Wall Street Journal, December 7, 1971

General Motors Corporation [on December 6, 1971] named Richard C. Gerstenberg, a tough-minded financial man, as its chairman and chief executive officer. The main reason Mr. Gerstenberg got the job, it's believed, is his strong financial background, making him the man of the hour when GM is increasingly worried about its profit margins and its ability to finance its growth internally.

The biggest surprise in the executive reorganization was the naming of T.A. Murphy [another finance man] to the powerful post of vice chairman. Observers expressed some surprise that none of the top assignments given out was to an executive whose career had been in sales or manufacturing.

Why?

Part of the real world

Requisite for high-level management

Beneficial to managers at all levels

Well-founded skepticism

Power

J 115

Whence Cometh?

- Bookkeeping Ancient
- Budget 5 A.D.

 Roman Emperor Augustus
- Accounting 13th Century
 double-intry, Luca Pacioti, Italy, 1494
- Accounting Profession 1700s England + Ataly, surficienting
- Auditing late 1700s during Industrial Revolution
- Finance 20th Century

Terms

ACCOUNTING

keeping transactions in accounts and reporting results

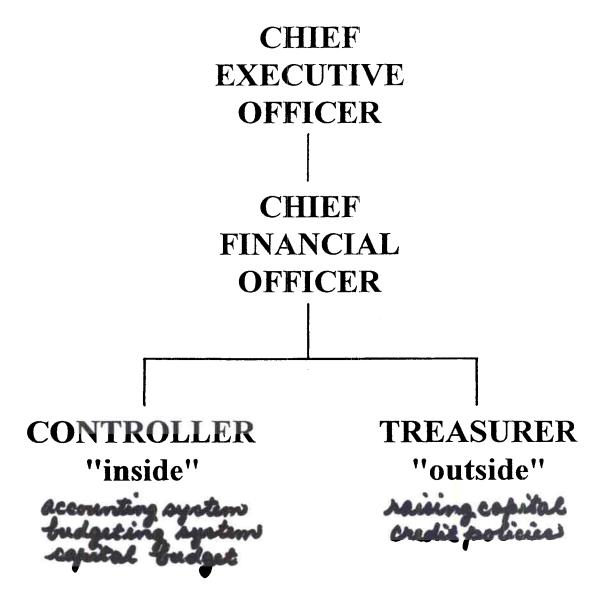
BUDGET

financial document estimating future performance

FINANCE

"the art of providing the terms of payment"

Organization



Accounting

(per Riggs)

Definition:

Accounting is the process of observing, measuring, recording, classifying, and summarizing the changes in an entity, expressed in monetary terms, and interpreting the resulting information

Limitations:

Historical Monetary Internal Estimation

Role of Accounting

A service function providing useful information

Fundamental Equation of Accounting

A = L + OE

Assets = Liabilities + Owners' Equities

Owner's Equity

also known as Net Worth

Increase

additional investment retained earnings

Decrease

capital withdrawal operating loss

Owners Equity is NOT market value

INCREASING (DECREASING) OWNER (STOCKHOLDER) EQUITY

ADDITION OR WITHDRAWAL OF CAPITAL INVESTMENT

ASSETS

LIABILITIES
OWNER EQUITIES

- SELL STOCK, CONTRIBUTE CAPITAL
- + ASSETS (INCREASE CASH)
- + EQUITIES (INCREASE INVESTMENT BY OWNERS)
- BUY STOCK BACK, WITHDRAW CAPITAL, PAY DIVIDENDS
- CASH
- EQUITIES

INCREASING (DECREASING) OWNER (STOCKHOLDER) EQUITY

EARNINGS OR LOSSES FROM OPERATIONS

ASSETS

LIABILITIES
OWNER EQUITIES

- REVENUES > EXPENSES
- + ASSETS
- **+ EQUITIES**
- REVENUES < EXPENSES
- ASSETS
- EQUITIES

Valuation Methods

TIME-ADJUSTED

MARKET

COST

Valuation Criteria

Currently Relevant value reflection of the present situation

Feasible shilly to quantity monetary value

Cost-Effective

Timely acquir value an quickly an possible

Bias-Free avoid bias of individual identifying value

Repeatable two or more people generate some value

Verifiable
rud for documentation and widence

Comparison of Methods

	Time- Adjusted	Market	Cost
Relevant	good	good	poor
Feasible	okay	good	good
Effective	poor	okay	good
Timely	good	okay	good
Bias-Free	okay	okay	okay
Repeatable	okay	okay	good
Verifiable	good	good	good

page 14, #1.4: How do the following individuals interact with (provide information to and get information from) the accounting system?

b) The project manager in design engineering

"provide information to" might include reporting travel expenses; reporting hours on a particular project "get information from" might include reports on total expenditures for a project

d) The sales engineer who calls on customers

"provide information to" might include billable hours for the customer; invoices for things purchased "get information from" might include status report on customer's account

i) The manager of warehousing and shipping

"provide information to" might include paperwork associated with items received

"get information from" might include paperwork associated with items to be shipped

page 16, #1.12: How difficult would it be to measure, in monetary terms, the following transactions?

b) The exchange of a parcel of land owned by the company for a 15-year lease in a newly-constructed facility

Not too difficult; there would have been some agreedupon value for the transaction; probably the rough equivalent of the market value of the land; this would be a negotiated value

f) The negotiation of a ten-year license on a product developed by the company to another company that agrees to pay 4 percent royalty on all sales of the product

Difficult; an estimated value would involve estimating sales in the future, together with an estimate of the price basis of the product in the future

page 42, #2.25: Identify each of the following as an asset, a liability, or owners' equity (from the point of view of the company):

b) Vacation leave for employees, earned by them but not yet taken

Liability

e) A loan by the bank to the company

Liability

j) Deposit paid to an equipment supplier for specialized equipment to be delivered each year

Asset

q) Earnings of the company during the first six months of this year when no dividends have been paid

Equity

page 43, #2.26: Provide ONE example of transactions that would:

a) Decrease an asset and decrease a liability

Expend some cash (decreases a current asset) to Pay off a loan (decreases a liability)

b) Increase owners' equity and increase and asset

Make a profit and retain the earnings (increases equity) and Invest it in Treasury Bills (adds or increases asset)

c) Increase one asset and decrease another

Use some raw materials (decreases raw materials inventory asset) and Create some product (increases finished goods inventory asset)