Learning Objectives

Upon completion of this unit, students should be able to:

1. Describe the different types of accountants and accounting standards.
2. Compare and contrast financial statements.
3. Explain business budgeting and the advantage of planning budgets.
4. Identify why financial planning is a key to business success.
5. Determine the different financial ratios that are used to measure financial elements.
6. Describe capital budgeting.
7. Identify the challenges associated with evaluating a capital budget proposal.

Written Lecture

In the business world, there are many things we accept as routine. One of those things is how our reports are generated and how the information in the reports is obtained and utilized. Most reports in the business world are tailored to a person’s position and are used for that position’s budget and plan. This unit goes beyond the norms to get a bigger view of how accounting fits into the business world and society. Chapter 8 discusses accounting. It identifies the different types of accountants and how each has a different service they provide. Chapter 9 discusses financial decision making. It identifies the different types of accountants and how each has a different service they provide. Chapter 9 discusses financial decision making.

Chapter 8: Accounting: Decision Making by the Numbers

An important factor in accounting is to keep the process consistent. The general accepted accounting principles (GAAP) purpose is to reduce confusion and provide all stakeholders with accurate financial statements.

There also needs to be ethical behavior in accounting. Recall the Enron accounting scandal. It affected all the stakeholders. The unethical behavior left thousands of people with worthless stock and left employees without jobs. The net result was the Sarbanes-Oxley Act of 2002, which bans relationships that may create conflicts of interest between auditors and the companies they audit.

The textbook describes accounting as a system for recognizing, organizing, analyzing, and reporting information about the financial transactions that affect an organization. There are four different types of accountants:

1. The management accountant works for a business preparing and analyzing financial information. Most businesses will have an accounting department that is structured in accounts payable and accounts receivable.
2. The public accountant, usually a certified public accountant (CPA), provides services usually to the general public for a fee. An example would be income tax returns, sole proprietors accounting, and financial planning.

Key Terms

1. Accounting
2. Asset management ratios
3. Assets
4. Balance sheet
5. Budget balance sheet
6. Budget income statement
7. Budgeting
3. The government accountant works for all types of government including federal, state, and local branches.

4. The financial accountant provides financial statements for the owners, creditors, suppliers, and other outside stakeholders. Small business owners generally use this type of accountant.

Financial statements are important for all stakeholders. There are three basic statements:

1. The balance sheet is one of the most common means for summarizing a company’s financial position. The accounting equation is:

   \[ \text{Assets} = \text{Liabilities} + \text{Owner's Equity} \]

   **Assets** are broken down into two categories: (1) Current assets are cash and other quick liquidable assets a company may convert into cash in a short period of time. (2) The second category is other assets such as property, factories, and equipment. These are long term assets and are not quickly liquidable to turn into cash. **Liabilities** specify what a company owes to others. Current liabilities are short term. These liabilities usually occur during the first 12 months. The long term liabilities do not occur for at least a year. **Owner’s equity** refers to claims the owners have on their firm’s assets, such as common stock and retained earnings.

2. The income statement shows the net income or loss over a specific period of time:

   \[ \text{Revenue} - \text{Expense} = \text{Net Income} \]

   This is simply deducting expenses from income.

3. The third major statement is the statement of cash flows. Cash flow is very important to a company’s success. A company needs cash on hand to pay its employees, creditors, utilities, suppliers, and taxes.

   A master budget brings everything together. The budget is used to show how a firm will acquire and use resources to reach the company’s goals and objectives in a planned time frame. There are two different ways to setup a budget. One is from the bottom up, and the other is from the top down. Organizations use either one. They both have different benefits.

   **Chapter 9: Finance: Acquiring and Using Funds to Maximize Value**

   Chapter 9 discusses financial decision making. Decision making can be difficult, and financial decisions are especially difficult because they affect all the stakeholders of an organization. As our world economy is changing around us, many CEOs are looking at their financial statements and changing plans in order to make a profit. Financial changes could include putting off capital expenditures for a year, or it could be reducing the workforce because of reduced revenue and a downward trend in the overall business. For companies that elect not to get their finances in order or revise their business plans, a negative impact on the company’s bottom line may result.

