

University of Pennsylvania
The Wharton School
Financial Accounting: ACCT 621
Fall 2007

Instructor: Peggy Bishop Lane
320 Jon M. Huntsman Hall
phone: 215-898-8601 fax: 215-573-2090
e-mail: pblane@wharton.upenn.edu

Office hours: 3:30-5:00 Tuesdays and Thursdays in 320 JMHH (or by appointment)

Course objectives: Learn to read, understand, and analyze financial statements. The course adopts a decision-maker perspective of accounting and emphasizes the relation between accounting data and the underlying economic events that generate them. To achieve the objective of helping students become effective financial statement users, the course strikes a balance between the teaching of accounting mechanics and the analysis of financial statements. After a review of the construction and analysis of the Statement of Cash Flows, the course turns to an in-depth examination of the major asset, long-term liability, and shareholders' equity accounts. After completing this intensive introduction to financial accounting, students should be able to read, understand and recreate transactions from the financial statements.

Intended Audience: This course is intended for students with strong command of the material covered in the ACCT 604 pre-term class. Specifically, students entering ACCT 621 are expected to already understand

- (1) The recording of economic transactions in the accounting records (i.e., bookkeeping);
- (2) The basic financial statements that summarize a firm's economic transactions (balance sheet, income statement and statement of cash flows);
- (3) The fundamental concepts needed to prepare or understand published financial statements (e.g., use of accrual accounting);
- (4) How to construct the basic financial statements from transactions information and how to recreate the transactions by looking at the financial statements;
- (5) How to use the indirect method to construct the cash flow statement from balance sheet, income statement, cash receipt and disbursement, and supplemental information; and
- (6) How to use accounting statements and disclosures to reconstruct the underlying economic events in which the firm participated.

Recommended Textbooks (Available at the Penn Bookstore):

- *Financial Accounting*, by Libby, Libby and Short (McGraw-Hill/Irwin, 2007, 5th edition). (LLS)
- *MBA Companion to Financial Accounting 5/e*, by Lane and Schrand (McGraw-Hill/Irwin, 2007). (MBAC)
- *Financial Accounting Solutions Manual*, by Libby, Libby and Short (McGraw-Hill Irwin, 2007, 5th edition).

Course packet: There are two sections of the Course Pack (a.k.a. “bulk pack”). Both are available at Wharton Reprographics. (CP)

- Problems section (Required): This section includes problems to be discussed in class, additional practice problems, cases to be prepared outside of class, and articles to be discussed in class.
- Notes section (Optional/Recommended): This section includes an outline, condensed notes, and additional readings for each topic.

Course handouts: Consist of supplemental lecture material and solutions to cases. Most of this material will also be available on the course web-café.

Course Web-Café (<http://webcafe.wharton.upenn.edu/eRoom/acct/621-fa07-1>): Log in to the course web café with your Wharton username and password. The site includes lecture slides, most course handouts, course information, important announcements, on-line homework, and interesting links.

Grading: Your course grade will be determined as follows:

Class Participation	10%
On-line homework questions (4)	8%
Cases (2)	12%
Midterm Exam	30%
Final Exam	<u>40%</u>
Total	100%

Class participation: Of your 10% total, 5% will be based on **cold calls**. **If you are not present when cold-called, you automatically receive a grade of zero for that cold-call.** I may cold call at any time, but will certainly do so regarding the 4 **case discussions**. I will try to cold-call everyone at least once. Since some people may only get cold-called once, **a very poorly prepared answer to a cold call could decrease your course grade by as much as 5%**. In the event you are not cold-called, your class participation grade will be based entirely on your general in-class comments (see below).

The remaining 5% points of the class participation grade is awarded for general in-class comments. Students will gain points by constructively participating in class through such activities as answering questions posed during class, commenting on classmates’ contributions and asking questions that generate thoughtful class discussion. Reward is **not** given for quantity of comments. Furthermore, there are no penalties for “wrong” answers; it is the attempt to thoughtfully reason through a problem that is valued and adds to the classroom experience for everyone. Students will lose points in this category for: being frequently absent, coming late to class or leaving class early, or exhibiting any behavior that I consider obstructive to the general learning environment.

On-line Homework: In four of our six weeks of class, before each new topic is introduced, I will post questions on-line that you link to via the web café. These questions will be based on readings and problems from the text and the bulk pack that will be covered in class in the coming week. These questions will be straightforward and are intended to help you keep up with the work. **You are expected to answer these questions before class on Monday.**

Cases: You will need to turn in two case write-ups due during the quarter. There are a total of four cases included in the Problems Course Packet and in **bold** in the Topics and Assignment Schedule. You should choose two of the four cases to submit in writing. These cases are designed to reinforce your understanding of material covered in class (i.e., as review), to develop your understanding of new material not covered in class, and to give you an appreciation of the complexities involved in actual financial statements that is necessary if you want to be a “sophisticated” user of financial statements. In addition, the cases expose you to regulatory filings and other data sources that are useful for financial statement analysis.

