

## Introduction to Accounting and Business



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**W**hen two teams pair up for a game of football, there is often a lot of noise. The band plays, the fans cheer, and fireworks light up the scoreboard. Obviously, the fans are committed and care about the outcome of the game. Just like fans at a football game, the owners of a business want their business to “win” against their competitors in the marketplace. While having our football team win can be a source of pride, winning in the marketplace goes beyond pride and has many tangible benefits. Companies that are winners are better able to serve customers, to provide good jobs for employees, and to make more money for the owners.

One such successful company is [Google](#), one of the most visible companies on the Internet. Many of us cannot visit the Web without first stopping at Google to power your search. As one writer said, “Google is the closest thing the Web has

to an ultimate answer machine.” And yet, Google is a free tool—no one asks for your credit card when you use any of Google’s search tools. So, do you think Google has been a successful company? Does it make money? How would you know? Accounting helps to answer these questions. Google’s accounting information tells us that Google is a very successful company that makes a lot of money, but not from you and me. Google makes its money from advertisers.

In this textbook, we will introduce you to accounting, the language of business. In this chapter, we begin by discussing what a business is, how it operates, and the role that accounting plays.



After studying this chapter, you should be able to:

1

Describe the nature of a business, the role of accounting, and ethics in business.

Nature of Business and Accounting

Types of Businesses

The Role of Accounting in Business

Role of Ethics in Accounting and Business

Opportunities for Accountants

2

Summarize the development of accounting principles and relate them to practice.

Generally Accepted Accounting Principles

Business Entity Concept

The Cost Concept

EE 1-1 (page 9)

3

State the accounting equation and define each element of the equation.

The Accounting Equation

EE 1-2 (page 9)

4

Describe and illustrate how business transactions can be recorded in terms of the resulting change in the elements of the accounting equation.

Business Transactions and the Accounting Equation

EE 1-3 (page 15)

5

Describe the financial statements of a proprietorship and explain how they interrelate.

Financial Statements

Income Statement

EE 1-4 (page 16)

Statement of Owner's Equity

EE 1-5 (page 17)

Balance Sheet

EE 1-6 (page 19)

Statement of Cash Flows

EE 1-7 (page 20)

Interrelationships Among Financial Statements

At a Glance

Menu

Turn to pg 22

South-Western

1

Describe the nature of a business, the role of accounting, and ethics in business.

## Nature of Business and Accounting

A **business**<sup>1</sup> is an organization in which basic resources (inputs), such as materials and labor, are assembled and processed to provide goods or services (outputs) to customers. Businesses come in all sizes, from a local coffee house to **Starbucks**, which sells over \$9 billion of coffee and related products each year.

The objective of most businesses is to earn a profit. **Profit** is the difference between the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services. In this text, we focus on businesses operating to earn a profit. However many of the same concepts and principles also apply to not-for-profit organizations such as hospitals, churches, and government agencies.

### Types of Businesses

Three types of businesses operated for profit include service, merchandising, and manufacturing businesses.

<sup>1</sup> A complete glossary of terms appears at the end of the text.

