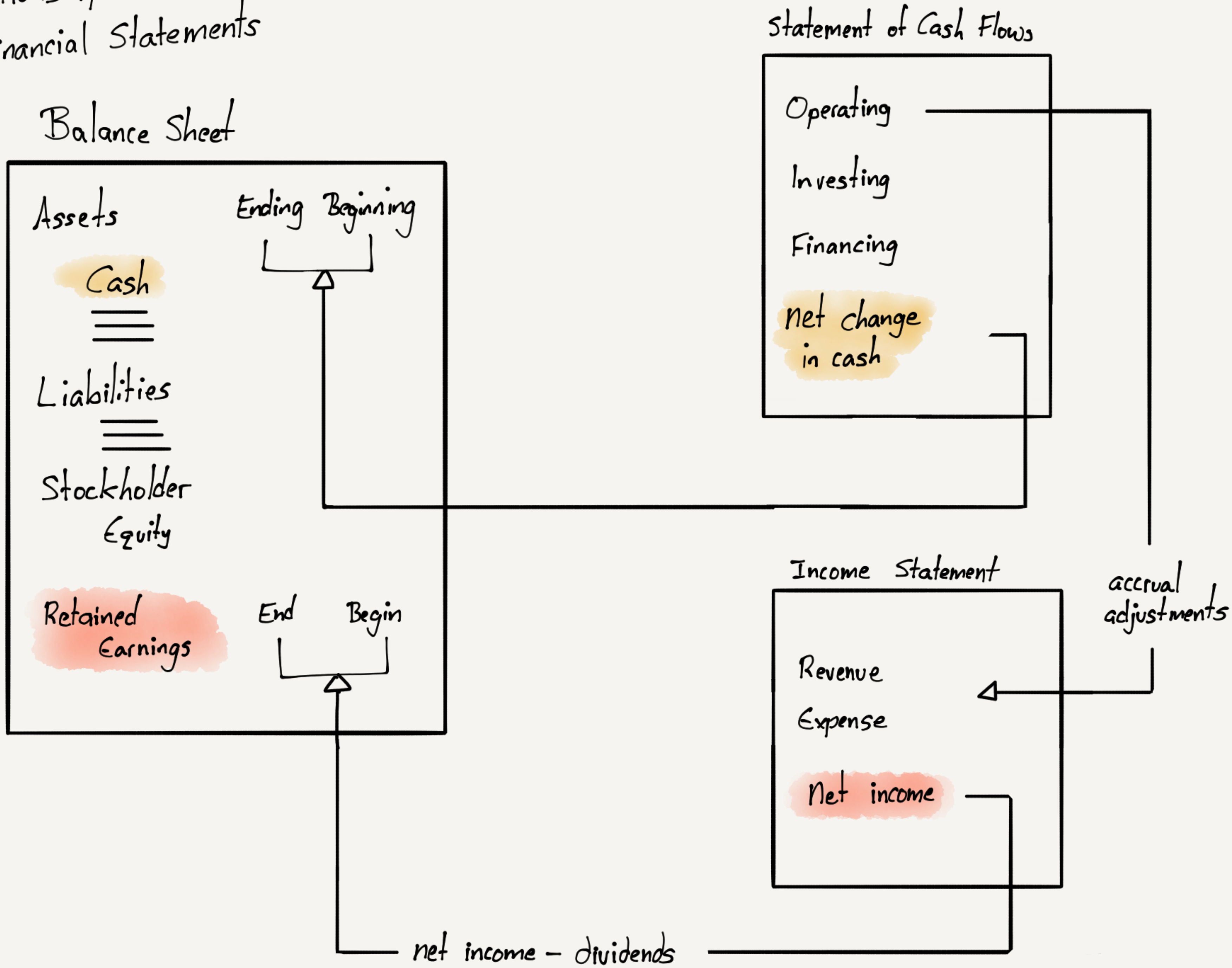
Accounting

The Relationships between Financial Statements



Balance Sheet

Nothing on balance sheet is on income statement

nothing on income statement is on the balance sheet

+ Assets

Current Assets

- Cash
- Accounts receivable
- Inventory
- Prepaid expenses
- Investment securities

Long-term assets

- Investments
- Property, plant & equipment
- intangible assets
- other assets

− Liabilities

Current liabilities

- accounts payable
- accrued liabilities
- Short-term loans payable
- Current portion of long-term debt

Long-term liabilities

- Long-term debt
- Capital lease obligation
- Deferred income tax liability

= Stockholders' Equity

- Preferrd stock
- Common stock par value
- Additional paid-in capital
- Retained earnings
- Treasury stock
- Accumulated other comprehensive income

Income Statements

Include gains & losses from the sale of land and equipment

note: assets & liabilities are in balance sheet

prepaid expenses = asset

unearned revenue = liability

Some people refeer to this as "the P&L"

