Framing Accounting Learnings

The Big Accounting Picture
Framing Accounting Learnings
Succeeding in a Knowledge Economy

Agenda

- Present a unified framework for all accounting
- Drill deeper into financial accounting
Unified Framework
Pathways Commission
Unified Framework

Public Perception of Accounting
Unified Framework
Reality of Accounting

Pathways Vision Model
Often it is said that …

Accounting is the language of business.
However, the public’s perception is narrow.

The public’s view of accounting following “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.
Unified Framework

Reality of Accounting

Critical Thinking
Unified Framework

Reality of Accounting

Consequences of Users’ Decisions
Unified Framework

Reality of Accounting

Prosperous Society
Unified Framework

Reality of Accounting

Accounting Judgments
Unified Framework
Decision Making Hierarchy

Outside companies

Congress
  ↓ SEC
  ↓ Other
  ↓ FASB
  ↓ GAAP
  ↓ PCAOB
  ↓ GAAS

Special interests

Inside companies

- Board
- CFO
- Controllers
- Record keepers

Auditors
  ↓ Reports
  ↓ Users

Voting public
  ↓ Media
  ↓ Education

Congress
  ↓ SEC
  ↓ Other
  ↓ FASB
  ↓ GAAP
  ↓ PCAOB
  ↓ GAAS

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Digging Deeper into Financial Accounting
Connecting User Decisions to Economic Activity

- Analysis
- Ratio effects
- Financial-statement effects
- Entries
- Computations
- Accounting judgments
- Analyze economic activity
  - Events
  - Risks & incentives
Digging Deeper into Financial Accounting
Connecting User Decisions to Economic Activity

Owners’ Equity Change Map

Conceptual primacy of assets and liabilities

\[
\Delta A \quad \text{Change in Assets} \quad \text{=} \quad \Delta L \quad \text{Change in Liabilities} \quad \text{=} \quad \Delta OE \quad \text{Change in Owners’ Equity}
\]

Transactions with owners during the period that changed the value of the net assets

Other events or circumstances during the period that changed the value of net assets

Contributions from owners

Distributions to owners

Comprehensive Income

Change in accounting policy and restatements

Net Profit (Loss)

Other Comprehensive Income

Income

Expenses

Revenues

Gains

Ordinary Expenses

Losses
Digging Deeper into Financial Accounting
Connecting User Decisions to Economic Activity

Process to Record Any Entry

- Determine if net assets was affected by an event:
  - Should an asset be recognized?
  - Should an asset be de-recognized?
  - Should a liability be recognized?
  - Should a liability be de-recognized?
- If net assets, and thus owners’ equity, changed, use this map to identify what’s affected.
Digging Deeper into Financial Accounting
Connecting User Decisions to Economic Activity

Record Keeping and Reporting Map
Analysis Consideration Map

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Toulmin Model of Argumentation

Part I: Your qualified claim and opening remarks

Claim:
Fill in the blank with either Starwood Hotels or Marriott International:

_____________ appears to have had a stronger financial health and recovery during 2011-2012.

[Starwood Hotels or Marriott International]

Qualifiers:
Put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far.

<table>
<thead>
<tr>
<th>Absolute</th>
<th>Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unlikely</td>
</tr>
<tr>
<td></td>
<td>Absolute</td>
</tr>
</tbody>
</table>

The Toulmin Method of Argumentation: The Second Try, Keith Gross
http://www.youtube.com/watch?v=gc0c_XODR

Part II: Your arguments

Provide no more than three arguments in support of your claim in the space provided below, numbered and arranged according to your assessment of their strength (from strongest to weakest).

Part III: Your counterarguments and rebuttals

Provide no more than three counterarguments to your claim, numbered and arranged according to your assessment of their challenge to the claim (from strongest to weakest). If possible provide rebuttals immediately below each counterargument.
"The world is a university and everyone in it is a teacher. Make sure when you wake up in the morning you go to school."

- Bishop T.D. Jakes