

# College Accounting

A Contemporary Approach

Fourth Edition

Haddock | Price | Farina

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# College Accounting



fourth edition

# College Accounting

A Contemporary Approach

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# About the Authors



Courtesy of M. David Haddock Jr.

**M. DAVID HADDOCK JR.** recently retired from his role as director of training for LBMC, PC, one of the top 50 CPA firms in the United States. He has transitioned his professional role to coaching consultant and CPE instructor. In a 35-year career in higher education, Dr. Haddock served in faculty and administrative roles at Auburn University at Montgomery, the University of Alabama in Birmingham, the University of West Georgia, and Chattanooga State Community College. At his retirement from higher education, he was professor of accounting and associate vice president for academic affairs at Chattanooga State Community College in Tennessee. In addition to his teaching, he also maintained a sole proprietorship accounting and tax practice for 20 years prior to joining LBMC.

He received his BS in accounting and MS in adult education from the University of Tennessee and the EdD degree in administration of higher education from Auburn University. He is a licensed CPA in Tennessee.

Dr. Haddock served as chair of the Tennessee Society of CPAs and the Educational & Memorial Foundation of the TSCPAs for 2012–2013 and a member of AICPA Council. He is a frequent speaker for Continuing Professional Education programs.



Courtesy of John Ellis Price

**JOHN ELLIS PRICE** recently retired as professor of accounting at the University of North Texas. Dr. Price has more than 36 years of experience in higher education with over half of those years serving in key leadership positions including as founding president and professor of accounting at the University of North Texas at Dallas. Dr. Price has previously held positions of professor and assistant professor, as well as chair and dean, at the University of North Texas, Jackson State University, and the University of Southern Mississippi. Dr. Price has also been active in the Internal Revenue Service as a member of the Commissioner's Advisory Group for two terms and as an Internal Revenue agent.

Professor Price is a certified public accountant who has twice received the UNT College of Business Administration's Outstanding Teaching Award and the university's President's Council Award. Majoring in accounting, he received his BBA and MS degrees from the University of Southern Mississippi and his PhD in accounting from the University of North Texas.

Dr. Price is a member of the Mississippi Society of Certified Public Accountants, the American Accounting Association, and the American Taxation Association (serving as past chair of the Subcommittee on Relations with the IRS and Treasury). Dr. Price has also served as chair of the American Institute of Certified Public Accountants Minority Initiatives Committee and as a member of the Foundation Trustees.



Courtesy of Michael J. Farina

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He received an AA in business administration from Cerritos College; a BA in business administration from California State University, Fullerton; and an MBA from the University of California, Irvine. Professor Farina is a member of Beta Gamma Sigma, an honorary fraternity for graduate business students. He is a licensed certified public accountant in California and a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. Professor Farina is also a Chartered Global Management Accountant, a designation bestowed by a joint venture of the American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Professor Farina has received two Outstanding Faculty awards from Cerritos College. Professor Farina was the co-chair of the Accounting and Finance Department at Cerritos College for over 20 years.



# Haddock/Price/Farina



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**F**or students just embarking on a college career, an accounting course can seem daunting, like a rushing river with no clear path to the other side. As the most trusted and readable text on the market, *College Accounting: A Contemporary Approach* by Haddock, Price, and Farina presents material in a way that will help students understand the content better and more quickly. Through proven pedagogy, time-tested and accurate problem material, and a straightforward approach to the basics of accounting, Haddock/Price/Farina **bridges the rushing river**, offering first-time accounting students a path to understanding and mastery.

Whether a student is taking the course in preparation for a four-year degree or as the first step to a career in business, Haddock/Price/Farina guides him or her over the bridge to success. The authors represent the breadth of educational environments—a community college, a career school, and a four-year university—ensuring that the text is appropriate for all student populations. Throughout, they have adhered to a common philosophy about textbooks: they should be readable, contain many opportunities for practice, and be able to make accounting relevant for all.