Sales
− Cost of Goods Sold

Gross Profit
− Other operating Expenses
+ Gains
− Losses

Operating Income

− Income Expense
+/− misc. revenue, expenses, gains and losses

Income before taxes
− income tax expense

Income from Continuing Operations
+/− income from discontinued operations
+/− extraordinary items

Net income
+/− unrealized gains & losses not included in Net Income

Comprehensive Income

basic format for the statement

Statement of Cash Flows elements

Operating Activities

receipts from
- sales of goods or services
- Sale of trading securities
- Interest revenue
- Dividend revenue

payments for
- Inventory purchases
- wages & salaries
- taxes
- interest expense
- Other expenses (rent, utilities)
- purchase of trade securities

Investing Activities

receipts from
- sale of plant assets
- sale of business segment
- sale of nontrading securities
- collection of principle on loans

payments for
- purchase of plant assets
- purchase of nontrading securities
- loans to other entities

Financing Activities

receipts from
- issuance of stock
- borrowing (bonds, notes, mortgages)

payments for
- cash dividends
- repayment of loans
- repurchase of stock (treasury stock)

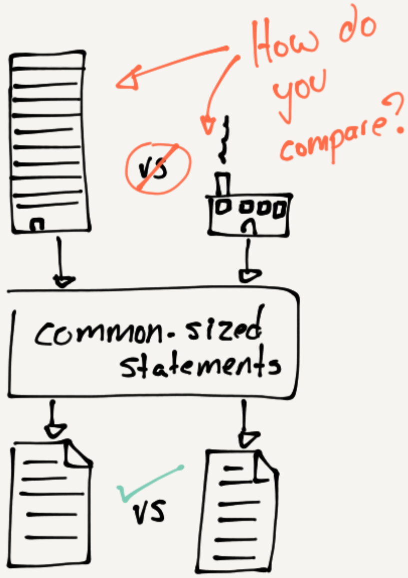
Important Ratios

Ratio	Formula	Meaning
Debt Ratio	$\frac{\text{Total liabilities}}{\text{Total Assets}}$	% of funds needed to purchase assets that were obtained through borrowing
current ratio	$\frac{\text{current Assets}}{\text{current liabilities}}$	measure of liquidity; number of times assets could cover liabilities
return on Sales	$\frac{\text{net income}}{\text{Sales}}$	number of pennies earned during the year on each dollar of sales
asset turnover	$\frac{\text{sales}}{\text{total assets}}$	number of dollars of sales during the year generated by assets
return on equity	$\frac{\text{net income}}{\text{Stock holder equity}}$	pennies earned for each dollar invested
price-earnings ratio	$\frac{\text{market value of Shares}}{\text{net income}}$	amount investors are willing to pay for each dollar of earnings shows growth potential
earnings per share	$\frac{\text{net income}}{\text{number of shares}}$	dollars earned for each outstanding share

Return on Equity
and the DuPont Framework

$$\text{ROE} = \frac{\text{Net Income}}{\text{Equity}} = \underbrace{\frac{\text{Net Income}}{\text{Sales}}}_{\text{Profit}} \times \underbrace{\frac{\text{Sales}}{\text{Assets}}}_{\text{Efficiency}} \times \underbrace{\frac{\text{Assets}}{\text{Equity}}}_{\text{Leverage}}$$

Common-sized Statements



income statement → divide most line items by sales.

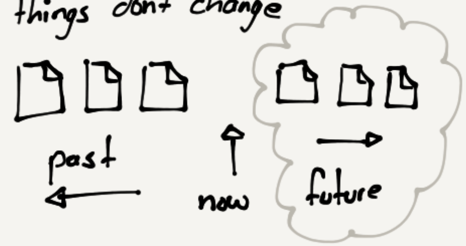
$$\frac{\text{Expense}}{\$} \quad \text{vs} \quad \frac{\text{Expense}}{\$}$$

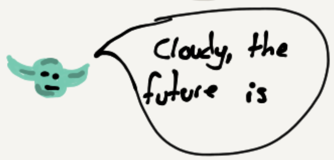
$$.37 \quad \text{vs} \quad .10$$

little company may be doing better?

Pro Forma

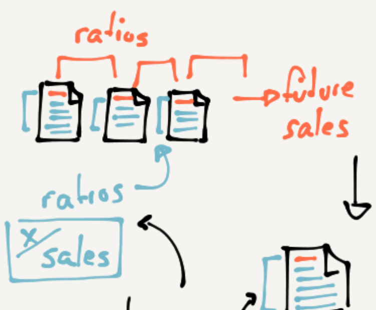
used to predict the future if things don't change





base future growth on ratios from past

can predict future revenue and then it's just like a common sized statement



can also use average of ratios

Just remember: it's all a guess!

