

### Course Information

<b>Title:</b>	Introduction to Financial Accounting	<b>Semester:</b>	Spring, 2008
<b>Number:</b>	CBA-ACTG 500, code is 17789	<b>Credits:</b>	4
<b>Place:</b>	Room 308, Burnham Hall	<b>Times:</b>	Monday 6-9pm

### Course Professors & Admin

<b>Professor:</b> Michael T. Kirschenheiter	<b>Phone:</b> (312) 996-2284
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### Course Descriptions for Actg 500

The objective of this course is to provide managers with an awareness and understanding of accounting fundamentals. Uses and limitations of accounting data in decision-making will be stressed. The objectives of the class sessions are to develop the fundamentals of each topic; explore the implication of each topic through examples (problem-solving); and incorporate the topic into the framework of the accounting process and the financial statements.

While the course objectives are pretty standard, I also have two general themes which are a little different and which run throughout all my courses. The first is that there is no “truth” in accounting. One consequence of this theme is that determining whether a financial accounting report is “good” or “bad” requires specifying who is reading the report. The second theme is that accounting measures wealth. One consequence of this is that the essence of financial accounting reduces to tracking the difference between the flow of cash and the flow of wealth; if you can explain the difference then you know just about all there is to know from an accounting standpoint. I will expand on both of these themes in the first lecture.

**Grading:** Currently, there are 6 homework assignments and two exams scheduled for Actg. 500, a midterm exam on the 9<sup>th</sup> session and a final. The problem sets should be submitted on time and will be graded. I determine course grades by allocating 20% of the total grade to class participation and problem sets (2% to the participation grade and 18% for problem sets) and the remaining 80% to the exams. I will allocate the 80% between your two exams using method A or B below, whichever method gives you the highest score. These methods are as follows:

Method A: 40% to Midterm 40% to Final (i.e., half of the 80% to each exam).  
Method B: 20% to Midterm 60% to Final (i.e., ¼ of 80% to midterm, ¾ to final).

Both exams will be open-book exams and both will be timed (probably 2 hours for each).  
**Any queries about grading must be submitted in writing.**

### **Policies and Requirements**

Prerequisites: There are no pre-requisites for this course.

Required Text and Materials: The primary course materials are the lectures, readings, cases and problem sets, all available on-line. All problems sets should be submitted electronically. In addition, I offer as reference a textbook: Financial Accounting for MBAs, (abbreviated as EWHM) by Peter Easton, John Wild, Robert Halsey and Mary Lea McAnally, (3<sup>rd</sup> edition), Cambridge Business Publishers. (The 2<sup>nd</sup> edition, without Mary Lea and abbreviated as EWH, is okay as a substitute, I have the suggested readings and practice problems noted for that edition as well.)

### **USE TEXT AS REFERENCE OR TO CHECK ANSWERS – IT IS NOT SUFFICIENT**

**The text is not a sufficient tool for primary learning.** You can use any edition, indeed you can use any book you wish; but, the problems I assign will refer to the editions listed. More important than reading the text or doing textbook problems is to do the cases and the problem sets.

#### Textbooks, Cases and Readings

Title:	Financial Accounting for MBAs
Author:	Peter Easton, John Wild, Robert Halsey and Mary Lea McAnally
Edition:	3 <sup>rd</sup> (I recommend the 3 <sup>rd</sup> , but the 2 <sup>nd</sup> , without Mary Lea, is also acceptable).
Publisher:	Cambridge Business Publishers

As mentioned earlier, there will be cases and problem sets, lecture notes and articles, as well as practice exams, all of which will be available on line.

#### Honor Code and Class Code Issues:

Problem sets assigned as homework can be discussed, but solutions submitted by each student should be his or her own individual work. For example, another student's solution should not be copied and submitted. Old exams will be included on the network for study purposes.

The lectures are an important part of the course. As a courtesy to everyone involved in the classroom experience, please observe the following principles:

1. Please be prompt for class and try not to leave the classroom while class is in session (unless there is an emergency).
2. Do not carry on private conversations with others during class.
3. Do not bring noisy beepers or cell phones into class.
4. Use computers only for current class materials, not homework, e-mail, etc.

