

## Chapter 8 Lecture Notes

- Accounting: **recognize, measure, record, and report** business transactions
  - Not the decision makers: they provide you with info to make good decisions
- **Internal Control**: attempt to capture all the transactions correctly
- **Correct & Consistent Application of Rules**: try to capture change but use the same methods so our data is comparable
- **Prevent Fraud**: do this with good internal control; in the short run its impossible to prevent fraud
- **Effective Communication of Rules and Information**
- Accounting rules:
  - **User focus**- lenders & owners (stockholders), managers & employees, customers & society, taxes
  - **Rules & Standards**: financial Accounting rules, managerial accounting rules, regulator accounting rules, tax authorities accounting rules
- US Financial Accounting Standards
  - The Securities and Exchange Commission (SEC)
  - The Public company Accounting Oversight Board (PCAOB)
  - The Financial Accounting Standards Board (FASB)
  - Generally Accepted Accounting Principles (GAAP)
  - Conservatism: Historical Cost
- Global Financial accounting standards
  - The International Accounting Standards Board (IASB)
  - International Financial (Accounting) Reporting Standards (IFRS)
  - Fair or Current Market Value
- Cash vs. Accrual
  - Cash: acknowledge the transaction when the money is given
  - Accrual: credit based
- The Balance Sheet
  - $Assets = liabilities + Owner's\ equity$
  - Statement from point in time that answers: what are the economic resources that the business owns and controls
  - Get money from debt/ liability and owners
    - Direct investment in the business
    - Retained earnings- not paid out
- Income Statement: what has the business done, during a period of time, to earn a net income or net loss?
  - Sale is a recognition of an exchange between customer and business
  - Revenue, expenses, other, net income
  - Cash Flow: net income or loss is not cash!
  - Sources and uses of cash:
    - **Operations**- net income or loss adjusted to reflect cash

- **Investment**- cash provided by the selling of assets or used to buy assets
  - **Financing**- cash provided by owners and lenders or used by paying dividends or repaying debt
- Target: Financial Statement 10K
  - Management, Discussion, Analysis
  - Business model and strategy
  - Present and the past...not so much the future
  - State the **major risk factors** that they face
  - CEO and CFO have to give financial statements
  - Auditors- internal controls, operating according to rules
  - **Certified Public Accountant** needs to come in and give opinion on annual report
  - International CPA Firms: global because business is global
    - **ENY**
    - **PWC**
    - **KPMG**
    - **DNT**
  - Income statement:
    - Diluted earnings per share
  - Balance sheet
    - Debt?
    - Equity money
- Managerial Accounting:
  - Budgets
  - Standards
    - Variance
  - Variable vs. fixed costs
- Audits and Auditor opinion
  - Opinions:
    - Unqualified or clean opinion: good
    - Qualified or subject-to opinion
    - Adverse opinion: not good
      - Very rare
    - Disclaimer: not certifying these financial statements
  - Certified Public Accountants (CPA's)
    - Highest certification in the business world
  - Sarbanes-Oxley (SOX)
- Financial Analysis
  - Measure: return on equity= net income+ owner's equity
  - Return on assets=