Housekeeping

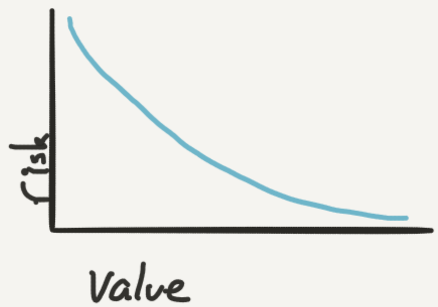
If you are studying accounting instead of reading scriptures ... you're an idiot

Most of what is on financial statements are estimates

Capitalize vs Expense

if it is a probable future benefit then it goes on the balance sheet

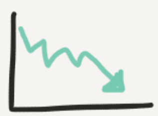
The higher the risk (capitalization rate) the lower the present ~~to~~ future value



Goodwill

- usually impaired in 2 years

When we decrease an asset it is impaired



Impairment Test

1. Compare future cash flow to book value
2. if – value ... impaired

Accounting is not an exact science and can be manipulated by estimates

you don't hire CPA's to fix a business, you hire MBAs

Why two methods?

direct → easy to understand

indirect → easy for accounting

$$\Delta Cash = NI^{*} - \Delta OCA + \Delta CL$$
$$- \Delta LTA$$
$$+ \Delta LTL + \Delta CC - Div$$

Study Hints

- read scriptures
- pray
- follow prophet
- covenants
- tithing
- iron rod

3 hours
not a group test
don't discuss
email to gmail acct.

Revenue
operating cycles

An MBA is all about doing hard things and

Prepration makes you seem like a "cockeyed genius"

Begining inventory
+ purchases

goods for sale
- ending inventory

cost of goods sold

Accounting
Final

This is to help us make good decisions

Time value of money - biggest single portion

Leadership

21 July 2017

Change in schedule

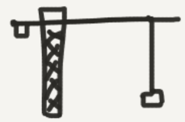
"Change stuff in Aug"

Syllabus is upto date

(to Aug 11)

Send initial feedback requests before aug 11

Unit 1: Building Your Brand



- convictions
- strengths
- change

2 roads to leadership development

- work on strengths
- work on weaknesses

Peter Drucker

can only find strengths through feedback analysis

When you focus on strengths, you can stand out from the crowd

if doing something drains you then it's a weakness

D+C 24:9

Finance was not for Joseph Smith

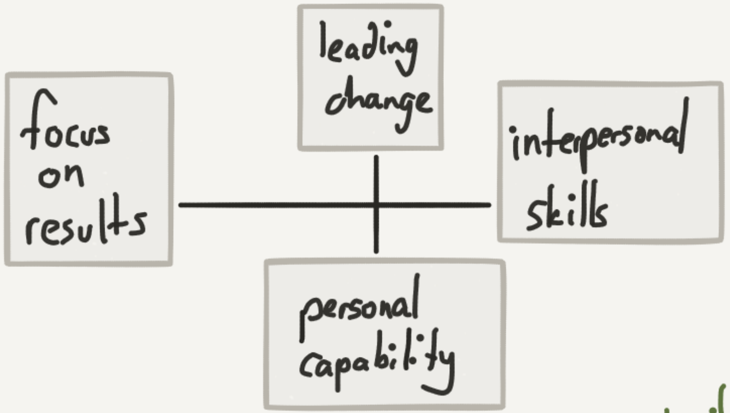
"Jesus knew what he was and why. That ment he could lead from strength rather than weakness"

Kimball
Aug 1979
ensign

S - success at it
I - instinct
G - growth
N - fills need

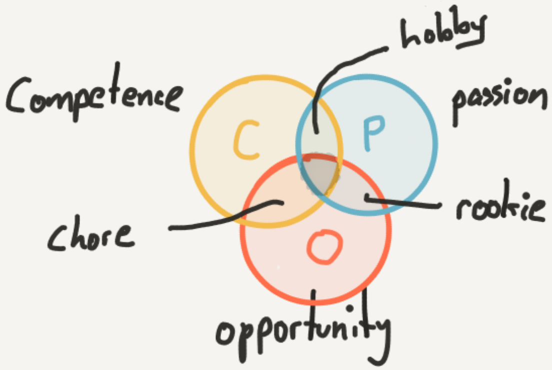
Greatest value is realized through focus on strengths

Focus on stories that illustrate strengths



teach it.
report due
Aug 11

COP Model



whatconsumesme.com

---

predictive index
test

passion -> what do you
think about when you
don't have to think
about anything

"The body keeps the score"

jiro dreams
(sushi chef)

