

12E

COLLEGE ACCOUNTING

A CAREER APPROACH



CATHY J. SCOTT

College Accounting: A Career Approach

12e

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12e

Cathy J. Scott
Navarro College



Australia • Brazil • Canada • Mexico • Singapore • Spain • United Kingdom • United States

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**College Accounting: A Career Approach,
Twelfth Edition****Cathy J. Scott**

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1 2 3 4 5 6 7 16 15 14 13

In memory of Douglas J. McQuaig (1923–2012)
We would especially like to dedicate this book in memory of Douglas J. McQuaig
not only for his foresight and years of contribution to this textbook, but also for the impact
he has made on accounting education.

About the Author

Cathy J. Scott

Cathy J. Scott is currently an Associate Professor of Accounting and the Accounting Program Coordinator at Navarro College. She is a proud recipient of the American Accounting Association's Two Year Outstanding Educator of the Year Award and of Navarro College's Teaching of Excellence Award. Professor Scott received her bachelor's degree from Nazareth College, an MBA from Amberton University, and a post-graduate Accounting degree from Keller Graduate School of Management. She is currently ABD in her PhD program at Capella University. Professor Scott made a career shift into academics after a 25-year accounting and consulting career within the automotive industry. She has been a popular seminar speaker in the area of accounting and financial management for automotive and recreational vehicle manufacturers, as well as dealer associations. She has also

written numerous accounting-related articles for various automotive publications. Professor Scott is a member of the Institute of Management Accountants, Teachers of Accounting at Two-Year Colleges, The American Accounting Association, and the Texas Community College Association. She is a past co-chair for the American Accounting Association's Conference on Teaching and Learning Accounting and currently serves on the steering committee. Professor Scott is also the 2014 program co-chair for the Teaching, Learning and Curriculum section. In recent years, Professor Scott has become interested in improving online accounting education and student engagement in the classroom. She has spoken on numerous occasions about effective online learning techniques and innovative technology in the area of accounting education. In her free time, Professor Scott enjoys spending time with her family on her farm in North Texas, in addition to raising and showing her Arabian horses.



Courtesy of Cathy Scott

Preface

College Accounting is a course for the times. The practical concepts and skills students take away from the College Accounting course have the power to launch new careers and bright futures. Students of College Accounting have many different goals: to train for accounting careers; to develop skills that lend themselves to technical, managerial, and executive positions; or to go on and earn accounting or business degrees. *College Accounting: A Career Approach, 12e* maintains its dedicated emphasis on the significance of the fundamentals of accounting from a career development approach.

Accounting concepts and exercises are offered in a real-world context that encourages students to regard their coursework as true groundwork for launching their career. This edition gives students the opportunity to learn the fundamentals of accounting and then apply these concepts in QuickBooks. QuickBooks is the leading computerized accounting software for small to medium-sized companies, and many companies specifically hire college graduates with skills in QuickBooks. The QuickBooks material is introduced in a way that the instructor can use as little or as much of the QuickBooks material as he/she deems necessary.

This edition builds student skills in the areas of accounting knowledge, technology, ethics, communication, and critical thinking—providing students with skills needed to be successful in life and work.

LEARN IT

Proven Pedagogy

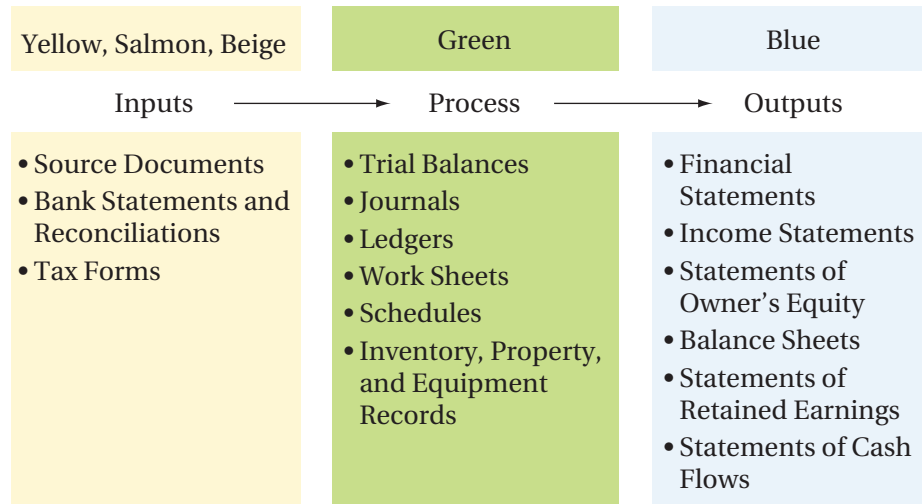
College Accounting: A Career Approach, 12e is built on the solid pedagogical foundation created by Douglas McQuaig and appreciated by instructors and students through 11 editions. Author Cathy J. Scott recognized the need for a new type of accounting text. Her understanding about the importance of QuickBooks to employers was the driving force behind this approach. The 12th edition incorporates engaging student-centered skills in the following areas: student success, real-world application, and teaching enhancements.

- **Learning Objectives** appear at the beginning of each chapter to help students focus on key learning outcomes. They are also highlighted in the margin alongside the related text discussion. A learning objective number serves as a reference to the objectives in the chapter review, exercises, and problems.
- **Key Terms** appear in blue and are defined in the text and repeated in the glossary at the end of each chapter. In addition, page numbers are included for each glossary term, making it easy for students to refer to a term in the chapter. This consistent emphasis on accounting terminology as the language of business is found throughout the text.
- **Remember** margin notes provide learning hints or summaries, often alerting students to common procedural pitfalls to help them complete their work successfully.
- **FYI** margin notes provide practical tips or information about accounting and business.
- **NEW! QuickBooks Tip** margin notes provide useful tips related to accounting that can be applied in QuickBooks.

