FINANCE FOR THE NONFINANCIAL PROFESSIONAL

INSTRUCTOR GUIDE

2-DAY COURSE

FINANCE FOR THE NONFINANCIAL PROFESSIONAL

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Instructional design and learning philosophy

We are committed to providing the best core skills content possible for Instructor-Led Training (ILT). The following principles are applied in the development of programs:

Sound Instructional Design

All course content is developed using a variety of research techniques. These include:

- Brainstorming sessions with target audience
- Library research
- Online research
- Customer research (focus groups, surveys, etc.)
- Subject Matter Experts (SME)
- Interviews with trainers

Expert instructional designers create imaginative and innovative solutions for your training needs through the development of powerful instructional elements. These include:

- Learning objectives — effective tools for managing, monitoring and evaluating training
- Meaningfulness — connects the topic to the students' past, present and future
- Appropriate organization of essential ideas — helps students focus on what they need to know in order to learn
- Modeling techniques — demonstrate to students how to act and solve problems
- Active application — the cornerstone to learning — helps students immediately apply what they have learned to a real-life situation
- Consistency — creates consistent instructions and design to help students learn and retain new information
- Accelerated learning techniques — create interactive, hands-on involvement to accommodate different learning styles

Application of Adult Learning Styles

Adults learn best by incorporating their personal experiences with training and by applying what they learn to real-life situations. Our experienced instructional designers incorporate a variety of accelerated learning techniques, role-plays, simulations, discussions and lectures within each course. This ensures that the learning will appeal to all learning styles and will be retained.

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Course objectives

Successful completion of this course will increase your knowledge and ability to:

- ◊ Explain the basic accounting equation
- ◊ Describe how assets, liabilities, and equity reveal the financial condition of your organization
- ◊ Comprehend debits and credits
- ◊ Record and analyze business transactions from source documentation
- ◊ Understand the budgeting process
- ◊ Read and comprehend financial statements
- ◊ Improve financial literacy through understanding of cash and accrual methods, calculation of accounts receivable, and accounts payable
- ◊ Comprehend payback and break-even analysis, the time value of money, and how to calculate net present value
- ◊ Determine adequate testing for liquidity, leverage, and solvency through ratio analysis
- ◊ Recognize how and when accountants can manipulate and fabricate accounting data to “cook the books”

Course Objectives

- Explain the basic accounting equation
- Describe how assets, liabilities, and equity reveal the financial condition of your organization
- Comprehend debits and credits
- Record and analyze business transactions from source documentation
- Understand the budgeting process
- Read and comprehend financial statements

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Course Objectives

- Comprehend payback and break-even analysis, the time value of money, and how to calculate net present value
- Improve financial literacy through understanding of cash and accrual methods, calculation of accounts receivable, and accounts payable
- Determine adequate testing for liquidity, leverage, and solvency through ratio analysis

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ModuleOne

MEMORIZING THE BASIC CONCEPTS

Learning Objectives
- Understand the underlying reasons for needing accounting systems
- Understand the key concepts and conventions used in accounting process

Learning objectives

Successful completion of this chapter will increase your knowledge and ability to:

- ◊ Understand the underlying reasons for needing accounting systems
- ◊ Understand the key concepts and conventions used in accounting processes

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Accounting is the language of business

Accounting has long been referred to as "the language of business." This is because accounting provides relevant information to make sound and appropriate business decisions.

Consider what you want to know about your business. As the business owner, accounting information tells you if your business is making money and why or why not.

Other individuals and organizations also want accounting information about your business. These include customers, bankers, employees, investors, and government agencies.

Accounting reports are typically created by an internal accounting department and the financial statements audited by a CPA firm. The CPA firm will then render an opinion about whether or not the statements present the financial data fairly and consistently with generally acceptable accounting principles (GAAP).

The key users of this financial data are banks, investors, government, and the management of the company.

Any publicly traded company is required to publish its financial data, which it does, in part, with its annual report.

The key components of an annual report are:

- ◊ Balance sheet
- ◊ Income statement
- ◊ Statement of owners' equity
- ◊ Statement of changes in financial condition (cash flow)
- ◊ Notes to financial statements

Introduction: Ask participants their objectives for the class – what they want to learn specifically about finance and accounting. As you go through the program, make sure to point out when you are covering someone's personal objective.

Walk through the key components of accounting, reporting standards, and the components of an annual report.

Tracking business results

Some of the most important accounting terms you will hear are:

1. Profit and loss
2. Assets
3. Liabilities
4. Owners' equity

The remaining accounting processes build on these four concepts.

Exercise: Jane's Plush Toys

Jane decides to create a business making and selling stuffed dolls and animals.

These events take place:
She creates the business by investing $1,000 of her money and opens a checking account for Jane's Plush Toys.
She buys a sewing machine for $400.
She buys fabric for $100 on credit (promising to pay it back in six weeks).
She gets busy in her shop, makes 20 dolls, and uses up 90% of her fabric.
She pays herself $40 for her work on the dolls.
She goes to a craft show and sells all of the dolls for $15 each.

