Financial Accounting

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Office/Canvas Chat Hours: Wednesday 3-5 p.m.

Course Objectives
The role of accounting is to provide information to investors, policy-makers, regulators, and other decision-makers to facilitate the allocation of resources in society. The purpose of this course is to understand the accounting process and to develop skills necessary to evaluate an enterprise’s financial position and its operating, investing, and financing activities.

The course gives students the necessary background to: (1) Understand the concepts and measurements that underlie financial statements; (2) Develop the skills needed to analyze financial statements effectively; and, (3) Gain an understanding of the choices enterprises make in reporting the results of their business activities.

The first part of the course emphasizes the measurement concepts and the mechanics of moving from business transactions to the principal financial statements: (1) Balance sheet; (2) Income statement; and, (3) Statement of cash flows.

The second part introduces tools for analyzing financial statements, with an emphasis on integrating industry economic and business strategic factors into the analysis and interpretations.

The third part focuses on generally accepted accounting practices (GAAP) for particular topics, such as the timing of revenue recognition, inventory valuation, and measuring the amount and cost of debt financing, with an emphasis on how management's choices among alternative GAAP affect the quality of earnings and reported financial position.

The course emphasizes interactive case discussions based on analysis of actual companies’ financial statements. Accordingly, the course provides an opportunity to develop skills necessary to critically evaluate firms’ actions and the efficiency with which they have managed their resources.

Course Materials

The course packet can be purchased at Wheelock Books.

Additional materials will be posted to Canvas. Class slides will be posted to Canvas after each class session.
Grading
The following guidelines will be used to evaluate your overall performance:
Mid-term Exam 30%
Final Exam 40%
Quizzes 10%
Homework 10%
Class Participation 10%

Mid-term Exam
The mid-term exam will emphasize material covered in sessions 1 to 9. The mid-term exam will be closed book and closed note.

Final Exam
The final examination will emphasize material covered in sessions 10 to 19. However, the course is cumulative in nature, so that some testing of material covered in sessions 1 to 9 will occur on the final exam. The final exam will be closed book and closed note.

If you perform better on the final exam than on the mid-term exam, grade weights will be:
Final Exam 70%
Quizzes 10%
Homework 10%
Class Participation 10%

Quizzes
There will be four short in-class quizzes (10 minutes) given during the term. Students can drop their lowest quiz score. Missed quizzes count as a drop. Quizzes will be closed book and notes.

Calculator Policy
Hand-held calculators may be used for mathematical calculations only.

Homework
Students are encouraged to begin work on the homework assignments prior to the respective lecture covering the material. You are encouraged to work through homework problems and to prepare for cases in groups. However, each student is individually responsible for turning in each assignment and for answering case-related questions in class.

Homework assignments are graded on a ‘0’, ‘1’, ‘2’ basis. I expect that most students who exert effort on all parts of their homework to receive full credit. However, partial credit will be given to students who fail to reasonably attempt each part of the assignment or do not convey to the grader reasonable effort on the assignment. All assignments are to be turned in electronically on Canvas by the deadline noted in the syllabus. You must convert each assignment to a PDF file and check the file for readability prior to submission. The student’s name, section, and the individual case must appear on the top of each individual homework assignment (i.e., if two homework assignments are due, two separate homework files need to be submitted). Students who do not format their homework assignments to print properly will automatically receive half credit (1). Students who submit late assignments will receive no credit (0).
Class Participation
The most important requirements for this course are thorough preparation and analysis of the reading materials, assigned cases and problems, and active participation in class. Students who try to learn the material immediately before an exam or an expected quiz will not perform well.

Your class participation grade is affected by general classroom behavior. You will lose points in this category for: being absent on a regular basis, not bringing name cards to class, coming late to class or leaving class early, or exhibiting behavior considered obstructive to the learning of other students in class (such as leaving and returning to class while it is in session, surfing the web and checking e-mail, cell phone use, and voicing inappropriate comments).