QuickBooks Tip

Purchase orders can be printed or e-mailed immediately upon completion, or they can be marked to print or e-mail later. Figure Q9 shows the **Print Later** option selected.

- **Color-Coding of Documents and Reports** continues in the 12th edition. This tried and true visual system helps students recognize and remember key points. This use of color also helps students understand the flow of accounting data by clearly identifying the different documents and reports used in the accounting cycle. Students begin to visualize how accountants transform data into useful information.



Connecting the Classroom to the Real World

With a focus on small business, *College Accounting: A Career Approach, 12e* provides real-world context that keeps chapter and digital content relevant and vital. Many activities within the text, in QuickBooks, and in CengageNOW are designed to build student skills in areas of accounting knowledge, technology, ethics, communication, and critical thinking.

NEW! Accounting with QuickBooks

This new feature appears at the end of each chapter and explains how to apply the fundamentals of accounting processes directly within QuickBooks accounting software. Complete with clear screen captures, learning objectives, new accounting language, and QuickBooks Tips, this feature is a must for instructors who value the importance of teaching real-world technology skills in the classroom. This new, integrated approach of teaching the fundamentals of accounting with QuickBooks will help students understand how to utilize real-world accounting general ledger software, while developing marketable skills they can apply immediately in the workplace.

Accounting with **QuickBooks**

In this text, you will learn how to record transactions and prepare financial reports for various companies using a **manual accounting system**. You will also have an opportunity to use QuickBooks, a **computerized accounting system**. In a manual accounting system, accounting transactions are recorded and financial reports are prepared by hand, rather than on a computer. Using the featured *Accounting with QuickBooks* section throughout this text, you will also learn how to record transactions and process financial reports in a computerized accounting system using QuickBooks.

Characteristics of Computerized Accounting Systems

A computerized accounting system records accounting transactions using a computer and accounting software. There are many types of accounting software. QuickBooks is a software program that is often used by small to medium-sized businesses.

- 1 Identify the advantages and disadvantages of a computerized accounting system.

Learning Objectives

After you have completed this section, you will be able to do the following:

- 1 Identify the advantages and disadvantages of a computerized accounting system.
- 2 Install and register QuickBooks.
- 3 Open or restore a company.

Learning Objective

ACCOUNTING WITH QuickBooks®

Chapter Email Openers

Every chapter begins with an email opener that simulates a mentor relationship between a student and her CPA friend. These emails set the stage for why the chapter content is important and provides a checklist of what students need to know to succeed.

Learning Objectives

After you have completed this chapter, you will be able to do the following:

- 1 Define and identify *asset, liability, and owner's equity* accounts.
- 2 Record, in column form, a group of business transactions involving changes in assets, liabilities, and owner's equity.
- 3 Define and identify *revenue and expense* accounts.
- 4 Record, in column form, a group of business transactions involving all five elements of the fundamental accounting equation.

To: Amy Roberts, CPA
Subject: Starting My New Business

Hi Amy,
Well, I've given it a lot of thought and have decided to take the "plunge"! I'm going to start my own business. I've been working for many years as a whitewater rafting guide and helping in the business office. I think I'm ready to go out on my own. I know a lot about rafting and operating tours, but I don't know much about accounting. Do you think you could help? Would you recommend I purchase accounting software like QuickBooks*? Thanks,
Janie

To: Janie Conner
Subject: RE: Starting My New Business

Hi Janie,
Great! I'm so glad you've finally taken my advice and decided to open your own business. I will definitely help you learn accounting, and I would strongly recommend that you purchase an accounting software package like QuickBooks! There's a lot to learn—so let's take it step by step. I've made a list of some items for you to concentrate on first.

- ___ 1. Understand what accounting is—what it does, what its purpose is.
- ___ 2. Know the fundamental accounting equation. (This is important!)
- ___ 3. Know examples of accounts that are included in each asset, liability, or owner's equity category.

Once you've learned these items, email me, and we'll move on! Good luck.
Amy

Accounting in Your Future

This feature provides insight into possible careers that use accounting knowledge. This feature is designed to encourage students to think about their futures in accounting.

ACCOUNTING IN YOUR FUTURE

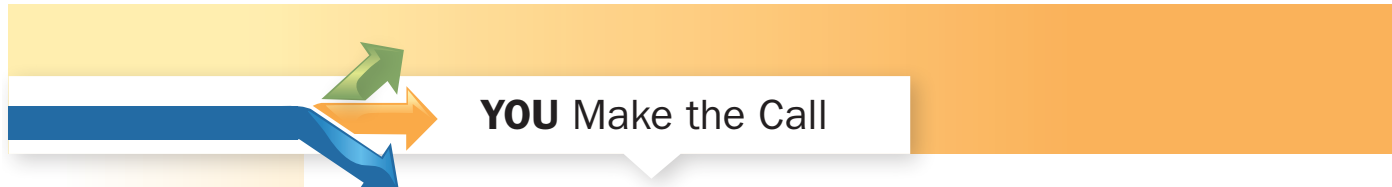
PAYROLL DEPARTMENT

The payroll department is an important part of the accounting and finance functions at companies. Payroll personnel are responsible for ensuring that all company employees receive compensation and benefits critical to maintaining a productive and motivated workforce. Some payroll departments work closely with Information Technology, Human Resources, and other departments to ensure that the company's payroll is accurate, is up-to-date, and is serving the company's current business objectives. For these reasons, it is important to understand how payroll is determined, whether you are directly responsible for processing payroll or you are employed in another business department.



