

Keeping the Books

Presented by Jane Nelson

Small Talk 3/15/2016

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Disclaimer

- Any remarks I make about any company are only to make a educational point, not to recommend buying or selling that stock.
- This commentary is being recorded for future use by chapter members and others on rmchapter.org.

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Accounting = How they keep track

- FASB = Financial Accounting Standards Board
- GAAP = Generally Accepted Accounting Principles
 - Rule book of standards
 - Allows comparison of companies
 - Evolves over time

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GAAP Standards

- Give a range of choices
- Can be conservative or liberal—still be good accounting practice
- Use method chosen consistently
- Statement of cash flows the same regardless of method used
 - cash flows statement required-1987

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GAAP for public companies

- For financial reports to outsiders
 - Quarterly 10-Q, Annual 10-K
 - SEC = The overseer of report content, publishing frequency, publishing dates
- Audits

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GAAP and Private Companies

PCC = Private Company Council

Coming: GAAP for Private Companies

Provide exceptions and modifications to GAAP

Relieves them of provisions that have little value to their users.

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GAAP and Small Businesses

Some rules may not apply to them
Accountants can't keep up with rule changes

Shortcuts, most expedient report

AICPA = American Institute of CPAs

2013—A financial reporting framework for small & medium cos.

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Non-GAAP Reporting

- In public companies
 - For internal use
 - For projections
- “pro forma” data –
 - use projected amounts instead of actual numbers
 - may ignore or include data that “fits” company plans

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GAAP vs. non-GAAP

- 2015—25% difference between S&P 500 GAAP earnings and “pro forma” earnings
- Moral: “Investors can hang their hats on GAAP earnings” and should be fully aware of the failings of “pro forma data”

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Sources

“Using Portfolio Management”, Better Investing Educational Series
“How to Read a Financial Report” by John A. Tracy & Tage C. Tracy
“Overheard” column, Wall Street Journal, March 4, & March 9, 2016

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Thank You

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