

FINANCIAL ACCOUNTING FOR INVESTMENT BANKING ANALYSTS

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.

- 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
- 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

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
- Net Debt
- Capitalization

8 Quiz

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

SESSION 3

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

2 Nature & Purpose of Financial Statements

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

3 Introduction to Bond Math

1 Operating Activities – Financial Reporting

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 Revenue Recognition Rules to the Income Statement and the Related Balance Sheet Impacts
- ❑ Understand Cost Matching and the related balance sheet accounts
- ❑ Understand product costs versus period costs
- ❑ Understand various definitions of EBITDA and Operating Profit
- ❑ Understand Operating Assets and Operating Liabilities and the links and implications to Cash Flows

SESSION 5

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.

- 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
- Understand Unusual Items
 - Nonrecurring gains and losses

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**
 - **Proforma Information**
 - **Goodwill**
 - **Impairment Test**
- **Purchase and Sale of Securities and Investments**
 - **Subsidiaries and Consolidations**
 - **Equity Investments and Equity Earnings**

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

1 Reading Financial Statements

We focus on reading and understanding complete financial statements.

The participants review the entire seminar content with 50 questions and solution notes relating to the following financial statements:

- Maytag**
- Viacom**
- Andrew**