Draw an Accountant....

Who/What Information needs for business/financial decisions
BUS312A/612A
Session 1

Handouts:
✓ To Do List
✓ Syllabus
✓ QuickBooks Project
✓ Teaching Perspectives Inventory (TPI)
✓ Class Handout

Attendance: Sign roster!!!
The first course has the broadest impact.
What is a prosperous society?

• Your definition?

Accounting’s Role: “Accounting provides reliable, relevant, and timely information to managers, investors, and creditors to allow resource allocation to the most efficient enterprises. Accounting provides measurements of efficiency (profitability) and financial soundness.”

• Financial Reporting’s objective: “To provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions about providing resources to the entity.”
The professional judgment framework

Track, organize and evaluate considerations
- For each process step, track, organize and evaluate considerations sufficient to capture relevant information to support your judgment.

Define the issue
- What is the primary issue?
- What is the applicable guidance?
- What information do you need to address the issue?
- Is the information you have obtained relevant and reliable?

Gather the facts
- How does the applicable guidance apply to the issue?
- Have you identified and evaluated the key assumptions?
- What are the reasonable outcomes and possible alternatives?

Perform the analysis
- What is your conclusion based on the analysis performed?
- Does your conclusion make sense in light of the business purpose and underlying economics of the issue?

Make the judgment
- Is the documentation sufficient to support your judgment?
- Can another professional understand how you reached your conclusion (including why reasonable outcomes and possible alternatives identified were not selected)?

Manage any personal bias and consider the bias of others
- Avoid making preliminary judgments
- Consider all points of view and alternatives
- Understand motivations or incentives for particular outcomes

Consider the risk of material misstatement
- Evaluate quantitative and qualitative significance relative to the issue and relative to the interests of stakeholders

Consider the involvement of others
- Consider subject-matter specialists, consultation and necessary reviews and approvals

Maintain professional skepticism, including fraud awareness
- Maintain a questioning mindset and ask probing questions
- Objectively evaluate the facts, address inconsistencies and corroborate evidence
- Assume others are neither honest nor dishonest
- Be alert for indicators of possible misstatement due to error or fraud

Example of accountability professional
Accounting tells the story!

Once upon a time, long, long ago, accounting began to reduce events to numbers to capture and bring meaning to data and it was good! Concepts were agreed upon and accounting techniques evolved to analyze & resolve business issues.
Measurement
Accounting Records
Trader Accounting and the Day of Reckoning...
The T account of each trip... reducing events to numbers

Traders Left
- Resources
- Responsibilities
- Capital
- Measurement Principle
- Cost & Benefit Recognition Principle
- Full Disclosure Principle
- Constraints

Traders Returned
- Resources
- Discharge Responsibilities
- Capital
- Measurement Principle
- Cost & Benefit Recognition Principle
- Full Disclosure Principle
- Constraints
Industrial Revolution adds complexity

**Accounting Fundamentals**

- Resources
- Responsibilities
- Capital
- Measurement Principle
- Cost & Benefit Recognition Principle
- Full Disclosure Principle
- Constraints
- *Day of Reckoning - Business cycle definite*

**Evolution of Accounting Concepts**

- Resources
- Responsibilities
- Capital
- *Rise of Corporations*
- Economic Entities: Types
- Going Concern & Periodicity: Now-No end to the business cycle
- Corporations-Emphasis on the amount of profit available for dividends to stockholders
- Problem: Declining values of costly long-lived resources
- Focus: “Making the greatest quantity possible in a given period of time”
- Capitalism & Financial Markets
Today and Tomorrow

Industrial Revolution

- Resources
- Responsibilities
- Capital
- Rise of Corporations

- **Assumptions:** Going Concern, Economic Entity, Monetary unit, Periodicity
- **Principles:** Measurement, Revenue & Expense Recognition, Full Disclosure
- **Constraints:** Cost
- **Qualitative Qualities:** Fundamental-Relevance & Faithful Representation, Enhancing-Comparability, Verifiability, Timeliness, Understandability
- **Elements:** A,L,E,R,E Contributed Capital, Dividends, Comprehensive Income, Gains, Losses
- **Objectives** of Financial Reporting

Transformative Technologies

- Now data unlocked with 24/7 access to anyone via Internet & Cloud.
- Massive quantities of financial and nonfinancial data. Cost to capture and keep in real time low.

- Making sense of business to an audience-what info important?
- Point of view of who’s telling the story—single entity or helicopter?
- Accountants still can be the storytellers by bringing meaning to data through the process of:

  🌟 **Understanding the Concepts first**
  Then applying the best Accounting Tools
  To analyze and make Business Decisions

- Managerial Accounting: Product & Service
- Accounting kept the books (locked the data up) and interpreted the data for others.
BUS312A/612A
Financial Reporting I

Introduction to the Course
8.27.2014
True or False?

1. GAAP is the term used to indicate the whole body of FASB authoritative literature. **True**

2. Any company claiming compliance with GAAP must comply with most standards and interpretations but does not have to follow the disclosure requirements. **False**

3. The primary governmental body that has influence over the FASB is the SEC. **True**

4. The FASB has a governmental mandate and therefore does not have to follow due process in issuing a standard. **False**
An effective process of capital allocation is critical to a healthy economy, which

a. promotes productivity.

b. encourages innovation.

c. provides an efficient and liquid market for buying and selling securities.

d. All of the above.

