CORRELATION CHART, CHAPTERS 1 & 2

The following chart depicts how the number of the exercise or problem appeared in the last edition (21e) and how the corresponding item now appears in the new edition (22e).

|  |  |  |
| --- | --- | --- |
| **Chapter 1** | **21e** | **22e** |
| Exercise | E1-1A | E1-1A |
|  | E1-2A | E1-2A |
| Exercise | E1-1B | E1-1B |
|  | E1-2B | E1-2B |
|  |  |  |
| **Chapter 2** | **21e** | **22e** |
| Exercise A | E2-1A | E2-1A |
|  | E2-2A | E2-2A |
|  | E2-3A | E2-3A |
|  | E2-4A | E2-4A, modified |
|  | E2-5A | E2-5A |
|  | E2-6A | E2-6A |
|  | E2-7A | E2-7A |
| Problem A | P2-8A | P2-8A |
|  | P2-9A | P2-9A |
|  | P2-10A | P2-10A |
|  | P2-11A | P2-11A |
|  | P2-12A | P2-12A |
| Exercise B | E2-1B | E2-1B |
|  | E2-2B | E2-2B |
|  | E2-3B | E2-3B |
|  | E2-4B | E2-4B, modified |
|  | E2-5B | E2-5B |
|  | E2-6B | E2-6B |
|  | E2-7B | E2-7B |
| Problem B | P2-8B | P2-8B |
|  | P2-9B | P2-9B |
|  | P2-10B | P2-10B |
|  | P2-11B | P2-11B |
|  | P2-12B | P2-12B |
| Mastery Problem | No change | modified |
| Challenge Problem | No change | modified |

# Chapter 1

# Introduction to Accounting

## Learning Objectives

**LO1** Describe the purpose of accounting.

**LO2** Describe the accounting process.

**LO3** Define GAAP and describe the process used by FASB to develop these principles.

**LO4** Define three types of business ownership structures.

**LO5** Classify different types of businesses by activities.

**LO6** Identify career opportunities in accounting.

## Teaching Tips

* Chapter 1 should be fairly easy for students to understand on their own. It is intended to provide background information on the purpose of accounting, the general process, types of ownership structures, business activities, and career opportunities. It can be covered in the first class session after attending to administrative matters.
* If you prefer to jump right into the accounting equation and the analysis of transactions, you can let the students read this chapter on their own and start with Chapter 2.

### LO1

I. The Purpose of Accounting

A. Provides financial information about the current operations and financial condition of a business to individuals, agencies, and organizations.

B. **Users of Accounting Information** **(See Figure 1-1)**

1. Owners

2. Managers

3. Creditors

4. Government agencies

**In-Class Exercise:** Complete Exercises E 1-1A, E 1-1B(10 minutes each)

### LO2

II. The Accounting Process **(See Figure 1-2)**

#### **Teaching Tip**

* Discussing the accounting process provides an opportunity to point out that the best way to learn accounting is by doing accounting. Yes, students must read the chapters. However, most learning takes place while answering questions, writing memos, and working the exercises and problems. Remind your students that it is very important to do the homework as it is assigned. They shouldn’t wait until a few days before the examination to work the problems.

A. **Accounting** is a system of gathering financial information about a business and reporting this information to users.

B. The six major steps of the accounting process are as follows:

1. **Analyzing**

a) Looking at events that have taken place.

b) Thinking about how these events have affected the business.

2. **Recording**

a) Entering financial information about events into an accounting system.

b) Financial information can be entered manually; however, most businesses use accounting software.

3. **Classifying**

a) Sorting and grouping similar items together.

b) Business accounts are classified by type (see chart of accounts).

4. **Summarizing**

a) Aggregation of many similar events.

b) Determines a result.

5. **Reporting**

a) Revealing results.

b) Results are communicated in the form of financial statements.

6. **Interpreting**

a) Deciding the meaning and importance of reported information.

b) Uses ratio analysis to explain how pieces of information relate to one another.

**In-Class Exercise:** Complete Exercises E 1-2A, E 1-2B (10 minutes each)

##### LO3

III. Generally Accepted Accounting Principles (GAAP)

1. Developed by the Financial Accounting Standards Board (FASB), a private standard-setting body.
2. Provides concepts and guidelines to be followed during the accounting process.

C. The five steps for adopting a standard are as follows:

1. The issue is placed on FASB’s agenda.

2. FASB issues a **Preliminary Views** document.

3. **Public hearings** are held around the country.

4. An **exposure draft** is issued by FASB.

5. A final **Accounting Standards Update** is issued.

##### LO4

IV. Three Types of Ownership Structures **(See Figure 1-3)**

A. **Sole Proprietorship**

1. The business is owned by one person.

2. The owner assumes all the risks for the business personally.

3. The owner makes all of the business decisions.

B. **Partnership**

1. The business is owned by more than one person.

2. Partners assume all the risks for the business personally.

3. Owners share risks and decision making.

4. Partners may disagree about the way the business should be run.

C. **Corporation**

1. The business is owned by stockholders.

2. Stockholders have limited risk.

3. Stockholders may have little influence on business decisions.

**Teaching Tip**

* Most businesses in the United States operate as sole proprietorships or partnerships. However, corporations earn the highest amount of revenue. The largest corporations in the United States are known as the “Fortune 500.”

##### LO5

V. Types of Businesses **(See Figure 1-4)**

A.A **service business** provides a service to customers, businesses, and governments.

