Draw an Accountant....
Who/What Information needs for business/financial decisions
Welcome to Susan Crosson's Financial Reporting I Class!

BUS312A/612A Textbook:

Intermediate Accounting, 15th Edition
Donald E. Kieso, Jerry J. Weygandt, Terry D. Warfield
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To Do List for Second Day of Class:
- Read your course syllabus, calendar, and assignments found either in Blackboard or on course website: [http://bus.emory.edu/scrosso](http://bus.emory.edu/scrosso)
- Understand Business School Honor Code.
- Sign the Student Consent Form on website and bring to second class.
- Confirm this course appears on your Blackboard desktop. To verify go to Emory.edu home page and click on the Tech link “Blackboard.” Then, sign in to Blackboard and view your “Courses.”
- FA14_312A_BUS_000: BUS-312A: Financial Reporting I-Fall 2014 Combined should be listed. Click on it to view course announcements, your grades, and to use password protected course resources.
- Obtain your nameplate from the BBA Program Office. Verify you have a tub file in the file cabinets by the lockers on the first floor. Any issues--see the BBA Program Office to assist you.
- Complete the first day of class activities (handouts received first day of class)
- Bring required documentation for athletic teams and ADRS.
- Buy a 4 function calculator (if you do not own one) for exams.
- Start QuickBooks Online Project!!! Due in 9/24/2014.

CLASS DAYS: Remember to bring your textbook, two different colors of pens, handouts, and nameplate to every class.

HOMEWORK AND QUIZZES: Remember to do your homework on or before due dates and bring two different colors of pens to every class. In class is the exclusive way to learn solutions. There may be a quiz....

It will be a busy and fun semester!
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

## Process steps

1. **Define the issue**
2. **Gather the facts**
3. **Perform the analysis**
4. **Make the judgment**

## Specific considerations by process step

- **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?**
- **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?**
- **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?**
- **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)?**

## Overarching considerations for all process steps

- **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**

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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.
Trader Accounting and the Day of Reckoning...

The T account of each trip... *reducing events to numbers*

<table>
<thead>
<tr>
<th>Traders Left</th>
<th>Traders Returned</th>
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<tbody>
<tr>
<td>• Resources</td>
<td>• Resources</td>
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<td>• Responsibilities</td>
<td>• Discharge Responsibilities</td>
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<td>• Capital</td>
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<td>• Measurement Principle</td>
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<td>• Cost &amp; Benefit Recognition Principle</td>
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<td>• Full Disclosure Principle</td>
<td>• Full Disclosure Principle</td>
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<td>• Constraints</td>
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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
• **Managerial Accounting:** Product & Service
• **Accounting kept the books (locked the data up) and interpreted the data for others.**

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**
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.
2. Any company claiming compliance with GAAP must comply with most standards and interpretations but does not have to follow the disclosure requirements.
3. The primary governmental body that has influence over the FASB is the SEC.
4. The FASB has a governmental mandate and therefore does not have to follow due process in issuing a standard.
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?

Question

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.
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.
IFRS stands for:

IFRS SELF-TEST QUESTIONS

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.
What do you know?

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.
What do you know?

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:
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<tr>
<td>Cash</td>
<td>Cash-Operating</td>
<td>Cash</td>
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<tr>
<td>Other CA</td>
<td>Cash-Investing</td>
<td>Other CA</td>
</tr>
<tr>
<td>LT Assets</td>
<td>Cash-Financing</td>
<td>LT Assets</td>
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<td>LT Inv, PP&amp;E, Intan.</td>
<td>Change in Cash</td>
<td>?</td>
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<tr>
<td>CC</td>
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<td>CC</td>
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<tr>
<td>RE</td>
<td>Income Statement (year ending 12.31.)</td>
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<tr>
<td>T L+SHE</td>
<td>Revenue</td>
<td>T L+SHE</td>
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<td></td>
<td>Expenses</td>
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<td></td>
<td>Net Income</td>
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<table>
<thead>
<tr>
<th>Statement of Shareholders’ Equity (year ended 12.31.)</th>
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<tbody>
<tr>
<td>12.31.Begin</td>
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<tr>
<td>NI</td>
</tr>
<tr>
<td>Dividends</td>
</tr>
<tr>
<td>Stock Issue</td>
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<tr>
<td>12.31.End</td>
</tr>
</tbody>
</table>
Financial Statements and Reporting

Economic Entity

Financial Information
- Accounting?
- Identifies
- Measures
- Communicates

Financial Statements
- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Statement of Owners’ or Stockholders’ Equity
- Note Disclosures

Additional Information
- President’s letter
- Prospectuses
- Reports filed with governmental agencies
- News releases
- Forecasts
- Environmental impact statements
- Etc.

GAAP

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

Third level: The "how"—implementation

Second level: Bridge between levels 1 and 3

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.

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

PRINCIPLES
1. Measurement
2. Revenue recognition
3. Expense recognition
4. Full disclosure

CONSTRAINTS
1. Cost

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

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