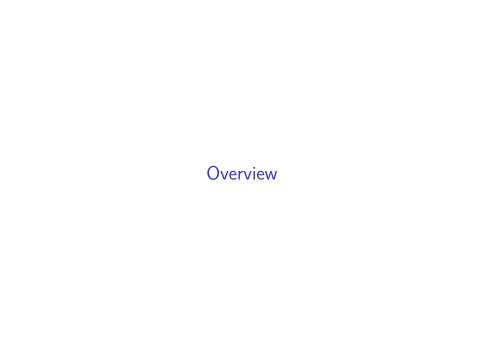
Intro to Costs

James Woods

2/6/2017



Where we are headed and why

- Regulated firms must be able to meet their revenue requirement.
 - There are many rate structures that can get them there but you need to know the number.
- ▶ The requirement has two parts:
 - Expenses which pass through to the rate payer. This roughly corresponds to things on the *income statement*.
 - ▶ Rate Base which the firm earns a 'fair' rate of return on. Roughly corresponds to thing on the *balance sheet*.

What Does Accounting Do?

Accounting

- There are rules and standards in accounting. This is a specialist area.
- Overarching principles in each country are usually called Generally Accepted Accounting Principles.
 - Our rules are what the SEC decides.
- There are additional principles in addition depending on domain.
 - Government uses Governmental Accounting Standards Board (GASB) in addition
 - You will also see some very specific systems such as FERC's Uniform System of Accounts.

http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=054f2bfd518f9926aac4b73489f11c67&rgn=div5&view=text&node=18:1.0.1.3.34&idno=18

They rules have goals

- Helpful to potential investors and creditors
- ► Helpful for making financial decisions
- Helpful in making long-term decisions
- ▶ Helpful in improving the performance of the business
- Useful in maintaining records

And Principles to achieve those goals

- ▶ Historical Costs You have receipts for things. But, many asset values are adjusted periodically to a "fair" or "market" value.
- ▶ Recognition Disconnected to when cash is sent and received but that the obligation is there.
- Matching So you can compare incremental costs and benefits. Not everything can be matched.
- ▶ Full Disclosure More detail is better but there is a limit.
- Consistency Don't change the rules and accounts from year-to-year
- Conservatism Tend to overstate costs and understate revenue

Basics of Financial Accounting

Financial?

- ▶ Just means watching the transactions.
- Three main documents:
 - ▶ Balance sheet What can be owned and who owns it.
 - ► Income statement Revenue and expenses
 - Cash Flow sinks and sources of cash
- Avoiding the cash flow statement today.

Intro to Balance Sheet and Income Statement

- ▶ This material is from my EC314 course.
- https://prezi.com/agobxmlocjgj/acco untingnoquiz/
- ▶ For Additional Details: http://ec314-pdx-edu.wikidot.com/basic-accounting

Specifics for Economic Regulation