You may work on and turn in the case assignments in groups of **no more than four** students. Groups are **not permitted** to share information with other groups prior to the due date of the assignments. Cases are due at the entrance to 370 JMHH (my classroom at 9am) or 300 JMHH (the MBAPO) by **9am**, regardless of the time you attend class, on the date listed in the Topics and Assignment Schedule; late cases will receive a grade reduction commensurate with the lateness of the assignment. While it is not required that you type the cases, if your case cannot be easily read, it will receive a grade of zero. Furthermore, you cannot receive credit for your case if you do not turn in the “Group Work Affidavit”. We will discuss each case in class (usually on the due date); therefore, please **make a copy of your solution** and bring it to class to facilitate discussion.

WARNING: These assignments are for your benefit. Relying on the work of your group-mates or the work of other groups is a dangerous strategy. This simply delays the inevitable; eventually you must learn the material. The assignments and cases are a useful tool to this end and, in addition, make the lectures more valuable and interesting. Finally, while relying on the work of your group-mates is not advisable as a learning technique, relying on the work of other groups is not only inadvisable, it is unethical. I reserve the right to give **a grade of F for the course** to anyone involved in a group that is caught either copying work from another group or supplying information to another group.

Exams: The mid-term and final exams are open-book and open-notes. The final exam is not cumulative; however, the material is, in some sense, cumulative. *The time (and only time) for the midterm exam is 6:00pm on Wednesday, September 26. The time (and only time) for the final exam is 6:00pm on Thursday, October 18.* You must take the exams at the scheduled times and places. You will **not** be given authorization to take any exam at a different time to facilitate travel. If you cannot take an exam at the scheduled time and place, you must **notify me prior to the exam** (or as soon as possible in the case of unexpected medical emergencies). Only I may authorize you to be absent from an exam. **An unauthorized absence from an exam will result in a grade of zero for that exam.** In the event of an authorized absence from the midterm or final exam, a make-up exam will be given **in January** during the official make-up exam period. You will receive a final grade of “Incomplete” for the course pending the completion of the make-up exam.

Grading disputes: Each student is encouraged to “audit” the graded cases and exams thoroughly. If you disagree with the point allocation on cases or exams, you should appeal the case or exam to me within one calendar week following the return of the assignment or exam (unless otherwise noted). A request for a re-grade will not be considered if it is submitted more than one week after the return of the case or exam (or after the specified deadline). To have a case or exam re-graded, you must submit the original case or exam (with no modifications) and a written description of your disagreement with the initial grade. I reserve the right to review the entire case or exam; thus your grade could go up *or* down. For group work, every member of the group must agree to the request for re-grade.

Teaching assistants and review sessions: The three teaching assistants (TAs) for the course, Rob Jahn, Linda Lu, and Davids Tjhin, will each hold office hours for two hours per week. Information on the TAs, their offices, and their office hours will be on the web-cafe.

In addition, I will conduct review sessions prior to the exams. See the “Topic and Assignment Schedule” on the following pages for the times and dates.

Preparation for class: Class sessions will follow a lecture/discussion format with student participation **strongly** encouraged. Financial accounting is a "learn-by-doing" subject; therefore, you should complete the assigned reading and text book problems **before** class. The assigned reading from the text and the course packet present basic material that must be mastered before one can become an effective financial analyst. The assigned problems from the text cover mechanics and relatively straightforward analysis. To supplement the basic treatment in the text, the course packet includes examples from published accounting disclosures that provide experience with actual financial statements and are generally more difficult than the problems found in the text. Focus your pre-class preparation on readings and text problems and your post-class preparation on course packet problems. This will ensure you get the most out of class and will make exam preparation manageable.

ACCT 621: Topic and Assignment Schedule
Fall 2007




KEY







LLS = Libby, Libby and Short, 5th Edition


MBAC = MBA Companion to LLS

CP = Course Packet, "Problems" Section

Case Discussions in bold can be turned in for a grade.