B. A **merchandising business** buys a product from another business to sell to customers.

C.A **manufacturing business** makes a product to sell.

### LO6

VI. Career Opportunities in Accounting **(See Figure 1-5)**

A. **Accounting Clerks**

1. Record, sort, and file accounting information.
2. Involved with a specialized area of accounting.
3. Require at least one year of accounting education.

B. **Bookkeepers**

1. Supervise the work of accounting clerks, perform daily accounting work, and summarize accounting information.

2. In small-to-medium-sized businesses, may also help interpret accounting information.

3. Require one to two years of accounting education and some experience as an accounting clerk.

4. Some may be certified as professional bookkeepers (AIPB).

C. **Para-accountants**

1. Provide accounting, auditing, or tax services under the direct supervision of an accountant.

2. Generally require a two-year degree or significant accounting and bookkeeping experience.

D. **Accountants**

1. Design the accounting information system and focus on analyzing and interpreting information.

2. Enter the field with a college degree in accounting. Since many states require 150 credit hours to sit for the CPA exam, many students are also earning a master’s degree.

3. Accountants are employed in:

a) public accounting

b) private (managerial) accounting

c) governmental accounting

d) not-for-profit accounting

4. Can achieve professional status as a **Certified Public Accountant (CPA)** and work for major accounting firms.

5. Services offered to other businesses by public accountants are as follows:

a) **Auditing.** Reviewing companies’ books to ensure correct policies and practices have been followed.

b) **Taxation.** Tax specialists offer advice on tax planning, prepare tax returns, and represent clients before governmental agencies.

c) **Management Advisory Services.** Offer advice to other businesses on a wide variety of managerial issues.

d) **Forensic Accounting**. Includes fraud detection, fraud prevention and other investigating techniques.

###### Teaching Tip

* Now might be a good time to discuss the relationship of the government’s regulatory powers (the SEC) and private industry (the FASB).   
  Past accounting scandals led to the Sarbanes-Oxley Act (SOX), which prohibits management advisory and auditing services being provided to the same client/company. The Act also created the Public Company Accounting Oversight Board (PCAOB) to enforce SOX rules and regulations. This discussion can help emphasize the evolving and “real world” importance of this course’s subject matter.

6. Services offered by private accountants are as follows:

a) **Accounting Information Services.** Design and implement manual and computerized accounting systems.

b) **Financial Accounting.** Prepare various reports and financial statements.

c) **Cost Accounting.** Record the cost of producing items or providing services. Analyze the production costs for efficiency.

d) **Budgeting.** Help managers develop a financial plan.

e) **Tax Accounting.** Internal tax accountant focuses on tax planning, prepares tax returns, and deals with governmental agencies.

f) **Internal Auditing.** Internal accountants review the records to ensure control procedures are adequate and have been followed.

g) **Certified Managerial Accountant (CMA).** A private accountant who gains professional status by passing a uniform examination offered by the Institute of Management Accountants.

h) **Certified Internal Auditor (CIA).** A private accountant who gains professional status by passing a uniform examination offered by the Institute of Internal Auditors.

###### Teaching Tip

* The largest public accounting firms in the United States are known as the “Big Four.” They are Deloitte, Ernst Young, KPMG, and PricewaterhouseCoopers. Three other firms are gaining large status, including McGladrey, Grant Thornton, and BDO Seidman.

7. Governmental and not-for-profit accounting.

a) accounting for states, cities, schools, churches, and hospitals.

b) Rules for governmental accounting are somewhat different from for-profit companies and not- for-profit companies.

E. Job Growth and Accounting Job Opportunities (**See Figure 1-6 and Figure 1-7)**

1. Job growth will be greater in some industry areas than in others.

2. Computer skills are needed to increase opportunities.

3. Writing skills are needed by accountants.

a) Tips to managing your writing:

(1) Managing/mentally prepare

(2) Planning

(3) Drafting

(4) Break

(5) Revising

(6) Managing/evaluating

Learning Activities

1. Have students identify several businesses in your community that are organized as sole proprietorships, partnerships, and corporations.

2. Have students identify several service, merchandising, and manufacturing businesses in your community.

3. Have students identify several organizations in your community that are considered not-for-profit entities.

**Critical Thinking Activity**

Have students think of a business transaction, such as buying a pair of jeans at the mall. Have students explain how the transaction would affect all phases of the accounting process.

**Homework Suggestions**

### LO1 Study Guide Review Question 1; End of Chapter Review Questions 1, 2

### LO2 Study Guide Review Question 12; End of Chapter Review Question 3

### LO3 Study Guide Review Question 7; End of Chapter Review Questions 4, 5, 6

### LO4 Study Guide Review Questions 2, 3, 6, 9; End of Chapter Review Question 7

### LO5 Study Guide Review Questions 4, 5, 8; End of Chapter Review Question 8

### LO6 Study Guide Review Questions 10, 11; End of Chapter Review Questions 8, 9, 10, 11, 12

**Entire Chapter:**

Managing Your Writing

**Ten Questions Your Students Will Always Ask**

1. How much math is involved in accounting?

2. Can’t computers do all this now?

3. Why is accounting required for my major?

4. Does one person perform all of the steps in the accounting process?

5. What do you mean by “liability”?

6. In a corporation, what is meant by liability being limited to initial investment?

7. Does that mean one partner can obligate his other partners, even if they did not know what he did?

8. How do you classify a movie download business?

9. What are the requirements for becoming a CPA in our state?

10. How much writing is involved in accounting?