

ACCT 612
Introduction to Financial Accounting (Accelerated)
Fall Semester 2017

Instructor

Robert E. Verrecchia

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Office Hours: Please arrange a time to meet by contacting me via my e-mail address.

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Course objectives

The goal of ACCT 612 is to improve our understanding of the *disclosure* firms provide in their financial reports about their results of operations. Please review the **Schedule of Assignments** below for a list of specific topics covered. If you decide to register for this course, note that the problem assigned for the 1st class on August 29, Animatronics (Financial Statements Review; 2015), is do *before* class begins: *please prepare this assignment in advance!*

Course website

The website for ACCT 612 can be found on Canvas: <https://canvas.upenn.edu/courses>.

Course material that can be found on Canvas includes:

- Lecture slides in PDF format (available in advance of the scheduled class date)
- Solutions to the assigned textbook exercises and problems
- Cases for in-class discussion (along with solutions *after* the case is discussed)
- Supplementary reading
- A seating chart

Textbook

Dyckman, T., M. Hanlon, R. Magee, and G. Pfeiffer, *Financial & Managerial Accounting for MBAs*, Wharton Custom 2nd Edition (2017) Cambridge Business Publishers. This textbook has been customized for use in ACCT 611, 612, and 613 (in conjunction with offering a substantial discount to students); this textbook is only from the Penn Bookstore. In the **Schedule of Assignments** below, “TB” is an abbreviation for the “T(ext)B(ook).”

There is an earlier Wharton Custom 1st Edition (2014) of this textbook that you may be able to obtain at less cost. It is also possible to find copies of the textbook on reserve at Lippincott Library. I encourage you to have access to some reference source even if it is an earlier edition.

Support and assistance

ACCT 612 has been assigned three teaching assistants (TAs):

- Shaistah Bahrainwala (shaistah@wharton.upenn.edu)
- Nathan Lipkin (nlipkin@wharton.upenn.edu)
- Kening Tan (kening@wharton.upenn.edu)

Each TA is required to provide 2 hrs. of office-hour assistance (tutoring) each week starting the 2nd week of the semester. As an experiment, this year I will ask (on a rotating basis) *one* of the TAs to be available for office hrs. each week, and the other *two* TAs to be available in reserve for assistance provided that students contact the TA directly and make arrangements to meet (with the understanding that each TA is only required to provide a total of 2 hrs. of assistance each week). Office-hour meetings are held in SH-DH 420, which is in the basement/ground floor of SH-DH (depending upon which entrance one uses).

In addition to TA assistance, this year I am introducing two innovations. First, starting the 2nd week of the semester I will hold an ‘early bird’ review session every Tuesday starting at 8am in the classroom that we are assigned: in this session I will answer any-and-all questions about the course material. If a student who has registered for either the 10:30am or 12noon section wants to partake in the ‘early bird’ review session and then stay for the 9am class, I have no objection. Second, I have set up a link on Canvas called “Feedback” that allows a student to comment (or complain) about any aspect of the course in ‘real time,’ and preserve his/her anonymity. I will monitor the feedback, and attempt to address any issues as soon as is practical.

Grading

Grading will be based on both ‘hard’ (i.e., objective) and ‘soft’ (i.e., subjective) measures of performance. As for the hard measures, there are a total of 250 pts. ‘in play’ on the Midterm exam (120 pts.) and Final exam (130 pts.). There are also 8 cases: see the **Schedule of Assignments** for the specific dates that each case will be discussed in class. For each case I will randomly select in advance the names of 4-5 students, and call on these students to discuss their answers to the case. If a student selected in advance is not in attendance – or is in attendance but not adequately prepared to discuss the case – 25 pts. shall be subtracted (per case) from the 250 pts. ‘in play.’

As for soft measures, I will set up a ‘cookie-jar’ reserve of 50 pts. At the end of the term if a student is a few points below the cutoff for a grade – and that student has attended class regularly, asked good questions in class, and otherwise seems ‘engaged’ – I will grant the student the points necessary to get above the cutoff (up to 4 pts. per student with a total of 50 pts. for *all* students). However, for the ‘cookie-jar’ reserve to come into play, a student has to be within 4 pts. of the cutoff.

