

Principles of
**FINANCIAL
ACCOUNTING 3e**

IFRS Edition

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Setting the Stage



Taiwan Semiconductor Manufacturing Company Limited (TSMC), the world's first dedicated and largest semiconductor foundry service provider, was founded in 1987 and is headquartered in Hsinchu, Taiwan.

TSMC is listed on Taiwan Stock Exchange (TSE) and the NYSE via American Depositary Receipts (ADR).

TSMC follows IFRS for financial statements filed for TSE in Taiwan, and USA GAAP for NYSE.

Accounting Information: Users and Uses

LO1

What's the Purpose of Accounting?

LO2

Who Uses Accounting Information?

LO3

Within What Kind of Environment Does Accounting Operate?

LO4

So, Why Should I Study Accounting?

What is an Accounting System?

LO1

Analysis



Analyze business events to determine if information should be captured by the accounting system

Bookkeeping



Day-to-day keeping track of transactions

Evaluation



Use summary information to evaluate the financial health and performance of the business

Exhibit 1.1 Functions of an Accounting System

The Purpose of Accounting

LO1

Quantitative

Useful

Financial

Decisions

- Accounting is a system for providing “**quantitative** information, primarily **financial** in nature, about economic entities that is intended to be **useful** in making economic **decisions.**”

Distinction between Accounting and Bookkeeping 簿記

LO1

Bookkeeping

- ◆ A routine recording process subsequent to transaction analysis.
- ◆ Relating only to the recording of transactions.
- ◆ A component of accounting.

Accounting

- ◆ Involving the **analysis** of transactions (or activities).
- ◆ Including providing information for **decision-making** and can affect economic consequences.



