


Chapter 1, Module 1 - Introduction

Slide 1

Chapter 1 Module 1

AMIS 211
Introduction to Financial Accounting

Professor Marc Smith

 **FISHER**
COLLEGE OF BUSINESS

Hi everyone.

Welcome to Accounting 211 Online. Let's go ahead and get started.

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Chapter 1 Module 1: Introduction

ACCOUNTING

the means by which we measure and describe the economic activities of a business AND communicate these results to interested users

This is an Accounting class.

For most of you, it is probably the first Accounting class that you are going to take. So, it makes sense to begin our discussion with a definition of Accounting.

What is Accounting? What is it that we are going to talk about for the next ten (10) weeks?

We can define Accounting as the means by which we measure and describe the economic results of a business and—and this “and” is very important—**and** communicate those results to interested users.

So, Accounting is sort of a two-step process, if you will—first, 1) it is coming up with the economic results of the company. Secondly, and every bit as importantly if not more important—2) it is then taking those results and communicating them to those folks that would be interested in them.

Let’s go on to the next slide.

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Main Types of Accounting Information

1. **Financial Accounting**
2. **Managerial Accounting**

Financial Accounting - used by 'outsiders' to make decisions

Managerial Accounting - used by managers within the company to make decisions

There are two (2) main types of Accounting information as you can see here on the screen (Slide 3).

We have what is called 1) Financial Accounting and we have 2) Managerial Accounting.

Now, remember what we said a minute ago about users. This is how these two types of Accounting differ.

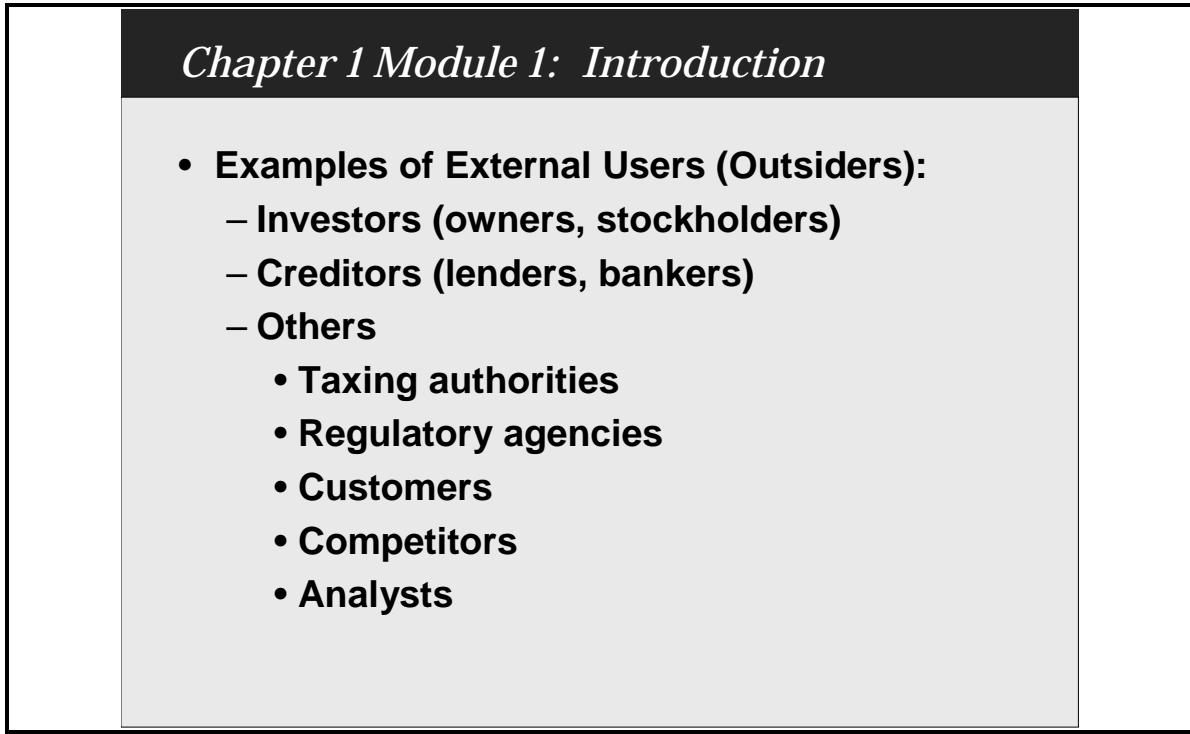
Financial Accounting, as you can see, is used by what we call "outsiders." It is used by "outsiders" to make decisions.

