

### Course Information

<b>Title:</b>	Financial Accounting I	<b>Semester:</b>	Fall, 2009
<b>Number:</b>	CBA-ACTG 502, code is 10190	<b>Credits:</b>	4
<b>Place:</b>	Stephenson Hall, Room 220	<b>Times:</b>	Tuesday 6-9pm

### Course Professors & Admin

<b>Professor:</b> Michael T. Kirschenheiter	<b>Phone:</b> (312) 996-2284; <b>Office:</b> Rm 2309, UH
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### Course Descriptions for Actg 502

The objective of this course is to build upon the basic understanding of accounting fundamentals developed in Actg 500. As in Actg 500, we focus on how accounting data is used to make better decisions and investigate the limitations of its use. 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. I give more details on material covered in the “Material Coverage” section a couple pages below (see pp. 4-6 in this syllabus).

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.

### Policies and Requirements

Prerequisites: The only pre-requisite for this course is a basic understanding of financial accounting comparable to the coverage in Actg 500.

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 an assigned, reference a textbook: Intermediate Accounting, by David Spiceland, James Sepe, Mark Nelson, and Lawrence Tomassini, (5<sup>th</sup> edition), McGraw-Hill Irwin, (abbreviated as SSNT), and two other books as possible additional reference textbooks: Financial Reporting and Analysis, by Lawrence Revsine, Daniel W. Collins, W. Bruce Johnson and H. Fred Mittelstaedt, (4<sup>th</sup> edition), McGraw-Hill Irwin, (abbreviated as RCJM) and Intermediate Accounting, by Donald E. Kieso, Jerry J. Weygandt and Terry D. Warfield, (12<sup>th</sup> edition), John Wiley and Sons Inc., (abbreviated as KWW). As you will see, my lectures can be used with any of these texts, although the SSNT is the assigned text for this class. The text information is summarized below.

## **Policies and Requirements (cont.)**

### Assigned Textbook

Title:	Intermediate Accounting
Author:	David Spiceland, James Sepe, Mark Nelson, and Lawrence Tomassini,
Edition:	5 <sup>th</sup> edition,
Publisher:	McGraw-Hill Irwin

### Additional Reference Textbook

Title:	Financial Reporting and Analysis
Author:	Lawrence Revsine, Daniel W. Collins, W. Bruce Johnson and H. Fred Mittelstaedt,
Edition:	4 <sup>th</sup> edition, (I strongly suggest using this edition, as earlier editions leave out to much of the current financial reporting material).
Publisher:	McGraw-Hill Irwin

### Additional Reference Textbook

Title:	Intermediate Accounting
Author:	Donald E. Kieso, Jerry J. Weygandt and Terry D. Warfield
Edition:	12 <sup>th</sup> (earlier editions may be used, if you do not go back to far, but you have to figure out the readings).
Publisher:	John Wiley and Sons Inc.,

**The text is not the sole tool for learning, the primary tool is answering questions using actual F/S.** While the 5<sup>th</sup> edition of SSNT is the assigned text, you can use any edition of any of the three texts, indeed you can use any book you wish; the problems I assign (which are optional) will refer to the editions listed. The SSNT is assigned because I expect Professor Pandit or whoever teaches Actg 503 to use this book and I want to save those of you taking 503 a little money. Regarding the other books, I think RCJM is better from a conceptual standpoint, but I have used KWW in the past and it is a classic reference.

As mentioned above, there will be cases and problem sets, lecture notes and articles, as well as practice exams, all of which will be available on line. More important than reading the text or even doing textbook problems is to do the cases and the problem sets. I have included lecture notes and cases from my Actg 500 class here at UIC; those cases form a solid foundation for what we cover here in Actg 502. As you will see with the problem sets, Actg 502 covers some of the material covered in Actg 500, with more complications, details and subtleties, but also covers other material; this differs from my coverage in Actg 502 for the past couple years. We decided to move the basic asset accounts (Cash, A/R, Inventory and PP&E) to Actg 503, and replace this material with business combinations and investments and more details on the liability accounts. We shall see how it goes.

## **Policies and Requirements (cont.)**

**Grading:** Currently, there are 6 homework assignments and two exams scheduled for Actg. 502, a midterm exam on the 11<sup>th</sup> session and a final during our 16<sup>th</sup> meeting. The problem sets should be submitted on time and will be graded based on effort, i.e., show suitable effort and you get full credit. In the past, failure to complete the problem sets on a timely basis has almost always been associated with poor performance in the class, so I strongly recommend completing these on time. I determine course grades by allocating 20% of the total grade to class participation and problem sets (8% to the participation grade and 12% 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).