Week 10 Notice
I do not anticipate that I will need to fail any student. However, students who fail to exert any effort in the class or cannot demonstrate a reasonable level of proficiency with basic financial accounting concepts after ten weeks will be in danger of receiving a failing grade.

Students with Disabilities
Students with disabilities enrolled in this course that may need disability-related accommodations are encouraged to make an appointment to see me by January 15, 2015. All discussions will remain confidential, although the Student Disability Services Office may be consulted to discuss appropriate implementation of any accommodation requested.

Absenteeism Due to Illness
Students should always inform me of absences in advance. Students absent from class due to illness (or any other reason) are still responsible for the respective homework assignments. Missed quizzes cannot be made up and will count as the student’s dropped quiz. Absenteeism due to illness should be an infrequent occurrence. Students who must miss multiple classes due to an extended illness should contact me (preferably via email or phone) and let me know of the details of their illness and I will try to accommodate the student as best as possible.

Course Representatives
By January 15, 2015, I expect each section to have nominated 1-2 students to serve as the section’s course representative. The purpose of the course representative is to serve as a way for students to submit anonymous feedback to me in a real time manner. Students are encouraged to submit to the course representative general concerns/suggestions about the class. The course representative’s responsibility is to filter the substantive comments/suggestions from the trivial ones. Course representatives will meet with me at least 1-2 times a semester (or when warranted) to discuss any issues raised by students. Feedback from these meetings will be discussed in class.

Honor Code
This course will be conducted in strict conformity with the Academic Honor Code. The Code and related procedures can be found at http://www.dartmouth.edu/~uja/honor/. The site also contains comprehensive information on how to be sure that you have not plagiarized the work of others. Claimed ignorance of the Code and related information appearing on the site will be viewed as irrelevant should a violation take place.
Course Schedule
* indicates homework assignment to be graded.
WSF indicates textbook readings.

I. Financial Measurement

Week 1 (1/6, 1/8)
Session 1 (1/6): Introduction to Financial Accounting and Course Expectations
Learning Objectives
1) Understand class expectations, learning objectives, and the road map we will follow to develop an ‘accounting’ tool belt.
2) Introduction to Walmart and their 2014 annual report.

Session 2 (1/8): Overview of Business Activities and Principal Financial Statements
Learning Objectives
1) Discuss the relation between accounting and economics and the role of accounting information in the functioning of capital markets.
2) Obtain an overview of the principal activities of business firms and how they relate to the three principal financial statements.
3) Observe the types of information provided by the three principal financial statements and how firms might use this information in managing and evaluating a business.

Assignment: Read WSF Chapters 1-3
Prepare: WhoAmI (Canvas)
Week 2 (1/13, 1/14 X-Period), 1/15

Session 3 (1/13): The Balance Sheet: Measuring Financial Position

Learning Objectives
1) Understand that the purpose of the balance sheet is to report the results of a firm’s investing and financing activities at a moment in time.
2) Apply the accounting concepts for asset and liability recognition and valuation under generally accepted accounting principles (GAAP).

Assignment: Read WSF Chapter 4
Begin: Small Beginnings Corporation (Canvas)

Session 4 (1/14 X-Period): The Balance Sheet (continued)
1) Discuss the historical development of the double entry recording framework with particular emphasis on how modern accounting practices developed from mercantile trade in Europe in the 1400s.
2) Discuss the approach of the Financial Accounting Standards Board and International Accounting Standards Board.
3) Apply the dual-entry recording framework to a series of transactions that results in a balance sheet.

Prepare: Small Beginnings Corporation (Canvas)*

Session 5 (1/15): The Income Statement: Measuring the Results of Operating Performance

Learning Objectives
1) Understand differences between the cash basis and the accrual basis of income recognition.
2) Understand and apply the accounting concepts for revenue and expense recognition and measurement under the accrual basis.

