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## Intermediate Financial Accounting

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### Chapter 1

## Topic: Chapter 1 Overview

### What is Accounting?

An **information system** that identifies, measures, records, and communicates relevant information that **objectively and correctly represents an organization's economic activities**.

Objective: \_\_\_\_\_

### Financial vs Managerial Accounting

	Financial Accounting	Managerial/Management/Cost Accounting
Purpose		
Focus		
Scope		
Requirement		
Type of Auditor		
Audience		
Regulation/Guidelines	Professional Judgment	
Frequency		

## Management Bias

Refers to situations where an individual's financial decisions or interpretations are influenced by their **personal goals, incentives, or desires, rather than solely by objective facts and analysis**

Compensation Structure	
Contractual Obligations	

## Topic: Credit Ratings, Stakeholders and Financial Statement Bias

K	Knowledge
C	Comprehension
AP	Application
AN	Analysis
S	Synthesis
E	Evaluation

**Finance** The National Credit Rating Agency downgraded the credit rating of Grand Limited by two levels from BB to B+. The credit rating agency was concerned about the company's ability to refinance portions of its debt. Both BB and B+ are considered "junk" bonds and are below the BBB—category, which is the lowest grade that many pension and mutual funds are allowed to hold.

Financial statement analysis indicates that the company's financial profile has weakened due to tight debt covenants and the resulting cash flow restrictions.

### Instructions

- Discuss whether the credit rating agency is a stakeholder from Grand's perspective.
- Ethics** Discuss any bias that Grand might have when it issues its financial statements.

**Remember:** *lower ratings + tight covenants = weaker cash flow flexibility*

### Terminology:

Concept	Quick Definition	Why It Matters Here
<b>Stakeholder</b>	<p>Any person or group that has an interest in or is affected by a decision, project, or organization.</p> <p>Stakeholders include owners, employees, creditors, regulators, customers, suppliers and any information intermediaries whose decisions influence the firm</p>	Any party affected by, or able to affect, the firm.
<b>Credit Rating</b>	An independent score of default risk.	Drives interest rates and investor eligibility.

	A higher rating = safer to lend to A lower rating = riskier, might not pay back	
<b>Credit Rating Agency</b>	Company that evaluates how risky it is to lend money to a person, company, or government	They provide investors with an independent assessment of a debt issuer's creditworthiness, influencing borrowing costs and investment decisions.
<b>Junk Bond</b>	Debt rated BB+ or lower.	Triggers investment-policy restrictions for big funds.
<b>Debt Covenant</b>	Contract clause that limits certain actions to protect lenders.	May tighten when ratings fall.
<b>Management Bias</b>	Tendency to present results in a favourable light.	Can shape what numbers we see.