The Decision-Making Process

LO1



Exhibit 1.2
The Decision-Making Process

The Relationship of Accounting to Business

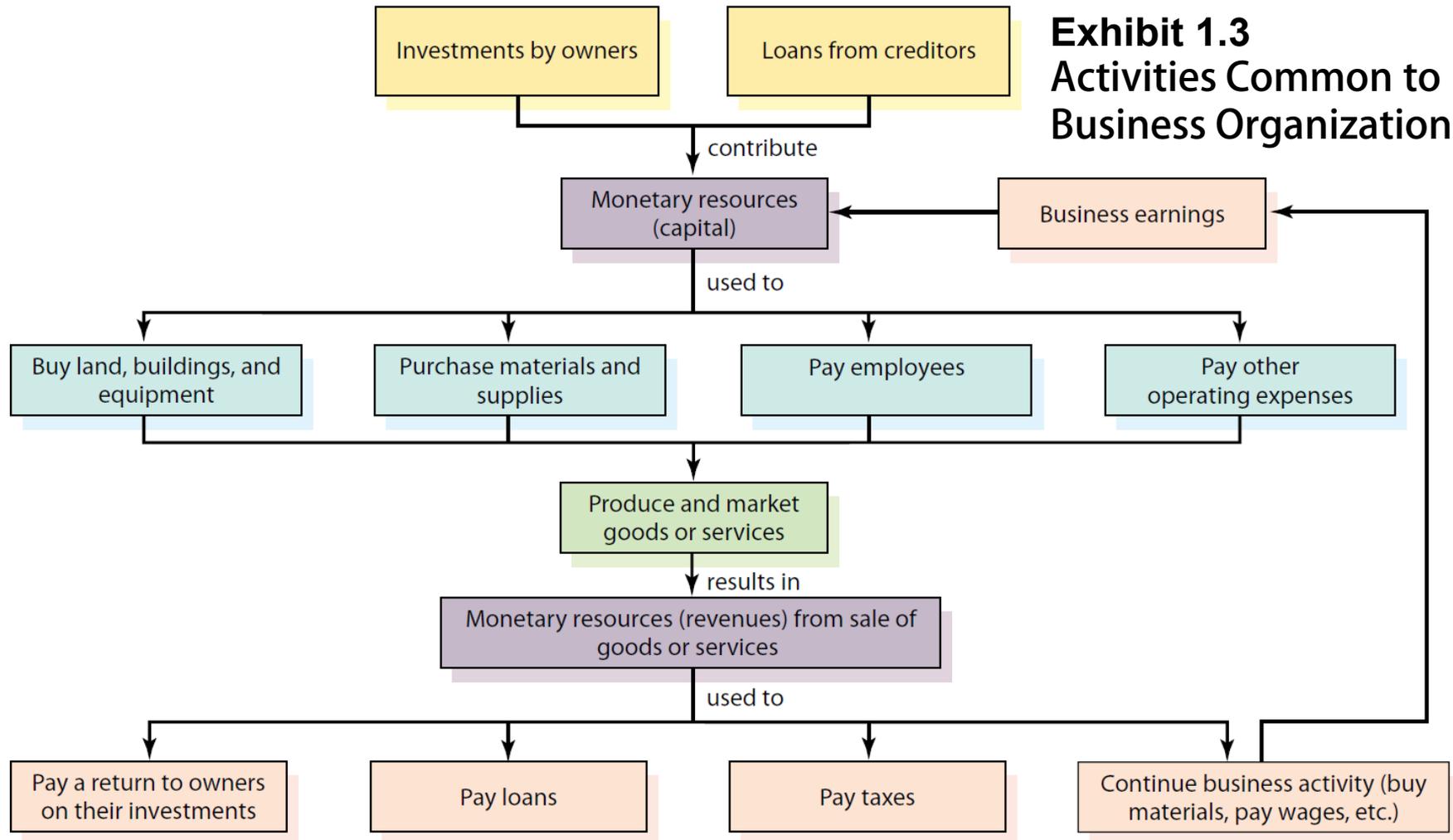
LO1

- Accounting is called the “**language of business.**”
- Accounting provides information for making informed decisions about how to best use available resources. Three sources of resources (**capital**):
 - Investors (owners)
 - Creditors (lenders)
 - The retained earnings
- Accountants play two roles with regard to these activities:
 - Measuring and reporting (follow the accounting cycle)
 - Advising

The Relationship of Accounting to Business

LO1

Exhibit 1.3
Activities Common to
Business Organizations



Who Uses Accounting Information?

LO2

- The accounting system generate financial reports.
- Two major categories of reports: **internal** and **external**

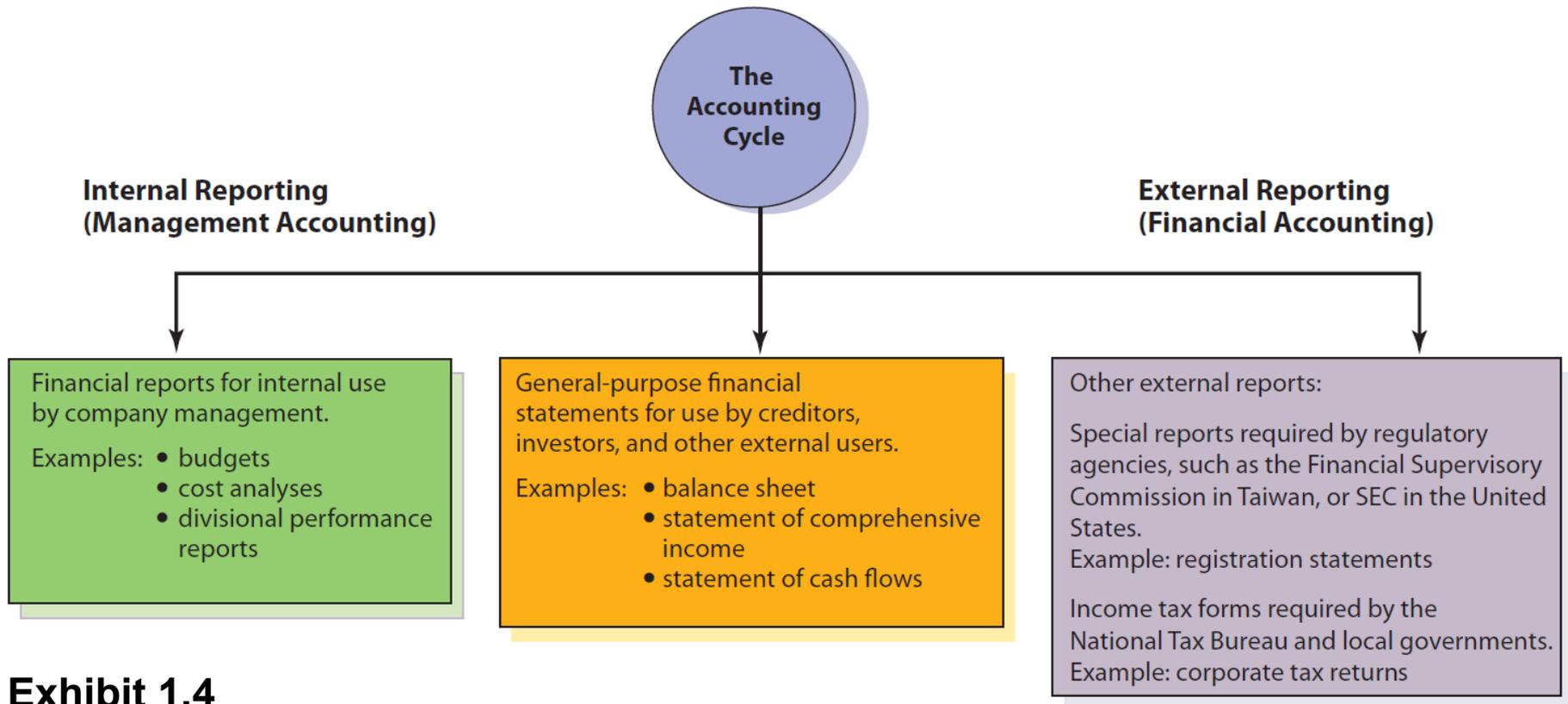


Exhibit 1.4 Output of the Accounting Cycle

Who Uses Accounting Information?