Last year the MBA Office assigned ACCT 612 a grade point average of **3.4** and a LT percentage of **4%**. *Both these numbers are at the discretion of the MBA Office (!)*, and involve a variety of factors that cannot be predicted in advance (e.g., the number of students who drop the course).

Midterm and Final exams

The Midterm exam is scheduled for September 14 from 6-8 pm and will focus exclusively on the course material in Classes #1-6. I am available for any ‘last minute’ questions in my office (SH-DH 1322) between 3-5 pm on September 14.

The Final exam is scheduled for October 12 from 6-8 pm and will focus primarily on the course material in Classes #7-12. I have scheduled a review for the Final exam from 4:30-5:30 pm on October 11.

Exam preparation

In preparing for exams, I recommend the following hierarchy.

1. Carefully review the lecture slides that accompany each class
2. Understand the questions and solutions to the cases that are covered in class
3. Do assigned exercises and problems in the textbook
4. Read the assigned material in the textbook
5. Examine the disclosure of companies other than those discussed in class

With regard to the disclosure of companies other than those discussed in class, I have posted on Canvas the 10-Ks of the companies used on last year's exams: Harley-Davidson, Inc., BNSF Railway Company, and Newell Rubbermaid. I have also posted (with and without solutions) the Midterm and Final exams from 2015 and 2016. Unfortunately, the sequence of topics covered this year is not identical to the sequence covered in prior years; this means that prior years' exam questions will not comport perfectly with the exam questions I use this year.

Both the Midterm and Final exams will be closed book, closed notes, no electronic devices, etc.: in effect, the only items a student can take with him or her to the exam are writing materials and calculators (the exam will include some blank pages for 'scratch paper').

The MBA Office sets the times and dates for the Midterm and Final exams: I have no control over these times/dates. Students have a responsibility to attend exams at their scheduled times. If a student is unable to attend an exam, he or she has a responsibility to notify the MBA Office prior to the exam. The MBA Office has exclusive purview over whether to grant a student authorization to be absent from an examination. In the event of an *authorized* absence from any exam, a make-up exam will be administered in January, 2018, during the official 'make-up' exam period whose date is set by the Registrar: a student will receive a grade of "Incomplete" pending the completion of the 'make-up' exam. An unauthorized absence from an examination will result in subtracting the maximum number of points associated with the exam.

After each exam, suggested solutions will be posted on Canvas. *Requests to re-grade exams are strongly discouraged!* Exams are a collaborative process between an instructor and students; if a student has a valid inquiry about how a specific question was graded, he or she must submit: 1) the original copy of the exam; and 2) a *detailed* explanation of the issue/controversy/error. Re-grading requests will only be honored up to 72 hours after exams have been made available.

Transferring out of ACCT 612

A student has the opportunity to drop ACCT 612 and transfer into either ACCT 611 or ACCT 613 (*assuming capacity remains!*) without penalty until 5 pm on Monday, September 18. Every attempt will be made to grade and distribute the Midterm exam before the end of the day on September 18 so as to allow students to look over their exams before making the decision.

Schedule of Assignments

August 29
Class #1

Statement of Cash Flows

Slides: Class #1
TB Reading: Chapter 4
TB Problems: E4-35, E4-39, E4-42, E4-44
Assigned Problem: Animatronics (Financial Statements Review; 2015)
Supp. Reading: The 109,894-Word Annual Report; Cash Never Flow Lies; Quick Cash via Receivables Deals

August 31
Class #2

GAAP vs. Tax Code (IRS)

Slides: Class #2
TB Reading: Chapter 10, p. 484-491
TB Problems: M10-22, E10-32, P10-40, P10-41, P10-42, C10-47
Supp. Reading: Fuzzy-Math Accounting; SEC Challenging Multinationals; Sony Profits Are Far Off with Write-Down; Motorola Deal Offers Google Tax Benefits; Losses Lurk in Trump Tax Plan; Tax Twist: At Some Firms, Cutting Corporate Tax Rates May Cost Billions

