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| NEW YORK UNIVERSITY Stern School of Business | | |
| **Financial Reporting and Disclosure Spring 2016** | | |
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***Text*** – Financial Reporting and Analysis by Revsine, Collins, Johnson, Mittelstaedt and Soffer, *Sixth Edition*.

***Course Content****:* This course concentrates on issues that affect the nature and quality of financial reporting. Selected topics introduced previously are developed in more depth from a management perspective. Additional topics are also developed. Accounting choices and financial instruments are major themes across many of the topics. The primary foci are on the impacts of management’s accounting policy choices, estimation on corporate reporting and problem solving.

A few course-related questions:

What happened to accounting and control at **WorldCom**?

What are the revenue accounting issues associated with the **HP-Autonomy** debacle?

How do joint products (e.g. sale with service support) contribute to revenues and expenses?

When can inventory be reported at its sales value rather than its accumulated cost?

What do probabilities have to do with a company’s financial statements?

How does factoring improve a company’s **cash flow** and balance sheet?

How does a company’s intent affect its reporting of investments?

Can an asset have a negative salvage value?

What is the impact of lease reporting on operating **cash flows**?

Is estimation of off-balance sheet liabilities meaningful?

Why do profitable companies have tax valuation allowances (for losses) and how do they deal with uncertain tax positions?

How do companies like **Google** reduce their tax obligations?

Can pension estimates be manipulated and what is the impact on the financial statements?

How has **IBM** changed its pension policies?

What are the financial and tax impacts for the company and its investors of paying management in options rather than cash?

***Attendance:*** Attendance and completion of homework are essential. You should **attend every class** to get a good understanding of the course materials.

***Exams:***There are two midterms and a final. Exams are open book and open notes. There are **no make-up exams**. If you cannot take an exam when scheduled you are expected to take it **early**. The exams will be given on the stated dates. The topics may change if the course falls behind schedule.

***Quizzes:***There will be several 15 minute quizzes. Quizzes are open book and open notes. Quizzes **cannot** be rescheduled. There are **no make-up quizzes**. Quizzes are scheduled for the first class following a given chapter and will focus on that chapter. The dates of the quizzes may change if our experience deviates from this schedule. Quizzes are 15% of the grade, but can become up to 26% of the grade if your quiz average exceeds your score on your poorest exam. (The poorest exam becomes 15% of your grade).

***Suggested exercises:*** These exercises focus on the primary topics in the course and may help you prepare for the quizzes. They do **NOT** have to be handed in. Try to work the exercises in your own way and, if you are stuck, try to understand the answer that is on Blackboard or ask questions in class.

***Extra credit - classroom performance:*** Readings and classroom exercises should be reviewed before class. **You are expected to be able to contribute to discussions about the exercises as well as other classroom discussions.**. Positive contributions include questions and well-intended responses irrespective of their accuracy.

***Support materials:*** Visit NYU Classes early and often. It has announcements, class notes, slide shows, spreadsheets, sample exams and miscellaneous articles. Many of the relevant materials will be provided as handouts.

***Default policies:*** Policies not outlined here will be covered by the Stern default policies document attached to this syllabus.

**You are expected to follow the undergraduate code of conduct and the graduate honor code throughout the semester.**

***Tentative Schedule:***

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| Topic\* | Readings | Classroom Discussion | Suggested Exercises |
| Overview/Revenue Recognition | |  |  |
| Revenue Recognition | 2\* (60-72), 3 |  |  |
| Revenue Recognition | 3 | ^E3.1,E3.2, E3.7, E3.12, E3.14 | ^P3.5 |
| Inventories | 9 | E9.8, E9.9 | **(Quiz.Chp 3)** |
| Inventories | 9 (inc App. B & C) | P9.16[1.2] |  |
| Inventories | 9 (inc App. B & C) | E9.13, E9.16 | E9.10, E9.14, E9.17, E9.19 |
| **Note: The next several topics are all financial in nature; Review Present Values** | | | |
| FI-Receivables | 8 | E8.6, P8.8 | (**Quiz Chp 9**) |
| FI-Receivables | 8 | E8.14, P8.11, P8.13 | E8.13, E8.15 |
| FI-Minority (Noncontrolling) Investments | 16 (953-966) (inc App A) | E16.2, E16.3 | **(Quiz.Chp 8)** |
| FI-Noncontrolling& Majority (Controlling) Investments | 16 (953-966 & 966-970) | E16.4, E16.5 |  |
| FI-Majority investments\*\* | 16 (958-961) | E16.7, E16.9 | E16.1 |
| FI-Liabilities/Review | 11 (601-633) | E11.6, E11.8 |  |
| **First Exam** | **(Revenue recognition through minority investments)** | | |
| FI-Liabilities | 11 (601-633 & 652 -656) | E11.3, E11.9, P11.7, P11.11 | E11.11, P11.1 |
| FI-Leases | 12(inc Appendix) | E12.3, E12.4, E12.12 |  |
| FI-Leases | 12 | E12.1, E12.6, E12.7, E12.15 |  |
| FI-Leases | 12 | E12.13 | E12.2, E12.5, E12.8 |
| FI-Pensions | 14 | E14.1, E14.2 | **(Quiz.Chp 12)** |
| FI –Pensions/Review | 14 | E14.7, E14.11 |  |
| **Second Exam** | **(Liabilities through leases)** |  |  |
| Fl-Pensions | 14 | E14.13, E14.14 | E14.6, E14.9, E14.12, E14.20, P14.3 |
| Taxes | 13 | E13.1, E13.2 |  |
| Taxes | 13 | E13.6, E13.10, E13.12 | **(Quiz.Chp 14)** |
| Taxes | 13 | E13.14 |  |
| Owners’ equity and EPS | 15 (889-911) |  | **(Quiz.Chp 13)** |
| Owners’ equity and EPS | 15 (924-931) | E15.7, E15.12, E15.13, E15.14 |  |
| Executive Compensation | 15 (911-924) |  | E15.15 |
| Review | (**Pensions through executive compensation**) | |  |

