

FINANCIAL & MANAGERIAL ACCOUNTING

Aug 30 09



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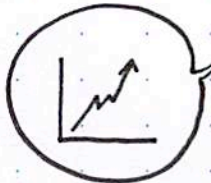
office hours - Sundays 2pm

- ARMY OFFICER
- MASTERS IN INTERNATIONAL RELATIONS.
- teach at USF
- LIKE TO RUN.
- LOVE PLAYING CHESS

Pattern recognition  
intuitive feeling  
for the position  
of the pieces  
on the board.



ACCOUNTING: LANGUAGE OF BUSINESS



- STORY OF THE COMPANY IN THAT LANGUAGE
- \* save 1% off top from earnings.
- numbers
- analysis
- look for patterns

SOME STORIES ARE TRUE  
SOME STORIES ARE FALSE.



- audience
- external investors
- external reporting
- SEC government
- about needily
- about statements
- transparency

objective

- understanding of three main statements:
  - balance sheet
  - income statement
  - statement of cash flow

ACCOUNTING - FINANCIAL  
MANAGERIAL



- internal accounting
- audience
- help companies to make good decisions about money.

- PROBLEM SET DUE DATES
- accounting for decision making & control. dec.
- \* process of accounting.

- Final exam take home - problem sets
- team assignments. case analysis.

riaz

\* cea consulting - free consulting firm design MBA students

- microscopic
- event
- concept

# FINANCIAL & MANAGERIAL ACCOUNTING

WHY STUDY ACCOUNTING: <sup>learn</sup> language of business.  
to be an effective business leader

## BALANCE SHEET.

why decisions made, reasons, better sense of direction of credibility in business world, personal investments.

GAAP: generally accepted accounting principles.  
(united states)

FASB: financial accounting standards board  
(setup the GAAP)

ACCOUNTING  
TELLS A  
STORY.

SEC: Securities & exchange commission  
(enforcer)



DOUBLE ENTRY ACCOUNTING: our side has dual nature. A debit & a credit.

increase in debits:

assets in balance sheet

Cost of goods sold and expenses. (income statement)

increase in credit

liabilities and shareholders equity. (balance sheet)

revenue (income statement)

what you see?

'Snapshot' =



\* balance sheet is a snapshot in time.

$$\text{assets} = \text{liability} + \text{shareholder equity.}$$

Asset: 'represents historical cost' what was paid for something

net market value / CASH & THOSE ITEMS THAT CAN BE converted <sup>current</sup> assets.

CONVERTED TO CASH WITHIN A YEAR

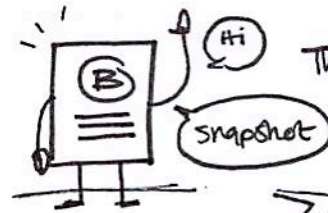
LONG-TERM ASSETS: ITEMS THAT GENERATE CASH OVER THE LONG-TERM. <sup>but more</sup> than a year.

