

**INTRODUCTION TO FINANCIAL ACCOUNTING
ACCT 611
FALL 2015**



Instructor:

Chris Armstrong
1313 Steinberg Hall-Dietrich Hall
Phone: 215-898-2063
Email: carms@wharton.upenn.edu
Web: <http://acct.wharton.upenn.edu/faculty/armstrong/>

Location:

Section 001: JMHH 350 (Monday and Wednesday, 9:00 – 10:30)
Section 002: JMHH 350 (Monday and Wednesday, 10:30 – 12:00)
Section 003: JMHH 350 (Monday and Wednesday, 12:00 – 1:30)

Office Hours:

Monday and Wednesday 2:00 – 3:00 or by appointment

Course objectives:

The role of financial accounting is the accumulation, analysis, and presentation of relevant financial data of an enterprise to serve the needs of creditors, investors and other external decision makers. The objective of this course is to become familiar with the basic principles and practices of financial accounting by studying the concepts that underlie corporate financial statements. The course begins with an overview of the procedures necessary to prepare and understand the balance sheet, income statement, and statement of cash flows. The remainder of the course examines the accounting for the most common and significant transactions of a firm, such as accounts receivable and revenue recognition, inventories, long-term assets, debt, income taxes, investments, and stockholder's equity. Although a solid understanding of the rules and procedures required to construct financial statements is essential, this course emphasizes the analysis of financial statements and other financial disclosures.

Course website:

The website for this course can be found on Canvas:

<https://canvas.upenn.edu/courses/>

Course Material:

- **Textbook (required):** Dyckman, T., R. Magee, G. Pfeiffer, A. Hartgraves, and W. Morse, *Financial & Managerial Accounting for MBAs*, Wharton Custom Edition, 2014, Cambridge Business Publishers. This textbook is especially customized for our course, covers all the chapters in the class, and is available only in the Penn Bookstore. In the detailed schedule below, practice problems from the textbook are assigned to reinforce the material covered for each topic. Solutions to the problems in the textbook are posted on the course website.

Material on Course Website:

- **Lecture Slides:** the lecture slides will be made available in advance of class (at least one week before the scheduled date).
- **Homework Assignments** (for submission on Canvas) **and Cases** (for in-class discussion)
- **Exam Practice Problems and Solutions** (from old exams)
- **Articles:** business press articles are sometimes referenced in the course syllabus and provide context for issues, which will be discussed in class.

Grading Policy:

Final grades will be determined using the following weights (**Total: 100 points**):

| | |
|---------------------|---------|
| Midterm Exam | 35 pts. |
| Final Exam | 35 pts. |
| In-Class Quizzes | 15 pts. |
| Homework | 10 pts. |
| Class Participation | 5 pts. |

The grading scheme will be re-weighted to take into consideration improvement in student performance over the semester. If a student's mean-adjusted score on the Final Exam (i.e., adjusted for the mean class score) **improves** relative to his or her mean-adjusted score on the Midterm Exam, then the weight on the Midterm Exam will be reduced by 5 pts. (from 35 pts. to 30 pts.) and the weight on the Final Exam will be increased by 5 pts. (from 35 pts. to 40 pts.). Final course grades adhere to the school's mandated grade guidelines.

Midterm & Final Exams:

The Midterm Exam is scheduled for **Monday, October 12th from 6 pm to 8 pm** and will cover the material in Sessions #1 through #12, inclusive. The Final Exam is scheduled by the University Registrar and will be comprehensive, with a heavy emphasis on the material in Sessions #13 through #24. The final exam is scheduled for **Wednesday, December 16th from**

3 pm to 5 pm. Although it is rare for this date and time to change, the University Registrar does reserve the right to do so.

All exams are closed-book, but you are allowed to bring one piece of 8 ½" x 11" paper with notes. This paper may contain handwritten or typed (any font and size) notes. You may write on both sides.