What do you know?
The first step taken in the establishment of a typical FASB statement is

a. The board conducts research and analysis and a discussion memorandum is issued.

b. A public hearing on the proposed standard is held.

c. The board evaluates the research and public response and issues an exposure draft.

d. Topics are identified and placed on the board’s agenda.
What do you know?

Question
Which of the following accounting pronouncements is the most authoritative?

b. FASB Technical Bulletins.
c. AICPA Accounting Principles Board Opinion.
d. AICPA Statement of Position.

CAP → AICPA → FASB
IFRS SELF-TEST QUESTIONS

IFRS stands for:

   (Correct Answer)
The major key players on the international side are the:

a. IASB and FASB.
b. SEC and FASB.
c. IOSCO and the SEC.
d. IASB and IOSCO.
IFRS SELF-TEST QUESTIONS

IFRS is comprised of:


c. International Accounting Standards and international accounting interpretations.

d. FASB financial reporting standards and International Accounting Standards.
Which of the following statements is true?

a. The IASB has the same number of members as the FASB.

b. The IASB structure has both advisory and interpretation functions, but no trustees.

c. The IASB has been in existence longer than the FASB.

d. The IASB structure is quite similar to the FASB’s, except the IASB has a larger number of board members.
What do you know?

1. GAAP stands for:
   a) Governmental auditing and accounting practices
   b) Generally accepted attest principles
   c) Government audit and attest policies
   d) Generally accepted accounting principles

2. GAAP is comprised of:
   a) FASB standards, interpretations, and concepts statements.
   b) FASB financial standards.
   c) FASB standards, interpretations, EITF consensuses, accounting rules issued by FASB predecessor organizations.
   d) Any accounting guidance included in the FASB Codification.
3. Accounting standard-setters use the following process in establishing accounting standards:
   a) Research, exposure draft, discussion paper, standard.
   b) Discussion paper, research, exposure draft, standard.
   c) Research, preliminary views, discussion paper, standard.
   d) Research, discussion paper, exposure draft, standard.

4. The authoritative status of the conceptual framework is as follows:
   a) It is used when there is no standard or interpretation related to the reporting issues under consideration.
   b) It is not as authoritative as a standard but takes precedence over any interpretation related to the reporting issue.
   c) It takes precedence over all other authoritative literature.
   d) It has no authoritative status.
5. The objective of financial reporting places most emphasis on:
   a) Reporting to capital providers
   b) Reporting on stewardship
   c) Providing specific guidance for specific needs
   d) Providing information to individuals who are experts in the field

6. General-purpose financial statements are prepared primarily for:
   a) Internal users
   b) External users
   c) Auditors
   d) Government regulators
What do you know?

7. Economic consequences of accounting standard-setting means:
   a) Standard-setters must give first priority to ensuring that companies do not suffer any adverse effect as a result of a new standard
   b) Standard-setters must ensure that no new costs are incurred when a new standard is issued
   c) The objective of financial reporting should be politically motivated to ensure acceptance by the general public
   d) Accounting standards can have detrimental impacts on the wealth levels of the providers of financial information

8. The expectations gap is:
   a) What financial information management provides and what users want
   b) What the public thinks accountants should do and what accountants think they can do
   c) What the government agencies want from standard-setting and what the standard-setters provide
   d) What the users of financial statements want from the government and what is provided
Name the major financial statements:

- Income Statement
- Other Comprehensive Income
- Stockholders' Equity or Retained Earnings
- Balance Sheet
- Statement of Cash Flows
### F/S & Accounting Equation

\[ A = L + SHE + R - E \]

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**Statement of Cash Flows 12.31.End**
- Cash-Operating (IS, CA, CL)
- Cash-Investing (LTA)
- Cash-Financing (LTL, CC)

**Income Statement (year ending 12.31.)**
- Revenue: Sales, Earned, Other
- Expenses: COGS, Oper., Other
- Net Income: ?

**Statement of Shareholders’ Equity (year ended 12.31.)**
- Contributed Capital
- Retained Earnings

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| 12.31.End   | ?                     | ?                   |
LO 1  Identify the major financial statements and other means of financial reporting.
Conceptual Framework for Financial Reporting

**Summary of the Structure**

First level: The "why"—purpose of accounting

Second level: Bridge between levels 1 and 3

Third level: The "how"—implementation

**Objective**
Provide information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in their capacity as capital providers.

**Qualitative Characteristics**
1. Fundamental qualities
   A. Relevance
      (1) Predictive value
      (2) Confirmatory value
      (3) Materiality
   B. Faithful representation
      (1) Completeness
      (2) Neutrality
      (3) Free from error
2. Enhancing qualities
   (1) Comparability
   (2) Verifiability
   (3) Timeliness
   (4) Understandability

**Principles**
1. Measurement
2. Revenue recognition
3. Expense recognition
4. Full disclosure

**Assumptions**
1. Economic entity
2. Going concern
3. Monetary unit
4. Periodicity

**Elements**
1. Assets
2. Liabilities
3. Equity
4. Investment by owners
5. Distribution to owners
6. Comprehensive income
7. Revenues
8. Expenses
9. Gains
10. Losses

**Constraints**
1. Cost

**Assumptions**
1. Economic entity
2. Going concern
3. Monetary unit
4. Periodicity

**Recognition, Measurement, and Disclosure Concepts**

**Preview**
Chapter 2
Conceptual Framework for Financial Reporting