1. Course Objective

This course provides an introduction to the principles of financial accounting. I assume no prior academic knowledge of accounting. The course objective is to help you become intelligent readers of the three main financial statements: the balance sheet, the income statement, and the statement of cash flows. Achievement of this goal requires an understanding of the basic principles that underlie accrual accounting, as well as an appreciation of the amount of judgment required in applying these principles.

2. Required Textbook

The textbook is Horngren, Sundem, Elliott and Philbrick, *Introduction to Financial Accounting*, 9th edition (2006, Prentice Hall). We will be using a paper back Custom Edition for C10.0001 that is available in the bookstore. Attached to the paper back version are three cases that are part of the enhancement feature that all sections of C10.0001 will be using.

Please bring the textbook to class, as we will be using it in almost all classes.

We will be using the 2006 Dell Computer 10-K Filing as well. You can find it on [http://www.dell.com/downloads/global/corporate/sec/10k-fy06.pdf](http://www.dell.com/downloads/global/corporate/sec/10k-fy06.pdf). Please bring it to class beginning the second class (September 11).

3. Course Format

A combination of lectures and problems will be used. I intend to use the problems from the textbook extensively to teach and reinforce the material.

The first half of the term provide an overview of the accounting system; the remainder of the semester will be used to examine specific accounting measurement topics.
Each topic will be divided into three components: Basics, Accounting, and Application

4. Preparation for Class Sessions

Prior to each class, you should read the assigned chapters. In addition, there will be a few “preparation problems” assigned prior to each class. These problems will not be collected; however, I will assume that you will do them prior to coming to the class. These problems cover some of the basic concepts in the chapter. The concepts will be reviewed in class, but at a quicker pace.

A nice feature of the book is the glossary of terms in the back of the book. Much of the “sticking points” in accounting is getting used to a whole new language. I suggest that you use this glossary extensively and frequently when approaching each topic.

It is important that you do all of the assigned exercises, homework problems, and additional questions. Doing problems is the best way to learn accounting. Keep up with the coursework! Accounting is not conducive to cramming for exams because new material builds on prior concepts.

Again, please bring both the textbook and the Dell 2005 10-K report to each and every class.

5. Grading

Final grades will be determined as follows:

<table>
<thead>
<tr>
<th>Exam Type</th>
<th>Date</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midterm Exam I</td>
<td>October 10</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm Exam II</td>
<td>November 14</td>
<td>30%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>Wednesday, December 20</td>
<td>8 AM to 9:50 AM (tell me about it)</td>
</tr>
</tbody>
</table>

Course Enhancement Cases   See syllabus for dates (10%)

All exams are open book/open note. There are no make-ups for the two midterm exams. If you miss one of the midterms, your final exam grade will be used in its place. Make-ups for the final exam will be allowed only if you have a University-approved excuse (e.g., illness or family emergency). If you would like any exam question regraded, I require a written request clearly stating your reasoning within one week of receiving the graded exam. No crossed out answers or erased answers will be considered for regrading. So, be careful when putting your answers on the exam sheets.
Basically, I stack up everyone’s weighted average from top to bottom and use the official “Stern Curve” to allocate the grades. I do, however, take some intangibles into account, particularly if you are on the cusp of two grades (e.g., A- and B+). These intangibles include but are not limited to class participation, class preparation, and trends in your exams.

Keep in mind that the first exam occurs immediately after we complete the overview of the accounting system. If you do poorly on this exam, it is crucial that you review or rework the early material so that you have a good foundation before proceeding to the topical material. One good note: If you totally bomb on your first exam, but improve dramatically on your last two exams, I will discount the first exam in evaluating your final grade.

7. **Blackboard**

The solutions manual and class notes are available through Blackboard, a web-based course administration package. You need to log in using your Stern user ID and password.
Class Schedule

September 6: Introduction to Class

We will do a fun, in class quiz on why and how financial accounting reports are put together. We will go over the requirements for the class.

September 11: What is a Balance Sheet? Basics

Read: Chapter 1: pp. 8-10, 16, 18-24; Chapter 4: pp. 154-155; Chapter 10: p. 471 (market-to-book ratio only)

Preparation Problem: 1-40
Homework Problems: 1-41, 1-43, 4-50 (part 1 only);

Pick a publicly-traded U.S. company and calculate its market-to-book ratio as of today (use its latest quarterly [10-Q] shareholders’ equity). In tomorrow’s class be prepared to report them out in rapid fire.

September 13: What is a Balance Sheet? Accounting and Application

Read: Chapter 1: pp. 10-15; Chapter 4: pp. 155-157

Preparation Problem: 1-31

Homework Problems: 1-36, 4-50 (parts 2-4);

Find the latest 10-Q reports for Wal-Mart and for McDonalds. Calculate their current and quick ratios. Answer the two following questions:

1. Which company has the highest current ratio, and why?
2. Why are the current and quick ratios very different for Wal-Mart, but not for McDonalds?

September 18: What is an Income Statement? Basics

Read: Chapter 2: pp. 47-48, 53 (objective 2)- 55, Chapter 4: pp. 159-162

Preparation Problem: Read handouts on Krispy Kreme and Corinthian College

Homework Problems: Handout (Answers posted on blackboard)

September 20: What is an Income Statement? Dividends and Retained Earnings? Accounting
Read Chapter 2: pp. 48-53 (pay close attention to Revenues and Expenses to Measuring Income), 53-60

Preparation Problems: 2-34, 2-35

Homework Problems: 2-48, 2-50

For next class: Compute the updated P-E ratios (see page 70 for the definition) for the firms on page 72 (use the last 10-K report for earnings per share). If your last name begins with the letters A-K, update the EPS and P-E ratios on page 72 for Microsoft through Pfizer. If your last name begins with the letters L-Z, update the EPS and P-E ratios for Johnson & Johnson through Proctor & Gamble. We will use these in the next class.