As mentioned above, we have 15 sessions (including the sessions for the midterm and final exams) spread over the semester; I divide these sessions into 3 overall areas, described below

### **Course Organization and Coverage for ACTG 500:**

Financial Areas Covered: The primary objective of financial accounting is to provide information to outside readers of the financial statements. We stress that we want to be able to reconcile the measure of cash flows and wealth flows, as well as the way we measure the operating versus the financing resources and obligations of the firm. Hence, the three areas studied are Financial Statement Articulation, Operating Activities (emphasizing advanced accrual issues) and Financing Activities (emphasizing obligation measurement issues).

#### **1 Introduction and Financial Statement Articulation:**

I include in this area an introduction to the purpose and objectives of accounting, a short description of all the financial statements and how they work together (articulate) to provide information concerning the economic state of the firm. Also, we study how transactions are identified and recorded, are introduced to accrual accounting and basic ratio analysis, and practice building financial statements. The first 4 to 6 sessions will be devoted to this area.

#### **2 Operating Activities and Advance Accrual Topics:**

Accountants use accrual accounting to convey information about the operating activities of the firm, and the decisions about revenue recognition and the capitalization versus expense are the most critical. This area covers these two aspects of accounting, as well as the valuation of the operating asset accounts such as accounts receivable, inventory, property, plant and equipment, and intangibles. This area will require 6 to 8 sessions.

#### **3 Financing Activities and Obligation Measurement:**

In this area we move to the right hand side of the balance sheet and study how financial obligations are measured. We start with basic debt, move to leases and then onto pensions and other post-retirement benefits (OPEB) costs. Next we consider taxation and the recording of deferred taxes. Finally, we cover the different types of equity accounts and how we account for investments in other companies, especially business combinations. This area is scheduled to cover about 8 to 12 more sessions, depending on how efficiently we have covered the material up to this date.

### **Course Events**

What follows is a tentative **Detailed Class Outline**. I call it tentative, as I reserve the right to change what we cover based on how efficiently we are progressing. As mentioned earlier, I use the abbreviations EWHM for the Easton, Wild, Halsey and McAnally textbook (and EWH for the Easton, Wild and Halsey textbook).

**Detailed Class Outline for Introduction to Financial Accounting – Actg 500:**

1<sup>st</sup> Mtg, Part 1: Intro to Financial Statements (F/S) and Financial Reporting:

Mon Jan 14<sup>th</sup> Covers purpose of financial statements, relations between stocks and flows, financial statement articulation, transaction analysis and the balance sheet equation.

Reading: Lecture Notes #1. Text: Easton, Wild, Halsey and McAnally, (EWHM) Chapter 1, read to page 1-15, skim rest (do same in Easton, Wild and Halsey, (EWH)).

Practice Problems (optional, do any or all suggested): EWHM M1-19 (i.e. Chapter 1, Mini-exercise # 19) through M1-24, E1-27 through E1-30 and P1-37 through P1-40 (EWH M1-19 through M1-24 and P1-34 through P1-39).

Monday, January 21<sup>st</sup>, Martin Luther King Day – No school

2<sup>nd</sup> Mtg: Financial Statements on Wealth - Income Statement (I/S) and Balance Sheet (B/S):

Mon Jan 28<sup>th</sup> Begins detailed discussion of transaction analysis, recording of entries, building F/S and distinguishing among accounts on I/S and B/S.

Reading: Lecture Notes #2. Text: EWHM Chapter 2 to page 2-14 (EWH, Chapter 2 to page 2-20).

Practice Problems: EWHM M2-19 and M2-20, M2-22 through M2-26, E2-27 through E2-37 and P2-38 through P2-41 (EWH 2-19 through M2-26, E2-27 through E2-36 and P2-38 through P2-47).

Cases: Ben & Jerry's Transaction Analysis Worksheet.

3<sup>rd</sup> Mtg: Cash Flow Statement (CF/S):

Mon Feb 4<sup>th</sup> Continue study of transaction analysis, accrual accounting and F/S articulation via the worksheet construction and building of F/S. Distinguish among accounts and between cash flows versus wealth flows. Analyze Cash flow statement and, time permitting, discuss the basics of ratio analysis.

Reading: Lecture Notes #2. Text: EWHM the rest of Chapter 2 (i.e., pages 2-15 to 2-29) and read 3-1 to 3-7, and 3-16 to 3-23 (EWH Chapter 2, pages 2-20 to 2-27 and Appendices 2A and 2B).