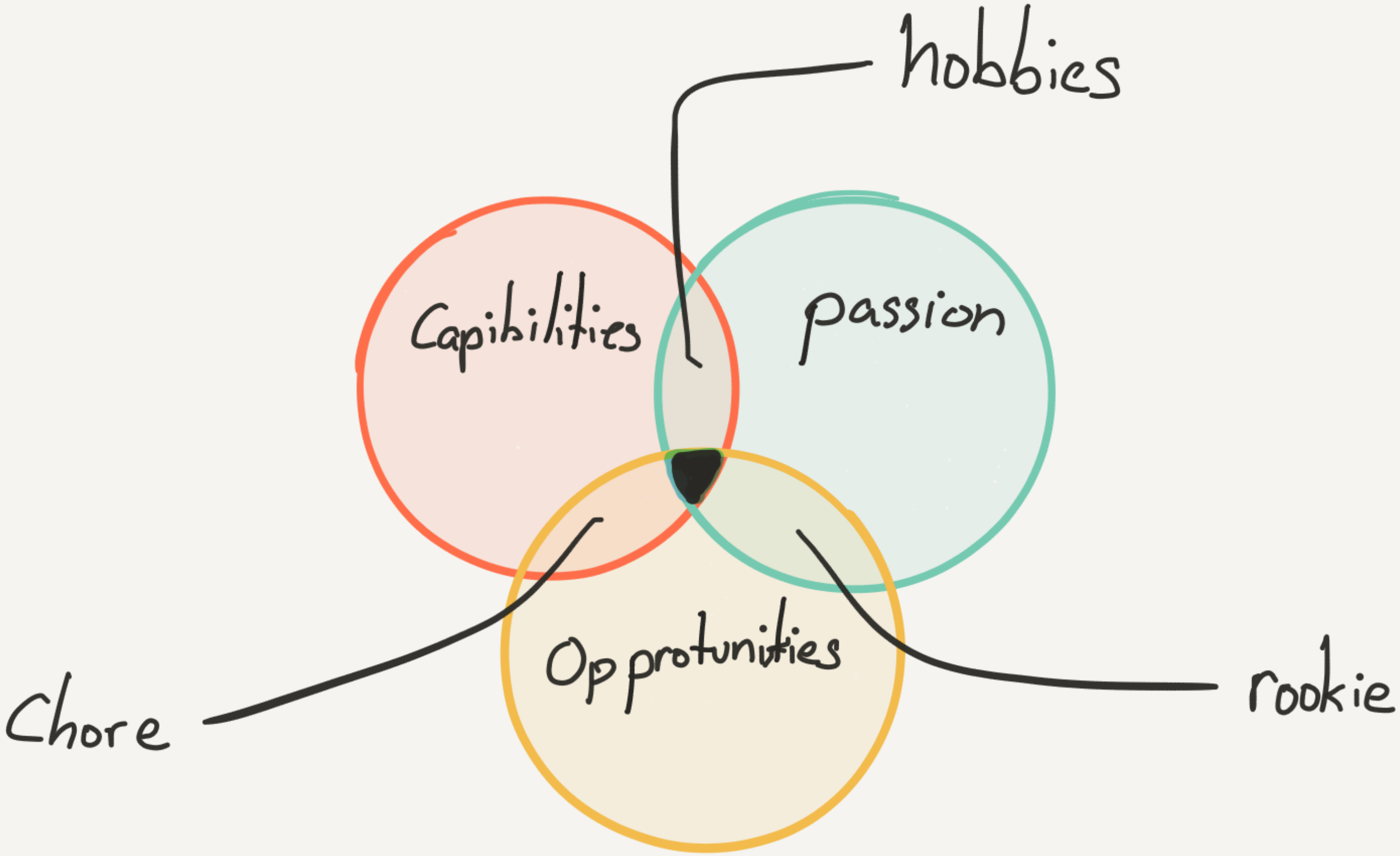
"So good they can't ignore you"

motivation is based in...

- autonomy
- compitance
- relations

Reid Hoffman
"The Aliance"

The COP Model



Can we change?

YES!

Usually change occurs in maturity

look at obsticals as behaviors leading to other goals.

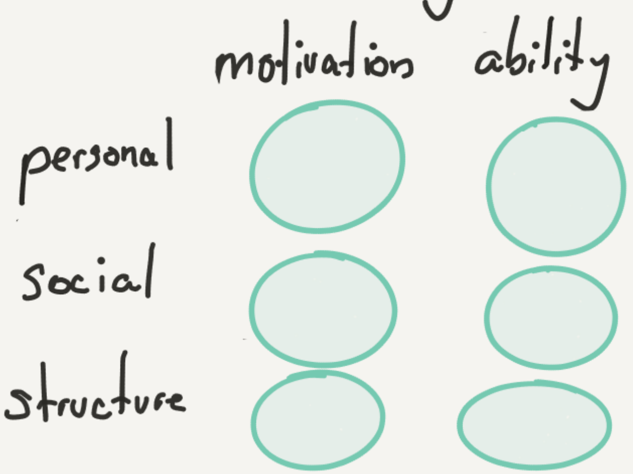
CHANGE

We often get in our own way when wanting to change

body is usually involved in major changes

effective leaders learn how to manage stress through energy giving activities

Universal Change Model



energy network will 4x your success

emotions are contageous

We need to identify underlying motivations and find activities which fulfill those goals

