

## Video Transcript

### Pathways Vision Model: Part 4

#### Topics

- Part 4: Illustrates how the Vision Model relates to the course title: Financial Accounting: An Enlightening Journey into the Language of Business.

#### Transcript

Welcome to the final video of the 4-part series on the Vision Model. Here, we'll explain how the Vision Model relates to the course title – Financial Accounting: An Enlightening Journey into the Language of Business.

First, while the model is suitable for any accounting course, we'll explain how it applies to financial accounting courses like this one. As we do so, we'll answer a question students frequently ask: How do financial and managerial accounting courses differ?

Second, we'll explain how the model will enlighten our journey into the language of business.

So, how does the Vision Model relate to financial accounting? And, how do financial and managerial accounting courses differ? To answer these questions, we'll first use the sales example in Parts 2 and 3 to introduce a few terms we'll use throughout the course. Recall, the scope of economic activity in the [prior video] example is restricted to a company's sales activities.

We begin with Reporting entities, which are responsible for economic activities and accounting decisions, and for issuing accounting reports. For our sales example, this is the sales department, which is responsible for selling appliances, determining when revenue can be recognized, and issuing a sales report.

Insiders are individuals inside the reporting entity, such as you and others in sales department. Because they prepare reports, we will often refer to them as insider-preparers.

Outsiders are individuals outside the reporting entity, such as the corporate executives in our sales example. Because they use reports, we will often refer to them as outsider-users.

A key point is insiders and outsiders are defined relative to reporting entities, which are themselves defined relative to the scope of the economic activity.

Managerial accounting courses focus on situations, like our sales example, where the insiders and outsiders are all employed by the company. In this case, reporting entities issue internal reports, meaning reports used exclusively inside the company.



By contrast, the focus of financial accounting courses, like this one, is on external reports that are primarily created for parties outside the company and must comply with laws and regulations. Still, these external reports are also used by the company's employees.

Next, as we focus on financial accounting, keep in mind that one of the major benefits of the Vision Model is all of the concepts we've discussed thus far carry over, they're just applied differently.

For financial accounting the scope of the economic activities is all of the company's activities. This means the reporting entity is now the entire company. The users are primarily investors and other external stakeholders, although, as indicated earlier, the company's employees can also be users.

The accounting reports are primarily financial statements, including footnotes, but we will also consider other disclosures. This information is used for a wide range of decisions, but we will mostly focus on how investors assess past performance and predict future performance.

Because this is an accounting course, after all, we will study many accounting decisions, including some that are black and white and others that require significant judgment.

Investors and other users will continue to assess how useful information is for their decisions. But these assessments are considerably more challenging than in our earlier sales example: Much more information is reported and the underlying economic activities and accounting decisions can be very formidable.

Users' decisions still create positive and negative incentives for insiders. These can significantly affect the company's economic activities and accounting judgments, and thus the usefulness of reported information.

We will focus mostly on the consequences for the company of share-price movements when the company issues financial statements. These price movements are associated with investors buying and selling shares. When share prices increase in response to favorable information, insiders who own shares benefit, and thus have incentives similar to those in the bonus example we studied earlier.

Next, we'll explain how the Vision Model relates to the second part of the course title: An Enlightening Journey into the Language of Business.

Often it's said that accounting is the language of business. This simple phrase has a deeper meaning that fully reflects the model's vision.

Several years ago, at the end of a financial accounting course similar to this one, an MBA student, who had an undergraduate degree in English and spoke several languages, best described the model's interdependencies. He started by saying, ... Often it's said that accounting is the language of business... However, he then said, the public's perception of accounting, is too narrow... The public's view that accounting follows "black and white" rules, while essential, is only the grammar. Rather, a subtle aspect of accounting, like nuances in other languages, is that it both affects and is affected by the business reality and culture.

So this former student fully understood the Vision Model's interdependences and we hope you will too as we take you on an enlightening journey into the language of business.

So where are we heading in the course? At the big-picture level, we're going to shift your perception of accounting closer to reality. Hopefully, we've already begun to do so.

The "Goals and Relevance" video in this module will explain more precisely where we are heading and why you want to go there.

Hope you've enjoyed this video!

See you in the next one.