Assignment: Read WSF Chapter 5
Prepare: Mary Lou’s Educational Services (Canvas)*

Week 2 Homework Due by 4 p.m. on 1/16/2015
Small Beginnings Corporation (Canvas)*
Mary Lou’s Educational Services (Canvas)*
Week 3 (1/20, 1/21 X-Period, 1/22)
Session 6 (1/20): The Income Statement (continued)
Learning Objectives
1) Apply the dual-entry recording framework to a series of transactions that results in a balance sheet and an income statement. Apply the accounting concepts for asset and liability recognition and valuation under generally accepted accounting principles (GAAP).
2) Discuss the corporate governance issues at WorldCom. Also discuss how WorldCom, Enron, Adelphia, HealthSouth, and others, motivated key provision of the Sarbanes-Oxley Act.

Prepare: WorldCom Case (Canvas)*

Learning Objectives
1) Understand the rationale for, and the information value of, the statement of cash flows.
2) Develop skills in transforming income statement data to cash flow data and cash flow data to income statement data.

Assignment: Read WSF Chapter 6
Prepare: Seasoned Company (Canvas)*
Prepare: Tertia (Canvas)*

Session 8 (1/22): The Statement of Cash Flows (continued)
Learning Objectives:
1) Reinforce skills in transforming income statement and cash flow data.
2) Consider relations between net income and cash flow from operations and between cash flows from operating, investing, and financing activities for various types of businesses.

Prepare: Aston Corporation (Canvas)*

Week 3 Homework Due by 4 p.m. on 1/23/2015
WorldCom (Canvas)*
Seasoned Co. (Canvas)*
Tertia (Canvas)*
Aston Corp., (Canvas)*
II. Financial Analysis

Week 4 (1/27, No Class 1/29)
Session 9 (1/27): Introduction to Financial Statement Analysis
Learning Objectives:

1) Introduce tools for analyzing a firm's overall profitability (rate of return on assets) and examine how profit margin and asset turnover ratios provide information about the economics and strategy of a business.
2) Introduce the Du Pont formula - a tool for analyzing a firm's return to shareholders.
3) Understand the effect of financial leverage on a firm’s ROE.
4) Introduce tools for analyzing a firm's short-term liquidity risk (including its working capital management) and its long-term solvency risk.

Assignment: Read WSF Chapter 7
Prepare: Wal-Mart Profitability (Canvas)*

Week 4 Homework Due by 4 p.m. on 1/30/2015
Wal-Mart Profitability (Canvas)*
Week 5 (2/3, 2/5)
Session 10 (2/3): Pro Forma Financial Statements
Learning Objectives:
1) Reinforce the relations between the three principal financial statements by preparing pro forma financial statements from a given set of assumptions.
2) Assess sensitivity of the financial statements to variations in pro forma assumptions.
3) Discuss which assumptions drive the various ratios in the Du Pont formula.

Prepare: Wal-Mart ProForma (Canvas).

Mid-term Exam
Wednesday, February 4, 2015, 3:00 – 5:00 p.m., Cook Auditorium, Tuck School.
Exam will cover Sections 1-9.

III. Financial Reporting

Session 11 (2/5) Quality of Earnings, Accounts Receivable, and Revenue Recognition
Learning Objectives:
1) Develop an understanding of the concepts of quality of earnings and identify incentives faced by a firm's managers in choosing methods of measuring and reporting business activities.
2) Discuss the recognition of revenue for firms in different industries.
3) Identify matching issues confronted in recognizing income at the time of sale of goods and services.
4) Understand the allowance method for uncollectible accounts.

Assignment: Read WSF Chapter 8
Prepare: Target (Canvas)*

Week 5 Homework due by 4 p.m. on 2/10/2015
Target (Canvas)*
Week 6 (2/10, 2/12)
Session 12 (2/10): Inventory and Cost of Goods Sold
Learning Objectives:
1) Apply the principles of accrual accounting to manufacturing firms, distinguishing between product costs and period expenses.
2) Calculate inventory and cost of goods sold under FIFO and LIFO cost flow assumptions.
3) Understand how differences in inflation rates, growth rates, inventory turnover rates and other factors cause inventories and cost of goods sold to differ under FIFO and LIFO.
4) Discuss the LIFO Conformity rule as an outcome of a political process.

