

SPRING 2015
NSCI 610 – ENGI 610 – MANAGEMENT FOR SCIENCE AND ENGINEERING
MODULE 3 – INTRODUCTION TO CASH ACCOUNTING CONCEPTS AND
LIMITATIONS

Outline – February 3, 2015

1. Introduction

- **Questions for participants, desired information**
- **Discussion leader's disclaimer and background**

2. Basic financial statements

- **Balance sheet**
 - **Assets**
 - **Liabilities**
 - **Equity accounts**
- **Income statement/Statement of operations**
 - **Revenues**
 - **Expenses**
 - **Earnings per share**
 - **Format**
- **Statement of cash flows**
- **Statement of equity**
- **Notes to financial statements**
- **Other financial disclosures in publicly filed documents**

3. Types of accounting systems

- **Shoebox**
- **Checkbook**
- **Spreadsheet**
- **Computerized systems**
 - **Simple (Peachtree, Quickbooks)**
 - **Moderate to complex enterprise solutions**
 - **Beware the system conversion**
 - **80/20 Solution is usually the best**
- **Cash vs. accrual**

4. Double entry accounting systems

- **Each transaction is recorded in at least two accounts**
- **Debits and credits**
- **Result is a self-balancing sets of accounts**
- **T – accounts (short hand notation)**
- **Example: simple set of books for consultant**

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Outline – February 5, 2015

- 5. Equity section of balance sheet**
 - **Capital stock at par value**
 - **Additional paid-in capital**
 - **Treasury stock**
 - **Retained earnings**

- 6. Statement of stockholders' equity**

- 7. P&L statement (income vs. operations)**
 - **Gross profit**
 - **Operating income and non-cash operating expenses**
 - **Other income and expense (Insperity has no debt!)**
 - **Pre-tax income or loss**
 - **Earnings per share**

- 8. Case study: T-accounts, P&L and balance sheet**

- 9. Statement of cash flows**
 - **Operating activities**
 - **Investing activities**
 - **Financing activities**
 - **Supplemental disclosures (interest, taxes and non-cash items)**
 - **Preparation of statement (Excel spreadsheet)**
 - **Rounding of balances in financial statements**
 - **Direct vs. Indirect**

- 10. Case study: Statement of cash flows and supporting worksheet**

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Outline – February 10, 2015

11. Case study: Statement of cash flows and supporting worksheet (solution)

12. Notes to financial statements

- **Description of business**
- **Accounting policies**
- **Detail for account balances**
- **Note 7 – Acquisitions**
- **Note 8 – Revolving credit facility**
- **Note 12 – Net income per share**
- **Note 14 – Commitments and contingencies**

13. Reports of Independent CPAs

14. Managements report on internal controls

15. MD&A and other financial disclosures

- **Item 5 – Market for common equity**
- **Item 6 – Selected financial data**
- **Item 7 – MD&A**
 - **Overview and P&L items**
 - **Critical accounting policies and estimates**
 - **Results of operations (year to year comparison)**
 - **Liquidity and capital resources (often follows format of cash flows statement)**

16. Other disclosures in Form 10-K

- **Cover**
- **Table of contents (Part I written by attorneys, Part II written by accountants)**
- **Item 1 – Business (much more detailed than in financial statements)**
- **Item 1A – Risk factors (trying to avoid lawsuits)**
- **Item 1B – Unresolved staff comments**
- **Item 2 – Properties**
- **Item 3 – Legal proceedings**
- **Part III – Proxy information**

17. Conclusions and comments