# New to the Fourth Edition

- **Chapter openers** have been revised featuring companies such as: Apple, AT&T, Bed, Bath & Beyond, Boeing, JP Morgan Chase & Co., Costco, Deloitte, Dr Pepper Snapple, Facebook, Ford, H&R Block, S&P Global, Southwest, Starbucks, Uber, and UPS, and the Financial Accounting Standards Board.
- **Real-world examples** throughout the text have been updated.
- **End-of-chapter** exercises, problems, and critical thinking problems have been revised and updated throughout the text.
- **Mini-Practice Sets** have been revised and updated.
- **Financial Statement Analysis Questions** have been updated to include the latest financial data in the Business Connections section.
- **Student quizzes** have been updated and are now available in Connect.
- **Chapter 8 NEW** appendix on the perpetual inventory system, complete with exercises and problems focused on perpetual inventory.
- **Chapter 10** Updates for the latest earnings base for the Social Security tax and minimum hourly rate of pay added. Sidebar comments revised for the Affordable Care Act, and sidebar alert added on the 2016 overtime changes to the Fair Labor Standards Act.
- **Chapter 11** The section on reporting and paying state unemployment taxes has been completely revised.



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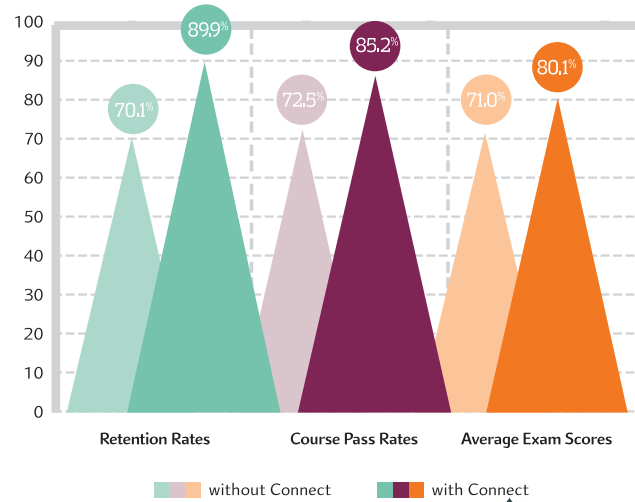
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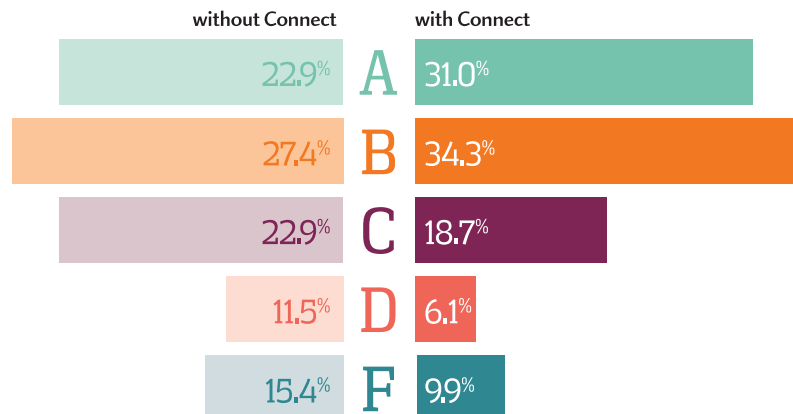
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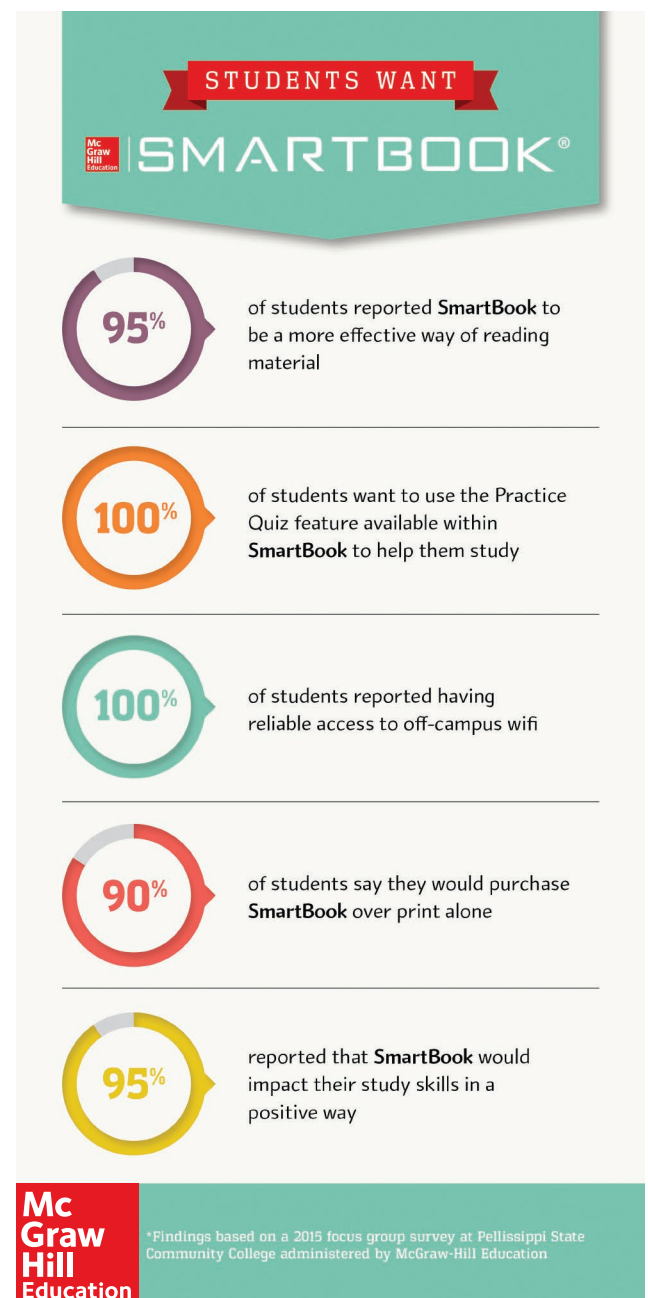
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*John Price • David Haddock • Michael Farina*