   There are many ways to measure finance. This unit lists and defines the different methods. There are also benefits that each method provides to the stakeholders. Capital is also important for an organization’s success. Financing is another important aspect of business that provides a tool for business growth.
The financial manager will use different ratios to measure key areas of business. The liquidity ratio identifies the cash position for short term liabilities. The asset management ratio provides insight into how effectively a company uses various assets to generate income. The leverage ratio measures how the company relies on debt financing in its capital structure. The profitability ratio measures the company’s degree of success in using the company resources to make a profit.

Business accountants use two common financial statements: (1) the income statement and (2) the balance sheet. The income statement is a statement that will forecast the sales, expenses, and net income for a company in a future time period. The balance sheet projects assets that will be needed for future plans and gives guidance for future financing the firm must obtain in order to reach and acquire the asset goal.

A company needs to maintain a certain level of capital. Net working capital is the difference between the current assets, which include cash or other assets that can be converted into cash, usually in a one year period, and the current liabilities, which are liabilities that need to be paid within the one year time frame. In many situations, in which an organization is expanding, a company will use capital budgeting to plan for reinvestment in assets or projects that will yield benefits for more than a year. For example, the U.S. airline industry will plan on replacing aged aircraft that are not energy efficient and do not meet the needs of a current airline business model.

The budgeting process is critical for a business to reach its goals. There are two budgeting tools that financial managers use for financial planning: (1) budget income statements and (2) budget balance sheets. These are used to develop the outline for analyzing the company’s financial needs. The budget balance statement uses information to forecast the type and amount of assets used to meet the company future plans and how to finance the assets that are needed.

The income statement gives a picture of how a company’s budgeted sales and cost affect the net income. A consideration that comes into play when budgeting is growth. A company can actually go out of business when it grows too fast. Capital expenditures are high and need to be planned carefully to sustain growth. Therefore, careful capital budgeting is imperative. Capital budgeting plans may result in replacing existing equipment, building new factories, or building an office building. A capital expenditure occurs when starting a new product line. Measuring cash flow is crucial to capital expenditures. A financial manager also must take into consideration the time value of money, as well as the present value. The position in most organizations that has a major impact on the financial control of the company is the Chief Financial Officer (CFO). This job is a top management position and works directly with the Chief Executive Officer (CEO).

At the completion of Unit V, you should have a good understanding of an accountant’s job and how that job fits into business and society. One very essential part of this unit is the discussion about how important good ethical behavior is in accounting. Consider the Enron scandal—the consequences of unethical behavior affected not only that business and their stakeholders, but also our society. There are many tools available to help us in making the correct financial decisions. The knowledge we gain should help us at work and at home. In today’s economic environment, a planned budget is essential for our success in business and at home. The challenge is to stay on budget and reach our goals. In many cases, a budget may need to be adjusted because of outside changes that affect it. The main objective is to develop a plan and execute the plan.
Learning Activity (Non-Graded)

Reflection Papers

For this activity, you are asked to prepare two reflection papers. One is Accounting, and another one is Finance. After you finish the reading assignment, reflect on the concepts and write about them. What do you understand completely? What did not quite make sense? The purpose of this assignment is to provide you with the opportunity to reflect on the material you finished reading and to expand upon those thoughts. If you are unclear about a concept, either read it again or ask your professor. Can you apply the concepts toward your career? How?

This is not a summary. A reflection paper is an opportunity for you to express your thoughts about the material by writing about them. Reflection writing is a great way to study because it increases your ability to remember the course material.

Use these guidelines as you reflect on the course material:

- Write at least one page for each chapter.
- Include your thoughts about the main topics of the chapters.
- How does it apply to your career?
- How does it apply to your personal life?

Format your reflection paper using APA Style. Use your own words and include citations for other materials as needed to avoid plagiarism. This is a non-graded activity, so you do not have to submit it.