September 25: Prepayments and Recognition of Expired Assets (Casablanca); Applications of Income Statement

Read: Chapter 2: pp. 54-59 (again); 70-71 (EPS and P/E)

Preparation Problem: Read over carefully exhibit 2-3 on page 56. What is Dell’s current P/E ratio?

Homework: 2-39, 2-46.

September 27: Recording Transactions; Accumulated Depreciation (our first contra account)

Read: Chapter 3: pp. 90-117

Preparation Problem: 3-23

Homework Problems: 3-25, 3-32, 3-36, 3-39

October 2: No class due to Yom Kippur (make up class to be held on December 14)

October 4: Recording Transactions; Accumulated Depreciation – continued

Reading and Homework Problems: see September 27

October 9: No class due to Columbus Day (official school holiday)
October 16: Adjusting Entries

Read: Chapter 4: pp. 138-154

Preparation Problems: 4-21, 4-22

Homework: 4-23, 4-27, 4-29 (important problem to do), 4-42
   If you want practice with a big problem, 4-43 is an excellent overview

October 23: Abercombie & Fitch Problem Due in class

We will review this problem in class. Bring in two copies: one to be handed in at the beginning of class (I will not accept hand-ins once class begins) and one for your reference as we go over the problem

October 25: MIDTERM 1

October 30: Introduction to the Statement of Cash Flows

Read: Chapter 5: pp. 182-196, 205-207; Chapter 6: pp. 239-241

Preparation Problem: 5-51; Using Dell’s cash flows statement, answer the following questions:
   1. Do they pay a dividend?
   2. Do they use an indirect or direct method for cash flows from operations?
   3. Did they buy any long-term assets?

Homework: 5-46, 5-50

November 1: Net Sales, Receivables, and Non-Payment of Receivables: Basics

Read: Chapter 6: pp. 230-239; 241-245

Preparation Problems: 6-39, 6-65 (parts 1 and 2): you may have some problems with 6-65 but give it your best effort

Homework: 6-41, 6-47, 6-48, 6-49

November 6: Receivables: Accounting and Application

Read: Chapter 6: pp. 245-251

Preparation Problems: 6-56, 6-57, 6-51; Look at page 60 in your Dell Report. What does the (97) mean for the Allowance for doubtful accounts for 2006?

Homework: 6-60, 6-58
November 8: Inventories: Basics and Accounting

Read: Chapter 7: pp. 278-294; 298-300 (we will not discuss periodic and perpetual inventories)

Preparation Problems: 7-35, 7-34; Which cost flow assumption does Dell use? Why? If input prices are falling, do they report more or less income?

Homework: 7-45, 7-58

November 13: Inventories: Accounting and Application

Read: Chapter 7: pp. 288-294 (again); 303-309

Preparation Problems: 7-50, 7-51

Homework: 7-60, 7-67, 7-80; We’ll discuss 7-80 in the next class.

November 15: Long-lived Assets and Depreciation: Basics, Accounting and Application for Tangible Long-lived Assets

Read: Chapter 8: pp. 334-357

Preparation Problems: 8-34, 8-35; Which method(s) of depreciation does Dell use? If they used an alternative measure, under what circumstances would they show a lower income?

Homework: 8-27, 8-37, 8-40, 8-48, 8-51, 8-71

November 20: Long-lived Assets and Depreciation: Basics and Accounting for Intangible Long-lived Assets

Read: Chapter 8: pp. 357-362

Preparation Problems: None

Homework: 8-54

November 22: MIDTERM 2

November 27: Present Value Concepts; Introduction to Bonds

Read: Chapter 9 (Appendix 9): pp. 418-425 Note: Even if you have a calculator that does present value and/or bond accounting, you will need to be able to use tables 9A1-3 in the appendix: pp. 390-393
Preparation Problems: 9-25, 9-44

Homework: 9-47, 9-42, 9-76; 9-6, 9-8, 9-9

**November 29: Long-term Bonds: Basics and Accounting for Bonds**

Read: Chapter 9: pp. 393-402

Preparation Problems: 9-51 (part 1 only); 9-12, if you really want to prepare, 9-53 (part 1 only)

Homework: 9-51 (parts 2-4), 9-53 (parts 2-4), 9-55

**December 4: Long-term Bonds: Early Extinguishments of Bonds and Applications**

Read: Chapter 9: pp. 402-405; 415-417

Preparation Problems: 9-8, 9-80: Calculate the same two ratios for Dell Computer (latest year). What accounts for the differences between the Dell and Starbucks?

Homework: 9-59 (parts 1 and 3 only)

**December 6: Shareholders’ Equity: Basics and Accounting**

Read: Chapter 10: pp. 440-469 (pay close attention to definitions)

Preparation Problems: 10-44, 10-30, 10-53

Homework: 10-45, 10-49 (parts 1 and 2), 10-61, 10-62

**December 11: Shareholders’ Equity: More Accounting and Application**

Read: Chapter 10: pp. 452-453 (again); 466-468 (again); 469-471

Preparation Problems: 10-66 (we will cover this in class – but do it anyway), Using the formulae on pages 469-471, compute Dell’s ROE and book value of per share of common stock for 2004 and 2005. What accounts for the differences between years?

Homework: 10-37; 10-60; 10-70

**December 13: Statement of Cash Flows revisited: Indirect Operating Cash Flows**

Read: Chapter 5: review pages 182-196; 196-207

Preparation Problem (Due at the beginning of class): Case from book
Homework: 5-55; 5-58 (part 1)

December 14: Wrap-up and Overview of Final Exam

December 20: FINAL EXAM 8-9:50 AM