The *Price College Accounting* textbook is a well-written and planned-out approach to a college accounting approach. It goes into more detail and coverage of topics than most college accounting textbooks that I have seen. Each chapter includes great examples and transactional analysis as the topics progress.

—Roger McMillian  
Mineral Area College



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(for the fiscal year ended January 31, 2016)

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# Accounting: The Language of Business

[www.uber.com](http://www.uber.com)

How do you get from the airport to your hotel when traveling on business? How do you get home from a party when it is not safe for you to drive? How do you get into the downtown business district for a meeting when parking is difficult and expensive? How do you get to any destination when taking your own vehicle is not convenient or possible? Taxis are not always available or affordable and public transportation is difficult when in an unfamiliar city. Uber is an alternative.

Uber is a smartphone app used to summon personal transportation on an as-needed basis. Started in 2009 in San Francisco, California, as an alternative to taxis, consumers

install an app on their smartphone that allows them to request transportation from Uber drivers, who use their own vehicles. Uber quickly spread across the United States and expanded internationally in 2012. By the spring of 2015, Uber was available in over 300 cities and 50 countries. By late 2015, Uber was estimated to have a net worth over \$50 billion.

In 2015, Uber drivers are estimated to earn \$10.8 billion, of which Uber keeps 20% as its revenue, making its estimated revenue in 2015 approximately \$2 billion. As Uber continues to grow and seek additional investment funding, accountants are pivotal in tracking and reporting the company's financial results and position in terms of revenues earned, expenses used, assets owned, and liabilities owed as well as calculating the company's net income (revenues – expenses) and net worth (assets – liabilities). Accountants are essential to the company's continued growth and success by providing financial information necessary for decision making.



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## thinking critically

Can you think of any organizations that would be interested in how Uber is performing?