You Make the Call

These features sharpen critical-thinking and problem-solving skills by placing the student in a realistic accounting dilemma. These exercises provide students with the opportunity to apply their knowledge of individual topics within the chapter. Each scenario is followed by a detailed, clearly explained solution.



YOU Make the Call

One of your fellow students is having trouble getting his accounting equation to balance after transaction (g). No matter how many times he computes the numbers, he can't get it to balance. When you look at his T accounts, you see that he has been crediting the expenses. He claims that expenses take away from owner's equity, so why should they be under the plus sign? How can you explain that he is partly correct?

SOLUTION
Your fellow student is correct in saying that expenses do take away from owner's equity, but the expense itself is increasing, which requires a debit, or increase, to the expense account. Expenses have the opposite signs of revenues—they are the costs of doing business and act in an opposite way to revenues. So the quick response to your classmate is to make sure the signs on expenses are the opposite of revenues and that expenses are debited when they happen.

Small Business Success

Appearing in select chapters, students will find this a motivating feature that emphasizes how accounting knowledge and best practices are critical to the success of a small business in a competitive environment.

SMALL BUSINESS SUCCESS

Do I Need an Accountant?

If you are not taking this class because you want to be an accountant or a bookkeeper, you might be taking the class because you plan on owning and operating a small business. Many new small business owners take on the responsibilities of being the accountant for their business. However, at some point, your business will begin to grow, and you may need to consider hiring someone to manage your accounting books so that your time is free to run the business.

An accountant can help you in many areas of your small business, such as:

- What should my business structure be—sole proprietorship, partnership, S corporation, or corporation?
- What software should I use for my accounting?
- How do I handle the payroll for employees?
- What are my requirements for filing taxes?
- What expenses are deductible for tax purposes?
- How do I prepare financial statements when applying for a loan?

So how do you find an accountant? The best way is by referrals. Ask other businesses in your industry for references or visit your local Certified Public Accounting Society website for more recommendations (www.aicpa.org/yellow/ypascpa.htm).

In the Real World

This feature appears in every chapter and provides real-world facts about companies with which students are familiar. These features are related to the chapter material and bring the real world into the classroom.



In the Real World

Publicly traded corporations such as Electronic Arts, Inc., a leading video game publisher, are required to file interim financial statements. These interim financial statements are filed using Form 10-Q and present the quarterly (every three months) financial position of the corporation. The interim financial statements are similar to the annual financial statements but are not as detailed and are typically not verified by an auditor.

NEW! Blueprint Problems

These new problems, available in CengageNOW, relate to the accounting cycle Practice Exercises for a Service and Merchandising Business. The Blueprint Problems are designed to help students see the big picture regarding fundamental accounting concepts by breaking concepts into smaller parts that build on each other through a systematic problem-solving process.



REVIEW IT

Chapter Review and Self Study

- **Practice Exercises** tied to learning objectives, with solutions provided, aid in student comprehension and study.
- **Glossary** terms are listed in alphabetical order in the chapter review section with page numbers for easy reference.
- **Quiz Yourself** provides a set of multiple-choice questions to be used as a self-quiz for students before they begin the chapter assignments. This is a great way for students to determine quickly if they “get it”.

- **Before a Test Check** is a comprehensive chapter review feature that provides questions and brief application problems after every two to four chapters. The pre-test activities allow students to check their understanding of what they have read and practiced in the preceding chapters prior to taking a test.
- **NEW! Review It with QuickBooks** tests student knowledge about QuickBooks concepts introduced within each chapter.

Review It with QuickBooks

1. The general journal report is located under _____ in QuickBooks.
 a. Company & Financial
 b. Accountant & Taxes
 c. Custom Reports
 d. All of the above

2. Transactions can be recorded in QuickBooks by _____ or _____.
 a. journal entry method; general ledger method
 b. *Getting Around* screen; general ledger method
 c. journal entry method; *Getting Around* screen
 d. scanning method, journal entry method

3. The general ledger report is located under _____ in QuickBooks.
 a. Company & Financial
 b. Accountant & Taxes
 c. Custom Reports
 d. All of the above

4. Which of the following transactions requires using a name when recording them in QuickBooks?
 a. Providing services for cash
 b. Purchasing equipment for cash
 c. Receiving and paying the utility bill
 d. Purchasing supplies on account

Answers
1. b 2. c 3. b 4. d

CengageNOW Personalized Study Plan



Pre- and Post-Tests allow students to focus their study on the areas in which they are the weakest. First, students take a Pre-Test to assess where they are now. After students work through the study plan study resources provided, students can take a Post-Test to see how they have improved.

Informative Videos within CengageNOW

NEW! SHOW ME HOW VIDEOS

Also new and available within CengageNOW, these videos are narrated by the author, providing students with an illustrated example of how to work each practice exercise for every learning objective.



