

# Intro to Costs

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## Overview

# 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/accountingnoquiz/>
- ▶ For Additional Details:  
<http://ec314-pdx-edu.wikidot.com/basic-accounting>

## Specifics for Economic Regulation