# Transcript: IT Podcast - EP 147 - C928 Financial Management for IT Professionals

*The following transcript is a verbatim account of the video or audio file accompanying this transcript.*

Speaker #1 (Narrator):

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Speaker #2 (Lavender Boyles):

With me today is course instructor, Jerry Geiser. Welcome, Jerry.

Speaker #3 (Jerry Geiser):

Thank you, Lavender.

Speaker #2 (Lavender Boyles):

Today we're going to talk more about our favorite course, financial management for IT professionals, C928. Jerry, I got to tell you, I talk to students every week. We talk about the classes and I ask them how they're doing. A lot of people seem to struggle with the budgeted part, the numbers, they don't look right, they're turning out negative and you're the instructor. So tell me, how do students get through this part?

Speaker #3 (Jerry Geiser):

Lavender, that's an excellent question. First of all, take a step back and then talk a little bit about budgeting systems. One of the things we know about budgeting systems is that there's no one size fits all. They vary among companies. So what Ford uses and what Delta use are two different things. There's basic budgeting concept and what we're doing is we're applying a general idea to specific companies and coming up with some numbers. So the question you asked, which is really great is, can I ever have a negative projected budget? The answer is yes. A budget variance is something that you're hoping will be positive, but you can have unexpected decline in sales, unexpected rise in costs and they can have poor expectations or human error. The whole point of, if you get a negative number, remember in this task, no matter the news that you're going to get, you're trying to make your project successful. Whether you get a positive answer or a negative answer, your entire goal is to come up with a solution to make sure that your project goes forward.

Speaker #2 (Lavender Boyles):

Sometimes the numbers don't always look good. I know there's cost of goods sold. Tell me, how do I use that. Does that help the numbers look better?

Speaker #3 (Jerry Geiser):

That's a great area. If we see a lot of revisions, we see them in the cost of goods sold. The typical accounting in large companies, what we use is accrual-based accounting. Accrual-based accounting recognizes a sale when it occurs, it's not when you have the item, but when you receive payment for it, whether it's a service or product. But what we're doing in our exercise in Section C is we're doing production-based accounting. Even though we're doing it income statement, where our production-based solution will recognize what we have in inventory. I want to talk about it this way. I like to simplify things. In an accrual-based accounting solution, you said you're going to sell 10 items and you said, well, what would be my cost of goods sold? You would only recognize the 10 items you sold. In a production-based accounting system, you would say, oh, I have 10 items that I'm going to sell but I want to have so many items left over. Let's say I want to have seven items leftover because I'm not sure if the next quarter there's going to be a supply chain issue or what our revenues going to be? I also currently have three items on hand. So what we would do is we'd say, oh, I'm going to sell 10. I want to have seven on hand afterwards, then I would add that to 17, and then I would take my existing three that I currently have and subtract it. So I'd come up with 14 units. That is the difference between accrual accounting, which only would recognize the 10, and production-based accounting or budgeting, which would recognize the full 14. Does that make sense?

Speaker #2 (Lavender Boyles):

Yeah. But you use either one or the other accounting system or do you combine them when you're working on this task?

Speaker #3 (Jerry Geiser):

We only use the production-based accounting for Section C. So we would not use the accrual-based accounting. A lot of times, the revisions we get from students is that they look into outside resources. They say, oh, Walmart or Ford or Apple or whatever company we're doing support. They say, oh, they're accrual-based. So then my Section C, my cost of goods sold has to be accrual accounting and it's actually not that. It is production-based accounting where we recognize the inventory items as well.

Speaker #2 (Lavender Boyles):

So there's different types of accounting that you're going to use throughout this task depending on the part that you're working on. That's a lot to remember, that's a lot to learn. This is a really good exercise for students to get that different dimensions and experience in accounting's class that, you're in IT, you don't do a whole lot of accounting. So this seems like a really good experience for them to learn.

Speaker #3 (Jerry Geiser):

Our book that our learning resources really do cover the sections nicely. They talk about the accrual piece and our later chapters when we look at the budgeting, we really focused on the production piece. It doesn't go into really deep depths. It just gives you a nice little flavor touch because again, we're IT leaders which are learning accounting, learning finance, but not learning how to be CIOs.

Speaker #2 (Lavender Boyles):

Very good points, Jerry. Well, thank you for coming today and talking with me about this. I appreciate your time. I hope everyone is learning something new. Have a great day.

Speaker #3 (Jerry Geiser):

Have a great one. Thank you Lavender.

Speaker #1 (Narrator):

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