Managerial Accounting, on the other hand, is used by "insiders" or managers within the company to make decisions.

Now, as you probably are aware: This is Accounting 211—Introduction to Financial Accounting. Thus, we, in our course, will be focusing on the first one: the Financial Accounting—Accounting information that is communicated to outside users.

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Slide 4

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- **Examples of External Users (Outsiders):**
 - **Investors (owners, stockholders)**
 - **Creditors (lenders, bankers)**
 - **Others**
 - **Taxing authorities**
 - **Regulatory agencies**
 - **Customers**
 - **Competitors**
 - **Analysts**

So, you may say: “Outside users? Who are those? Who could they possibly be?”

Who do you think? Who could be some good examples of outsiders who would be interested in Accounting information.

Probably the one that you have all already thought of is: Owners, Investors, Stockholders—words that all mean the same thing. Those people that own stock within a company are most certainly interested in Accounting information.

Another excellent example: Creditors: those people or entities that lend money to the company. Banks are probably the best example. They do not own stock but they have lent the company money and expect the company to pay them back.

For our purposes, the two (2) main groups of “outsiders” that we focus on are right here on the screen (Slide 4): our 1) Stockholders or Investors and our 2) Bankers or Creditors.

But there are certainly other outsider users that are interested in this Accounting information. So, let’s maybe list out a couple of these other users that would be interested in this information.

They include: Taxing Authorities like the IRS, Regulatory Agencies, and The Government.

Your Customers might be interested in taking a look at your Accounting information.

One group that is most certainly interested in say, Coca-Cola’s Financial Accounting information is its major Competitor: Pepsi Cola.

And, any type of Financial Analyst. That is their job, right? They look at Accounting information for companies and try to make predictions as to what the stock is going to do and is it worth buying or should you sell or whatnot.

So, all of these folks that you see here on the slide (Slide 4) are all wonderful examples of outside users—people that are interested in Financial Accounting information.

Again, when we refer to these people as we move throughout the course, the two groups that we tend to focus on mainly are 1) the Stockholders and 2) the Creditors.

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Questions Asked By External Users:

- Is the company earning satisfactory income?
- How does the company compare in size and profitability with competitors?
- Will the company be able to pay its debts when they become due?

So, you have these outside users—such as Stockholders and Creditors—using Accounting information.

What might they use it for? What sorts of questions might they try to answer using this Accounting information?

One: one really good one is 1) “Is the company earning a good profit?” “Do I want to invest in this company?”

Are they profitable? If they are not, maybe I do not want to invest in it. Maybe they are not earning a profit that is good enough for me to earn at the Rate of Return that I want.

The one commonly asked question by these outsiders is: “Is the company earning a good income?”

Another one is: “How does the company compare to its competitors?” “How does the company compare in both size—is it bigger, smaller, about the same size—as well as profitability—is it more or less profitable than the companies that are its major competitors?”

Maybe if you are trying to decide whether or not to invest in a company, you might be interested in those sorts of questions.

Both of what is on the slide (Slide 5) so far really relate to Stockholders.

