

University of Pennsylvania, The Wharton School
ACCT 212 Financial Measurement and Disclosure
Fall 2019 semester

INSTRUCTOR

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CLASS MEETING TIMES

001	TR	1030AM-1200PM	JMHH F36
002	TR	0130PM-0300PM	JMHH F36
003	TR	0300PM-0430PM	JMHH F36

OFFICE HOURS

Mondays 3:00 p.m. – 5:00 p.m. Please email me if you would like to schedule a different time. I am generally available and flexible with meeting times.

COURSE DESCRIPTION AND OBJECTIVES

This is an intermediate-level course and builds on the knowledge you obtained in your introductory financial accounting course. The primary goal of this course is to provide students with the intellectual tools to understand U.S. GAAP measurement, reporting and disclosure issues concerning business transactions that are more complicated than those studied in ACCT 101. The topical coverage of this course is broad and is described in the tentative course schedule. We will cover major financial measurement and disclosure topics on all three sections of the balance sheet—assets, liabilities, and equity—along with their consequences for net income and cash flows.

Illustrative examples and financial statement specimens from SEC filings will be used to increase your familiarity with actual firm financial statements and to emphasize the effect of financial accounting rules on the information presented in financial statements and related disclosures.

Although this is not a course in valuation or financial statement analysis (there are separate courses for both of those subjects, and both are recommended), possessing a strong understanding of accounting measurement and disclosure—both in terms of technical competence (“how”) and conceptual underpinnings (“why”)—will help you in both of those endeavors and will give you a better appreciation of the role that reported financial information plays in analyzing and valuing companies. That said, we will discuss key financial statement ratios at various points throughout the course.

Another benefit of having a strong understanding of financial accounting rules is that it will put you in a better position to evaluate the financial statement impact when those rules change—and they inevitably will change regularly throughout your career. To get a sense for the degree of change you will likely encounter, consider that since the 2008 financial crisis, the FASB has issued numerous standards that have materially impacted almost every topic that we will survey in this course. These changes are listed at the end of this syllabus.

Additionally, changes in laws and regulations interact with accounting standards in ways that affect financial statement presentation. For example, the Tax Cuts and Jobs Act signed into law by President Trump on December 22, 2017, among other things: [1] lowers marginal corporate income tax rates, [2] eliminates for most firms the 2-year net operating loss carryback period, [3] allows for faster expensing of certain capital expenditures, and [4] provides incentives for firms to repatriate profits held

overseas and recorded as permanent book-tax differences. An understanding of deferred income tax accounting concepts is crucial if you are to understand how these changes in the tax laws will affect a company's reported income tax expense on the income statement and deferred tax positions on the balance sheet.

The FASB often issues standards in a reactive fashion: as business practices evolve, and as business and financial transactions become more complex, it often highlights the need for new guidance in a particular area or deficiencies in existing standards. The FASB tries to remedy these deficiencies over time, although as you will learn, the standard setting process is a combination of politics and constituent feedback alongside careful logic and empirical research.

After completing this course, you will have obtained many of the tools necessary to both prepare and analyze (as well as appreciate the limitations of) financial statements and accounting information provided by firms. You will acquire an understanding of both the "how" of accounting procedures and the underlying reasons "why" these practices are adopted. These skills are essential for pursuing a broad range of professions in accounting and finance.

PREREQUISITES

An introductory financial accounting course such as ACCT 101 or equivalent knowledge.

TEXTBOOK

"Intermediate Accounting" 17th edition, by Kieso, Weygant, and Warfield. This edition was released in early 2019 and thus should be very much up-to-date for the Fall 2019 semester. Do not use the 16th (or any earlier) edition, as there have been several FASB updates impacting our course material since then.

Ultimately the slide decks cover what you are responsible for knowing, but those who carefully read and study the text will be in a better position compared to those who do not. The slide decks state the corresponding pages in the textbook you should read. Please note that there is some material in the slide decks that is not covered in the book. Other material in the slide decks expands upon or clarifies material that I feel is inadequately described in the textbook.

GRADING

Outside assignment #1	3%
Exam #1	21%
Outside assignment #2	3%
Exam #2	21%
Outside assignment #3	3%
Exam #3	21%
Outside assignment #4	3%
Exam #4	21%
Professionalism	4%

The "Professionalism" component of your grade incorporates attendance and punctuality, active engagement with class material, professional behavior in class, respect and courtesy for your fellow students, and other intangible factors that should be common sense. I may also factor trends in grades (upward vs. downward) when determining this component.

EXAMS

Exams will consist of a mix of multiple choice questions, short answer response questions, and more computationally involved accounting problems. Exams are not cumulative.

All exams are closed book. Phones, laptops, tablets, and other such devices must be powered off and stored away during exams.

Missed exams will be dealt with on a case-by-case basis, and make-up opportunities will be given only for the most unusual and extreme of circumstances (I am the sole arbiter), or for university-approved reasons. Any exam absence not cleared will result in a zero score. You must take your exam in your registered section.