1	W	09/05	Statement of Cash Flows <u>LLS Reading:</u> Chapter 13 and Supplements A and B <u>LLS Problems:</u> E13-1, E13-8, E13-10, E13-16, E13-19, P13-2. <u>CP Problems:</u> Hank's Hang Gliders, Tiffany & Co.
	M	09/10	On-line Homework: submitted before class (Revenue Recognition & Accounts Receivable)
2	M	09/10	Revenue Recognition and Accounts Receivable <u>LLS Reading:</u> Chapter 6 (pp. 283-299) <u>LLS Problem(s):</u> E6-9, E6-15, E6-16, E6-18, E6-19, E6-21, P6-5, AP6-2, CP6-4. <u>Articles:</u> SAB 101 <u>CP Problem(s):</u> DHC Corp., Larcker Liquor, Timberland
3	W	09/12	Revenue Recognition and Accounts Receivable <u>LLS Problem(s):</u> P6-1 <u>Article(s):</u> Microstrategy <u>CP Problem(s):</u> Timberland, if needed <input checked="" type="checkbox"/>  <u>Case Discussion:</u> Lighthouse
	M	09/17	On-line Homework: submitted before class (Inventory and Intangibles)
4	M	09/17	Inventory Valuation <u>LLS Reading:</u> Chapter 7, Supplement A and B <u>LLS Problem(s):</u> E7-2, E7-4, E7-10, E7-16, E7-11, E7-13, E7-14, P7-2, E7-20, P7-8, P7-10, CP7-7. <u>CP Problem(s):</u> Famous Horse, ICF, Inc., Steelcase <u>Articles:</u> Big Oil's Accounting
5	W	09/19	Intangible Assets <u>LLS Reading:</u> Chapter 8 (pp. 419-425) <u>LLS Problem(s):</u> E8-17, P8-9, P8-10. <u>CP Problem(s):</u> American Online, IBM/Lotus

6	M	09/24	Intangible Assets (continued) <input checked="" type="checkbox"/>  <u>Case Discussion: eBay, Inc.</u> Long-Term Debt <u>LLS Reading:</u> Chapter 9; Chapter 10. <u>LLS Problem(s):</u> E9-8, E10-4, E10-11. Present value exercises: E9-14, P9-11. <u>CP Problem(s):</u> Munson Grocery.
	M	09/24	Midterm Review Session (4:30pm – 6:00pm; JMHH F-95)
	W	09/26	Midterm Exam (6:00pm – 8:00 pm, covers sessions 1-6, up to and including “Intangible Assets”, location TBA)
7	W	09/26	Long-Term Debt (continued) <u>LLS Problem(s):</u> E10-9, E10-16, E10-22, P10-12, P10-14, CP10-4. <u>CP Problem(s):</u> LTD, Inc., Sara Lee Corp., B&G Foods
	M	10/01	On-line Homework: submitted before class (Leases and Taxes)
8	M	10/01	Leases <u>MBAC Reading:</u> Section 1 <u>MBAC Problem(s):</u> E1-1, E1-2, E1-3, P1-1, C1-1, C1-2 <u>CP Problem(s):</u> Bay State Delivery, extended., AMR Corp. 2004
9	W	10/03	Accounting for Taxes <u>MBAC Reading:</u> Section 2 <u>MBAC Problem(s):</u> E2-1, E2-3. <u>CP Problem(s):</u> DT, Inc., Caterpillar
	M	10/08	On-line Homework: submitted before class (Stock Options & MS)
10	M	10/08	Accounting for Taxes (continued) <u>MBAC Problem(s):</u> P2-1, P2-2, C2-2. <input checked="" type="checkbox"/>  <u>Case Discussion: Robert Mondavi</u> Stock Options <u>LLS Reading:</u> Chapter 11 (emphasis on p. 566-567, options) <u>LLS Problem(s):</u> E11-13, P11-5, AP11-3. <u>Articles:</u> Lack of Rigid Rules, Ex-Brocade Chief Convicted <u>CP Problem(s):</u> Microsoft

11	W	10/10	Marketable Securities and Investments <u>LLS Reading:</u> Chapter 12 (pp. 605–623). <u>LLS Problem(s):</u> E12-3, E12-4, E12-5, E12-6, P12-3 <u>CP Problem(s):</u> Lincoln Park Bank, Cleveland Cliffs
12	M	10/15	Marketable Securities and Investments (continued) <u>LLS Problem(s):</u> E12-2, E12-7, P12-6, P12-7, CP12-4 <u>CP Problem(s):</u> P&S, DuPont <input checked="" type="checkbox"/>  <u>Case Discussion:</u> Wachovia Corp.
8→	W	10/17	Final Exam Review (12:00-1:30pm; SH-DH 350)
☠	R	10/18	Final Exam (Covers sessions 6-12, beginning with “Long-term Debt”, 6:00pm-8:00pm, location TBA)