

FINANCIAL ACCOUNTING FOR BUSINESS ANALYSTS

This seminar teaches participants to master financial reporting from the viewpoint of the user of corporate financial statements.

As part of the prework for the seminar, the participants learn Financial Statement Development and Financial Statement Interrelationships. Financial Statement Development is the mechanical framework for reporting business activities in order to understand GAAP, the financial statements, footnotes, and the underlying accounting principles necessary for understanding the development of financial statements. Financial Statement Interrelationship are the linkages between the income statement, balance sheet, statement of cash flow, reconciliation of owner's equity and comprehensive income.

We teach the interrelationships with the use of journal entries and T-Accounts through the application of real financial statements. Participants learn to understand every row on the income statement, balance sheet, statement of cash flow, reconciliation of equity and comprehensive income and learn to use the footnote disclosure for each of these items. In addition they learn to understand and analyze the main operating, investing and financing activities. The participants learn to recognize, understand and question the subtleties of the wording of accountants' footnotes and opinions.

There are three fundamental objectives in the seminar:

- I. The first is to understand the mechanical framework for reporting business activities and be able to infer, from a set of financial statements, the business activities which are included therein.
- II. The second is the ability to explain the interrelationships of the basic financial statements both in whole and for any part, and be able, for any figure in the financial statements, to relate it to the cash flow effects.
- III. An ability to demonstrate an understanding of accounting jargon. This includes the ability to state the term, concept, or principle in one's own words, give an example of its use, and distinguish its technical use from common English usage. In addition, it would include the ability to recognize, understand and question the subtleties of the wording of accountants' notes and opinions.

1 Framework of financial accounting

We introduce the framework for reporting business activities. We review the precourse assignments, which are intended to impart accounting language to the participants and gain some appreciation of the use of some accounting terminology. We review:

- Revenues and Expenses
- Assets, Liabilities and Owner's Equity

2 Accounting principles that create a balance sheet

We highlight and illustrate the following broad accounting principles that create the balance sheet.

- Historic Cost
- Lower of Cost or Market
- Dual Entry Accounting and the Balance Sheet Equation
- Materiality, Going Concern, Monetary Measure

3 Review of typical balance sheet accounts

- Assets and Contra Assets
- Monetary vs. Non Monetary Assets
- Tangible and Intangible Assets and Goodwill
- Gross vs. Net Assets
- Operating Liabilities
- Debt
- Equity

4 Accounting principles that create the income statement

We highlight and illustrate the following accounting principles that create the income statement.

- Accrual Accounting [realization], with an understanding of revenue
- Matching Principle [when it is applied, the constraint of conservatism, and the related balance sheet impact], with an understanding of the differences between product and period costs

5 Introduction to income statement structure

- Operating Section
- Required Subtotals on the Income Statement
- Items which are above and below the Line
- Journal Entries for the following items:
 - Revenue
 - Cost of Sales
 - Operating Expenses
 - Depreciation
 - Amortization Expense
 - Interest Expense
 - Tax Expense

6 Financial Statement Interrelationships, connecting the income statement with the balance sheet and the statement of cash flows

We build on the first five topics and we teach the participants to be able to explain the interrelationships of the basic financial statements both in whole and for any part, and be able, for any figure in the financial statements, to relate it to the cash flow effects.

7 Introduction to common ratios, calculations and definitions

- Book and Market Value
- Operating Profit, EBIT and EBITDA

8 Quiz

A quiz is administered to detect any participants who need remedial attention to the foundations of financial accounting.

1 Financial Statement Interrelationships, connecting the income statement with the balance sheet and the statement of cash flows

We continue to work with the interrelationships of the basic financial statements. In this session, we also introduce the mechanics of the cash statement.

The mechanics of connecting the following is developed:

- ❑ Sales => Accounts Receivables [and/or unearned revenue] =>Cash Collections
- ❑ Cost of Sales=>Inventory/Payables=>Cash Paid to Suppliers
- ❑ Selling & Administrative Expenses=>Accruals and Prepaids=>Cash Paid
- ❑ Bad Debt Expense=>Allowance for Doubtful Accts
- ❑ Depreciation Expense=>Accumulated Depreciation=>Capital Spending
- ❑ Amortization Expense=>Accumulated Amortization
- ❑ Interest Expense=>Interest Payable or Debt=>Interest Paid
- ❑ Tax Expense=>Tax Payable or Deferred Tax=>Tax Paid

SESSION 4

1 Nature & Purpose of Financial Statements

2 Use of footnotes

We introduce the ability to read, understand and use footnotes. We start with the following footnotes:

- Summary of Significant Accounting
- Accounts Receivable
- Inventory
- Property, Plant and Equipment
- Debt
- Income Tax

For each of these footnotes, participants are taught how to read, understand and interpret each note and link the notes to the respective financial statement.

SESSION 5

During sessions 5 – 8, we focus on the operating section of the three financial statements: Income Statement , Balance Sheet and the Statement of Cash Flows.