Take stock of Jane's business by asking several questions:

◊ How much money has the business made? (Revenues versus profits)
◊ What does the business own? What does it owe?
◊ How much is the original $1,000 investment worth?

Jane's Plush Toys exercise

Jane's Plush Toys Exercise

- These events take place:
- Jane creates the business by investing $1,000 of her own money and opens a checking account.
- Buys a sewing machine for $400
- Buys fabric for $100 on credit (promising to pay it back in 6 weeks).

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Walk students through this example.

Sales Revenue = 20 units X $15 = $300

Cost of sales: $90 (90% of $100 fabric) + $40 (labor) = $130

Profit = sales revenue – cost of sales or $300 - $130 = $170

Owns: $1,000 (equity) + $170 (profit) + $100 (borrowings) = $1,270

Jane's Plush Toys Exercise

How much money has the business made?

- Profit = Sales (Revenues) – Costs (Expenses)
- Sales/Revenues = ____________
- Costs/Expenses = ____________
- Profit = ____________

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Owes: $100 (fabric bought on credit)

1. Jane's business had made $170
2. The business owns $1,270 and it owes $100
3. The original investment is worth $1,270 - $100 = $1,170

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Identifying the profit and loss

Profit is the net result of subtracting all of the business expenses incurred from sales revenues earned over a specified period of time.

Revenues are the gross dollars earned (paid or promised to be paid) from the purchaser(s) (customers in other words) of the goods and/or services.

Expenses are the direct costs incurred to produce the exact number of goods and services actually sold plus the indirect (overhead or period costs) required to run the business.

“Hidden” expenses are often referred to as prepaid expenses that are expensed to coincide with the general flow of revenues. They include depreciation (the systematic expensing of an asset acquired to aid in the production of goods that has a useful life of longer than one business cycle) and amortization (the systematic expensing of intangible assets over a set time).

What were her revenues?

____

What were the expenses?

____

What is Jane’s profit?

____

Are there any “hidden” expenses we didn’t account for?

____

Jane’s Plush Toys Exercise

Done another way:
- Jane invested $1,000
- She made $170 in income
- $1,000 + $170 = $1,170

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Jane’s Plush Toys Exercise

Terminology
- Sales and revenues are interchangeable
- Costs and expenses are interchangeable

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Jane’s Plush Toys Exercise

Owns:		Owes:	
Cash	$860	Accounts Payable	$100
Fabric	$10		
Sewing Machine	$400		
TOTAL	$1,270		

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Jane’s Plush Toys Exercise

How much is the original $1,000 investment worth?
- Owns: $1,270
- Owes: $100
- Must be worth $1,170

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Tracking business results (cont.):

- Revenue of $300
- Expenses of $130 ($90 fabric + $40 Jane’s labor)
- Profit of $170 ($300 - $130)
- Hidden expense: wear and tear on sewing machine, expensed as depreciation

Tracking business results (cont.):

Assets

- Cash
- Inventory (raw materials)
- Equipment (sewing machine)

Did NOT have these common assets:

- Accounts receivable
- Property and plant

Assets

- The historic gross value of all the tangible and intangible goods, less the accumulated depreciation and amortization

The assets after the craft show are:

- Cash $860 ($1,000 investment - $400 sewing machine + $300 revenue - $40 labor = $860)
- Sewing machine (fixed asset) $400
- Left over fabric $10 (raw material)
- Total assets = $1,270

Accounts payable = $100 payment for the fabric bought on credit.

Liabilities

- Accounts Payable

Did NOT have these common liabilities:

- Loans payable
- Long-term debt

Jane's equity is $1,170 ($1,000 invested equity plus retained earnings of $170)

Owners' Equity

- Invested capital
- Retained earnings

Identifying the assets

At a specific point in time, a business's assets are the historic gross value of all the tangible and intangible goods, less the accumulated depreciation and amortization.

◊ What are the assets of the business after the craft show?

____

____

Identifying the liabilities

At a specific point in time, a business's liabilities are what the business still owes for the assets it owns. Liabilities include: accounts payable, accrued expenses, income tax payable, short-term notes payable, and long-term notes payable (such as long-term debt).

◊ What are the liabilities of the business after the craft show?

____

____

Identifying the owners' equity

A business's equity is the net value the owners have invested plus the accumulated earnings they have retained, at a specific point in time.

◊ What is Jane's "equity" in the business?

____

____

Considered together, it is easy to see and understand the basic accounting equation: assets = liabilities + equity.

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Understanding key concepts, principles, and conventions

There are several important principles and accounting conventions.

- ◊ Basic accounting equation
- ◊ Accrual concept
- ◊ Cost concept
- ◊ Convention of materiality
- ◊ Convention of consistency
- ◊ Convention of conservativeness

All business transactions are recorded in terms of their impact on assets, liabilities, equities, revenues, and expenses.