**Larson Food
Adjusted Trial Balance
June 30, 2011**

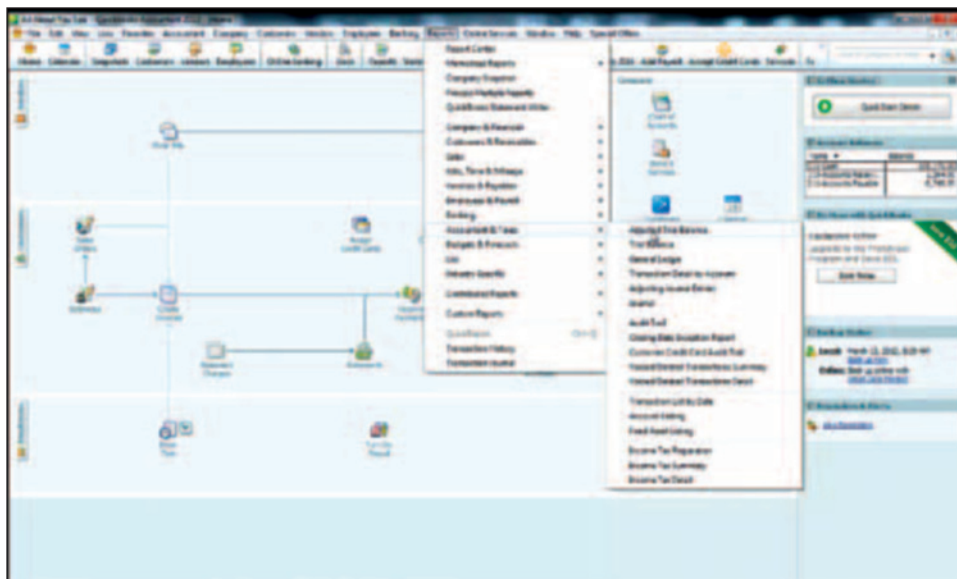
Account Name	Debit	Credit
Cash	14,500	
Accounts Receivable	500	
Supplies	270	
Prepaid Insurance	320	
Delivery Van	28,270	
Accumulated Depreciation, Delivery Van		870
Accounts Payable		750
Wages Payable		300
E. Larson, Capital		37,400
E. Larson, Drawing	1,500	
Income from Operations		18,100
Wages Expense	3,600	
Rent Expense	710	
Supplies Expense	710	
Advertising Expense	270	
Utilities Expense	300	
Insurance Expense	30	
Depreciation Expense, Delivery Van	300	
	31,400	31,400

Step 2

Wages Expense		Income Summary	
3,600	3,600	3,600	12,170

NEW! QuickBooks Demonstration Videos

QuickBooks Demonstration Videos, available in CengageNOW, provide students with step-by-step examples of how to use QuickBooks features covered in the new Accounting with QuickBooks section. Videos are available in various locations for easy access including the student companion site, within the Study Tools section in CengageNOW, as well as reminders within the QuickBooks data sets.



QuickBooks®

APPLY IT

Chapter Assignments

A variety of homework assignments are provided at the end of each chapter and in CengageNOW. Unique assignable content is also available within CengageNOW.

- **Discussion Questions** can be used for in-class discussion or for individual practice.
- **Exercises** are provided to help students learn and apply new concepts. Each exercise includes margin references to the appropriate learning objective and Chapter Review practice exercises.
- **Problems (A and B set)** are found in every chapter. For those problems that have an Excel icon in the margin, students have access to Excel templates found on the student website at CengageBrain.com. Some problems can be completed using Cengage Learning's Online General Ledger or QuickBooks. Each problem is designated with an icon to direct students to the correct application. Check figures appear alongside every A and B problem.
- **Accounting Cycle Review Problems A and B** (Chapters 1–5) and the **Comprehensive Review Problem** (Chapters 6–12) apply accounting procedures to help students understand the process they have just studied in a series of chapters. Accounting Cycle Review Problem A, “Blast Off” and B, “Wind in Your Sails” are both sole proprietorship service businesses that cover the full accounting cycle. The Comprehensive Review Problem covers the full accounting cycle for “Fabulous Furnishings,” a sole proprietorship merchandising business. These problems can be completed manually, with QuickBooks or Cengage Learning's Online General Ledger within CengageNOW.
- **Activities** at the end of each chapter hone students' problem-solving and communication skills. Why Does It Matter?, What Would You Say?, What Do You Think?, What Would You Do?, What's on the Internet?, and What's Wrong With This Picture? are a series of brief exercises at the end of each chapter that help students keep the business perspective in mind.

- **NEW! Try It with QuickBooks** provides various accounting activities that can be completed using QuickBooks as well as suggested end-of-chapter problems that will enhance students' QuickBooks and critical-thinking skills. Some questions in this section can also be completed within CengageNOW.

Try It with QuickBooks® (LO 1, 2)

QBE Exercise 5-1

Using the Conner's Whitewater Adventures demonstration file for Chapter 5, complete the following activities with QuickBooks:

1. Set the closing date to June 30, 2015.
2. Record the closing entry for J. Conner, Drawing to J. Conner, Capital.
3. View and print the post-closing trial balance report for Conner's Whitewater Adventures as of July 1, 2015. (Both the From and To dates should be July 1, 2015. Be sure to change the report title to Post-Closing Trial Balance.)
 - a. What is the ending balance of the Debit column for the post-closing trial balance?
 - b. What is the ending balance in the J. Conner, Drawing account?
 - c. What is the ending balance of the Wages Payable account on the post-closing trial balance? Is this a debit or a credit? What is the classification of this account?
 - d. What is the total owner's equity for Conner's Whitewater Adventures as of July 1, 2015?

For the problem listed above, the QuickBooks data file is not set up to automatically close the temporary accounts. Journalize the closing entries using *Make General Journal Entries*. In the memo field, identify the entry as *Closing Entry*.



- **All About You Spa** is designed to give students experience using computers to manage accounting transactions. This continuous general ledger problem features a sole proprietorship business. The All About You Spa problem is readily available to be solved manually, with QuickBooks, or with Cengage Learning's Online General Ledger within CengageNOW.

DEMONSTRATE IT

Learning Outcomes

Learning Outcomes Reporting functionality within CengageNOW gives instructors the ability to analyze student end-of-chapter work from the gradebook. Each problem is tagged by topic, learning objective, level of difficulty, Bloom's Taxonomy, AICPA, ACBSP, and other business program standards to allow greater guidance in developing assessments and evaluating student progress.