Leadership Profile

- convictions
- strengths
- change

Leadership
as a study of
Pratices

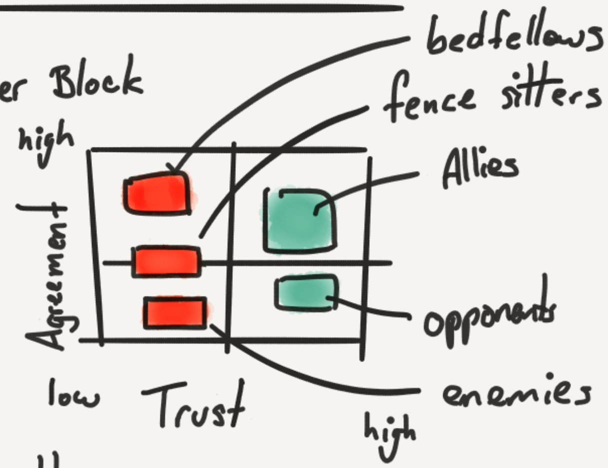
Managing change

5 Steps to change

- pre stage
- build a coalition
- share vision
- take action
- feed change

Build a coalition

Peter Block



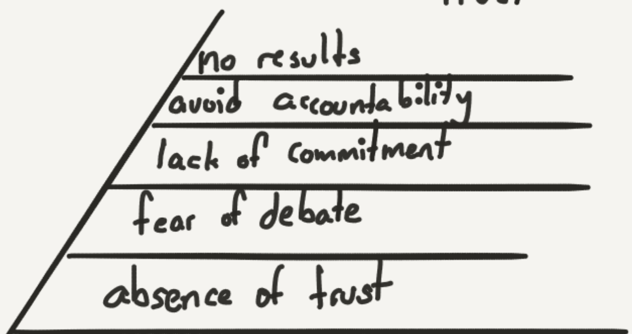
Allies
- leverage them

Opponents
- talk to them

Bedfellows
- show them

Adversaries
- contain them

Fence sitters
- fight for them



- Lencioni 2005

Pre stage

- observe
- recognize
- what must change?

ask... is it worth it?

Share Vision

know the reasons for resistance

Take action

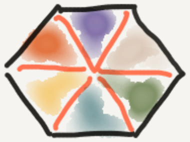
Feed the Change

celebrate the results

People who can lead change well are gold

Leadership

Culture has a lot of facets



develops over time

Tension between opposite values can be good source of personal development

Competing Values Framework

What makes an Orginization effective

Where does your feedback land?

Human Moment has 2 key elements

- physical engagement
- psysic/mental engagement

cultivate

Adapt

Clan

focus on relationships

opportunity

adhocracy

explore

capability

hierarchy

focus on incremental efforts

coordinate

stability

Market

focus on innovation

focus on market share

exploit

money made on this side

Leadership

Clan vs Market
Cultures

Clan

"Incubate"

primary focus → people, relationships, loyalty

employee involvement creates high performance

Primary competency: cultivation, incubating

Value is created by doing the right things

people who thrive in this environment are

individual attributes

See potential in people
good listener
encourage participation
builds teams
respect differences

empower people
creates trust
helps others grow
manages conflict well
builds commitment

people who exemplify:
sages
shrinks

cooperating...
workplace
values
learning

negative example:
irresponsible country club

The best kind of person can bridge both attributes

Market

"invest"

primary focus → market share, revenue, profit

sees world as hostile & customers as self-interested and choosy

Primary compentencies: exploitation, investing

Value created by doing things fast

people who thrive in this environment

individual attributes

goal oriented
action oriented
high achiever
driven
decisive

persistent
loves challenges
tough
control oriented
competitive

people who personify:
warriors
competitors

competing...
initatives
ventures
partnerships

negative example:
opressive sweat shop

Hierarchy vs Adhocracy Cultures

Hierarchy

"Improve"

primary focus

incremental, continuous improvement

found in places where failure is not an option (military, medicine, etc.)