Practice Problems: EWHM M2-21, P2-42 through P2-47, M3-12 through M3-24, E3-26 through E3-34, E3-36 and P3-39 through P3-49 (EWH P2-48 and P2-49). The problems from Chapter 3 involve accruals, so they also apply to the material covered in the 4th Meeting.

Cases: More Ben & Jerry, A.T. Cross (Warranty) and, time permitting, UAL (Expense estimation).

**Due: Problem Set #1 (General Mills Worksheet).**

**Detailed Class Outline (cont.)**

4<sup>th</sup> Mtg: Accrual Accounting and Accounting for Revenues:

Mon Complete analysis of the recording of transactions, with special emphasis on the CF/S,  
Feb 11<sup>th</sup> and begin revenue recognition and expense versus capitalization decision.

Reading: Lecture Notes #3. Text: EWHM read rest of Chapter 3, (i.e., 3-8 to 3-15), 5-1 to 5-14, 5-23 to 5-25 and skim rest of Ch 5 (EWH read 4-1 to 4-9, 4-16 to 4-22 and skim rest of Ch 4).

Practice Problems: EWHM, the problems assigned from Chapter 3 in the 3<sup>rd</sup> meeting apply here, in addition you can practice with problems M5-12, M5-14, M5-16, E5-27, E5-28, P5-35 and P5-38 through P5-42 (EWH M4-11 to M4-14, E4-18 to E4-19, and P4-28).

Cases: UAL (expense estimation), PWA (Capitalization vs. Exp.), Bethlehem Steel (accounting changes) and Citicorp (Bad Debt Exp.).

**Due: Problem Set #2 (Kimberly Clark 1 and Starbucks)**

5<sup>th</sup> Mtg: Revenue Recognition and Accounts Receivable:

Mon Complete discussion of cashflow statement and continue with discussion of revenue  
Feb 18<sup>th</sup> recognition, expense estimation and matching of expense to revenues.

Reading: Lecture Notes #3. Text: EWHM, read 6-1 to 6-12 (EWH, read 5-1 to 5-11).

Practice Problems: EWHM M5-13, M5-15, M5-20, M5-21, E5-22, E5-23, and P5-33 in Chapter 5 and M6-12 to M6-15, E6-22 to E6-26, and P6-38 to P40 in Chapter 6 (EWH P4-30, P4-32, M5-12 to M5-14, E5-22 to E5-26, and P5-39).

Cases: Prepare Sealand, S&H and Thousand Trails from lecture notes. Also (time permitting) we may cover S&H and MyPoints.com, Service Corporation International, and Priceline.com (revenue recognition).

6<sup>th</sup> Mtg: Cost of Goods Sold and Inventory Valuations:

Mon Discuss inventory cost flow methods, especially difference between LIFO and FIFO, as  
Feb 25<sup>th</sup> well as inventory disclosures, and begin long-lived assets

Reading: Lecture Notes #4. Text: EWHM, read 6-13 to 6-25 (EWH, read 5-12 to 5-21).

Practice Problems: EWHM M6-16 to M6-18, E6-27 to E6-30 and P6-41 (EWH M5-16 to M5-18, E5-27 to E5-30 and P5-40 to P5-41).

Cases: Prepare cases on Kraft, GE, Walgreen's, Amazon.com and General Mills (Inventory valuation).

**Due: Problem Set #3 (Martha Stewart and Electronic Arts)**

**Detailed Class Outline (cont.)**

7<sup>th</sup> Mtg: Cost of Capacity and Valuation of Long Lived Assets:

Mon Begin/continue discussion of valuing long-lived assets, depreciation, cost of capacity,  
and

Mar 3<sup>rd</sup> aspects of valuing intangible assets.

Reading: Lecture Notes #4. Text: EWHM, read rest of Chapter 6, i.e., 6-26 to 6-37 (EWH,  
read 5-22 to 5-32).

Practice Problems: EWHM M6-19 to M6-21, E6-31 to E6-37, P6-42 and P6-43 (EWH M5-  
19 to M5-21, E5-31 to E5-37, and P5-43 to P5-44).

Cases: Prepare cases on Coca Cola Enterprises and Cadbury-Schweppes (costs of  
capacity and valuing brands) and Genentech (intangible assets).