Related concepts are

Narrow list of concepts to:

[Show all concepts again](#)

CONCEPT (8 of 8 selected)	
<input checked="" type="checkbox"/>	ACBSP-APC-07-Adjusting Entries
<input checked="" type="checkbox"/>	ACBSP-APC-09-Financial Statements
<input checked="" type="checkbox"/>	AICPA FN-Measurement
<input checked="" type="checkbox"/>	Bloom's: Application
<input checked="" type="checkbox"/>	Bloom's: Comprehension
<input checked="" type="checkbox"/>	Bloom's: Knowledge
<input checked="" type="checkbox"/>	BUSPROG: Analytic
<input checked="" type="checkbox"/>	BUSPROG: Reflective Thinking

Include questions not associated with concepts.



Test Bank provides questions clearly identified by all outcomes to allow greater guidance in developing assessments. The Test Bank also contains QuickBooks questions to analyze student understanding of the new QuickBooks content within the 12th edition.

INSTRUCTOR SUPPLEMENTS

CengageNOW for *College Accounting: A Career Approach, 12e* contains the following:



- **Auto-graded Homework** (static and algorithmic varieties), test bank, Personalized Study Plan, and eBook are all in one resource.
- **Enhanced Feedback** for additional guidance to help students complete an exercise or problem.
- **Assignment Options** are the most robust and flexible in the industry.
- **Smart Entry** helps eliminate common data entry errors and prevents students from guessing their way through homework.
- **Learning Outcomes Reporting** and the ability to analyze student work from the gradebook. Each problem is tagged by topic, learning objective, level of difficulty, Bloom's Taxonomy, AICPA, ACBSP, and other business programs standards to allow greater guidance in developing assessments and evaluating student progress.
- **NEW! SHOW ME HOW VIDEOS** narrated by the author, provide students with an illustrated example of how to work basic exercises for each learning objective.
- **NEW! QuickBooks Demonstration Videos** provide students with step-by-step instructions for applying accounting concepts using QuickBooks.
- **NEW! Blueprint Problems** present the fundamental accounting concepts and objectives for each chapter through a series of learning activities which reinforce concepts and enhance critical thinking.
- **Robust Study Tools** include a vast array of quizzing, puzzles, tutorials, and chapter videos.
- **IMPROVED! Cengage Learning Online General Ledger** is available within CengageNOW. Your students can solve selected end-of-chapter assignments in a format that emulates commercial general ledger software.

Instructor's Resource and Solutions Manual

This helpful guide provides suggested homework check questions, teaching and learning objectives, key points, lecture outlines, demonstration problem solutions, responses to discussion questions, and solutions to all text exercises, problems, and activities. Also included are transition guides from the 11th to 12th edition, reviews of T Account Placement and Representative Transactions, chart to gauge the difficulty levels of assignments, and estimate student completion time, and suggested abbreviations for account titles. Available in print and electronically on the password-protected section of the text's companion website at <http://login.cengage.com>.

Test Bank

Verified fully to ensure accuracy, the Test Bank includes questions clearly identified by topic, learning objectives, level of difficulty, Bloom's Taxonomy, AICPA, ACBSP, and other business program standards to allow greater guidance in developing assessments and evaluating student progress. The Test Bank also contains QuickBooks questions to analyze student understanding of the new QuickBooks content within the 12th edition. Available in print and electronically on the password-protected section of the text's companion website at <http://login.cengage.com>.

Instructor Companion Website

<http://login.cengage.com>

- Instructor's Resource and Solutions Manual in Microsoft Excel and PDF file format.
- Test Bank in Microsoft Word and PDF file format.

- PowerPoint® lecture slides—these slides enhance lectures and simplify class preparation. Each chapter contains the learning objectives along with figures directly from the text and practice exercises to help you create a powerful, customizable tool. The slides have an updated design, based on the interior of the textbook.
- Solutions to Excel template problems.
- NEW! Online testing system, **Cognero** is a full-featured online-assessment system that lets instructors manage content, create tests and have complete reporting functionality at the click of a button. Edit and manage test bank content from anywhere with Internet access. No special installs or downloads needed and compatible with any operating system or browser. Cognero is located within the Instructor Resource center at <http://login.cengage.com>.
- QuickBooks data file solutions are provided for completion of select end-of-chapter problems and all of the All About You Spa Problems as well as both Accounting Cycle Review Problems A and B, and the Comprehensive Review Problem.

STUDENT SUPPLEMENTS

Study Guide and Working Papers

The Study Guide and Working Papers are provided together in one convenient resource. The Study Guide portion reinforces learning with chapter outlines that are linked to chapter learning objectives. The Working Papers are tailored to the text's end-of-chapter assignments.

CengageNOW for College Accounting: A Career Approach, 12e

CengageNOW is an online homework tool that not only provides students with the opportunity to complete homework assignments electronically, but also provides a vast array of study tools. CengageNOW allows students to test their mastery of new concepts through pre- and post-tests. Students engage with multimedia study tools via personalized study plans that target the areas on which they need to focus. Additional quizzes, tutorials, and videos are available as study tools.



Student Companion Website at CengageBrain.com

- Student PowerPoint slides—Modeled after the instructor slides and created in a way that allows students to print the slides and write notes as the instructor is lecturing.
- Flashcards
- Online quizzes
- Crossword puzzles
- Excel templates
- Glossary
- QuickBooks student files
- QuickBooks demonstration videos

Acknowledgments

During the revision of the twelfth edition, many instructors were consulted to review the text for thoughtful suggestions that helped guide the revision of *College Accounting: A Career Approach, 12e*. Those reviewers are as follows:

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*This Appendix is available for download on the text website at CengageBrain.com

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College Accounting: A Career Approach

12e

Introduction to Accounting

Learning Objectives

After you have completed this introduction to accounting, you will be able to do the following:

- 1 Define accounting.
 - 2 Explain the importance of accounting information.
 - 3 Describe the various career opportunities in accounting.
 - 4 Define ethics.
-

To: College Accounting Students

Subject: Welcome to the World of Accounting

College Accounting Students,

Welcome to the *World of Accounting*. This book holds one of the keys to your future—knowledge of accounting and business! Throughout the pages of this text, you'll be introduced to individuals, just like yourself, who dreamed about working in, operating, or even owning a business. You will read about many real world companies and learn about the important role accounting plays in each.