LEARNING OBJECTIVES	NEW TERMS	
<p><b>1-1</b> Define accounting.</p> <p><b>1-2</b> Identify and discuss career opportunities in accounting.</p> <p><b>1-3</b> Identify the users of financial information.</p> <p><b>1-4</b> Compare and contrast the three types of business entities.</p> <p><b>1-5</b> Describe the process used to develop generally accepted accounting principles.</p> <p><b>1-6</b> Define the accounting terms new to this chapter.</p>	<p><b>accounting</b></p> <p><b>Accounting Standards Codification</b></p> <p><b>Accounting Standards Update</b></p> <p><b>accounting system</b></p> <p><b>auditing</b></p> <p><b>auditor's report</b></p> <p><b>certified public accountant (CPA)</b></p> <p><b>corporation</b></p> <p><b>creditor</b></p> <p><b>discussion memorandum</b></p> <p><b>economic entity</b></p> <p><b>entity</b></p> <p><b>exposure draft</b></p> <p><b>financial statements</b></p>	<p><b>generally accepted accounting principles (GAAP)</b></p> <p><b>governmental accounting</b></p> <p><b>international accounting</b></p> <p><b>management advisory services</b></p> <p><b>managerial accounting</b></p> <p><b>partnership</b></p> <p><b>public accountants</b></p> <p><b>separate entity assumption</b></p> <p><b>social entity</b></p> <p><b>sole proprietorship</b></p> <p><b>Statements of Financial Accounting Standards</b></p> <p><b>stock</b></p> <p><b>stockholders</b></p> <p><b>tax accounting</b></p>

# Section 1

SECTION OBJECTIVES	TERMS TO LEARN
<p>&gt;&gt; 1-1 Define accounting.</p> <p><b>WHY IT'S IMPORTANT</b> Business transactions affect many aspects of our lives.</p>	<p>accounting accounting system auditing certified public accountant (CPA) financial statements governmental accounting management advisory services managerial accounting public accountants tax accounting</p>
<p>&gt;&gt; 1-2 Identify and discuss career opportunities in accounting.</p> <p><b>WHY IT'S IMPORTANT</b> There's something for everyone in the field of accounting. Accounting professionals are found in every workplace from public accounting firms to government agencies, from corporations to nonprofit organizations.</p>	
<p>&gt;&gt; 1-3 Identify the users of financial information.</p> <p><b>WHY IT'S IMPORTANT</b> A wide variety of individuals and businesses depend on financial information to make decisions.</p>	

## What Is Accounting?

Accounting provides financial information about a business or a nonprofit organization. Owners, managers, investors, and other interested parties need financial information in order to make decisions. Because accounting is used to communicate financial information, it is often called the “language of business.”

### The Need for Financial Information

Suppose a relative leaves you a substantial sum of money and you decide to carry out your lifelong dream of opening a small sportswear shop. You rent space in a local shopping center, purchase fixtures and equipment, purchase goods to sell, hire salespeople, and open the store to customers. Before long you realize that, to run your business successfully, you need financial information about the business. You probably need information that provides answers to the following questions:

- How much cash does the business have?
- How much money do customers owe the business?
- What is the cost of the merchandise sold?
- What is the change in sales volume?
- How much money is owed to suppliers?
- What is the profit or loss?

As your business grows, you will need even more financial information to evaluate the firm's performance and make decisions about the future. An efficient accounting system allows owners and managers to quickly obtain a wide range of useful information. The need for timely information is one reason that businesses have an accounting system directed by a professional staff.

#### >> 1-1 OBJECTIVE

Define accounting.

### Accounting Defined

**Accounting** is the process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties. An **accounting system** is designed to accumulate data about a firm's financial affairs,

classify the data in a meaningful way, and summarize it in periodic reports called **financial statements**. Owners and managers obtain a lot of information from financial statements. The accountant:

- establishes the records and procedures that make up the accounting system,
- supervises the operations of the system,
- interprets the resulting financial information.

Most owners and managers rely heavily on the accountant's judgment and knowledge when making financial decisions.

## Accounting Careers

Many jobs are available in the accounting profession, and they require varying amounts of education and experience. Bookkeepers and accountants are responsible for keeping records and providing financial information about the business. Generally, bookkeepers are responsible for recording business transactions. In large firms, bookkeepers may also supervise the work of accounting clerks. Accounting clerks are responsible for the recordkeeping part of the accounting system—perhaps payroll, accounts receivable, or accounts payable. Accountants usually supervise bookkeepers and prepare the financial statements and reports of the business.

Newspapers and websites often have job listings for accounting clerks, bookkeepers, and accountants:

- Accounting clerk positions usually require one to two accounting courses and little or no experience.
- Bookkeeper positions usually require one to two years of accounting education plus experience as an accounting clerk.
- Accountant positions usually require a bachelor's degree but are sometimes filled by experienced bookkeepers or individuals with a two-year college degree. Most entry-level accountant positions do not have an experience requirement. Both the education and experience requirements for accountant positions vary according to the size of the firm.