Primary competency: improvement
coordination

people who exemplify:
craftsmen
technicians

implementing...
systems
structures
standards

Value is created by doing things right

people who thrive in this environment are

negative example:
the frozen bureaucracy

individual attributes

planner
details
precise decisions
one right way
conservative

logical
problem solver
persistent
follows procedures

The best kind of person can bridge both cultures

Adhocracy

"Invent"

primary focus

innovation and uniqueness

people who personify:
Geeks
Artists

responsive to turbulent environments

Primary compentencies: exploration
immagination

inventing...
products
services
markets

Value created by doing things first

negative example:
the tumultuous Anarchy

people who thrive in this environment

individual attributes

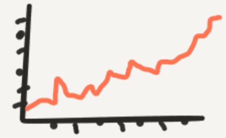
dreamer
loves ideas
creative
learns from failure
generalizes

persuasive
visionary
fast
excitable
enthusiastic

Leadership
6 Oct 2017

Hierarchy

deliberate pratice



focus on process & improvement

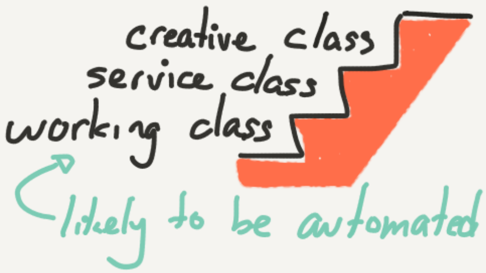
continuous improvement

Evidence that a process needs improvement

- depend on key people
- slow
- competing on price
- duplicating work
- repeat mistakes
- good ideas are stuck

Adhocracy

dynamic



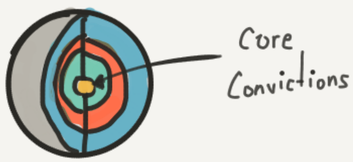
Thinking is linked to
... physical actions
... materials used + created
... relationships w/ others

Creativity works better when you apply ideas from external places and apply them to your area

Leadership

2017 Oct 20

Teach the Profile to others
Revisit Profile reguarly
... every 5 years?



We struggle with perfection

managers can cause a lot of damage

We need good people in all levels

Character is the end, not the means

Virtue is to act from inclination formed by cultivation of those virtues

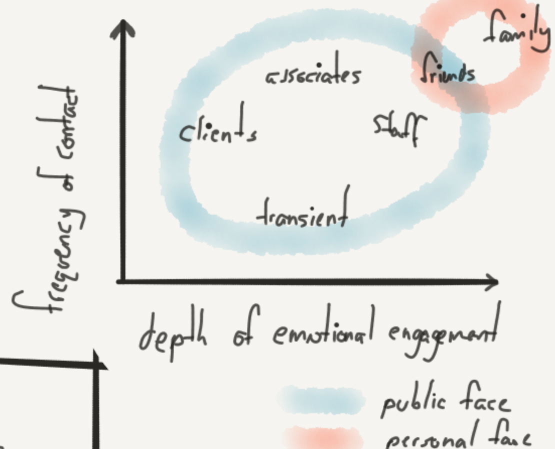
The Character of Joseph Smith

Moods are how we are tuned to the world

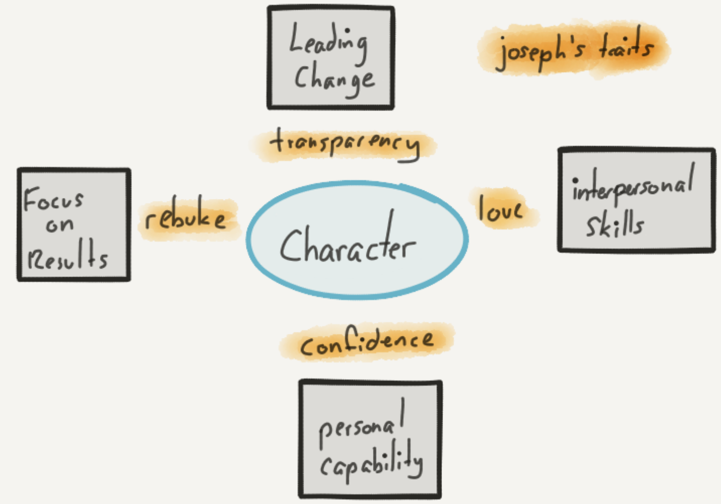
managing moods are an important part of being a leader

emotions are contagious ⚠

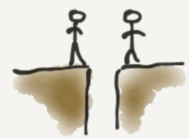
what kind of emotional labor is required for revelation?



Character of Joseph
- Transparency
- Sharpness of Rebuke
- Confidence
- Love and Enthusiasm



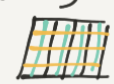
Boundry moments



Joseph greeted everybody when they landed in Nauvoo and arrived in Kirkland

Look for ways to emulate and apply example of Lord
(3 Nephi 11 ... joseph looked to bless others)