Assignment: Read WSF Chapter 9 (including Appendix. 9.1)
Prepare: General Electric (Canvas)*

Session 13 (2/12): Non-current Assets and Depreciation and Amortization Expense
Learning Objectives:
1) Observe the difficulties applying GAAP to property, plant and equipment and to intangible assets and the effects on assessments of the quality of earnings.
2) Observe the effects of a firm’s capitalization policy on balance sheet and income statement amounts.
3) Discuss goodwill measurement as an outcome of a political process.

Assignment: Read WSF Chapter 10
Prepare: Southwest Airlines (Canvas)*

Week 6 Homework due by 4 p.m. on 2/13/2014
General Electric (Canvas)*
Southwest Airlines (Canvas)*
Week 7 (2/17, 2/19)
Sessions 14 (2/17) and 15 (2/19): Long-term Liabilities, Bonds, and Interest Expense

Learning Objectives:
1) Understand the impact of the recognition and valuation of liabilities on assessments of profitability and risk.
2) Discuss time value of money and how to discount future cash flows to compute net present value.
3) Calculate the issue price and subsequent market value of bonds with various cash flow patterns using present value techniques.
4) Apply GAAP for long-term bonds at the date of issue, during each subsequent period prior to maturity, and at maturity.
5) Understand the reasons why the book value of bonds under GAAP at any date may differ from the market value of the bonds.

Assignment: Read WSF Chapter 11 (p. 415 – 434)
Prepare: Sysco Corporation (Canvas)*

Week 7 Homework due 4 p.m. on 2/20/2015
Sysco Corporation (Canvas)*
Week 8 (2/24, 2/26)
Sessions 16 (2/24) and 17 (2/26): Accounting for Leases

Learning Objectives:
1) Understand the issues involved in structuring leases as operating leases versus capital leases and the financial statement effects of each accounting method.
2) Compare comparable companies with different lease accounting policies.
3) Learn and understand how to capitalize an operating lease for pro-forma analysis.

Assignment: Read WSF Chapter 11 (p. 434 – 445)
Prepare: Adair Corporation (Canvas)*
Prepare: Walgreens (Canvas)*

Week 8 Homework due by 4 p.m. on 2/27/2015
Adair Corporation (Canvas)*
Walgreens (Canvas)*
Week 9 (3/3, 3/5)
Session 18 (3/3): Shareholders’ Equity
Learning Objectives:
1) Understand the most common components of shareholders’ equity.
2) Understand the economics events that alter stockholders’ (or owners’) equity, and how to account for them.
3) Understand the various elements that affect the value of a stock option.
4) Evaluate GAAP accounting for stock options.
5) Analyze the impact of stock options on reported earnings.
6) Examine and understand the differences between comprehensive income and other comprehensive income.

Assignment: Read WSF Chapter 15
Prepare: PepsiCo Inc. (Canvas)*

Session 19 (3/5): Marketable Securities
Learning Objectives:
1) Understand the difference between trading securities, available-for-sale securities, and held-to-maturity securities.
2) Examine how security designation differentially affects net income, other comprehensive income, and comprehensive income.
3) Prepare journal entries related to marketable securities.

Assignment: Read WSF Chapter 13
Prepare: CapitalSouth Bancorp (Canvas)*

Week 9 Homework due by 4 p.m. on 3/6/2015
PepsiCo Inc. (Canvas)*
CapitalSouth Bancorp (Canvas)*

Week 10 (3/10)
Session 20 (3/10): Final Exam Review

Final Exam
10A: Saturday, March 14, 11:30 a.m. – 2:30 p.m.
2A: Saturday, March 14, 3:00 p.m. – 6:00 p.m.