It is the student's responsibility to attend examinations at the times and places that are specified. If a student cannot attend an examination, **it is his/her responsibility to notify the MBA Office** and the instructor prior to the exam (or as soon as possible). **Only** the MBA Office may grant a student authorization to be absent from an examination; **there are no exceptions to this rule.** In the event of an *authorized* absence from any exam, a make-up exam will be given in **January, 2016** during the official make-up exam period that is set by the Registrar. You will receive a final grade of "Incomplete" for the course pending the completion of the make-up exam. **An unauthorized absence from an examination will result in a grade of zero for that examination.**

The graded mid-term exam will be returned to the student mail folders. Scores will be posted to Canvas. If you believe that your exam has been incorrectly graded, you should return your exam to me – *not a TA* – **within one week** of the return of the examination (requests made after that will not be considered). You must submit the original copy of the examination together with a **written** note that clearly explains what you believe is the error. **The entire exam will be re-graded.**

In-Class Quizzes:

There will be **five** in-class quizzes during the semester that will be held on the dates indicated below and in the class schedule. **Quizzes will be given at the beginning of the class** (late arrivals will not be accommodated, so make sure that you arrive to class on time), usually before we start a new topic. Each quiz will take about 15 minutes and will usually consist of about four or five questions (primarily multiple choice). The quizzes will be closed-book and no notes will be allowed. The material covered in each quiz is set out in the syllabus below. Quiz scores will be posted to Canvas.

In computing a student's final grade, only the **four highest quiz scores** will be counted (i.e., the lowest quiz score will be dropped from the computation of your grade). If for some reason you are unable to attend class on one of the five quiz days, I will simply count the four quizzes that are completed. **No make-up quizzes will be given.** The solutions will be posted on the class web site on the day of the quiz. The dates for the five in-class quizzes are as follows:

| | |
|---------|---------------------------------------|
| Quiz 1: | Monday, September 14 th |
| Quiz 2: | Wednesday, September 23 rd |
| Quiz 3: | Wednesday, October 28 th |
| Quiz 4: | Monday, November 9 th |
| Quiz 5: | Wednesday, November 18 th |

Homework Assignments:

There will be four homework assignments with due dates indicated below and in the class schedule. The homework assignments may be discussed in groups. However, you must submit your own solutions that represent your own individual work. It is not acceptable to copy another student's work and submit it as your own. The homework assignments will be available on the course website about one week before they are due. All homeworks must be submitted **electronically (via Canvas) by 6 pm on the due date. I strongly recommend that you submit your homework answers in advance of the 6 pm deadline. Please do not hand in a hard-copy to me or the TAs. It will not be accepted.** Homework scores and solutions will be posted to Canvas shortly after the homework is due.

The due dates for the four homework problem sets are as follows:

| | |
|-------------|--|
| Homework 1: | Friday, October 2 nd (6 pm) |
| Homework 2: | Thursday, October 8 th (6 pm) |
| Homework 3: | Friday, November 6 th (6 pm) |
| Homework 4: | Friday, December 4 th (6 pm) |

Class Participation and Conduct:

Class participation grades will be based on what you add to the learning experience of the entire class. Students who consistently make contributions that facilitate discussions, help to clarify technical points, or provide new insights will receive five points. No contribution or contributions that are obvious, confusing, or peripheral will receive zero points. Consistently discourteous behavior (see below) will also result in zero class participation points. Contributions between these two extremes will receive between one and four points. Please make sure to display your name tents to help me learn your names and to help facilitate the classroom discussion.

As a courtesy to both me and your fellow students and to ensure that everyone has the greatest opportunity to learn, please adhere to the following:

- Students should sit in the same seat each class session to help me keep track of where everyone is.
- Class starts and ends on time. If a unique situation arises such that you must come in late, please inform your professor ahead of time and sit in an open aisle seat close to the door you arrived through.
- Students should remain in attendance for the duration of class, except in an emergency. If a unique situation arises such that you must leave early, please inform your professor before class and sit in an open aisle seat near the exits of the classroom.
- All phones and other electronic devices should be turned off, with the exception of computers/tablets. Use of computers/tablets, however, must be strictly for the purpose of this class.
- Please do not carry on private conversations during class.

Class Preparation:

You should come to class having reviewed the daily class slides and, on days with an assigned article or case study, having read these materials and worked through the case questions. You should also read the suggested sections from the textbook either before or immediately after class, and work through at least some of the suggested practice problems from the textbook.