Exams have been open-book in the past; I plan to change this and only allow a cheat sheet for the mid-term and possibly the final as well. Exams are timed (2 hours each). I describe how I grade on the suggested solutions, which I draft for all the examinations I conduct. Briefly, I request that **any queries about grading be submitted in writing**. I respond to any query in writing, and will re-grade the entire semester's work if I deem a re-grading of the work is appropriate.

### **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 recopied 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.

**Material Coverage**

We have 16 sessions (including the sessions for the midterm and final exams) spread over the semester. Actg 502 and Actg 503 will cover all the material in the usual intermediate accounting textbook, in our case, in the SSNT, RCJM or the KWW textbook, just in a different order. In the past, we had simply followed the chapters in one of these texts (usually KWW), with Actg 502 covering the first 12 chapters and Actg 503 covering the second 12 chapters. While this was fine for students who took both courses (usually MSA's), students who took only Actg 502 (read this as MBA's) were at a disadvantage, especially when they took higher level elective courses such as financial statement analysis (Actg 516) or valuation (Actg 585). With this issue in mind, the Actg 502-3 sequence covers the SSNT chapters as follows.

<b>Allocation of SSNT chapters between Actg 502 and Actg 503</b>			
Ch #	Title	In 502	In 503
1	Environment and Theoretical Structure of Accounting	Partial	Yes
2	Review of Accounting Process		Yes
3	The B/S and Financial Disclosures	Yes	Review
4	The I/S and CF/S	Yes	Review
5	Income Measurement and Profitability	Yes	Review
6	Time Value of money Concepts	Yes	
7	Cash and A/R		Yes
8	Inventory: Measurement		Yes
9	Inventory: Additional Issues		Yes
10	Operational Assets: Acquisition and Disposition		Yes
11	Operational Assets: Utilization and Impairments		Yes
12	Investments	Yes	Yes
13	Current Liabilities and Contingencies	Yes	Review
14	Bonds and Long Term Notes	Yes	Review
15	Leases	Yes	Review
16	Income Taxes	Yes	Review
17	Pensions/OPEB	Yes	Review
18	Shareholders' Equity	Yes	Review
19	Share Based Compensation and Earnings Per Share	Partial	Yes
20	Accounting Changes	Partial	Yes
21	CF/S revisited	Partial	Yes

The term "Partial" means that we review only to the extent of covering the material at the level of Actg 500. The term "Review" means you may spend time reviewing/adding material in 503.

**Material Coverage (cont.)**

We will allocate the chapters in the KWW textbook in a similar fashion. Again, we cover the financial statements and their articulation, the assets and the major liabilities in Actg 502, and leave Actg 503 as a course for getting more into the accounting (and bookkeeping) details. With this issue in mind, the Actg 502-3 sequence covers the KWW chapters as follows.

<b>Allocation of KWW chapters between Actg 502 and Actg 503</b>			
Chap #	Title	In 502	In 503
1	Fin Acctg and Stds	Partial	Yes
2	Concept'l Frmwrk	Partial	Yes
3	Accounting Info Sys	Partial	Yes
4	I/S and related	Yes	
5	B/S and CF/S	Yes	
6	Time Value of money	Yes	
7	Cash and A/R		Yes
8	Value of Inventory		Yes
9	Advanced Inventory		Yes
10	PPE		Yes
11	Depreciation and other		Yes
12	Intangibles		Yes
13	Current Liabilities	Yes	Review
14	LT Liabilities	Yes	Review
15	Shareholders Equity	Yes	Review
16	Dilutive Sec/EPS	Partial	Yes
17	Investments	Yes	
18	Revenue Recognition	Partial	Yes
19	Income Taxes	Yes	Review
20	Pensions/OPEB	Yes	Review
21	Leases	Yes	Review
22	Accounting Changes	Partial	Yes
23	Return to CF/S		Yes
24	Full disclosure		Time permitting

Basically, KWW follows SSNT pretty closely, especially chapters 6-14, but starts to re-order the coverage after this point. Also, KWW has three additional chapters, but this is because SSNT folds the material in these chapters (16 on Dilutive Securities and EPS, 18 on Revenue Recognition and 24 on Full Disclosure) into earlier chapters.

**Material Coverage (cont.)**

We allocate the chapters in the RCJM textbook in a fashion similar to how allocated the chapters in SSNT and KWW. We cover the RCJM chapters in the Actg 502-3 sequence as follows.