Joseph looked for ways to bless, even at the end of meetings



Pattern for mornings
gratitude to God

spirit child of God
feed your spirit your

examine boundry moments

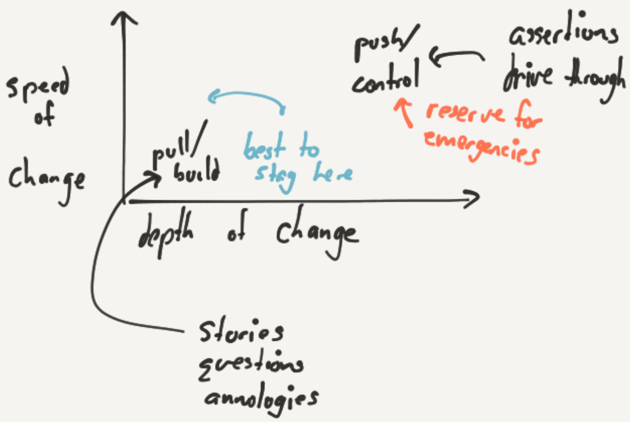
ask how you are doing

look for ways to make them impactful

Leadership 3 Nov 2017

Framing

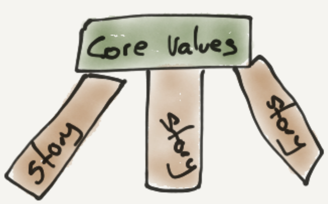
narrative Contrast
metaphor spin
Jargon



Leaders Messages should be...

heard 
remembered 
valued 

Stories in orginization should support core values



Designing Narratives

- identify principle
- tell story
- compress & simplify story

Story framework

hero confronts challenge takes unusual action to overcome it

Leaders make meaning from ambeguity

Analoy

- new problem
- has similarity to another setting
- solution that can transfer from to new problem

Having the correct similarity is key. Otherwise you're toast 

flaws

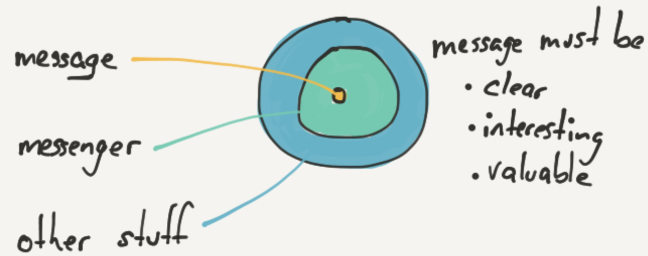
- difficult to dislodge bad analogy
- confirmation bias

Analogy can provide a good framework for success

Stories are key to any successful presentation

Gladiator presentation

- no more than 6 min
- no travelog
- what is recommended (start with)
- call to action



Messenger sets the tone

how you present matters

"I did not pratice. This is who I am"

> opening (hook)
> agenda (headline)
> body (evidence)
> closing (CTA)

