

Toward Business Literacy: Accounting Outlines



Disclosure

Disclosure must be made for any financial facts significant enough to influence the judgment of an informed reader.

Costs ← → Benefits

Notes to Financials

- Amplify and explain items presented in statements
- Inventory notes
 - Basis and costing methods
 - Inventory composition
 - Financing arrangements and collateral pledges
 - Related parties, firm commitments, involuntary LIFO liquidation
- Property, Plant and Equipment
 - Basis, classes of assets with functions and balances in each class
 - Depreciation methods and balances in accumulated depreciation
 - Pledges, liens and commitments
- Credit claims
 - How financing is done, the future costs, and timing of cash outflows
- Equity holders
 - # of shares authorized, issued and outstanding with par value
 - Contracts and senior securities
 - Outstanding options, convertible debt, redeemable preferred stock, convertible preferred stock (these speak of not-yet-realized equity)
 - Earnings available for dividends (not subject to loan covenants)
- Contingencies and commitments
 - Pending litigation, debt guarantees, tax assessments, contract negotiations, sales of receivables with recourse
 - Dividend restrictions due to loan covenants, purchase agreements, hedge contracts, employment contracts
- Deferred taxes, pension obligation and leases
- Changes in accounting principle
- Related Party Transactions
 - One can influence another
 - Non-transacting party can influence policies of two transacting parties
 - FASB #57 requires these disclosures:
 - Nature of the relationship
 - Description of the transaction
 - Dollar amounts of transactions
 - Amounts due from or to the related parties
- Errors are unintentional mistakes; Irregularities are intentional
- Illegal Acts → political chicanery, bribes, kickbacks, payoffs; careless sign-offs on financials are heavily penalized under Sarbanes-Oxley (2002)
- Subsequent events deal with time period between balance sheet date and the issuance of the financials
 - Issues such as plant sales, acquisitions, extraordinary items, litigation settlement
 - Additional evidence about conditions at balance sheet date affect estimates