\*It is assumed that you are familiar with the materials in the appendices to chapters 2 and the end of the text.

^E indicates a chapter ending exercise; P indicates a chapter ending problem.

\*\* An introduction – not on any exam – presentation depends on meeting the course schedule.

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| ***Tentative Grading:*** | |  |  |
| Test 1 |  | 26 points | |
| Test 2 |  | 26 points | |
| Test 3 |  | 26 points | |
| Quizzes |  | 15 points | |
| Attendance |  | 7 points | |
| Classroom participation | | Extra credit | |

**Selected Topics:**

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| Revenue/expense  recognition | | Joint Products | |
|  | | Percent of Completion | |
|  | | Installment Sales | |
|  | | Commodities | |
| Inventory | | LIFO-FIFO (multiyear) | |
|  | | Writedowns | |
|  | | Dollar Value LIFO | |
|  | | Retail Methods | |
| Receivables | | Factoring | |
|  | | SPEs (Special Purpose Entities) | |
|  | | Discounts | |
|  | | Troubled Debt Restructuring | |
| Minority investments | | Fair Value Hierarchy | |
|  | | Available for sale securities | |
|  | | Trading securities | |
|  | | Equity method | |
| Majority Investments | | Consolidations | |
| Leases | | Lessee | |
|  | | Lessor | |
|  | | Guarantees | |
|  | | Sale-leasebacks | |
| Taxes | | Temporary deferrals | |
|  | | Permanent deferrals | |
|  | | Tax loss carrybacks and carryforwards | |
|  | | Tax valuation allowance | |
|  | | Uncertain Tax Positions | |
| Pensions | | Pension trust fund | |
|  | | Projected obligations | |
|  | | Service costs | |
|  | | Assumptions | |
|  | | Accruals vs. Fair & Present Value | |
| Owners’ equity | | Treasury stock | |
|  | | Simple EPS | |
|  | | Diluted EPS | |
|  | | Security conversions | |
|  | | Executive compensation | |

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| **Basic Goals and Issues of Each Topic** |
| Topic: **Introduction**  Goal: Course organization, examples of some of the issues  Basic issues: What are the goals of reporting?  Questions:  Why are there reporting options?  What influencing accounting choices?  Classroom discussion case: Sears (historical) financial statements  Expected time: 1 period |
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| Topic: **Revenue Recognition**  Goal: Understanding revenue reporting issues  Basic issues include: Types of products that are sold, timing revenues  Questions:  How do firms deal with compound products such as insurance?  How do firms deal with long-term projects?  How do firms handle mixes of in-store and online sales?  Read: Chapters 2 (pgs 60 – 72) and 3 of text and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: Target & Google financial statements  Representative textbook exercises (some may be done in class): E3.1, E3.2, E3.7, E3.12, E3.14, P3.5  Expected time: 2 periods; Topical quiz follows |
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| Topic: **Inventories**  Goal: Understand different inventory methods  Basic issues include: Inventory choices, estimation in inventories  Questions:  How does the LIFO-FIFO choice impact financial statements?  How does the LIFO-FIFO choice impact the retail method?  What is Dollar Value LIFO?  How are inventory writedowns handled?  Read: Chapter 9 and Appendixes B and C of text and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: Target financial statements  Representative textbook exercises (some may be done in class): E9.10,E9.13, 9.14, E9.16, E9.17, E9.19, P9.16  Expected time: 3 periods, Topical quiz follows |
| Topic: **Receivables (The first of several financial topics – Review Present Values)**  Goal: Understand the valuation of receivables, Understand some ways to speed the conversion of receivables to  Basic issues include: The risks and rewards of conversion options are available to companies, treatment of troubled debts  Questions:  When are receivables discounted?  What is factoring and who accepts the associated risks?  Why is troubled debt restructuring asymmetric?  Read: Chapter 8 and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Representative textbook exercises (some may be done in class): E8.6, E8.11, E8.13 - E8.15, P8.8  Expected time: 2 periods, Topical quiz follows |
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| Topic: Consolidations – **Investments**  Goal: Understand the impact of accounting options for minority investments. A secondary goal is to provide some basics of majority investment accounting (consolidations). Majority investment accounting (consolidation) is an optional topic that may be offered and will **not** be tested.  Basic issues include: The difference between accounting choices impacting income and wealth parts of the financial statements. The difference between accounting for fair (market) values and book values. What is a consolidation?  Questions:  How are investments valued?  What is the distinction between passive and active investing?  How does ‘trading security’ accounting affect reported income?  How does ‘available for sale’ accounting affect the financial statements?  What is equity method accounting?  Read: Chapter 16 (pgs 953 – 970 and Appendix A) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: Pfizer financial statements; Google financial statements, GE financial statements for consolidation accounting.  Representative textbook exercises (some may be done in class): E16.1 – E16.5,E16.7,E16.9  Expected time: 3 periods |