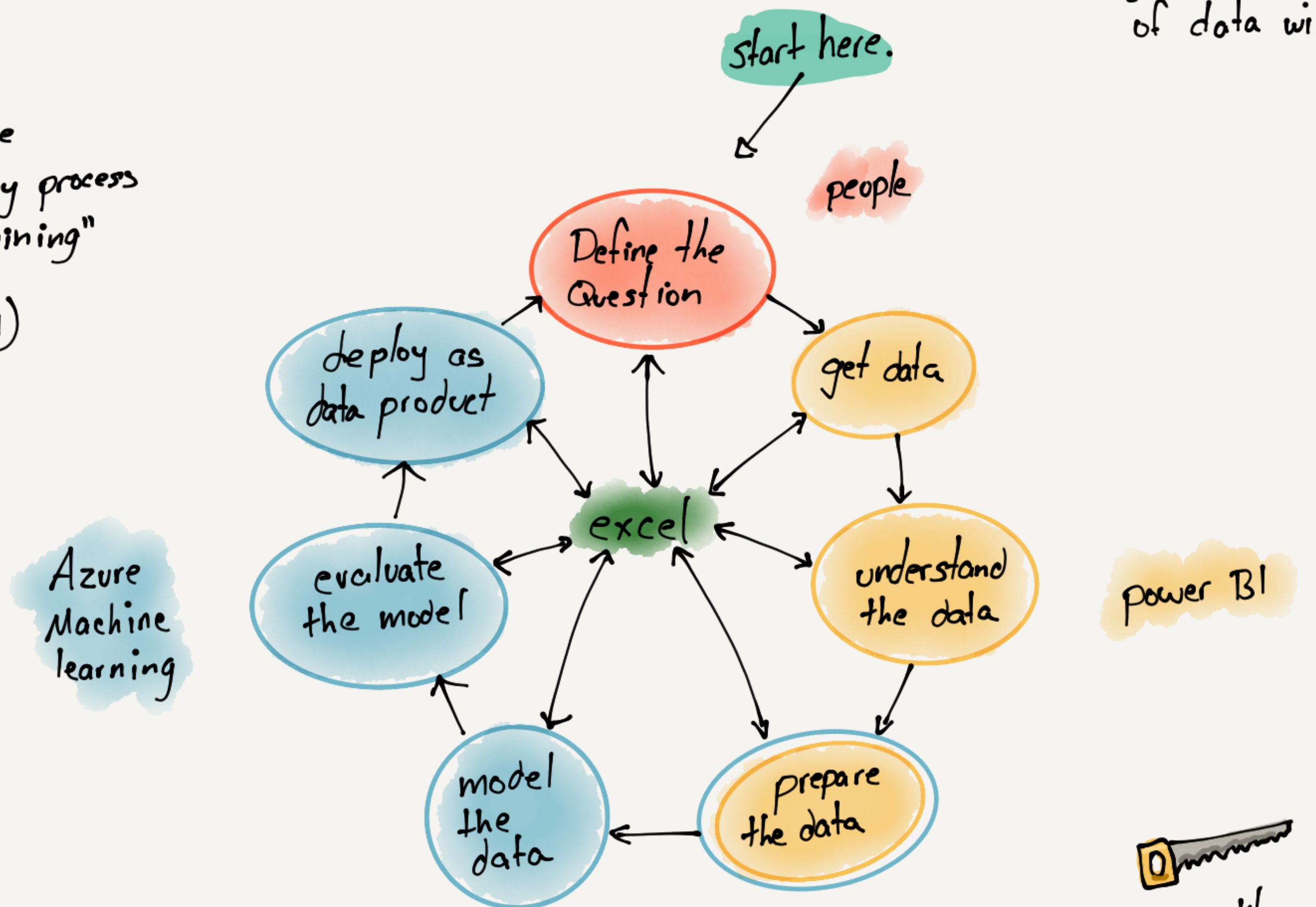
Single idea that moves to action

Quant

Overview of the analytics process

(based on the "cross-industry process for data mining" or CRISP-DM)

If you ask the wrong questions, no amount of data will help ?



the tools shown are MicroSoft specific, but there are other alternatives

Quant

Types of business analytics

① Descriptive

explain

what has happened

Summary statistics

univariate visualization

Sample Questions:

How often is our product on feature, display, etc.

What is the average price per unit?

what are the lowest & highest prices charged?

how variable is our pricing?

what were total sales for the Company in week 52?

are total sales increasing or decreasing?
what about store 2003415

which division is performing the best?

② Predictive

forecast

what will happen

visualization relationships

trend lines

models

Sample Questions:

how many units do we expect to sell in store 2003415 in week 53?

how many units will we sell in west division in week 55?

how many units can we expect to sell in the east division if we put it on display?

what will happen to sales in store 200341 if we lower price to $2.00?

③ Prescriptive

recommend

What should happen

what-if analysis

optimization

Sample Questions:

What price should we charge for a bar of soap?

Which customers are likely to churn?

What products are customers likely to buy together?

Quant

Data Visualization

powerful
intuitive
organized
communicate
understand

} data

Reasons to visualize

1. Explore
   - discover structure
   - Identify problems
   - simplify
2. Communication
   - report results
   - persuade to adopt action
   - track key metric

Data Visualization principles

Visualize with a purpose
- it's powerful
- don't overuse it

Focus Attention
- use cues like color, shape and SIZE to focus attention

Keep it honest
make it visually accurate to the data

Keep it Simple
- avoid clutter
- clean, clear and focused

Keep it Clear
can be bundled to support to tell meaningful story

Types of data

Discrete data

Nominal
labels data
can be summarized using counts, %, mode

eg.: names, zip codes, upc codes

Q: "are you older than 30? Y/N"

Ordinal
ranks data
can be summarized using counts, % mode, median, range

eg: highest to lowest best to worst rankings

"How old are you? <30; 30-40; >40"

Continuous data

Interval
quantative data w/equal distance between each scale point
can summarized using % mode, median, mean, variance, correlation

eg: Likert scaled, Temp in Farenheit

"How old are you? 21-30; 31-40; 41-50; 51-60"

Ratio
quantitative data distances between scale points
can be summarized by all math f(x)

eg: age, dollars, weight

"How old are you? (fill in the blank)"

Quant

Statistical Inferance

process of using data to make conclusions about unobserved quantities

Stastical Inferance is all about confidence in our predictions

Null hypothesis is status quo H_0

Alternative is usually what we are interested in H_A

H_0 vs H_A

Hypothesis Testing

mathematical differences
numbers are not the same

statistical significance
difference is large enough to not be a sampling error

managerially important
difference is large enough to matter from a management perspective

hypothesis must be stated so both cannot be true

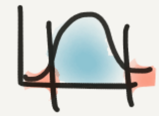
decision rule determes of signifirance level

Test Procedure

1. define H_0 & H_A
2. specify level of α
3. use appropriate formula
4. compare calculated value against critical value
5. state result in terms of rejecting or failing to reject the null hypothesis

Key elements

- decision rule
- significance level



$p < \alpha$

Use a z-test to test proportions.

Variations and how they act is important