Teaching Assistants and Review Sessions:

There are seven teaching assistants for the course. Each of these TAs is a second-year MBA student who performed extremely well in the introductory financial accounting course last year. The TAs will hold regular office hours on four out of five days every week (except during breaks and holidays) based on the schedule posted on the course website. The typical weekly office hour schedule is as follows (all office hours will be held in **SH-DH 211** unless otherwise noted; for details see the schedule posted on the course website):

| | |
|-----------|-------------------|
| Monday | 4:30 pm – 6:30 pm |
| Tuesday | 4:30 pm – 6:30 pm |
| Wednesday | 4:30 pm – 6:30 pm |
| Friday | 10:00 am – noon |

During office hours, one of the TAs will be present and will assist with questions about concepts, assigned problems/cases, or homework problems (however, they will not give you the solution to the homework assignments). Note that the TAs are jointly servicing both ACCT611 and ACCT613, so you may encounter students from both courses attending the same office hours.

The seven TAs for the course are as follows:

| | |
|----------------------|--|
| Michaela Desantis | michelad@wharton.upenn.edu |
| Lindsey Gui | lgui@wharton.upenn.edu |
| Meng-xi Hu | mehu@wharton.upenn.edu |
| Eugene Kim | kimeuge@wharton.upenn.edu |
| Agnieszka Kostrubiec | akostr@wharton.upenn.edu |
| Laura Tao | taolaura@wharton.upenn.edu |
| William Wachter | wwachter@wharton.upenn.edu |

Ethics Matrix:

The Wharton MBA Code of Ethics typically requests an Ethics Matrix for each class to provide ground rules and ethical guidelines for course materials and assistance from classmates or others. Below is the completed matrix for this course. If you have any questions about the matrix, please feel free to ask me.

| ACCT 613 Financial & Managerial Accounting | Materials | | | | | | | People | | | | |
|--|---|----------------------------|------------------------|----------------------------|------------------------|--------------------------|--|---|----------------------------------|--|--|---------------------------|
| | Approved calculator | Laptop / other electronics | Summary sheet of notes | Current book / class notes | Past notes / summaries | Past exams / assignments | Internet content / other outside materials | Learning team / approved work team | Other student(s) in same section | Student(s) in other sections (same term) | Wharton student not taking the class this term | Person outside of Wharton |
| In-Class Readings & Cases | A | A | | A | | | A | W | W | W | | |
| Homework Problem Sets | A | A | | A | | | A | D | D | D | | |
| In-Class Quizzes | A | | | | | | | | | | | |
| Midterm & Final Exams | A | | A | | | | | | | | | |
| | A = Allowed material Shaded Cell = Not allowed | | | | | | | W = Allowed to work together D = Discussion of general concepts and procedures is allowed but no sharing of specific answers. Shaded Cell = Not allowed | | | | |
| <u>Other comments:</u> | | | | | | | | | | | | |
| The information above covers many common situations but will not cover every circumstance. Remember: The Wharton MBA Code of Ethics that you accepted requires, among other things, that you represent yourself and your work honestly, don't try to gain unfair advantage over other students, follow the instructor's guidelines and respect confidentiality of your work and the work of others. Should you have questions, please contact your ethics liaison or professor. | | | | | | | | | | | | |

Class Schedule:

Key: TB refers to the Dyckman et al. textbook (Wharton custom edition); x-y means problem y in chapter x of the textbook.

| | | | |
|---|----------|---------------------|---|
| 1 | Wed 8/26 | Introduction | Slides: Session 1 TB Reading: Chapter 1 TB Problems: M1-24, E1-28, E1-29, P1-36, P1-37 Add. Reading: Basics of Accounting Are Vital to Survival; Tesla Loss Widens as Spending Jumps |
|---|----------|---------------------|---|

| | | | |
|---|----------|--|---|
| 2 | Mon 8/31 | Accounting Process; Mapping Business Activity into Financial Statements | Slides: Session 2 Case: Animatronics (Q1 – Q4) TB Reading: Chapters 2 and 3 TB Problems: Chapter 2: M2-18, M2-19, M2-26, E2-33, E2-44 Chapter 3: M3-22, M3-24, E3-32, E3-38 Add. Reading: Apple Warns EU Investigation Could Result in Back Taxes; Driverless Car is Officially a Risk |
|---|----------|--|---|

| | | | |
|---|---------|---|--|
| 3 | Wed 9/2 | Economics vs. Accounting; Balance Sheet Presentation; Introduction to Accrual Accounting | Slides: Session 3 TB Reading: Chapters 2 and 3 TB Problems: Chapter 2: P2-58, P2-64 Chapter 3: P3-42, P3-49 Add. Reading: How Binge Viewing Could Rock Netflix Stock |
|---|---------|---|--|