<b>Allocation of RCJM chapters between Actg 502 and Actg 503</b>			
Chap #	Title	In 502	In 503
1	Economic and Institutional Setting	Partial	Yes
2	Accruals and I/S	Partial	Yes
3	Additional I/S Topics	Partial	Yes
4	B/S and CF/S	Yes	
5	F/S Analysis		Yes
6	Fin Info, Val'n and Cr Risk		Yes
7	Financial Info and Contracting		Yes
8	Cash and A/R		Yes
9	Inventory		Yes
10	PPE and Depreciation		Yes
11	Basic Liabilities	Yes	Review
12	Leases	Yes	Review
13	Income Taxes	Yes	Review
14	Pensions/OPEB	Yes	Review
15	OE/S	Yes	Review
16	Intercorporate Investments	Yes	Review
17	Revisit CF/S	Yes	Review
18	Int'l Financial Reporting	Time permitting	Time permitting

Simply put, Actg 502 is now designed to accomplish the following two tasks. First, to provide a more detailed foundation in accounting that supplements the material studied in Actg 500. This should prepare students wishing to take higher level electives in accounting. In addition to a discussion of the F/S and their articulation, the topics covered will be current liabilities, debt, pensions, leases, deferred taxes and investments. The big change from prior years will be to cover pensions, leases, taxes and investments but to defer coverage of the financial reporting regulatory environment, the accounting recording cycle, cash, A/R, inventory, PPE and intangibles to Actg 503. The second task is to teach these topics at a level that facilitates the student to take and pass the CPA exam. However, any student wishing to sit for the CPA exam needs to realize that full coverage of the intermediate accounting material will be accomplished only if that student supplements their course work by also taking Actg 503.

This summarizes the material covered in Actg 502 and our reasoning behind the design of the course. Next I provide a tentative **Detailed Class Outline**. I call it tentative as we may spend more or less time on individual areas, depending on how quickly or slowly we proceed.

**Detailed Class Outline for Financial Accounting I – Actg 502:**

1<sup>st</sup> Mtg, Part 1: Financial Accounting Review:

Tues Aug 25<sup>th</sup> Review the purpose of F/S, relations between stocks and flows, F/S articulation, transaction analysis, and the B/S equation. Next, briefly describe debits and credits, the structure financial reporting, including SOX and even IFRS.

Reading: Review, i.e., Actg 500 Lecture Notes #1 to #7 (see on-line) or Chapters 1-3, 5, 6 and 8-10 in Financial Accounting for MBAs by Easton, et al., (3<sup>rd</sup> edition), then read the Actg 502 Lecture Notes (abbreviated as LN) #1.

Cases: Let's do some codification work; we will check out the FASB codification online.

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

Tues Sept 1<sup>st</sup> Purpose and construction of I/S and B/S, emphasizing irregular items and reporting issues for the I/S and additional information and disclosure techniques on the B/S.

Reading: Actg 502 LN #2. Text: In SSNT read Chapter 3, parts A and B and Ch 4, part

A. RJCM Chapter 2 and Chapter 4, pages 181-196, KWW Chapter 4 and Chapter 5, pages 170-190.

Practice Problems<sup>1</sup>: SSNT, in chapter 3, all the BE, E3-1 to E3-12, and P3-1 to P3-10, and in Ch 4, BE4-1 to BE4-11, E4-1 to E4-14 and P4-1 to P4-8.<sup>2</sup> RJCM, in chapter 2, all the Exercises, Problems P2-1, P2-3, P2-5 to P2-8, and P2-11 and P2-12, and all the Cases. In Chapter 4, E4-1 to E4-6, P4-1, P4-6, P4-7, P4-13, P4-14, and C4-1 to C4-4.<sup>3</sup> KWW, in chapter 4, all the brief exercises, all the exercises except skip E4-13, and all the problems except skip P4-7, in Chapter 5, BE5-1 to BE5-11, E5-1 to E5-12, and P5-1 to P5-5.<sup>4</sup>

Cases: Ben & Jerry's Transaction Analysis Worksheet.

**Due: Problem Set #1 (Actg 500 type exam).**

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

Tu Sept. 8<sup>th</sup> Purpose and construction of the CF/S, emphasizing on F/S articulation via the direct CF/S and I/S, analysis of CF/S and discussion of basics of ratio analysis.