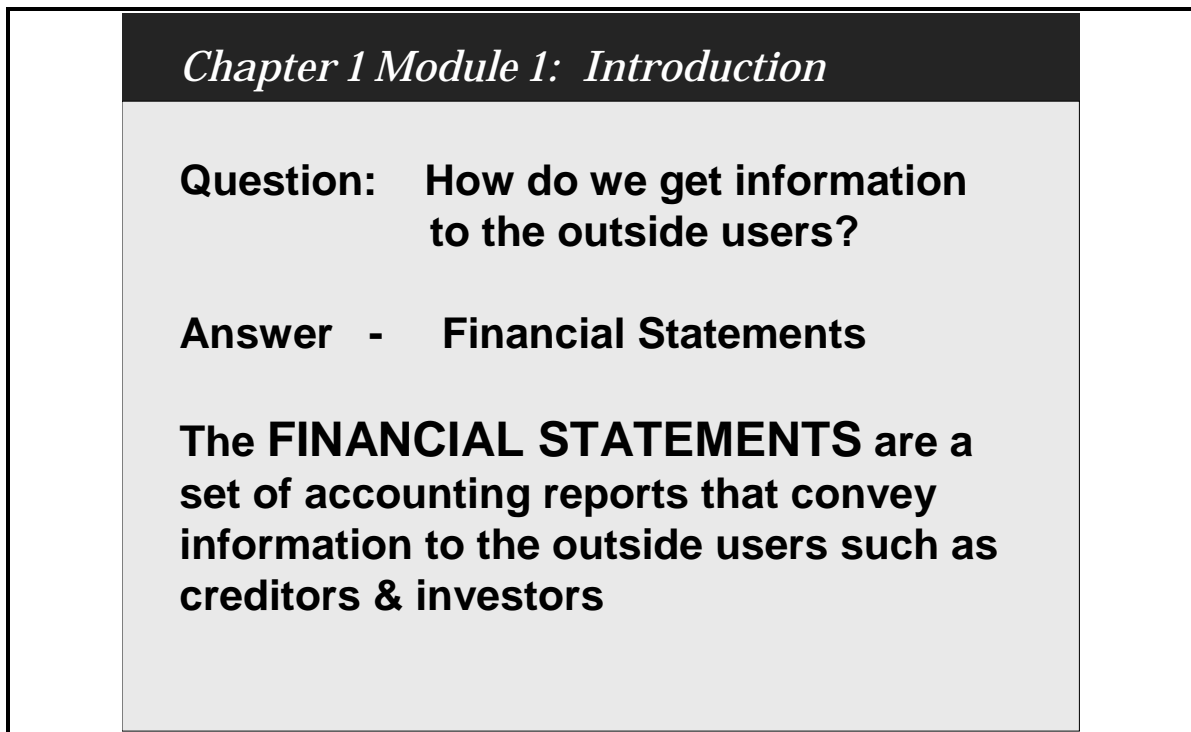
What sorts of questions might a Creditor ask?

I think the big one is: “Can they pay me back.” “If I make this loan to them, will they be able to pay their debt back to me as it comes due?”

So, these are the types of questions that these outside users ask. And, these are the types of questions that we are going to want to be able to answer as we move through this course with our Financial Accounting information.

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Slide 6

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Question: How do we get information to the outside users?

Answer - Financial Statements

The FINANCIAL STATEMENTS are a set of accounting reports that convey information to the outside users such as creditors & investors

So, there is a question for you.

And, before we answer it, I want you to think about it.

Outside users such as Creditors and Owners use this Financial Accounting information to make decisions.

Yes or no? Should we buy stock in this company?

Yes or no? Should we lend money to this company?

The question we need to answer is: How do we get the information to them? How do we get the information to the Stockholders and the Creditors so they can make those decisions?

I do not think we can just call them on the phone or send out a big mass email. That won't work.

How are we going to get the information to them?

See if you can answer to yourself for just a second.

The way in which we get the information to them is through a set of Accounting Reports that we call: Financial Statements.

We can define these Financial Statements as a set of Accounting Reports that is used to convey information to the outside users (i.e., the Creditors and the Investors.)

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4 Major Financial Statements

1. Balance Sheet (Statement of Financial Position)

2. Income Statement (Statement of Earnings)

3. Statement of Owners' Equity

4. Statement of Cash Flows

This is going to be a big part of our course, by the way. A huge part of this course is going to be dependent on these Financial Statements. So, we want to get a real good feel for what they are.

These Accounting Reports that we use to convey information consist of four (4) main Financial Statements.

Let's list them out:

We have what is called 1) the Balance Sheet. You will also hear that referred to as The Statement of Financial Position.

We have 2) the Income Statement. You will also hear that referred to as the Statement of Earnings.