September 5
Class #3

Revenue Recognition

Slides: Class #3
TB Reading: Chapter 6, p. 270-281
TB Problems: M6-14, M6-24, E6-32, E6-40, E6-41
Case #1: United Airlines (Revenue Recognition; 2017)
Supp. Reading: Got'em, Gotham; Let's Quit the Chest-Beating about Car Sales; A Revenue Growth Crutch for com.Score; How Hampton Creek Sold Silicon Valley on a Fake-Mayo Miracle; Sunrun Sales Data Seen as Skewed; The Dozy Watchdogs; For New Revenue-Recognition Rules, It's Ready vs. Not

September 7
Class #4

Accounts Receivable

Slides: Class #4
TB Reading: Chapter 6
TB Problems: M6-18, M6-20, E6-33, E6-34
Case #2: Barnes & Noble (Accounts Receivable; 2014)
Supp. Reading: At Nortel, Warning Signs Existed Months Ago; China Has a \$590 Billion Problem with Unpaid Bills; Accounting Issues at WorldCom

September 12 Class #5	Inventory and Cost of Goods Sold (COGS)
Slides:	Class #5
TB Reading:	Chapter 7
TB Problems:	M7-15, M7-19, M7-23, E7-26, E7-29, E7-31
Case #3:	Research in Motion (Obsolete Inventory; 2014)
Supp. Reading:	Fade to BlackBerry; Big Oil's Accounting Methods

September 14 Class #6	Review for Midterm Exam
TB Problems:	P4-51, P4-52, P4-54
Case #4:	Calloway Golf (Statement of Cash Flows; 2016)
Assigned Problem:	Popstar (Cash Flows Exercise; 2017)

September 14	Midterm Exam: 6-8 pm (SH-DH 350)
Topics Covered:	Classes #1-6

September 19 Class #7	Long-Lived Assets
Slides:	Classes #7 & 8
TB Reading:	Chapter 8
TB Problems:	M8-11, M8-14, E8-24, P8-36
Supp. Reading:	IFRS Spells Write-Downs; DirecTV Write-Downs

September 21 Class #8	Long-Lived Assets (continued)
Slides:	Classes #7 & 8
TB Reading:	Chapter 8
TB Problems:	M8-17, M8-21, E8-28, E8-31, P8-39
Case #5:	AAON, Inc. (Disposition of Assets; 2017)
Supp. Reading:	Write-Downs Abound as Prices Keep Oil in the Ground; Sprint Takes \$1.9 Billion Write-Down; SEC Makes B&N Justify Goodwill

September 26 Class #9	Long-Term Debt
Slides:	Class #9
TB Reading:	Chapter 9
TB Problems:	M9-22, M9-23, M9-31, E9-47, P9-53, P9-56
Supp. Reading:	Citigroup Finds a Profit; Morgan Stanley to Post a Loss from Bonds

September 28 Class #10	Leases Slides: Class #10 TB Reading: Chapter 10, p. 460-472 TB Problems: M10-13, M10-15, E10-23, E10-26 Case #6: Starbucks (Debt; 2016) Supp. Reading: New Accounting Rules Ruffle the Leasing Market; Leases Suffer Identity Crisis; Northeast Airlines Financials; Crowded Skies
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October 3 Class #11	Marketable Securities and Intercorporate Investments Slides: Classes #11 & 12 TB Reading: Chapter 12, p. 562-587 TB Problems: M12-11, M12-12, E12-24, E12-38, E12-39 Case #7: Southwest Airlines (Leases; 2016) Supp. Reading: Banks Face a Mark-to-Market Challenge; Bank Quandary: Valuing the Assets
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October 5 <i>NO CLASS!</i>	Fall Break
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October 10 Class #12	Marketable Securities and Intercorporate Investments (continued) Slides: Class #11 & 12 TB Reading: Chapter 12, p. 562-587 TB Problems: M12-14, M12-15, E12-28, E12-29, E12-34 Case #8: Starbucks (Noncontrolling Interest; 2017) Supp. Reading: Forget Going Public, U.S. Companies Want to Get Bought; \$25.7B: Total value of goodwill write- downs in 2014; HP to Book \$8 Billion Charge; Buyers Beware: The Goodwill Games
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October 11	Review for Final Exam: 4:30-5:30 pm (SH-DH 1206)
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October 12	Final Exam: 6-8 pm (JMHH F50 and F55) Topics Covered: Primary emphasis Classes #7-12
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