Reading: Actg 502 LN #3 on special CF/S topics and ratios analysis. Text: SSNT, Ch 4, part B and Ch 21, parts A and B. RCJM the rest of Chapter 4 and skim Chapter 5. KWW the rest of Chapter 5 including Appendix 5a on Ratio Analysis (i.e., pages 190-201).

Practice Problems: SSNT, in chapter 4, all remaining BE, E and P, and in Ch 21, BE21-1 to BE21-7, E21-1 to E21-6 and P21-1 to P21-11. RCJM, all remaining Exercises, Problems and Cases in Chapter 4. KWW, all the remaining brief exercises, exercises and problems, that is, BE5-12 to BE5-16, E5-13 to E5-18, P5-6 and P5-7.

Cases: More Ben & Jerry and other cases TBD (to be decided).

**Due: Problem Set #2 (General Mills)**

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<sup>1</sup> Remember, these are optional problems offered as a way to get more practice. Hence, I tried to include all the problems that I thought you might find useful, so only do the problems that you find useful.

<sup>2</sup> In SSNT, BE, E, and P mean Brief Exercises, Exercises and Problems, respectively while LO is learning objective.

<sup>3</sup> In RJCM, E, P and C stand for Exercises, Problems and Cases, respectively. I put the type in smaller font for both RJCM and KWW as these are secondary texts.

<sup>4</sup> As you may have guessed, BE, E and P stand for brief exercises, exercises and problems, respectively in KWW.

**Detailed Class Outline (cont.)**

4<sup>th</sup> Mtg: Time Value of Money and Basic Liabilities:

Tu Review the equation and calculation net present value of future cash flows and the  
Sept. 15<sup>th</sup>, valuation of bonds and then onto other basic current and non-current liabilities.

Reading: Actg 502 LN #3 (first half). Text: SSNT, Ch 6, Ch 13 and Ch 14, parts A and  
B. Read RCJM Chapter 11. KWW read Chapters 6, 13 and 14.

Practice Problems: SSNT, in Ch 6, all BE, E and P, in Ch 13, all BE, all E, and P13-1 to  
P3-8, and in Ch 14, BE14-1 to BE14-11, E14-1 to E4-19 and P14-1 to P14-18. RCJM,  
all E, P and C in Ch 11. KWW do all BE, E, and P in Ch 6 (but best are BE6-15, E6-13 to E6-15, P6-3  
to P6-14), all in Ch 13 but BE13-9 & 16, E13-20 to E13-22, P13-14 & 15 and BE14-1 to BE14-15,  
E14-1 to E14-19 and P14-1 to P14-11.

Cases: Some in class calculations of bonds from the lecture notes and tombstones in  
slides.

**Due: Problem Set #3 (KC and Starbucks) on F/S and articulation.**

5<sup>th</sup> Mtg: Time Value of Money and Basic Liabilities (cont.):

Tu Continue with valuation of bonds and then onto other basic current and non-current  
Sept. 22<sup>nd</sup>, liabilities including, e.g., Asset Retirement Obligations, or ARO's.

Reading: continue readings from 4<sup>th</sup> meeting.

Practice Problems: Continue problems from 4<sup>th</sup> meeting.

Cases: Some in class F/S analysis and simple liability and expense calculations.

6<sup>th</sup> Mtg: Leases:

Tu Discuss the accounting for leases, especially how it builds upon accounting for long  
Sept. 29<sup>th</sup>, term assets and accounting for debt.

Reading: Actg 502 LN #3 (2<sup>nd</sup> half). Text: SSNT, Ch 15. RCJM Chapter 12. KWW, Chapter 21.

Practice Problems: SSNT, in Ch 7, all the BE, E7-1 to E7-19, and P7-1 to P7-8. RCJM, all  
Exercises, Problems and Cases in Ch 12. KWW do all BE, E, and P in Chapter 21 except you can skip  
the following: BE21-12, E21-15, E21-16, P21-7 and P21-8.

Cases: Detail example from lecture notes, see slides.

**Due: Problem Set #4 (UAL, GIS and Priceline) on leases and debt.**

7<sup>th</sup> Mtg: Complete Leases... and then onto Taxes:

Tu Discuss accounting for taxes and deferred tax accounting, explaining how the accounting  
Oct. 6<sup>th</sup>, works and how to read the tax footnote.

Reading: Continue reading from 6<sup>th</sup> mtg and add the following, Actg 502 LN #4. Text:  
SSNT, Ch 16. Read RCJM Chapter 13. KWW read Chapter 19.

Practice Problems: SSNT, in Ch 16, all the BE, E, and P. RCJM, all E, P and C in Ch 8. KWW  
all BE, E and P in Ch 19.