| | | | |
|---|---------|---|---|
| 4 | Wed 9/9 | Revenue Recognition; Accrual Accounting and the Matching Principle | Slides: Session 4 Case: United Airlines TB Reading: Chapter 6, p. 267-277 TB Problems: M6-14, M6-24, E6-32, E6-39, E6-40 Add. Reading: Accounting Shift Would Lift Tech Profits; Zynga Explains Method for Recording Real Revenue; Boeing Hits a Milestone; SEC Investigating Smirnoff Maker; Tech Startups Woo Investors; Microsoft Financials |
|---|---------|---|---|

5 Mon 9/14 **Statement of Cash Flows**

Slides: Sessions 5 & 6
 Case: Animatronics (Q5)
 TB Reading: Chapter 4
 TB Problems: M4-23, M4-26, M4-31, E4-34, E4-38, E4-41, E4-44
 Add. Reading: Cash Never Flow Lies; Chevron Needs to Boost Cash Flow to Cover Dividend

Quiz #1: 10-20 minute quiz, covering Sessions #1 - #4

6 Wed 9/16 **Statement of Cash Flows (continued)**

Slides: Sessions 5 & 6
 Case: Callaway Golf
 TB Reading: Chapter 4
 TB Problems: P4-51, P4-54
 Add. Reading: Quick Cash Via Receivables Deals

7 Mon 9/21 **Introduction to Financial Statement Analysis (FSA)**

Slides: Session 7
 TB Reading: Chapter 5
 TB Problems: M5-14, M5-24, E5-27, E5-33, P5-46
 Add. Reading: Decline of the P/E Ratio;
 The 109,894-Word Annual Report;
 Home Depot Working Capital;
 PepsiCo Financials

8 Wed 9/23 **Accounts Receivable**

Slides: Session 8
 Case: Barnes & Noble
 TB Reading: Chapter 6
 TB Problems: M6-18, M6-20, E6-33, E6-34
 Add. Reading: Accounting Issues at WorldCom;
 At Nortel, Warning Signs Existed Months Ago

Quiz #2: 10-20 minute quiz, covering Sessions #5 - #7

9 Mon 9/28 **Accts Receivable (cont'd) and Inventory & Cost of Goods Sold (begin)**

Slides: Sessions 9 & 10
 TB Reading: Chapter 7
 TB Problems: M7-15, M7-19, M7-22, E7-26, E7-29, E7-31
 Add. Reading: Big Oil's Accounting; Unraveling Inventory's Riddle;
 Boeing Hits a Milestone; Chesapeake's Obscure Costs

10 Wed 9/30 **Inventory & Cost of Goods Sold (continued)**

Slides: Sessions 9 & 10
 Case: Research in Motion
 TB Reading: Chapter 7
 Add. Reading: Supplement to LIFO vs. FIFO;

Fri 10/2 **Homework #1 (due at 6 pm)**

(Topics covered: Accounts Receivable and Inventory)

11 Mon 10/5 **Long-Lived Assets**

Slides: Sessions 11 & 12
 TB Reading: Chapter 8
 TB Problems: M8-11, M8-14, E8-24, P8-36
 Add. Reading: IFRS Spells Write-Downs;
 DirecTV Write-Downs

12 Wed 10/7 **Long-Lived Assets (continued)**

Slides: Sessions 11 & 12
 Case: Berwick Tools
 TB Problems: M8-17, M8-21, E8-29, E8-32, E8-35
 Add. Reading: Sprint Takes Write-Down as Brand Value Loses Value;
 What is Big Data Really Worth?