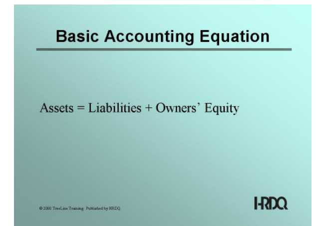
Reviewing the basic accounting equation

At the root of all accounting theory is the basic equation:

ASSETS = LIABILITIES + OWNERS' EQUITY

Let's look at some examples for Jane's Plush Toys.

Basic accounting equation



It is critical that all participants fully understand this. Everything builds on this.

These concepts are pretty straightforward. Review them slowly with the class.

The Accrual Concept

- Revenues are recognized when they are earned, and expenses needed to earn the revenue must be matched with it

Answers to examples:

- December 10, 2000
- June
- Cost should be capitalized at time of purchase and depreciated throughout it's 2-year life

Personal cash basis: Would record the sale on January 5, 2001; the labor would be expensed in July; the entire expense for the sewing machine would be at the time it was purchased

Chocolate Coins, Inc.

	Produces	Sells
January	500	---
February	200	500
March	100	200
April	400	100
May	---	400

Chocolate Coins, Inc. example: Refer to slide. The basic point of the accrual concept is to match expenses and revenues so that you have a real idea of your profits within a certain time period. This evens out any large purchases or large expenditures that you might have. Look at the Chocolate Coins, Inc. slide. Each month the company has to produce enough coins to sell in the following month.

Reviewing the accrual concept

"Revenues are recognized when they are earned, and expenses needed to earn the revenues must be matched with them."

This is a very simple concept, but it becomes confusing because it differs from normal, personal "cash basis" accounting.

Examples
Jane sells $500 worth of dolls to Big Behemoth Corporation (BBC) on December 10, 2000, but doesn't get the check for them until January 5, 2001. When should the sale "hit the books"?
Jane's employees work all month in June, but get paid in July. When should the labor expense "hit the books"?
Jane's sewing machines usually cost $400 and last two years. How should the sewing machine cost be "expensed"?

◊ How does this differ from our personal "cash basis"?

____

If using cash basis system there would be:

- Unrealistic profit in February: expenses are for 200, revenues are for 500
- Unrealistic loss in April: expenses for 400, revenues for 100

Financial statement worthless to determine profitability.

Using the accrual system:

- The company matches revenues and expenses
- True profit or loss is shown

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Reviewing the cost concept

"Historical cost is the basis for determining the value of an asset."

It does not matter if we could sell it for a lot more; it does not matter if it would cost ten times as much to replace it; the only accounting concern is the original historical cost.

Consider

A company buys a piece of land and gets it at an incredible bargain. The owners purchase the land for $3,000, but strongly believe it is worth $6,000. In 1970 they receive estimates that the land is worth $3 million. In 1998, a developer buys the property for $6 million.

1. How is the land shown "on the books"?

____

____

2. In 1970, what adjustment will they make to the asset?

____

____

3. In 1998, when they sell the land, how much profit will they recognize?

____

____

The Cost Concept

- Historical cost is the basis for determining the value of an asset

1. $3,000

2. None

3. When the transaction is completed, it will show a profit of $5,997,000

Convention of Consistency

- Once a particular accounting method is adopted, it will not be changed from period to period

The Convention of Materiality

- Events or items that are material in nature must be disclosed. If an item is immaterial (or not material), the accountant has discretion regarding how and when to record it

Reviewing the convention of materiality

"Events or items that are material in nature must be disclosed. If an item is immaterial (or not pertinent), the accountant has discretion regarding how and when to record it."

For example:
Jane's Plush Toys buys a computer with a useful life of 24 months for $2,400. An account is created for this asset, with a depreciation schedule of $100 per month. Each month $100 depreciation expense it recorded.
Jane's Plush Toys buys a pack of 24 notepads at Office Depot for $2.40. Even though only one pad is used a month, the entire $2.40 is expensed immediately. The amount is IMMATERIAL.

Reviewing the convention of consistency

"Once a particular accounting method is adopted, it will not be changed from period to period."

The accountant has choices in certain accounting methods or assumptions. For example, depreciation can be straight-line, double declining or modified accelerated cost recovery system (MACRS). It's the accountant's choice. Inventories can be valued differently. They can be last in, first out (LIFO), first in, first out (FIFO) or other. Again, it's the accountant's choice. However, once you choose, use it consistently.

Can you ever change accounting methods? Sure. Anytime you want. But anytime you make changes, you must disclose them and show the accounting both ways.

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Reviewing the convention of conservativeness

"Whenever given the option between two possible ways to account for financial data, the accountant should choose to reflect the more conservative data. Losses are recognized as soon as possible, while gains are recorded when earned."

The main objective is to avoid overstating assets and income.

These events take place:
Jane's Plush Toys builds 1000 stuffed Dalmatian toys at a total cost of $15,000. Because of a hit movie, the toys will sell for $50 each. What is the inventory worth?

Convention of Conservativeness

- Whenever given the option between two possible ways to account for financial data, the accountant will choose to reflect the more conservative data
- Losses are recognized as soon as possible, while gains are recorded when earned

- $15,000

Emphasize that the point is not to understate assets and income. Some accountants overdo this a bit

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