Cases: Some examples of real F/S disclosures, e.g., like UAL in the problem sets and the  
cases for Actg 500.

**Detailed Class Outline (cont.)**

**8<sup>th</sup> Mtg: More on Taxes (cont.):**

Tu Discuss accounting for taxes and deferred tax accounting, explaining how the accounting  
Oct. 13<sup>th</sup>, works and how to read the tax footnote.

Reading: Actg 502 LN #4. Text: SSNT, Ch 16. Read RCJM Chapter 13. KWW read Chapter 19.

Practice Problems: SSNT, in Ch 16, all the BE, E, and P. RCJM, all E, P and C in Ch 8. KWW  
all BE, E and P in Ch 19.

Cases: See the detailed case examples in the lecture notes for depreciation as well as the  
less detailed but broader case in the slides.

**9<sup>th</sup> Mtg: Pensions and OPEB:**

Tu Continue discussing obligations by moving to labor costs recorded as deferred  
Oct. 20<sup>th</sup>, compensation, pensions and OPEB costs, time permitting.

Reading: Actg 502 LN #5. Text: SSNT, Ch 17. Read RCJM Chapter 14. KWW read Chapter 20.

Practice Problems: SSNT, in Ch 17, all the BE, E, and P. RCJM, all E, P and C in Chapter 14.  
KWW all BE, E and P in Chapter 20.

Cases: Examples for actual F/S disclosures for taxes and examples from the slides for the  
Pension problems.

**Due: Problem Set #5 (KC) on taxes and pensions and OPEB.**

**10<sup>th</sup> Mtg: Finish Pensions and OPEB and review for midterm:**

Tu Continue discussing obligations by moving to labor costs recorded as deferred  
Oct. 27<sup>th</sup>, compensation, pensions and OPEB costs, time permitting.

Reading: Actg 502 LN #5. Text: SSNT, Ch 17. Read RCJM Chapter 14. KWW read Chapter 20.

Practice Problems: SSNT, in Ch 17, all the BE, E, and P. RCJM, all E, P and C in Chapter 14.  
KWW all BE, E and P in Chapter 20.

Cases: F/S disclosures for pensions.

11<sup>th</sup> Mtg on Tuesday, November 3<sup>rd</sup>:

**Midterm Exam for Actg 502.**

**12<sup>th</sup> Mtg: Shareholders' Equity and EPS:**

Tu Review the result of the midterm, complete the discussion of benefit costs, as needed, and  
Nov. 10<sup>th</sup>, then move onto the analysis of shareholders' equity with a discussion of different  
equity accounts, cash and stock dividends and other equity transactions and  
earnings per share (eps) discussion.

Reading: Actg 502 LN #6. Text: SSNT, Ch 18. Read RCJM Chapter 15. KWW read Ch 15.

Practice Problems: SSNT, in chapter 18, all the BE, E, and P. RCJM, all E, P and C in Chapter  
15. KWW all the BE, E and P problems in Chapter 15.

Cases: Simple examples from slides.

**Detailed Class Outline (cont.)**

13<sup>th</sup> Mtg: Complete Shareholders' Equity and then introduce Intercorporate Investments:

Tu Finish shareholders' equity and then analyze business combinations, with a broad view of  
Nov. 17<sup>th</sup> accounting for mergers and acquisitions and the accounting for equity  
investments.

Reading: Complete readings from 12<sup>th</sup> mtg and then read Actg 502 LN #7. Text: SSNT,  
Ch 12. Read RCJM Chapter 16. KWW read Ch 17.

Practice Problems: SSNT, in CH 12, all the BE, E, and P. RCJM, all E, P and C in Chapter 8.  
KWW do all BE, E, and P in Chapter 17.

Cases: TBD.

14<sup>th</sup> Mtg: Intercorporate Investments:

Tu Finish shareholders' equity and then analyze business combinations, with a broad view of  
Nov. 24<sup>th</sup> accounting for mergers and acquisitions and the accounting for equity  
investments.

Reading: Finish equity and investment readings from 13<sup>th</sup> mtg.

Cases: TBD.

**Due: Problem Set #6 (TBA, but probably KC) on investments.**

15<sup>th</sup> Mtg: Review course material, course summary:

Tu, Dec. 1<sup>st</sup>, Wrap-up course and review for exam.

16<sup>th</sup> Mtg, Tuesday, December 8<sup>th</sup>: **Final Exam for Actg 502**