

Ernst and young presentation

Business, Management



Accounting 302 9/18/12 Ernst & Young Guest Speaker Response After looking through the Ernst & Young PowerPoint presentation, there were certain points covered that were similar to our Sky Air activity from class. One of the key points covered was the idea of purchasing a company, and how much one would pay for it. It was brought to our attention from both the PowerPoint and class lecture that buyers and sellers may have different perceptions of value. This occurs because buyers do not want to “pay up front” for uncertain earnings.

From what we learned in the Sky Air activity, Thyestean, the principal, is similarly concerned about whether or not Kaplan, the agent, will be loyal enough to provide accurate data and analysis of his own company. Both the PowerPoint and Sky Air focus on information asymmetry, and how it can be reduced. We learned that having an independent Board of Directors and external auditor would improve the accuracy in the information provided to the principal, which will therefore reduce information asymmetry.

Another concept we went over in the Sky Air activity that was mentioned in the PowerPoint was the idea that there may be risky acquisitions. We learned from the slides that in order to reduce the risk, the principal must include a request or incentive. The example described from the slides included a Technology company was being sold for \$100m. The buyer agreed to purchase it, under the circumstance that it shall have to meet certain projections. This shows that even though the shareholder is affected in the long run, he/she will not be affected (negatively) drastically since there are certain mandatory projections to uphold.

Similarly, in the Sky Air case, we came to the conclusion that if the buyer purchases the company, he/she should request that Kaplan's compensation be linked to his profits, so that there is less risk (manager cares more about short-term, shareholder cares more about long-term, this way manager will care more too). Although the PowerPoint presentation was based more on the financial aspect of the company's acquisition, it still provided relevant information that we learned in class, and too coincided with the Sky Air activity.