Accountants usually choose to practice in one of three areas:

- public accounting
- managerial accounting
- governmental accounting

**Table 1.1** shows a list of occupations with job duties that are similar to those of accountants and auditors.

## PUBLIC ACCOUNTING

**Public accountants** work for public accounting firms. Public accounting firms provide accounting services for other companies. Usually they offer three services:

- auditing
- tax accounting
- management advisory services

The largest public accounting firms in the United States are called the “Big Four.” The Big Four are Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers.

Many public accountants are **certified public accountants (CPAs)**. To become a CPA, an individual must have a certain number of college credits in accounting courses, demonstrate good personal character, pass the Uniform CPA Examination, and fulfill the experience requirements of the state of practice. CPAs must follow the professional code of ethics.

**Auditing** is the review of financial statements to assess their fairness and adherence to generally accepted accounting principles. Accountants who are CPAs perform financial audits.

## >> 1-2 OBJECTIVE

Identify and discuss career opportunities in accounting.

## ABOUT ACCOUNTING

### Accounting Services

The role of the CPA is expanding. In the past, accounting firms handled audits and taxes. Today accountants provide a wide range of services, including financial planning, investment advice, accounting and tax software advice, and profitability consulting. Accountants provide clients with information and advice on electronic business, health care performance measurement, risk assessment, business performance measurement, and information system reliability.

**TABLE 1.1** Occupations with Similar Job Duties to Accountants and Auditors

Occupation	Job Duties	Entry-Level Education
Bookkeeping, Accounting, and Auditing Clerks	Bookkeeping, accounting, and auditing clerks produce financial records for organizations. They record financial transactions, update statements, and check financial records for accuracy.	High school diploma or equivalent
Budget Analysts	Budget analysts help public and private institutions organize their finances. They prepare budget reports and monitor institutional spending.	Bachelor's degree
Cost Estimators	Cost estimators collect and analyze data to estimate the time, money, resources, and labor required for product manufacturing, construction projects, or services. Some specialize in a particular industry or product type.	Bachelor's degree
Financial Analysts	Financial analysts provide guidance to businesses and individuals making investment decisions. They assess the performance of stocks, bonds, and other types of investments.	Bachelor's degree
Financial Managers	Financial managers are responsible for the financial health of an organization. They produce financial reports, direct investment activities, and develop strategies and plans for the long-term financial goals of their organization.	Bachelor's degree
Management Analysts	Management analysts, often called management consultants, propose ways to improve an organization's efficiency. They advise managers on how to make organizations more profitable through reduced costs and increased revenues.	Bachelor's degree
Personal Financial Advisors	Personal financial advisors give financial advice to people. They help with investments, taxes, and insurance decisions.	Bachelor's degree
Postsecondary Teachers	Postsecondary teachers instruct students in a wide variety of academic and vocational subjects beyond the high school level. They also conduct research and publish scholarly papers and books.	Doctoral or professional degree
Tax Examiners and Collectors, and Revenue Agents	Tax examiners and collectors, and revenue agents ensure that governments get their tax money from businesses and citizens. They review tax returns, conduct audits, identify taxes owed, and collect overdue tax payments.	Bachelor's degree
Top Executives	Top executives devise strategies and policies to ensure that an organization meets its goals. They plan, direct, and coordinate operational activities of companies and public or private-sector organizations.	Bachelor's degree

Source: Bureau of Labor Statistics, U.S. Department of Labor, *Occupational Outlook Handbook*, 2014–15 Edition, Accountants and Auditors, on the Internet at <http://www.bls.gov/ooh/business-and-financial/accountants-and-auditors.htm> (visited September 23, 2015).

**Tax accounting** involves tax compliance and tax planning. *Tax compliance* deals with the preparation of tax returns and the audit of those returns. *Tax planning* involves giving advice to clients on how to structure their financial affairs in order to reduce their tax liability.

**Management advisory services** involve helping clients improve their information systems or their business performance.

