

FRAMING RECORD KEEPING AND REPORTING

LEARNING OBJECTIVES

After completing this module you will be able to:

- Identify the key elements behind balance sheets: accounts, entries, and judgments.
- Connect balance sheets to the balance-sheet equation (BSE) matrix.
- Infer insiders' and outsiders' perspectives using the record-keeping and reporting map (R&R Map).



Key take-aways:

- Before going behind the numbers, you only saw the surface as you looked at the primary classes, major categories, and line items when analyzing balance sheets. Now you know three more levels of analysis: accounts, entries, and judgments. Here, we briefly introduce some of these concepts to give you an appreciation for how fascinating and challenging accounting can become.
- Learning how to record entries is critical to analyzing balance sheets and other financial statements. For instance, the Financial Times and Wall Street Journal had many articles on the billions of dollars in write-downs from the credit crisis during 2008—most of which focused on the effects to companies' assets. But what was the other side of the entry? Analysts had to anticipate the other effects using their understanding of accounting and recording entries.
- The balance-sheet-equation (BSE) matrix concept is fully scalable to help you envision hundreds of columns of accounts and thousands of rows for entries for a real company. Like real companies' accounting systems, accounts' ending balances are determined by adding the net effects of entries recorded during the period to their beginning balances.
- *Navigating Accounting's* Record-Keeping and Reporting (R&R) Map is a visual aid to help you see the connection between accounts, entries and numbers on balance sheets. This map will evolve in future modules to help you see connections to other financial statements. The R&R Map helps you infer insiders' and outsiders' perspectives.

Key terms:

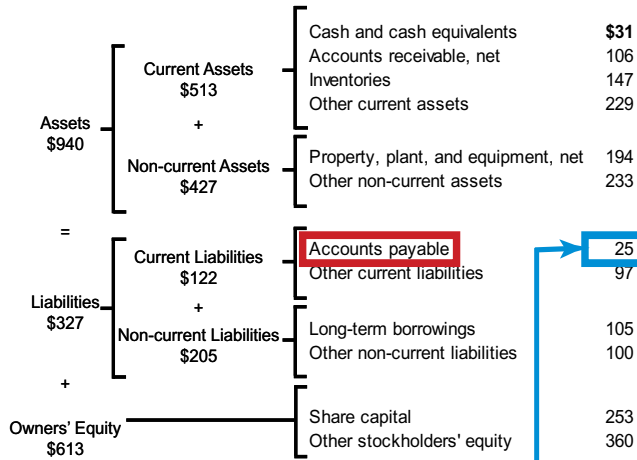
- **Account-** Storage area used to store and aggregate accounting measures recorded during reporting periods.

- **Balance-sheet-equation model**- Record-keeping approach using a matrix to aggregate the effects of accounting entries where columns are accounts organized by the balance sheet equation ($A=L+OE$) and rows are entries or balances. Also referred to as BSE model.
- **Entry**- To record financial measures associated with events or circumstances into accounts.
- **Event**- Something that occurs. Events may be internal (within the company), external with another party (a transaction), or a combination thereof.
- **Measure**- Quantitative value or amount assigned to an asset or other financial statement element.

Figure 1 Key Elements Behind Balance Sheets

This figure illustrates elements behind balance-sheet line items and reported numbers: accounts, entries, and judgments.

BISCHOFF GLOBAL SPORTSWEAR STATEMENTS OF FINANCIAL POSITION		
December 31, 2013 and December 31, 2012		
(In Millions)	2013	2012
Assets		
Current		
Cash and cash equivalents	\$31	\$13
Accounts receivable, net	106	78
Inventories	147	103
Other current assets	229	178
Total current assets	513	372
Non-current		
Property, plant, and equipment, net	194	175
Other non-current assets	233	199
Total non-current assets	427	374
Total assets	\$940	\$746
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	25	35
Other current liabilities	97	95
Total current liabilities	122	130
Non-current		
Long-term borrowings	105	60
Other non-current liabilities	100	70
Total non-current liabilities	205	130
Total liabilities	327	260
Stockholders' equity		
Share capital	253	214
Other stockholders' equity	360	272
Total stockholders' equity	613	486
Total liabilities and stockholders' equity	\$940	\$746



BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS	
ASSETS	
Current	
AR	Accounts receivable
C	Cash and cash equivalents
Inven	Inventories
OCA	Other current assets
Non-current	
PPE	Property, plant, and equipment, net
ONCA	Other non-current assets
LIABILITIES	
Current	
AP	Accounts payable
OCL	Other current liabilities
Non-current	
LTD	Long-term debt
ONCL	Other non-current liabilities
OWNERS' EQUITY	
Permanent	
SCap	Share capital
OPOE	Other permanent owners' equity