1 Operating Activities – Financial Reporting

A. CASH INFLOWS / REVENUES / RECEIVABLES

We focus on revenues, accounts receivables, unearned revenue, allowances for receivbles and the respective rows on the Statement of Cash Flow which link accrual accounting with cash flows. Participants learn to:

- Understand the application of Revenue Recognition Rules to the Income Statement and the Related Balance Sheet Impacts
- Understand the provisions for doubtful receivables
- Comprehend Securitization and the impacts on the balance sheet, income statement and the statement of cash flows
- Appreciate how revenue, bad debts and securitization is reflected in the Statement of Cash Flows

SESSION 6

During sessions 5 – 8, we focus on the operating section of the three financial statements: Income Statement , Balance Sheet and the Statement of Cash Flows.

1 Operating Activities – Financial Reporting

B. CASH OUTFLOWS/ COST OF SALES/ INVENTORY AND PAYABLES

We focus on the operating section of the three financial statements: Income Statement, Balance Sheet and the Statement of Cash Flows.

- Understand the application of Product Costs and the relationship with revenue
- Master the related Balance Sheet Accounts as they relate to Cost of Sales
- Understand product costs versus period costs
- Understand the impact of depreciation on cost of sales
- Understand various definitions of EBITDA and Operating Profit and the Connection to Operating Cash Flows
- Understand Operating Assets and Operating Liabilities

SESSION 7

During session 7, we continue to focus on the operating section of the three financial statements: Income Statement, Balance Sheet and the Statement of Cash Flows.

1 Operating Activities – Financial Reporting

C. CASH OUTFLOWS/ PERIOD COSTS/ PREPAIDS and ACCRUALS

D. CASH OUTFLOWS/ TAX/ TAX PAYABLE AND DEFERRED TAXES

We focus on the operating section of the three financial statements: Income Statement, Balance Sheet and the Statement of Cash Flows.

- Understand Period Costs, including:
 - R&D, Advertising, Amortization of Intangibles
- Understand Pension Costs
- Understand Interest Expense
 - Gross vs. Net Interest
 - Capitalized Interest
 - Interest Paid on the Statement of Cash Flow
- Understand Tax Expense
 - Current and Deferred Tax
 - Deferred Tax on the Balance Sheet and the Statement of Cash Flow
 - Tax Expense and Income Tax Paid

SESSION 8

During session 8, we continue to focus on the operating section of the three financial statements: Income Statement, Balance Sheet and the Statement of Cash Flows.

Equity Income, Minority Interest and Items below the line are introduced in sessions 1 -3 and here we emphasize the application with the financial statements of Pfizer, Viacom, and Kimberly-Clark.

1 Operating Activities – Financial Reporting

We continue to focus on the operating section of the three financial statements: Income Statement, Balance Sheet and the Statement of Cash Flows.

- **Equity Income**
 - How it is reflected on the income statement, balance sheet and the statement of cash flow
- **Minority Interest**
 - How it is reflected on the income statement, balance sheet and the statement of cash flow
- **Understand Unusual Items**
 - Unusual Gains and Losses on the Income Statement and the Statement of Cash Flow
- **Income Statement Items Below the Line:**
 - Discontinued Operations
 - Extraordinary Items
 - Changes in Accounting

1 Investing Activities – Financial Reporting

We focus on the following investing activities

- **Purchase and Sale of Fixed Assets**
 - **Depreciation Expense, Accumulated Depreciation and the Impacts on the Statement of Cash Flow**
- **M&A [FAS 141 & 142]**
 - **Goodwill and Intangibles**
 - **Finite vs. Indefinite Lived Assets**
 - **Proforma Information**
 - **Impairment Test**
- **Purchase and Sale of Securities and Investments**
 - **Subsidiaries and Consolidations**
 - **FIN 46**

1 Financing Activities – Financial Reporting

We focus on the following financing activities:

- ❑ Issuance and Redemption of Debt
 - Reading the Short term and Long Term Debt Footnotes
 - Convertible Debt
 - Discount Debt
- ❑ Issuance and Repurchase of Stock
- ❑ Options and Warrants
- ❑ EPS
- ❑ Dividends
 - Cash Dividends and Stock Splits and Stock Dividends
- ❑ Reconciliation of All Equity Accounts
- ❑ Minority Interest
- ❑ Leasing
- ❑ Other Comprehensive Income
- ❑ FAS 150

1 Reading Financial Statements

We focus on reading and understanding complete financial statements.

The participants review the entire seminar content with over 100 questions and solution notes relating to the following financial statements:

- Maytag
- Andrew
- CORE
- Pactiv

SESSION 14

1 Examination

Participants must answer an exam containing approximately 25 questions based upon current disclosure from a real financial statement. All of the questions require the participants to write journal entries, complete T-Accounts or calculate amounts. There are NO True/False or multiple choice questions.

SESSION 15

1 Review of Examination Results

We review the exam.