## MANAGERIAL ACCOUNTING

**Managerial accounting**, also referred to as *private accounting*, involves working for a single business in industry. Managerial accountants perform a wide range of activities, including:

- establishing accounting policies,
- managing the accounting system,
- preparing financial statements,
- interpreting financial information,
- providing financial advice to management,
- preparing tax forms,
- performing tax planning services,
- preparing internal reports for management.

## GOVERNMENTAL ACCOUNTING

**Governmental accounting** involves keeping financial records and preparing financial reports as part of the staff of federal, state, or local governmental units. Governmental units do not earn profits. However, governmental units receive and pay out huge amounts of money and need procedures for recording and managing this money.

Some governmental agencies hire accountants to audit the financial statements and records of the businesses under their jurisdiction and to uncover possible violations of the law. The Securities and Exchange Commission, the Internal Revenue Service, the Federal Bureau of Investigation, and Homeland Security employ a large number of accountants.

## Users of Financial Information

The results of the accounting process are communicated to many individuals and organizations. Who are these individuals and organizations, and why do they want financial information about a particular firm?

### >> 1-3 OBJECTIVE

Identify the users of financial information.

## OWNERS AND MANAGERS

Assume your sportswear shop is in full operation. One user of financial information about the business is you, the owner. You need information that will help you evaluate the results of your operations as well as plan and make decisions for the future. Questions such as the following are difficult to answer without financial information:

- Should you drop from the product line the long-sleeved pullover that is not selling well, or should you just reduce the price?
- How much should you charge for the denim jacket that you are adding to the product line?
- How much should you spend on advertising?
- How does this month's profit compare with last month's profit?
- Should you open a new store?

## SUPPLIERS

A number of other people are interested in the financial information about your business. For example, businesses that supply you with sportswear need to assess the ability of your firm to pay its bills. They also need to set a credit limit for your firm.



## BANKS

What if you decide to ask your bank for a loan so that you can open a new store? The bank needs to be sure that your firm will repay the loan on time. The bank will ask for financial information prepared by your accountant. Based on this information, the bank will decide whether to make the loan and the terms of the loan.

## TAX AUTHORITIES

The Internal Revenue Service (IRS) and other state and local tax authorities are interested in financial information about your firm. This information is used to determine the tax base:

- Income taxes are based on taxable income.
- Sales taxes are based on sales income.
- Property taxes are based on the assessed value of buildings, equipment, and inventory (the goods available for sale).

The accounting process provides all of this information.

## REGULATORY AGENCIES AND INVESTORS

If an industry is regulated by a governmental agency, businesses in that industry have to supply financial information to the regulating agency. For example, the Federal Communications Commission receives financial information from radio and television stations. The Securities and Exchange Commission (SEC) oversees the financial information provided by publicly owned corporations to their investors and potential investors. Publicly owned corporations trade their shares on stock exchanges and in over-the-counter markets. Congress passed the Securities Act of 1933 and the Securities Exchange Act of 1934 in order to protect those who invest in publicly owned corporations.

The SEC is responsible for reviewing the accounting methods used by publicly owned corporations. The SEC has delegated this review to the accounting profession but still has the final say on any financial accounting issue faced by publicly owned corporations. If the SEC does not agree with the reporting that results from an accounting method, the SEC can suspend trading of a company's shares on the stock exchanges.

Major changes were made to the regulatory environment in the accounting profession with the passage of the Public Company Accounting Reform and Investor Protection Act of 2002 (also known as the Sarbanes-Oxley Act) that was signed into law by President George W. Bush on August 2, 2002. The Act was the most far-reaching regulatory crackdown on corporate fraud and corruption since the creation of the Securities and Exchange Commission in 1934.

The Sarbanes-Oxley Act was passed in response to the wave of corporate accounting scandals starting with the demise of Enron Corporation in 2001, the arrest of top executives at WorldCom and Adelphia Communications Corporation, and ultimately the demise of Arthur Andersen, an international public accounting firm formerly a member of the "Big Five." Arthur Andersen was found guilty of an obstruction of justice charge after admitting that the firm destroyed thousands of documents and electronic files related to the Enron audit engagement. Although on May 31, 2008, the Supreme Court of the United States reversed the Andersen guilty verdict, Arthur Andersen has not returned as a viable business. As a result of the demise of Arthur Andersen, the "Big Five" are now the "Big Four."