OUTSIDE ASSIGNMENTS

Outside assignments are to be completed individually. The deliverables for these outside assignments will likely include, among other things:

- Computational problems involving the accounting issues that we are studying.
- Accessing financial statements from the SEC's EDGAR website and reporting on how these companies account for certain transactions, or computing relevant financial statement ratios.
- Reading the "Basis For Conclusions" and other relevant sections of actual FASB standards, and evaluating the arguments for and against particular accounting treatments, and explaining which arguments you ultimately find more compelling and why.
- Reading and commenting on popular press articles and other supplemental readings that highlight real world examples of the business and accounting scenarios we discuss in class, contemporary controversies over certain accounting treatments, the standard setting and convergence efforts of the FASB and IASB, and various other topics.

Outside assignments #1, #2, and #3 are due on the date of the first lecture following the corresponding exam. Outside assignment #4 is due on the date of the final exam. I will post the first outside assignment by the end of the 1st week of class. Subsequent outside assignments will be posted within one week after the previous exam.

Completed outside assignments should be posted (in PDF form) to the Assignments section of the class website. Please come to my office if you need any help with regards to accessing the EDGAR system, etc.

Exams and outside assignments will not be returned in class. If you wish to go over your exam and/or outside assignment, please stop by my office.

PRACTICE PROBLEMS

I do not have practice exams, but I will post to the class website recommended practice problems from the textbook that (in addition to the outside assignments) should serve as a good basis for your exam preparation. The solutions manual for the textbook is posted to the class website.

FINANCIAL CALCULATOR

Although in the exams you will be provided with tables for time value of money calculations, I highly recommend you obtain and learn how to use a financial calculator, either the Texas Instruments BA II Plus (standard input) or the Hewlett-Packard 12C (reverse Polish notation).

Regrettably, I am not able to set aside one lecture for a financial calculator tutorial, as I have done in the past. I have posted my financial calculator tutorial to the class website, and please feel free to stop by my office if you would like help setting up and learning to use your financial calculator.

FASB ACCOUNTING STANDARDS CODIFICATION (ASC)

On September 15, 2009 (the effective date of SFAS 168), the FASB officially adopted the Accounting Standards Codification (ASC). The ASC now serves as the single official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB. You can access the ASC here (these login credentials will become active on September 3, 2019):

URL: <http://www2.aaahq.org/ascLogin.cfm>
Username: AAA51620
Password: AAA51620

Note: You will not be required to access the codification at any point in this course. If an outside assignment requires you to read a portion of a GAAP standard, I will post that standard to the class website or give you a direct URL to where you can easily get it. This is more for your own reference. However, if you anticipate in the future working in a position which will require research on complex accounting issues, it is worthwhile to become familiar with the FASB codification system now.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

At the end of each topic, I will comment on significant differences, if any, between U.S. GAAP and IFRS. Although there is much overlap between U.S. GAAP and IFRS, in recent years the FASB and IASB have been unable to come to consensus on several key areas.

Our focus in this course is U.S. GAAP, and unless instructed otherwise, you should apply U.S. GAAP for all exam, practice, and outside assignment problems. However, you should be familiar with the convergence efforts and major areas of similarity and difference between U.S. GAAP and IFRS that we discuss at the end of each topic. If you are interested, you can access all current non-superseded International Financial Reporting Standards through the “eIFRS Basic” portal on the IASB website (free registration required).

<http://www.ifrs.org/IFRSs/Pages/IFRS.aspx>

LUNCH

I am able to treat groups of 3, 4, 5, or 6 students to lunch or dinner! If you are interested, please email me your group members, a proposed venue, and a few dates and times that work for you.

TENTATIVE COURSE SCHEDULE

Class #1 • Tuesday, August 27, 2019

Class introduction

Cash, cash equivalents, and restricted cash

Receivables

Class #2 • Thursday, August 29, 2019

Inventory: Cost basis and cost flow assumptions; LIFO reserves and other LIFO problems

Class #3 • Tuesday, September 3, 2019

Inventory: Valuation issues; lower-of-cost-or-market; lower-of-cost-or-net-realizable-value; gross profit method

Class #4 • Thursday, September 5, 2019

Property, Plant, and Equipment: Acquisition, valuation, and disposition

Class #5 • Tuesday, September 10, 2019

Property, Plant, and Equipment: Depreciation, depletion, and impairments

Class #6 • Thursday, September 12, 2019

Intangible assets

Class #7 • Tuesday, September 17, 2019

Exam #1

[continued on next page]

