**Key Themes**

A. Knowledge of accounting is essential to understanding budgets, financial statements and other types of financial reports.

B. There is no such thing as "correct" accounting.

1. General purpose financial statements are directed primarily at citizens, legislators, investors and creditors rather than managers.

2. General purpose financial statements are usually inappropriate for most management and policy decisions.

3. "Generally Accepted Accounting Principles" (GAAP) are selected from a set of possibilities and are not necessarily neutral.

C. Financial statements look to the past; your focus must be on the future.

D. One main objective of financial analysis is to derive the economic substance of a transaction from the data provided in the financial statements. Then, it is up to you to recast the data in a form that best facilitates the decisions that you must make.

E. It is important to understand the economic consequences of choices among accounting methods.

F. Financial statements are based on historical costs; historical costs are, for the most part, meaningless for most investment and management decisions.

G. The traditional tools of financial analysis (ratio and trend analysis) are no better than the underlying numbers.

H. The goals of governments and not-for-profits are other than profit maximization. Hence, the performance of these entities cannot be measured by conventional financial measures.

I. Governments and not-for-profits are “governed” by their budgets, not the marketplace. Hence, the budget is the document of primary concern.

J. As a user of financial statements you should be as much concerned with what is not reported on the financial statements as with what is.

K. Financial data are potent weapons in any type of negotiations or “political” contests. If you don't use them in your favor, they will likely be used against you.

L. Financial statements (especially annual financial statements based on GAAP) are becoming less significant, as intangible assets (such as technical knowledge and marketing skills) become more important.

M. The financial wherewithal of governments and not-for-profits can almost never be assessed in isolation of economic, demographic, social and political data regarding its constituents. Hence, to be useful, financial statements must be used in conjunction with other sources of information about an entity.

N. Financial statements were designed for the industrial, not the “information” age.

O. As in corporations, governments and not-for-profits can manage their financial statements or they can manage their organizations.

P. Despite their limitations, financial statements are still the most information-rich documents issued by an organization. Reported cash flows, revenues, expenditures, assets and liabilities are still essential to any economic or political decisions.