8<sup>th</sup> Mtg: Catch-up Class:

Mon Finish cost of capacity and, time willing, move into liabilities.

Mar 10<sup>th</sup>, No readings, practice problems or cases, but review material up to the prior class.

**Due: Problem Set #4 (Kimberly Clark 2 and AT&T/Deutsche Telekom).**

9<sup>th</sup> Mtg, Monday Mar 17<sup>th</sup>: **Midterm Exam for Actg 500.**

Monday March 24<sup>th</sup> to Friday, March 28<sup>th</sup>, Spring vacation – no classes

10<sup>th</sup> Mtg: Financial Obligations (debt and leases):

Mon Discuss financial versus operating assets and obligations, beginning with the accounting

Mar 31<sup>st</sup>, for debt and leases.

Reading: Lecture Notes #5. Text: EWHM, read Chapter 8, including Appendices 8A and  
8B and then read 10-1 to 10-11 (EWH, read 7-1 to 7-20, Appendix 7A and 7B and skim rest of  
Ch 7 and then read 9-1 to 9-10).

Practice Problems: EWHM M8-7 to M8-22 (skip M8-18), E8-23 to E8-36 (skip M8-29),  
M10-10, M10-11, E10-19 to E10-23, and P10-28 to P10-30 (EWH M7-8 to M7-22 (skip  
M7-18), E7-23 to E7-36 (skip M7-29), M9-10 to M9-11, E9-19 to E9-22, and P9-27 to P9-29).

Cases: Prepare Time Warner (debt) and UAL Corp. (leases).

**Detailed Class Outline (cont.)**

11<sup>th</sup> Mtg: Financial Liabilities cont. (Pensions, OPEB and options):

Mon Apr 7<sup>th</sup>, Continue discussing obligations by moving to labor costs recorded as deferred compensation, pensions and OPEB costs and then onto taxes, time permitting.

Reading: Lecture Notes #5. Text: EWHM read 10-12 to 10-21 (EWH read 9-11 to 9-21 and page 4-9).

Practice Problems: EWHM (for pensions) M10-12 to M10-15, M10-18, E10-24 to E10-26, P10-31, and P10-31, no problems for options in EWHM, (EWH (for pensions) M9-12 to M9-15, E9-23 to E9-25, and P9-30 to P9-31, (for options) M4-16, E4-25 and P4-31).

Cases: Prepare SBC Comm. (OPEB) and Cisco (Employee Stock Options).

**Due: Problem Set #5 (Crown Castle Int'l & Aztar).**

12<sup>th</sup> Mtg: Taxation and Deferred Tax Accounting (coverage is time permitting):

Mon Apr 14<sup>th</sup>, Discuss accounting for taxes and deferred tax accounting.

Reading: Lecture Notes #6. Text: EWHM read 5-17 to 5-23 (EWH read 4-12 to 4-16).

Practice Problems: EWHM M5-18, E5-26, E5-29, P5-34, P5-36 and P5-37 (EWH E4-22).

Cases: Prepare IBM (taxation) case.

13<sup>th</sup> Mtg: Shareholders Equity, and Investments:

Mon Apr 21<sup>st</sup>, Analyze shareholders' equity with a discussion of different equity accounts, cash and stock dividends and other equity transactions and analyze business combinations, and accounting for investments.

Reading: Lecture Notes #7, Equity section. Text: EWHM read 7-1 to 7-11, skim the rest of Chapter 7 and read 9-1 to 9-18 (EWH read 6-1 to 6-10, skim the rest of Ch 6).

Practice Problems: EWHM, M7-11 to M7-13, E7-20 to E7-23, and P7-38 in Chapter 7 and M9-19 to M9-29, E9-34 to E9-47, and P9-49 to P9-54 (EWH M6-11 to M6-13, E6-20 to E6-23, and P6-38).

Cases: Prepare Coca Cola Company (Stockholders' equity and EPS) case.

**Due: Problem Set #6 (Coors and Pfizer)**

14<sup>th</sup> Mtg: Finish Shareholders Equity, Investments, and Course Summary:

Mon, Apr 28<sup>th</sup>: Wrap-up course and review for exam.

15<sup>th</sup> Mtg, Monday, May 5<sup>th</sup>: **Final Exam for Actg 500**