Class #8 • Thursday, September 19, 2019

Outside Assignment #1 due

Investments: Debt and equity securities, equity method, impairments

Class #9 • Tuesday, September 24, 2019

Investments: Derivative securities and hedge accounting

Class #10 • Thursday, September 26, 2019

Revenue recognition: ASC 606 5-step process

Class #11 • Tuesday, October 1, 2019

Revenue recognition: Long-term construction contracts

Class #12 • Thursday, October 3, 2019

Current liabilities: Warranties, compensated absences, contingencies

Class #13 • Tuesday, October 8, 2019

Long-term liabilities: Bond issuance and valuation, effective interest method

Class #14 • Tuesday, October 15, 2019

Long-term liabilities: Extinguishment of debt, fair value option, debt issued for non-cash consideration

Class #15 • Thursday, October 17, 2019

Exam #2

[continued on next page]

Class #16 • Tuesday, October 22, 2019

Outside assignment #2 due

Stockholders' equity: Equity issuance; treasury stock

Class #17 • Thursday, October 24, 2019

Stockholders' equity: Cash and stock dividends; dividend preferences

Class #18 • Tuesday, October 29, 2019

Earnings per share: Dilutive securities; stock-based compensation

Class #19 • Thursday, October 31, 2019

Earnings per share: Basic and diluted EPS, Share appreciation rights.

Class #20 • Tuesday, November 5, 2019

Pensions and post-retirement benefits: Pension liability measurement; components of pension expense

Class #21 • Thursday, November 7, 2019

Pensions and post-retirement benefits: Pension gains and losses, expense smoothing

Class #22 • Tuesday, November 12, 2019

Exam #3

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Class #23 • Thursday, November 14, 2019

Outside assignment #3 due

Leases: Accounting by the Lessee

Class #24 • Tuesday, November 19, 2019

Leases: Accounting by the Lessor

Class #25 • Tuesday, November 21, 2019

Leases: Sale-leaseback transactions

Class #26 • Tuesday, November 26, 2019

Income taxes: Deferred tax assets and liabilities; DTA reserves

Class #27 • Tuesday, December 3, 2019

Income taxes: Net operating losses; changes in tax rates

Class #28 • Thursday, December 5, 2019

Income taxes: Comprehensive example

Review and wrap-up class

Exam #4 during final exam period

Tentatively scheduled for Thursday December 19 3:00 p.m. – 5:00 p.m.

Outside assignment #4 due

Significant changes in U.S. GAAP since the 2008 financial crisis that have impacted areas we will cover in this course. In recent years the FASB has been more generous with effective date lead times, so some of these standards are not effective yet (but likely will be once you start working full-time).

- Classification of restricted cash in the cash flow statement [ASU 2016-18]
- Current Expected Credit Loss (CECL) model for receivables [ASU 2016-13]
- Determining surrender of control for transfers of financial assets (such as receivables) [FAS 166 / ASU 2009-16]
- Requirement to use Lower-of-Cost-or Net-Realizable-Value (rather than Lower-of-Cost-or-Market) for inventory measured using FIFO cost flow assumption [ASU 2015-11]
- Simplification of impairment testing for goodwill [ASU 2011-08] and indefinite-lived intangible assets [ASU 2012-02].
- Elimination of Step 2 in two-step goodwill impairment testing process [ASU 2017-04]
- Elimination of “available-for-sale” classification for passive investments in equity securities [ASU 2016-01]
- Elimination of requirement to retroactively apply equity method accounting when the level of ownership in a subsidiary incrementally rises to the level of “significant influence” [ASU 2016-07]
- Recording ineffective portion of cash flow hedges in OCI rather than in net income, and simplification of tests of hedge effectiveness [ASU 2017-12]
- Reduction and simplification of hedge accounting disclosure requirements [ASU 2017-01]
- 5-step process for determining revenue recognition, [ASU 2014-09], deferral of effective date [ASU 2015-14], and numerous clarifications, transition guidance, and practical expedients based on constituent feedback [ASU 2016-08] [ASU 2016-10] [ASU 2016-12] [ASU 2016-20]
- Requirement to record in OCI (rather than net income) gains and losses from changes in the firm’s own credit risk on liabilities for which the fair value option is elected [ASU 2016-01]
- Requiring debt issuance costs to be recorded as a reduction of debt carrying amount rather than capitalized and amortized over the life of the debt [ASU 2015-03]
- Guidance on determining whether creditor concessions to a debtor qualify as a troubled-debt restructuring from the creditor's perspective [ASU 2011-02]
- Allowing firms to account for stock-based compensation forfeitures as they occur rather than estimating them, and simplifying classification of deferred taxes resulting from stock-based compensation [ASU 2016-09]
- Requirement for employer to report service cost component of pension expense in same line item as employee compensation costs [ASU 2017-07]
- Complete overhaul of lease accounting that will require capitalization of substantially all leases, while maintaining finance/operating distinction for the income statement [ASU 2016-02]
- Requirement to classify all deferred tax amounts as non-current [ASU 2015-17]
- Elimination of “extraordinary item” income statement classification [ASU 2015-01]