# Introduction

**15.511 Corporate Accounting**

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# World of a Sophisticated Financial Statement User



**Events** **are occurrences that affect the firm.**

**Examples include:**

1) **Microsoft sued by the Justice Department**

2) **McDonald's sells hamburgers**

3) **United Airlines workers go on strike**

4) **The Gap announces a new marketing strategy for its Old Navy Clothing stores**

# Financial Accounting Introduction

- Discussion of Accounting
  - Why is accounting interesting
  - Why do we need accounting?
- Course objective
  - Sophisticated financial statement user
- An overview of financial information

# Financial Reporting Requirements

- **Audited Annual Report (10-K)**
- Unaudited Quarterly Reports (10-Q)
- Current Reports (8-K)
  - within 10 days of the end of a month containing a significant event (e.g., major asset sales, changes in ownership, bankruptcy, changing the auditor)
- Foreign Companies (20-F)

# Financial Statements: Retained Earnings & Shareholders' Equity



- Retained earnings
  - A measure of undistributed profits of a business
  - Do not include capital contributed by owners
- Retained earnings = Cumulative sum of profits earned from the inception of business (-) Cumulative sum of all "dividends" distributed to the owners from the inception of business
- Statement of shareholders' equity describes the change in retained earnings over a period of time (e.g., a year)
  - Beginning balance in retained earnings
  - Add Net income earned during the period
  - Subtract Dividends distributed during the period
  - Ending balance in retained earnings