- What does an outsider see?**
1. Primary elements
 2. Major categories
 3. Line items
- What's behind the numbers?**
4. Accounts
 5. Entries
 - Events
 - Measures
 6. Judgments
 - Recognition
 - Measurement
 - Classification
 - Disclosure

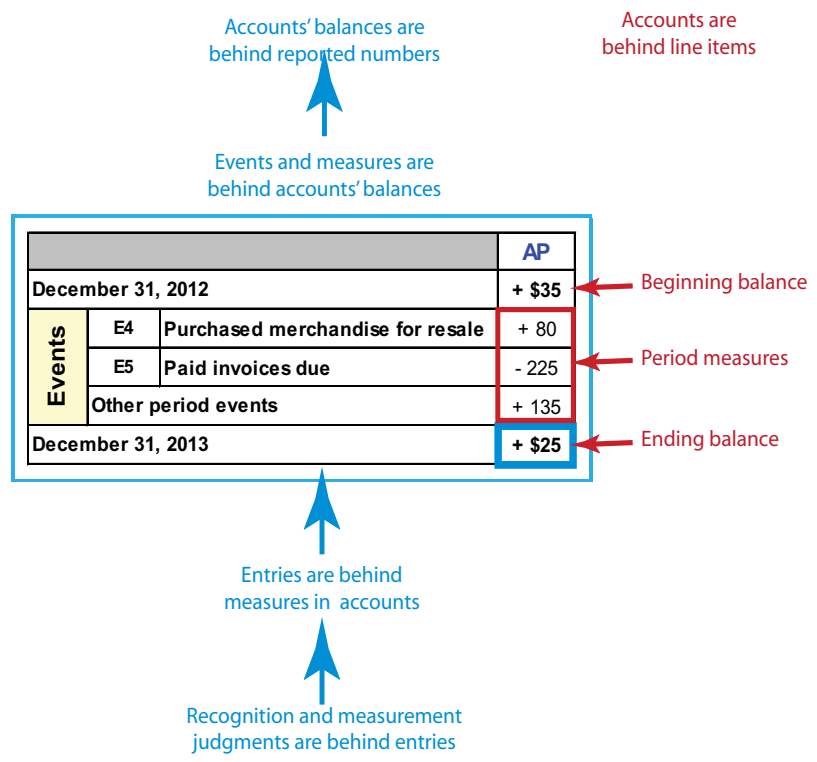


Figure 2 Balance Sheet Equation (BSE) Matrix Elements

This figure illustrates the elements of the balance sheet equation matrix.

		Assets							=	Liabilities				+	Owners' Equity											
		Current				+	Non-current		=	Current		+	Non-current		+	Permanent										
		+	C	+	AR	+	Inven	+	OCA	+	PPE	+	ONCA	=	+	AP	+	OCL	+	LTD	+	ONCL	+	SCap	+	OPOE
December 31, 2012		+	+\$13	+	+\$78	+	+\$103	+	+\$178	+	+\$175	+	+\$199	=	+	+\$35	+	+\$95	+	+\$60	+	+\$70	+	+\$214	+	+\$272
Period Entries	E1	Issued share capital for cash	+	+ 10	+		+		+		+		=	+		+		+		+		+	+ 10	+		
	E2	Issued non-current debt for cash	+	+ 10	+		+		+		+		=	+		+		+	+ 10	+		+		+		
	E3	Purchased PP&E with cash	+	- 20	+		+		+	+ 20	+		=	+		+		+		+		+		+		
	E4	Purchased merchandise for resale	+		+	+ 80	+		+		+		=	+	+ 80	+		+		+		+		+		
	E5	Paid invoices due	+	- 225	+		+		+		+		=	+	- 225	+		+		+		+		+		
	Other period entries		+	+ 243	+	+ 28	+	- 36	+	+\$51	+	- 1	+	+ 34	=	+	+ 135	+	+\$2	+	+ 35	+	+ 30	+	+ 29	+
December 31, 2013		+	+\$31	+	+\$106	+	+\$147	+	+\$229	+	+\$194	+	+\$233	=	+	+\$25	+	+\$97	+	+\$105	+	+\$100	+	+\$253	+	+\$360

BSE Matrix Elements

- Header
 - Primary elements
 - Major categories
 - Accounts
- Columns
 - Accounts
 - Account signs
 - Equal sign
- Rows
 - Beginning balances
 - Entries
 - Ending balances
- Entry cells
 - Measures
 - Entry signs

Figure 3 Record-Keeping and Reporting Map (R&R Map)

This figure illustrates Navigating Accounting's R&R Map - Phase 1, connecting the BSE matrix to balance sheets.