I understand this may be a new experience for many of you, and thus, this book is designed to help you navigate the material and ultimately succeed. As you go through this book, you will find numerous tools and activities to help you understand accounting and how accounting impacts business success. I look forward to being your guide into the world of accounting. So let's get started on this great adventure!

Cathy Scott



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Accounting Language

Accounting is often called the *language of business* because when confronted with events of a business nature, all people in society—owners, managers, creditors, employees, attorneys, engineers, and so on—must use accounting terms and concepts to describe these events. Examples of accounting terms are *net*, *gross*, *yield*, *valuation*, *accrued*, *deferred*—the list goes on and on. So it is logical that anyone entering the business world should know enough of its *language* to communicate with others and to understand their communications.

As you acquire knowledge of accounting, you will gain an understanding of the way businesses operate and the reasoning involved in making business decisions. Even if you are not involved directly in accounting activities, you will certainly need to be sufficiently acquainted with the *language* in order to understand the meaning of accounting information and how it is compiled, how it can be used, and what its limitations are.

You may be surprised to find that you are already familiar with many accounting terms. Recalling your personal business activities and relating them to your study of accounting will be very helpful to you. For example, when you purchased this textbook, you exchanged cash or a promise to pay cash for the book. As you will see, this exchange is an accounting event. You are going to recognize many activities and terms as you begin your study of accounting.

DEFINITION OF ACCOUNTING

Accounting is the process of analyzing, classifying, recording, summarizing, and interpreting business transactions in financial or monetary terms. A business **transaction** is an event that has a direct effect on the operation of an economic unit, is expressed in terms of money, and is recorded. Examples of business transactions are buying or selling goods, renting a building, paying employees, and buying insurance.

The primary purpose of accounting is to provide the financial information needed for the efficient operation of an economic unit. The term **economic unit** includes not only business enterprises but also not-for-profit entities such as government bodies, churches and synagogues, clubs, and public charities. Business enterprises or organizations may be called firms or companies.

- Accountant** (p. 4)
- Accounting** (p. 3)
- Economic unit** (p. 3)
- Ethics** (p. 8)
- Financial Accounting Standards Board (FASB)** (p. 4)
- Generally accepted accounting principles (GAAP)** (p. 4)
- International Accounting Standards Board (IASB)** (p. 4)
- International Financial Reporting Standards (IFRS)** (p. 4)
- Paraprofessional accountants** (p. 7)
- Sarbanes-Oxley Act** (p. 9)
- Securities and Exchange Commission (SEC)** (p. 4)
- Transaction** (p. 3)

- 1 Define accounting.

Another important purpose of accounting is to provide useful information for decision making in the business enterprise. Similar to decisions you must make in your daily life, accounting helps businesses make decisions. For example, knowing whether there is enough cash to purchase new equipment or whether the business is making a profit requires knowledge of accounting.

All business entities require some type of accounting records. Basically, an **accountant** is a person who keeps the financial history of the transactions of an economic unit in written or computerized form.

Accounting Standards

Because it is important that everyone who receives accounting reports be able to interpret them, a set of rules or guidelines for the accounting process has been developed. These guidelines or rules are known as **generally accepted accounting principles (GAAP)** and are developed by the **Financial Accounting Standards Board (FASB)**.

The FASB was created by the **Securities and Exchange Commission (SEC)** in 1973. The SEC is the agency responsible for regulating public companies that are traded on a U.S. stock exchange. The SEC relies on the FASB to create accounting standards. However, the ultimate responsibility for setting and enforcing accounting standards for public companies lies with the SEC.

With the globalization of the world economy, an international standard-setting board, the **International Accounting Standards Board (IASB)**, has been created to provide guidelines or rules on international accounting standards known as **International Financial Reporting Standards (IFRS)**. The IASB and FASB are currently working to combine GAAP and IFRS into one set of standards.

Bookkeeping and Accounting

While bookkeeping and accounting are closely related, there are differences between the two processes. Generally, bookkeeping involves the systematic recording of business transactions in financial terms. Accounting functions at a higher level. An accountant sets up the system that a bookkeeper uses to record business transactions. An accountant may supervise the work of the bookkeeper and prepare financial statements and tax reports. Although the bookkeeper's work is more routine, it is hard to draw a line where the bookkeeper's work ends and the accountant's begins.

IMPORTANCE OF ACCOUNTING INFORMATION

Anyone who aspires to a position of leadership in business or government needs knowledge of accounting. A study of accounting gives a person the necessary background and gives him or her an understanding of the scope, functions, and policies of an organization. A person may not be doing the accounting work, but he or she will be dealing with accounting forms, language, and reports.

Users of Accounting Information

There are many users of accounting information, as outlined below.

OWNERS

Owners have invested their money or goods in a business organization. They want information regarding the company's earnings, its prospects for future earnings, and its ability to pay its debts.

2

Explain the importance of accounting information.

MANAGERS

Managers and supervisors have to prepare financial reports, understand accounting data contained in reports and budgets, and express future plans in financial terms. People who have management jobs must know how accounting information is developed in order to evaluate performance in meeting goals.

