing an organization’s accounting functions. These functions include establishing and maintaining the organization’s accounting principles, practices, procedures, and initiatives. Prepares financial reports and presents findings and recommendations to top management. Requires a bachelor’s degree and at least 15 years of direct experience in the field. Typically requires a CPA. Leads and directs the work of others. A wide degree of creativity and latitude is expected. Typically reports to top financial officer or CEO.

Source: Salary.com, March 2012

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Job Descriptions in the Accounting Profession

**TOP AUDIT EXECUTIVE**

Oversees all aspects of an organization’s auditing function. Responsible for planning and directing all accounting and financial data. Requires a bachelor’s degree with at least 15 years of experience in the field. Familiar with a variety of the field’s concepts, practices, and procedures. Performs a variety of tasks. Leads and directs the work of others. A wide degree of creativity and latitude is expected. Typically reports to top management.