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| Topic: Consolidations – **Liabilities**  Goal: Review the liability side off the financial statement beginning with current liabilities and including debt. A secondary goal is to provide some basics of hedge accounting. Hedge accounting is an optional topic that may be offered and will **not** be tested.  Basic issues include: The difference between payables and accruals. Estimated liabilities. Short and long term debt.  Questions:  What are accrued expenses and estimated expenses?  What is the connection between short term debt, the current portion of long term debt and long term debt in the financial statements?  Read: Chapter 11 (pgs. 601 – 633, 652 – 656) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: GE financial statements for debt and hedging.  Representative textbook exercises (some may be done in class): E11.3, E11.6, E11.8, E11.9, E11.11, P11.1, P11.11  Expected time: 2 periods |
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| Topic: **Leases**  Goal: Understand the impact of an alternate sometimes underreported source of financing  Basic issues include: The differences and similarities between lease accounting options. The temporary and permanent impacts on financial statements and financial ratios  Questions:  What is the difference between an operating lease and a capital lease?  What is the impact of new lease accounting reporting?  How do leases compare to debt?  What are leasehold assets?  Read: Chapter 12 including the appendix and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion cases: Walmart (leases)  Representative textbook exercises (some may be done in class): E12.1 - E12.8,E12.12,E12.13,E12.15  Expected time: 3 periods, Topical quiz follows |

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| Topic: Foreign operations – **Pensions**  Goal: Understand the relationship between pension obligations, the separate pension trust and the operating company  Basic issues include: The impact of different types of pension or related obligations. The impact of estimates and experience and the pension obligation.  Questions:  What does the structure of a pension plan affect the allocation of risk to the employer and employee?  What is the impact of company assumptions on the appearance of the plan?  How are the financial statements coordinated with the accompanying notes?  How do external economic events impact the plan and the financial statements?  Read: Chapter 14 and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: Pfizer (pension plans)  Representative textbook exercises (some may be done in class): E14.1,E14.2,E14.6,E14.7,E14.9, E14.12 – E14.14,E14.20,P14.3  Expected time: 4 periods, Topical quiz follows |
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| Topic: **Taxes**  Goal: Understand the impact of tax policy on consolidation  Basic issues include: The relationship between tax reporting and financial statement reporting. Estimation of deferred taxes  Questions:  Why do deferred taxes exist?  Are tax rates reported in the financial statements reflective of cash flows?  What tax rate is relevant for estimating deferred taxes?  What flows are ‘net of tax?’  Read: Chapter 13 and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Classroom discussion case: eBay, Pfizer financial statements and tax rates  Representative textbook exercises (some may be done in class): E13.1, E13.2, E13.6, E13.10,E13.12, E13.14  Expected time: 3 periods, Topical quiz follows |

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| Topic: **Owners’ Equity and Management Compensation**  Goal: Understand the impact of income and financial policies on ownership and management  Basic issues include: How do management generated events impact a company’s net asset position  Questions:  Are dividends and stock buybacks equivalent?  Why do earnings growth and earnings per share growth differ?  How might paying management in shares or options impact management decision making?  How does the choice of using or not using shares impact a decision to acquire another firm?  Read: Chapter 15 (pgs. 889 - 931) and notes (including representative results based on interactive spreadsheets available on NYU Classes and used in class)  Representative textbook exercises (some may be done in class): E15.7, E15.12 – E15.15  Expected time: 2 periods |