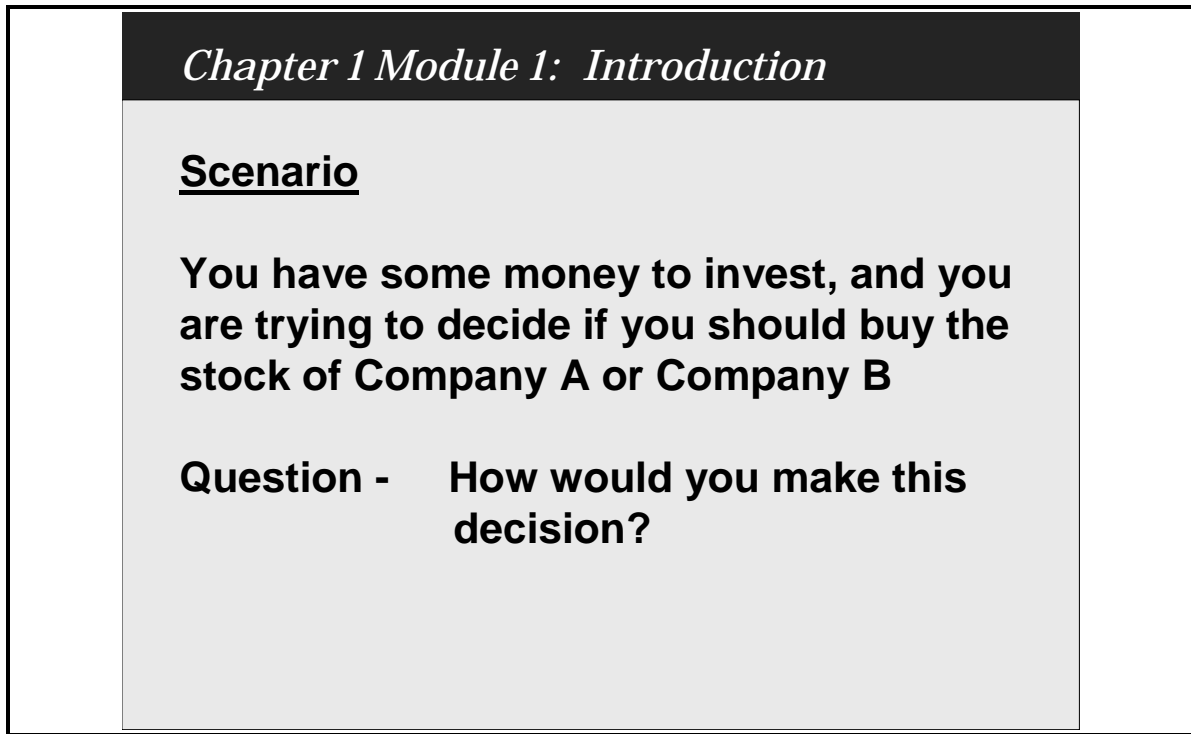
It is the same thing. The more common terms are Income Statement and Balance Sheet.

We also have 3) the Statement of Owner's Equity and 4) the Statement of Cash Flows.

By the end of Chapter 2, we hope to be pretty good and have a pretty good understanding of these four (4) major Financial Statements.

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Scenario

You have some money to invest, and you are trying to decide if you should buy the stock of Company A or Company B

Question - How would you make this decision?

I have another question for you.

Think about putting yourself in this Scenario.

Let's say you have some money to invest--\$20,000. And, you have narrowed it down. You are either going to buy stock in Company A or stock in Company B.

How do you decide? How are you going to decide—should we invest in Company A or should we invest in Company B?

Answer this to yourself before we move to the next slide. Just think about it for a second.

How would you if you were in this situation make that decision? What would tell you Company A is the better investment or Company B is the better investment?

Go to the next slide with me.

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ANSWER

Among other things, you would compare the financial statements of the two companies to help determine which would be the best investment

QUESTION

In order for this comparison to be meaningful what must be true about the two sets of financial statements?

The answer to this is:

Among other things, you are going to look at those Financial Statements.

You are going to look at those Accounting Reports that give you the Financial Accounting information about those two organizations.

And, you are going to compare them. You are going to say: “Here is Company A and their profitability. Here is Company B and their profitability or its financial position or whatever.” And, you are going to make that comparison to decide: which is the better investment?

We have another question for you:

In order for you to make that decision—in order to answer that question, what needs to be true about the comparison? In order to make a meaningful comparison between those Financial Statements, what needs to be true?

Think about it for just a second.

And, when we come back, we will answer that question.