The Act significantly tightens regulation of financial reporting by publicly held companies and their accountants and auditors. The Sarbanes-Oxley Act created a five-member Public Company Accounting Oversight Board. The Board has investigative and enforcement powers to oversee the accounting profession and to discipline corrupt accountants and auditors. The Securities and Exchange Commission oversees the Board. Two members of the Board are certified public accountants, to regulate the accountants who audit public companies, and the



remaining three must not be and cannot have been CPAs. The chair of the Board may be held by one of the CPA members, provided that the individual has not been engaged as a practicing CPA for five years.

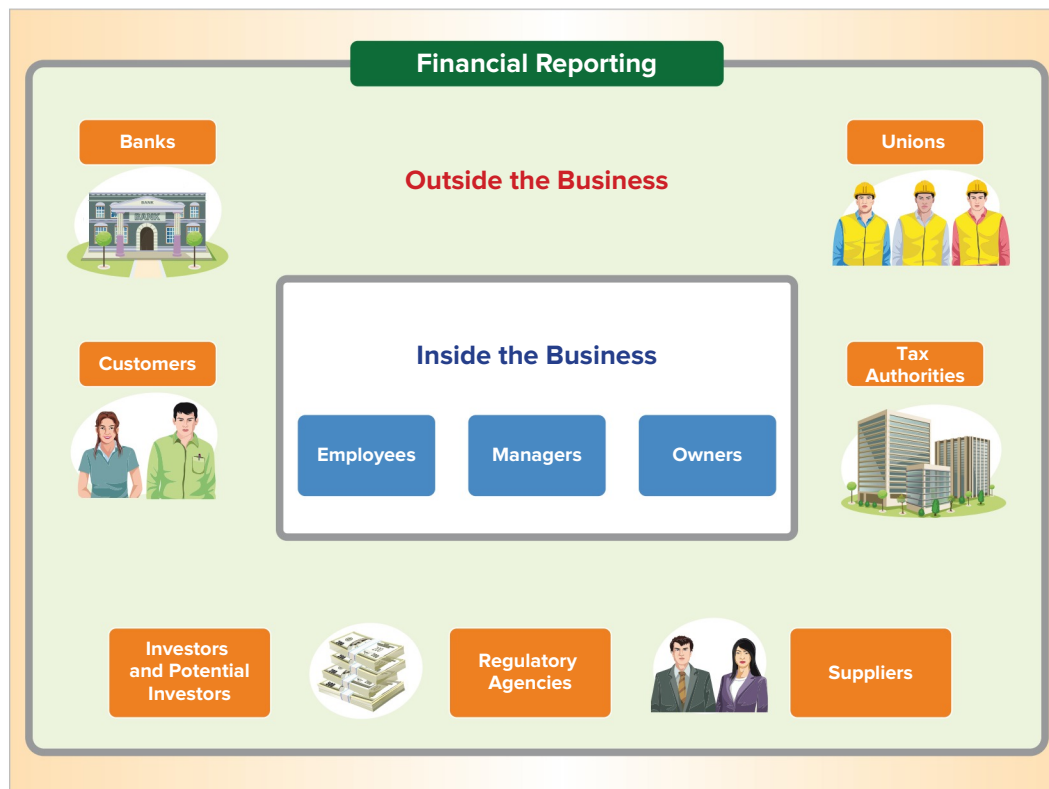
Major provisions of the Act include rules on consulting services, auditor rotation, criminal penalties, corporate governance, and securities regulation. The Act prohibits accountants from offering a broad range of consulting services to publicly traded companies that they audit and requires accounting firms to change the lead audit or coordinating partner and the reviewing partner for a company every five years. Additionally, it is a felony to “knowingly” destroy or create documents to “impede, obstruct or influence” any existing or contemplated federal investigation. Auditors are also required to maintain all audit or review work papers for seven years. Criminal penalties, up to 20 years in prison, are imposed for obstruction of justice and the Act raises the maximum sentence for defrauding pension funds to 10 years.

Chief executives and chief financial officers of publicly traded corporations are now required to certify their financial statements and these executives will face up to 20 years in prison if they “knowingly or willfully” allow materially misleading information into their financial statements. Companies must also disclose, as quickly as possible, material changes in their financial position. Wall Street investment firms are prohibited from retaliating against analysts who criticize investment-banking clients of the firm. The Act contains a provision with broad new protection for whistle-blowers and lengthens the time that investors have to file lawsuits against corporations for securities fraud.

