Accounting What the Numbers Mean 13th edition Marshall Solutions Manual

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CHAPTER 1 Accounting—Present and Past

CHAPTER OUTLINE:

I. What Is Accounting?
- A. Definition
- B. Uses of Accounting Information
- C. Classifications
  1. Financial Accounting
  2. Managerial Accounting / Cost Accounting
  3. Auditing — Public Accounting
  4. Internal Auditing
  5. Governmental and Not-for-Profit Accounting
  6. Income Tax Accounting

II. How Has Accounting Developed?
- A. Early History
- B. The Accounting Profession in the United States
- C. Financial Accounting Standard Setting at the Present Time
  1. Financial Accounting Standards Board
  2. Standards are Evolving
- D. Standards for Other Types of Accounting
  1. Managerial Accounting / Cost Accounting
  2. Auditing
  3. Governmental and Not-for-Profit Accounting
  4. Income Tax Accounting
- E. International Accounting Standards
- F. Ethics and the Accounting Profession

III. The Conceptual Framework
- A. Context
- B. Summary of Concepts Statement No. 8, Chapter 1 — The Objective of General Purpose Financial Reporting
- C. Objectives of Financial Reporting for Nonbusiness Organizations

IV. Plan of the Book

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TEACHING/LEARNING OBJECTIVES:

Principal:

1. To present a definition of accounting.

2. To identify and describe different classifications of accounting.

3. To emphasize that financial accounting standards are not a "fixed code of rules," but are established in response to user needs and business developments. Accountants need to apply professional judgment in the application of accounting principles.

4. To emphasize the role and sources of ethics for the accounting profession.

Supporting:

5. To summarize how accounting has evolved over time.

6. To identify sources of standards for other types of accounting and to contrast these with financial accounting standards.

7. To introduce the issues associated with the development of international accounting standards.

8. To describe the context of the FASB Conceptual Framework project.

9. To summarize Concepts Statement No. 8, Chapter 1 — The Objective of General Purpose Financial Reporting.

10. To relate the objectives of financial reporting for nonbusiness organizations to those of business enterprises.

TEACHING OBSERVATIONS/ASSIGNMENT SUGGESTIONS:

1. Students should be put on notice about the jargon of accounting, the use of synonymous terms, the importance of the context within which a term is used, and the need for precision in the use of terminology. The first example of jargon is the term *entity*.

2. When discussing "Auditing — Public Accounting," have students find the auditors' opinion in the Campbell Soup Company 2020 Annual Report (see pages 87-88 of the Appendix). Emphasize that a "clean opinion" is not a "clean bill of health."

3. Discuss the Summary of Concepts Statement No. 8, Chapter 1 — The Objective of Financial Reporting, in detail.

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4. Assign Exercise 1-1. Encourage students to experiment with websites that are of interest. In addition, or as an alternative to having students request their own annual reports, distribute reports that have been obtained by the instructor.

5. Use Exercise 1-5 to generate discussion about the importance of ethical standards in general and independence (in both appearance and fact) in particular. Follow up with a brief look at Exercise 1-7 concerning audit independence standards.

SOLUTIONS:

E1.3. This exercise provides an opportunity to gauge where the students are in terms of their prior background in accounting, be it practical or educational, and to clear up some of the common misconceptions (i.e., to explain that accounting goes beyond the "how to" aspects of bookkeeping and involves the use of judgment).

E1.4. This exercise provides an opportunity to align student and instructor expectations. For first-time instructors in this course, or for those having a diverse student group, you will get a glimpse at the common perceptions students have concerning the course content, level of difficulty, and methods of presentation, testing/evaluation, and grading.

E1.5. The principal factors Jim Sandrolini must consider are his competence and independence. Is he competent to prepare financial statements for a company that operates in a different industry than the one in which he works? Accepting a contingent fee arrangement would normally cause an impairment of his independence because he would directly benefit if the loan were to be approved.

E1.6. ***Suggested discussion strategy:***
Q: Why does a business have ***value***?
A: It provides the owners an opportunity to earn a profit, an opportunity for personal fulfillment from being in charge, and an opportunity to provide a product or service that is useful to others.

Q: How can this value be measured?
A: Financial information will have the most to do with evaluating the firm's profitability, and the financial statements include this information.

Q: How is an asking price for the sale of a business established?
A: The asking price should be a function of the profit, resources, and obligations related to the business as shown in the financial statements.

***Note*:** This exercise also provides an opportunity to point out some of the basic limitations of the data provided by the accounting process (e.g., historical cost information — how useful are past earnings results in predicting future earnings and cash flows?). Be careful not to get too carried away with details. Let the students lead this discussion.

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E1.7. Answers will vary depending on the search engines used by students to locate the requested information.

E1.8. Answers will vary depending on the company selected. Note that requirement *d* provides an opportunity to discuss some of the financial statement terms that are introduced in Chapter 2, for those instructors wishing to get a head start.

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