CREDITORS

Creditors lend money or extend credit to the company for the purchase of goods and services. The company's creditors include suppliers, banks, and other lending institutions, such as loan companies. Creditors are interested in the firm's ability to pay its debts.

GOVERNMENT AGENCIES

Taxing authorities verify information submitted by companies concerning a variety of taxes, such as income taxes, sales taxes, and employment taxes. Public utilities, such as electric and gas companies, must provide financial information to regulatory agencies.

Accounting and Technology

Before the invention of computers, all business transactions were recorded by hand. Now computers perform routine recordkeeping operations and prepare financial reports. Computers are used today in all types of businesses, both large and small. All accounting positions now require workers to use computers, have knowledge of word processing and spreadsheet software, and possess an understanding of accounting software, such as QuickBooks and Peachtree®.

Even though virtually all businesses now use computers to do their accounting, the nature of accounting is the same. The computer is a powerful tool of the accountant. However, as a tool, the computer is only as useful as the operator's ability and understanding of accounting. The operator must be skilled to key the correct information into the computer program; otherwise, as the saying goes, "garbage in, garbage out."

CAREER OPPORTUNITIES IN ACCOUNTING

There are a number of career opportunities in accounting in every industry. To find job opportunities in accounting, browse Internet job sites or read the newspapers' classified advertisements. Although the jobs listed in these ads require varying amounts of education and experience, many of them are for positions as accounting and auditing clerks, general bookkeepers, and accountants. The Bureau of Labor Statistics *Occupational Outlook Handbook* estimates that employment is expected to grow as fast as average for accountants, bookkeepers, clerks, and auditors. The number of accounting-related jobs is expected to grow by 14 percent between 2010 and 2020. The requirements and duties of these positions are discussed next. Figure 1, on page 6, provides a listing of the average salaries for some of these positions.

Accounting Clerk/Technician

An accounting clerk/technician performs routine recording of financial information. The duties of accounting clerks vary with the size of the company. In small businesses, accounting clerks handle most of the recordkeeping functions. In large companies, clerks specialize in one part of the accounting system, such as payroll, accounts receivable, accounts payable, cash, inventory, or purchases. The minimum requirement for most accounting clerk positions is usually one term or semester of accounting courses. Having experience in a related job and working in an office environment is also recommended. In addition, knowledge of word processing and

- 3 Describe the various career opportunities in accounting.

Figure 1

Salary ranges for various accounting positions

TITLE	SALARY RANGE
ACCOUNTING CLERK	\$29,250–\$39,500
– Accounts receivable/Accounts payable clerk	\$32,000–\$44,250 ^a
	\$31,250–\$42,500 ^b
	\$29,000–\$39,250 ^c
– Inventory clerk	\$31,000–\$40,750 ^a
	\$29,000–\$39,750 ^b
– Payroll clerk	\$32,750–\$43,750 ^a
	\$31,750–\$42,750 ^b
	\$29,250–\$38,750 ^c
BOOKKEEPER	\$34,000–\$45,500
PARAPROFESSIONAL ACCOUNTANT	\$34,000–\$45,500
ACCOUNTANT	
– Chief financial officer	\$99,000–\$430,250
– Controller	\$71,500–\$192,500
– Financial analyst (entry level)	\$43,750–\$119,750 ^a
	\$42,000–\$103,500 ^b
	\$39,250–\$87,250 ^c
– Forensic accountant	\$64,500–\$106,000
– General accountant (entry level)	\$41,000–\$109,250 ^a
	\$38,500–\$90,750 ^b
	\$36,250–\$82,500 ^c
– Internal auditor (entry level)	\$47,500–\$132,250 ^a
	\$45,500–\$111,000 ^b

^aLarge companies

^bMidsized companies

^cSmall companies

Source: Robert Half International, 2013 *Salary Guide—Accounting & Finance*, © 2013 Robert Half International.

spreadsheet software is helpful. Accounting clerks/technicians should be detail-oriented and have good communication skills.

Auditing Clerk

Auditing clerks are an organization's financial recordkeepers. An auditing clerk's primary responsibility involves verifying transactions and records posted by other employees. Additional responsibilities include maintaining and updating individual or groups of accounting records, checking documents to ensure that they are mathematically correct,



Nigel Ferguson/Alamy

In the Real World

Many famous people began their careers in accounting. For instance, author John Grisham received his undergraduate degree in accounting from Mississippi State University.

and correcting or noting errors for accountants or other workers to adjust. Most auditing clerks are required to have a high school degree at a minimum, while an associate degree in business or accounting is often preferred for some positions. Knowledge of word processing and spreadsheet software in addition to experience in a related job are also recommended.

General Bookkeeper

Many small- and medium-sized companies employ one person to oversee their bookkeeping operations. This person is called a general or full-charge bookkeeper. The general bookkeeper supervises the work of accounting clerks. Requirements for this job vary with the size of the company and the complexity of the accounting system. The minimum requirement for most general bookkeeper jobs is one or two years of accounting education as well as experience as an accounting clerk. Many companies require a certificate in business or accounting and experience working with computers and accounting software.

Paraprofessional Accountant

To bridge a gap between the general bookkeeper and the professional accountant, many firms are hiring **paraprofessional accountants**. They manage the duties of the general bookkeeper as well as many of the duties of a professional accountant. Paraprofessional accountants work under the direct supervision of a professional accountant. Qualifications generally include a two-year degree in accounting, knowledge of accounting software, and prior experience.