Thu 10/8 **Homework #2 (due at 6 pm)**

(Topics covered: Long-Lived Assets)

Mon 10/12 **Midterm Exam (6 pm – 8 pm; rooms TBD)**

(Topics covered: Sessions #1 - #12, inclusive)

13 Mon 10/19 **Long-Term Debt**

Slides: Sessions 13 & 14
TB Reading: Chapter 9, Appendix A (Time-Value of Money)
TB Problems: M9-21, M9-22, M9-29, M9-31, M9-34, E9-39
Add. Reading: Citigroup Finds a Profit

14 Wed 10/21 **Long-Term Debt (continued) and Leases (begin)**

Slides: Sessions 13 & 14; Session 15
Case: Starbucks
TB Problems: M9-23, M9-26, E9-47, P9-53
Add. Reading: Morgan Stanley to Post a Loss from Bonds;
Demystify the Lehman Shell Game

15 Mon 10/26 **Leases (continued)**

Slides: Session 15
TB Reading: Chapter 10, p. 453-466
TB Problems: M10-13, M10-15, E10-23, E10-26
Add. Reading: New Accounting Rules Ruffle the Leasing Market;
Leases Suffer Identity Crisis; Northeast Airlines
Financials

16 Wed 10/28 **Accounting for Income Taxes**

Slides: Sessions 16 & 17
TB Reading: Chapter 10, p. 476-483
TB Problems: M10-22, E10-33, P10-40, P10-41
Add. Reading: SEC Challenging Multinationals on Plans for Foreign
Earnings; Sony Profits Are Far Off with Write-Down

Quiz #3: 10-20 minute quiz, covering Sessions #13 - #15

17 Mon 11/2 **Accounting for Income Taxes (continued)**

Slides: Sessions 16 & 17
 Case: Safeway Inc.
 TB Problems: E10-32, P10-42, C10-47
 Add. Reading: Piles of Overseas Profits Investors Can See but Not Touch; Tax Twist: At Some Firms, Cutting Corporate Tax Rates May Cost Billions

18 Wed 11/4 **Stockholders' Equity**

Slides: Session 18
 Case: Pepsico
 TB Reading: Chapter 11
 TB Problems: M11-20, M11-21, M11-25, M11-35, E11-45, E11-54
 Add. Reading: Stock Buybacks Consume Cash; When Friending Becomes a Source of Funds; Time for BofA to Bid Warren Buffett Adieu

Fri 11/6 **Homework #3 (due at 6 pm)**

(Topics Covered: Long-term debt, Leases, and Taxes)

19 Mon 11/9 **Marketable Securities, Intercorporate Investments & Segment Reporting**

Slides: Sessions 19 & 20
 Case: Peet's Coffee
 TB Reading: Chapter 12, p. 555-567
 TB Problems: M12-11, M12-12, E12-24, E12-26
 Add. Reading: Bank Quandary - Valuing the Assets; Distortions in Baffling Financial Statements

Quiz #4: 10-20 minute quiz, covering Sessions #16 - #18

20 Wed 11/11 **Marketable Securities, Intercorporate Investments & Segment Reporting**

Slides: Sessions 19 & 20
 TB Reading: Chapter 12, p. 568-581; Back Chapter 12, p.589-599
 TB Problems: E6-38, M12-14, M12-15, Back Ch. 12: E-28, E-29, P-33
 Add. Reading: Buyers Beware: The Goodwill Games; The Importance of Segment Data; FASB Rethinks Business Segment Reporting

21 Mon 11/16 **Pensions and Other Post-Employment Benefits (OPEB)**

Slides: Session 21
Case: Johnson & Johnson
TB Reading: Chapter 10, p. 466-475
TB Problems: M10-17, M10-20, E10-29, P10-38
Add. Reading: U.S. Corporate Pension Plans' Funding Deficit; S&P 500 Companies Post Record Level of Pension Underfunding

22 Wed 11/18 **Pensions (continued) and Interim Financial Reporting**

Slides: Session 22
TB Reading: Back Chapter 12, p. 599-608
Add. Reading: Taking Stock of S&P Earnings

Quiz #5: 10-20 minute quiz, covering Sessions #19 - #21

23 Mon 11/30 **Accounting for Financial Institutions**

Slides: Session 23
Add. Reading: Excessive Disclosure by Banks Eludes Comprehension; Distortions In Baffling Financial Statements; Deutsche Bank to Reduce Assets; Accounts Misled Us Into Crisis

24 Wed 12/2 **“Capstone Case” and Review**

Case: Target Corp. Comprehensive Case

Fri 12/4 **Homework #4 (due at 6 pm)**

(Topics Covered: Shareholders' Equity, Marketable Securities, and Pensions)

Wed 12/16 **Final Exam (3 pm – 5 pm; rooms TBD)**

(Topics covered: Comprehensive with emphasis on Sessions #13 - #24)