LO2

Management Accounting 管理會計

- The area of accounting concerned with providing internal financial reports to assist management in making decisions.
- Management accounting focuses on the information needed for planning, implementing plans, and controlling costs. Its information is not available to outsiders.

Financial Accounting 財務會計

- The area of accounting concerned with reporting financial information to interested parties.

Who Uses Accounting Information?

LO2

Internal Users (Management Accounting):

– Management

Examples of Internal Reports:

- Budgets
- Cost analyses
- Divisional performance reports



Who Uses Accounting Information?

LO2

External Users (Financial Accounting):

- Lenders (creditors)
- Investors
- Management
- Suppliers & Customers
- Employees
- Competitors
- Government agencies
- The press

Examples of External Reports:

- Annual report
- General-purpose financial statements
- Other regulatory reports



General-Purpose Financial Statements

LO2

Primary Financial Statements

Balance Sheet 資產負債表

Statement of Comprehensive Income 綜合損益表

Statement of Changes in Equity 權益變動表

Statement of Cash Flows 現金流量表

The Environment of Accounting

LO3

Important factors that influence the environment in which accounting operates:

- **Generally accepted accounting principles (GAAP)**

一般公認會計原則

- **International business**

- **Ethical considerations**

- **Technology**

Authoritative guidelines that define accounting practice at a particular time

Significance and Development of Accounting Standards

LO3

- In most countries in the world, a committee or board establishes the accounting rules, which serves as the GAAP for that country.
- Companies in the country then need to follow the country's GAAP in preparing financial statements.
- Using the same GAAP in the country allows users to make comparisons.



The International Accounting Standards Board (IASB) 國際會計準則理事會

- To develop a worldwide accounting standards.
- Prior to the IASB, the International Accounting Standards Committee (IASC) issued International Accounting Standards (IAS). Today, the IFRS and IAS and their related interpretations are collectively termed as IFRS.
- ✓ **International Financial Reporting Standards (IFRS)**
國際財務報導準則
- ✓ **International Accounting Standards (IAS)** 國際會計準則

The Financial Accounting Standards Board (FASB) 美國財務會計準則理事會

- The private organization responsible for establishing the standards for financial accounting and reporting in the United States. The FASB has no legal power to enforce the accounting standards it sets.
- Get its authority to establish rules from the **Securities and Exchange Commission (SEC)** 美國證券交易委員會.

- **Securities and Exchange Commission (SEC)**
 - The government body responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.
- **American Institute of Certified Public Accountants (AICPA) 美國會計師協會**
 - The national organization of CPAs in the United States.
- **Internal Revenue Service (IRS) 美國國家稅務局**
 - A government agency that prescribes the rules and regulations that govern the collection of tax revenues in the United States.
 - ✓ Companies must maintain two sets of books : financial accounting and tax accounting

International Business

LO3

- The international nature of business requires companies to be able to make their financial statements understandable to users all over the world.
- A set of worldwide accounting standards such as IFRS was created to alleviate this complication.



- Ethics is involved in preparing and using financial information.
 - The accounting scandals: **Enron, WorldCom, and Tyco.**
- Accountants are perceived by the public as being responsible for ensuing misrepresentation does not occur.
 - The creation of the PCAOB is an example of the SEC's intent to ensure the quality of reported financial information.
 - The Auditing Standards Board and the major stock exchanges took similar measures to restore the image of the accounting professional as ethical.

- Computer technology allows companies to
 - Easily gather vast amounts of information about individual transactions.
 - Compile large amounts of data quickly and accurately, thereby significantly reducing the likelihood of errors.
 - Lenders and investors are able to acquire and analyze financial information in an effective and efficient manner.
- **Technology has not replaced judgment.**

Why Should I Study Accounting?

LO4

Everyone Makes Financial Decisions need
accounting

Buying vs. leasing

Budgeting

Investing

Financing

FYI

The AICPA provides a Web site that introduces students to career opportunities in accounting. The Web site is <http://www.startheregoplaces.com>.