Certifications Available

Several organizations offer certification for accounting and auditing clerks, bookkeepers, and paraprofessional accountants. The Certified Bookkeeper (CB) designation is awarded by the American Institute of Professional Bookkeepers (www.aipb.org) and certifies that an individual has the knowledge needed to carry out bookkeeping functions. For certification, candidates must have at least two years of bookkeeping experience, pass an examination, and adhere to a code of ethics. The Accreditation Council for Accountancy and Taxation (www.acatcredentials.org) offers an Accredited Business Accountant® (ABA) certification designed for individuals who work with small- to medium-sized businesses in the areas of financial accounting, tax, and ethics. For accreditation, candidates must pass a one-day, seven-hour exam.

Accountant

The term *accountant* describes a fairly broad range of jobs. The accountant may design and manage the entire accounting system for a business. The accountant may also prepare financial statements and tax returns and perform audits. Many accountants enter the field with a four-year college degree in accounting; however, it is not unusual for accountants to start at entry-level positions and work their way up to management positions. Although accountants are employed in every kind of economic unit, they are classified into one of four categories: public accounting, managerial or private accounting, government and not-for-profit accounting, and internal auditing. We'll briefly look at these categories.

PUBLIC ACCOUNTING

Most public accountants are certified public accountants (CPAs). To become a CPA, a person must have a bachelor's degree, complete 150 hours of college course work (in most states), pass a rigorous examination, and complete a work experience requirement. CPAs design accounting systems, prepare tax returns, provide financial advice about business operations, and audit financial statements. Many CPAs work for a public accounting firm such as Deloitte LLP or own their own small business. CPAs can also be employed

by corporations in the private sector in finance positions such as chief financial officers (CFOs), controllers, and financial analysts.

A relatively new and upcoming career opportunity in public accounting is forensic accounting. Forensic accountants specialize in investigating business crimes such as fraud, embezzlement, and money laundering. Accountants in this area of specialty require knowledge of accounting, law, and finance and work closely with law enforcement personnel. Individuals wanting to specialize in forensic accounting can apply for a Certified Fraud Examiner (CFE) certificate (www.acfe.com). Requirements for CFE certification include a minimum of a bachelor's degree and two years of professional experience in a field directly or indirectly related to the detection or deterrence of fraud.

If you are interested in learning more about becoming a CPA or other public accounting jobs, the American Institute of Certified Public Accountants (www.aicpa.org) has an excellent website called This Way to CPA (www.thiswaytocpa.com), that describes accounting degrees and job opportunities. This site includes study information, simulation games, scholarship and internship listings, profiles of successful CPAs, and career opportunities.

MANAGERIAL OR PRIVATE ACCOUNTING

Most people who are accountants are employed by private business organizations. These accountants (not necessarily CPAs) manage the accounting system, prepare budgets, determine costs of products, and provide financial information for managers and owners. Accountants have many opportunities to advance into top management positions. The Certified Management Accountant (CMA) has a solid understanding of financial planning and analysis, internal controls, decision making, and professional ethics. Requirements for CMA certification include having a bachelor's degree (in any area), passing the CMA exam, and having two years' experience in management accounting and/or financial management. You can find more information about the CMA exam at <http://imanet.org>.

GOVERNMENT AND NOT-FOR-PROFIT ACCOUNTING

Not-for-profit accounting is used for government agencies, hospitals, churches and synagogues, and schools. Accountants for these organizations prepare budgets and maintain records of revenues and expenses. Local, state, and federal government bodies employ vast numbers of people in accounting positions. For example, a top federal government employer in the area of accounting is the Internal Revenue Service (IRS).

INTERNAL AUDITING

Due to recent accounting regulations, the demand for internal auditors has increased. Internal auditors verify the effectiveness of an organization's accounting system and controls. They examine and ensure that the company's financial information is accurate and protected. Internal auditors also ensure that organizations are following government regulations and corporate policies. The Institute of Internal Auditors (<http://theiia.org>) sets international standards for internal auditors and offers a certification opportunity called the Certified Internal Auditor (CIA). Requirements for certification include having a bachelor's degree (in any area), having two years' experience in internal auditing, and passing the Certified Internal Auditor exam.

ETHICS

Ethics is a philosophy or code or system of morality—that is, how we conduct ourselves from day to day in a variety of situations requiring a decision, usually of a right or wrong nature. Ethics, as it relates to accounting, is the way accountants and other keepers of

financial information conduct the business of accounting according to laws of the state and their own personal code or system of morality.

Many books, as well as classes, are available on the subject of ethics. All organizations provide a code of ethical conduct for their members. Your school may even have a Student Code of Conduct that discusses the ethical expectations and conduct of students. With mounting evidence of questionable business ethics reported in print and portrayed through visual media, understanding and learning about ethics is very important in the world of accounting.

Related to ethics, a recent change to the accounting profession is the **Sarbanes-Oxley Act**, commonly referred to as SOX. SOX was created as a response to various large-scale corporate accounting frauds, such as Enron and WorldCom. The Sarbanes-Oxley Act established a wide range of new rules related to the audit environment and internal controls.

Chapter Review

Study and Practice

1 Define accounting.

Learning Objective

Accounting is the process of analyzing, classifying, recording, summarizing, and interpreting business **transactions** in financial or monetary terms. It is also an information system and the language of business.

2 Explain the importance of accounting information.

Learning Objective

A study of accounting gives a person the necessary background to understand the scope, functions, and policies of an organization.

3 Describe the various career opportunities in accounting.

Learning Objective

Accounting and auditing clerks, bookkeepers, **paraprofessional accountants**, and **accountants** will find employment opportunities in several areas—in the public sector, the private sector, and not-for-profit organizations.

4 Define ethics.

Learning Objective

Ethics is a code of morality—that is, how we respond to a variety of situations on a daily basis that require a decision, usually of a right or wrong nature. Ethics, as it relates to accounting, is the way accountants and other keepers of financial information conduct themselves according to laws of the state and their own personal code or system of morality.