By narrowing the type of consulting services that accountants can provide to companies that they audit, requiring auditor rotation, and imposing stiff criminal penalties for violation of the Act, it appears that this legislation will significantly help to restore public confidence in financial statements and markets and change the regulatory environment in which accountants operate.

## CUSTOMERS

Customers pay special attention to financial information about the firms with which they do business. For example, before a business spends a lot of money on a new computer system,



**FIGURE 1.1**

Users of Financial Information

the business wants to know that the computer manufacturer will be around for the next several years in order to service the computer, replace parts, and provide additional components. The business analyzes the financial information about the computer manufacturer in order to determine its economic health and the likelihood that it will remain in business.

## EMPLOYEES AND UNIONS

Often employees are interested in the financial information of the business that employs them. Employees who are members of a profit-sharing plan pay close attention to the financial results because they affect employee income. Employees who are members of a labor union use financial information about the firm to negotiate wages and benefits.

**Figure 1.1** illustrates different financial information users. As you learn about the accounting process, you will appreciate why financial information is so important to these individuals and organizations. You will learn how financial information meets users' needs.

## Section 1 Self Review

### QUESTIONS

1. What are the names of three accounting job positions?
2. Why is accounting called the “language of business”?
3. What are financial statements?

### EXERCISES

4. Which organization has the final say on financial accounting issues faced by publicly owned corporations?
  - a. Securities and Exchange Commission

- b. Federal Trade Commission
- c. U.S. Treasury Department
- d. Internal Revenue Service
5. One requirement for becoming a CPA is to pass the:
  - a. Final CPA Examination
  - b. SEC Accounting Examination
  - c. Uniform CPA Examination
  - d. State Board Examination

### ANALYSIS

6. As the owner of a small business, you have decided to expand your locations. In order to expand, you must apply for a loan. What type of information will you need to provide to the lender?

(Answers to Section 1 Self Review are on page 18.)

## Section 2

SECTION OBJECTIVES	TERMS TO LEARN
<p>&gt;&gt; 1-4 Compare and contrast the three types of business entities.</p> <p><b>WHY IT'S IMPORTANT</b> Each type of business entity requires unique legal and accounting considerations.</p> <p>&gt;&gt; 1-5 Describe the process used to develop generally accepted accounting principles.</p> <p><b>WHY IT'S IMPORTANT</b> Accounting professionals are required to use common standards and principles in order to produce reliable financial information.</p>	<p>Accounting Standards Codification</p> <p>Accounting Standards Update</p> <p>auditor's report</p> <p>corporation</p> <p>creditor</p> <p>discussion memorandum</p> <p>economic entity</p> <p>entity</p> <p>exposure draft</p> <p>generally accepted accounting principles (GAAP)</p> <p>international accounting</p> <p>partnership</p> <p>separate entity assumption</p> <p>social entity</p> <p>sole proprietorship</p> <p>Statements of Financial Accounting Standards</p> <p>stock</p> <p>stockholders</p>

# Business and Accounting

The accounting process involves recording, classifying, summarizing, interpreting, and communicating financial information about an economic or social entity. An **entity** is recognized as having its own separate identity. An entity may be an individual, a town, a university, or a business. The term **economic entity** usually refers to a business or organization whose major purpose is to produce a profit for its owners. **Social entities** are nonprofit organizations, such as cities, public schools, and public hospitals. This book focuses on the accounting process for businesses, but keep in mind that nonprofit organizations also need financial information.

## Types of Business Entities

The three major legal forms of business entity are the sole proprietorship, the partnership, and the corporation. In general, the accounting process is the same for all three forms of business. Later in the book you will study the different ways certain transactions are handled depending on the type of business entity. For now, however, you will learn about the different types of business entities.

## SOLE PROPRIETORSHIPS

A **sole proprietorship** is a business entity owned by one person. The life of the business ends when the owner is no longer willing or able to keep the business going. Many small businesses are operated as sole proprietorships.

### >> 1-4 OBJECTIVE

Compare and contrast the three types of business entities.