

ECON 3A

Instructor: Bob Anderson

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WHO AM I?

BOB ANDERSON

- UCSB Graduate of 1992
- Senior Manager, KPMG, LLP- 1993-2004
- RAFS, Inc.

What does 3A Cover?

- Financial statements/ Accounting as communication
 - Income statement
 - Balance sheet
 - Statement of cash flows
- Processing accounting information
- Accrual accounting- the big question is When do we record something
- Time value of money
- Financial statement analysis

Course Approach

- Mutually well prepared;
 - WILEYPLUS ASSIGNMENTS
- Comfortable pace (summer is fast);
- Lectures to be an expansion of what is in the book
 - Real World
 - Interesting and Layman's terms

Administrative Matters

NOTE: All of the following is in syllabus

- Web-Page address is econ.ucsb.edu/~anderson
- Student preparation for classes
 - Class presentations on the web for review/ printing before class
 - Assignments will combine for 10% of your course grade, grading is very forgiving- see syllabus
- My office: NH 3039. Hours posted in syllabus
 - TA's valuable tool--- 400+ students are difficult for one person to individually serve.

WILEYPLUS REGISTRATION

- DO IT ASAP!!!
- PLEASE READ AND FOLLOW THE INSTRUCTIONS IN THE SYLLABUS
 - I CAN NOT HELP YOU REGISTER VIA EMAIL!!

WILEYPLUS STUDY

There are study sets in your assignments section of wileyplus:

- Not graded
- No due date
- Up to you whether you use them or not.

PROTECTED CONTENT

USERNAME: anderson

PASSWORD: xxxxxx

CURVE

- Posted to class webpage

EXAMS

90% OF YOUR COURSE GRADE

- Combination of multiple choice, short answer and problem solving;

WIFM (What's in it for me?)

Do you need to know how an engine works to drive a car?

Okay, so you don't have to be an auto-mechanic to be a vehicle operator. BUT should you at least be able to:

- Know how to turn on the ignition?
- Know how to operate the headlights, windshield wipers, gear-shifter, etc.

Does your car try to communicate information to you? Should you be able to interpret:

- Gas gauge, oil pressure gauge, idiot lights
- Funny sound.
- Maintenance intervals

FINANCIAL STATEMENTS- STUDENT PERSPECTIVE

Going to school is your activity. Your performance is measured in a rational, comparable form of letter-grades which are summarized on your transcripts. Entities interested in investing in you (giving you a job) measure your performance relative to your competitors. They use your historical performance as a gauge of what they can expect your future performance to be.

FINANCIAL STATEMENTS- STUDENT PERSPECTIVE, Cont'd

Providing a product is your activity. Your performance is measured in a rational, comparable form of GAAP which is accounted for and summarized in your financial statements. Entities interested in investing in you, measure your performance relative to your competitors. They use your historical performance as a gauge of what they can expect your future performance to be.

CAN YOU SEE THE IMPORTANCE OF TRACKING AND REPORTING FINANCIAL INFORMATION?

KEY NOTES

- 90% OF TRANSACTIONS ARE "ROUTINE" AND CAN BE ACCURATELY REPORTED BY A STRONG "SYSTEM"
 - Internal controls
- The other 10% is what you read about in the papers.
 - That 10% Does, did and always will require applying JUDGMENT.
- Accounting is NOT the stereotypical "bean counter".

Financial statements

Lets call the financial statements a tool. This tool is utilized by a lot of people:

- Investors and creditors
- Management
- Lots of others

So if these financial statements are going to be used as a tool by so many people, perhaps it is important that they be a high quality tool, which entails:

- Reasonable presentation
- Reliable
- COMPARABLE
- Conservative

GAAP

Because of the importance of quality financial statements, there are rules which should be adhered to, such that those statements be reliable, reasonable, **comparable**, etc.

THEREFORE we have generally accepted accounting principles (GAAP).

"Even a stupid rule levels the playing field"

EXAGGERATED EXAMPLE

We receive \$10 million today for a service we are to perform 3 years from now. The \$10 million is fully refundable. If you are an investor, you probably would want the "income statement" to tell you how much money a Company EARNED.

So is it be appropriate to show this \$10 million as "earnings" on the income statement now?

CONSISTENCY: As an investor you may be making a decision to invest in one of two companies. Would it matter to you when you looked at each of their income statements if one of the companies reflected the \$10 million now while the other did not?

About International Accounting Standards

In the United States, we currently use our own GAAP. However, there is a process underway to "converge" with International Financial Reporting Standards (IFRS).

BOTH USGAAP and IFRS rely upon the same foundation!!