Record-Keeping & Reporting Map (Phase 1)

		Assets						=	Liabilities				+	Owners' Equity												
		Current				+	Non-current		=	Current		+	Non-current		+	Permanent										
		+	C	+	AR	+	Inven	+	OCA	+	PPE	+	ONCA	=	+	AP	+	OCL	+	LTD	+	ONCL	+	SCap	+	OPOE
December 31, 2012		+	\$13	+	\$78	+	\$103	+	\$178	+	\$175	+	\$199	=	+	\$35	+	\$95	+	\$60	+	\$70	+	\$214	+	\$272
Period Entries	E1	+	10	+		+		+		+		+		=	+		+		+		+		+	10	+	
	E2	+	10	+		+		+		+		+		=	+		+		+	10	+		+		+	
	E3	+	-20	+		+		+		+	20	+		=	+		+		+		+		+		+	
	E4	+		+		+	80	+		+		+		=	+	80	+		+		+		+		+	
	E5	+	-225	+		+		+		+		+		=	+	-225	+		+		+		+		+	
	Other period entries		+	243	+	28	+	-36	+	\$51	+	-1	+	34	=	+	135	+	\$2	+	35	+	30	+	29	+
December 31, 2013		+	\$31	+	\$106	+	\$147	+	\$229	+	\$194	+	\$233	=	+	\$25	+	\$97	+	\$105	+	\$100	+	\$253	+	\$360

BISCHOFF GLOBAL SPORTSWEAR
STATEMENTS OF FINANCIAL POSITION

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(In Millions)

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Other non-current liabilities	100	70
Total non-current liabilities	205	130
Total liabilities	327	260
Stockholders' equity		
Share capital	253	214
Other stockholders' equity	360	272
Total stockholders' equity	613	486
Total liabilities and stockholders' equity	\$940	\$746

Figure 4 Insider and Outsider Perspectives

This figure illustrates the insiders' and outsiders' perspectives of what's behind balance sheets.

Insiders' perspective

- Observes events
- Makes recognition decisions
- Makes measurement decisions
- Records entries
- Determines ending balances
- Makes disclosure decisions
- Creates balance sheets



	Assets						Liabilities						Owners' Equity	
	Current			Non-current			Current			Non-current			Permanent	
	C	AR	Inven	DCA	PPE	DNCA	AP	DDL	LTD	DNCL	Scap	OPDE		
December 31, 2012	+ \$13	+ \$1	+ \$102	+ \$170	+ \$170	+ \$139	+ \$22	+ \$87	+ \$80	+ \$70	+ \$214	+ \$272		
Record Entries														
E1 Issued share capital for cash	+ 12						+ 12							+ 12
E2 Issued non-current debt for cash	+ 20								+ 15					
E3 Purchased PP&E with cash	- 20				+ 20									
E4 Purchased merchandise for resale			+ 80						+ 80					
E5 Paid invoice due	- 20								- 20					
Other period entries	- 24	+ 28	- 38	+ \$51	- 1	+ 34	+ 135	+ \$2	+ 35	+ 30	+ 23	- 25		
December 31, 2013	+ \$21	+ \$10	+ \$147	+ \$220	+ \$194	+ \$223	+ \$22	+ \$87	+ \$103	+ \$100	+ \$225	+ \$309		

BISCHOFF GLOBAL SPORTSWEAR
STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and December 31, 2012

(in Millions)

	2013	2012
Assets		
Current		
Cash and cash equivalents	\$31	\$13
Accounts receivable, net	109	79
Inventory	147	102
Other current assets	220	170
Total current assets	507	364
Non-current		
Property, plant, and equipment, net	194	175
Other non-current assets	223	139
Total non-current assets	417	314
Total assets	924	678
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	29	24
Other current liabilities	87	80
Total current liabilities	116	104
Non-current		
Long-term borrowings	103	90
Other non-current liabilities	100	70
Total non-current liabilities	203	160
Total liabilities	319	264
Stockholders' equity		
Share capital	214	214
Other stockholders' equity	225	224
Total stockholders' equity	439	439
Total liabilities and stockholders' equity	924	678

Outsiders' perspective

- Observe and analyze primary elements
- Observe and analyze major categories
- Observe and analyze line items
- Envision accounts behind line items
- Envision structure of related entries
- Identify other line items and footnotes affected by entries and search for related information
- Qualitatively gauge measures
- When possible, recreate entries and determine their ratio effects
- Envision measurement and recognition judgments behind reported numbers and assess confidence in them