# FINANCIAL & MANAGERIAL ACCOUNTING

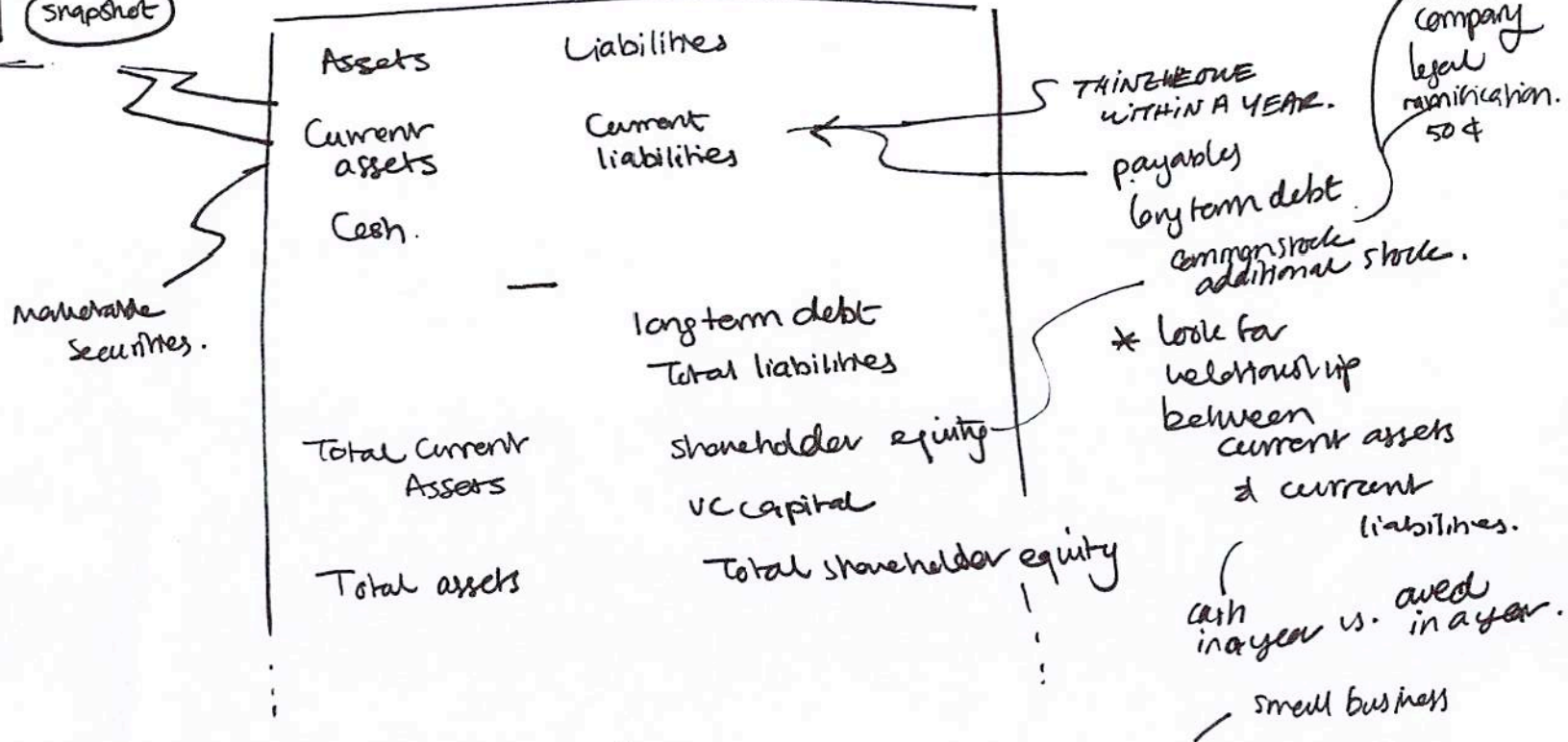
where CASH comes from:

- ① borrow
- ② issue equity (giving up ownership of what you're sold).
- ③ earn it
- ④ liquidation of assets (sell something).

shareholders equity  
owners equity



The balance sheet also called Statement of Financial condition.



IPO  
Cash to company  
legend  
monification.  
50¢

retained earnings: money company keeps to reinvest.  
 net income: — bottom line  
 easy

accounts payable: — what is owed to vendors & employees.

cash accounting vs. accrual accounting.  
 ties revenue & expense to economic event.

# FINANCIAL & MANAGEMENT ACCOUNTING

use fundamentals to see a story of company ~~4~~

Sole proprietorship.  
Partnership  
Corporation.

} types of companies

accounting: how we label things & how things are accounted for.

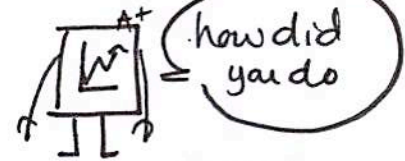
P&L : PROFIT & LOSS STATEMENT. — managerial acc.  
I.C.A. INCOME STATEMENT. — financial acc.

measures performance.

Revenue  
- Expenses  
-----  
Profit.

} fundamentally

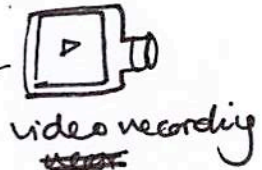
doesn't need to balance



revenue of sales. : credits  
cost of goods sold : debits.

report card  
FOR INVESTORS

historical in nature



3 levels of profitability

## 3 levels of profit

- Net income — profit / "the bottom line"
- Net revenue — sales growth / "top line growth"
- Gross margin — FIRST LEVEL OF PROFITABILITY.

understand companies cost structure.  
(used to compare companies. =)

OPERATING EXPENSES.  
OPERATING PROFIT.

ratio analysis slices & dicing balance sheet.  
look at a trend over time.  
look at multiple ratios.

TOO MUCH INFORMATION IS SUSPICIOUS.

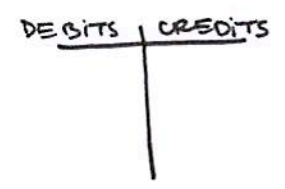
DON'T LOOK FOR GROSS SALE

arbitrary figures. \$ You can project out income statement.

FINANCIAL & MANAGERIAL ACCOUNTING

- ~~Balance Sheet~~ economics  
 how to optimize for transactions.  
~~balance sheet~~
- accountancy how to  
 classify transactions.

T accounts.



CEOs & CFOs  
under a lot of  
pressure to deliver.

\* LOOK FOR  
RED FLAGS.

current periods retained earnings

HW. PROBLEM SET 1 & SET 2.

Study Harley Davidson  
Statement of Cash Flows

reconciliation  
between accrual basis of  
accounting &  
cash accounting.