

Principles of Financial Accounting

Ilan Guttman

In general terms, financial accounting is the measurement of economic activity for decision-making. Financial statements are a key product of this measurement process and an important component of firms' financial reporting activities. In the past few years, financial accounting came to the forefront of the national consciousness as the stock market continued to decline amid faltering investor confidence. The crisis of confidence began with the revelation of accounting irregularities at some of the United States' largest companies. However, the implications extended well beyond the effects of individual accounting or company failures: investors seemed to lose confidence in the integrity of the financial system as a whole. The capital markets, whose relative efficiency is based largely on the timely dissemination of relevant and reliable financial information, were at risk. Clearly, the importance of understanding accounting has never been so salient.

The objective of this course is not to train you to become an accountant but rather to help you develop into an informed user of financial statement information. While financial statement users face a wide variety of decisions, they are often interested in understanding the implications of financial statement information for the future cash flows and earnings potential of a firm. We will focus on understanding the mapping between underlying economic events and financial statements, and on understanding how this mapping affects inferences about future profitability. Because annual reports are somewhat formidable, we will spend time familiarizing ourselves with how firms present the information for various accounts in the financial statements, including the footnotes. We also will discuss the role of the various institutions involved in the reporting process. By understanding the environment in which financial reporting takes place you will be in a better position to evaluate critically the disclosures made by firms in published financial statements.

Several features of the course are used to facilitate these learning objectives. The textbook provides a conceptual foundation for the course by introducing the accounting framework and by characterizing accounting principles and alternative methods. Class time will be allocated to a combination of short lectures and discussions of the assigned materials. The assigned cases serve as a basis for class discussion and provide a challenging test of your understanding of the topic. They are based on corporate financial statements and illustrate the issues associated with various accounting methods and the manner in which the related information is disclosed. In addition, the assigned cases demonstrate the "real life" magnitude of income and balance sheet differences under alternative accounting methods, as well as a variety of financial reporting discretion practices.

Organizational Matters

1. Required Text: Libby, Libby and Short (LLS), Financial Accounting, 8th Edition. The NYU Custom Edition is also acceptable.
2. Syllabus materials are organized according to the order in which they will be discussed in class.
3. At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty has adopted a grading guideline for core courses in which approximately 35% of students will receive an “A” or “A-“ grade.

Final grades will be determined as follows:

Homework Assignments	15%
Quiz 1	25%
Quiz 2	25%
Quiz 3	25%
Classroom Performance	10%

There is no possibility of earning extra credit or of changing the above weights. Any questions about grades, grading curves, etc. should be addressed to me via e-mail.

Classroom performance: Classroom performance comprises participation in class discussions, preparation for class, and attendance during class. I view class discussion as an integral part of the learning experience of the course. Your class participation grade will be based on contribution to class discussion, not based on the amount of time you talk. I recognize that students with different backgrounds will contribute differently to class discussion. Contributions can take many forms, including, but not limited to, insightful comments and thoughtful questions.

Meaningful class participation requires adequate preparation of the assignments for each class.

Homework Assignments: Homework assignments need to be submitted before the beginning of class. Your write-up of the case should be short and concise and be computer generated. The assignments will be graded based mostly on effort displayed. You are allowed to discuss the homework assignments and prepare the write-ups in groups of no more than two students. By having your name on a submitted assignment, you confirm that you contributed to the homework assignment.

You can skip one homework assignments without any “penalty”.

Please also bring a copy of your homework to class for the case discussion.

CLASS SCHEDULE - SUBJECT TO CHANGE

DATE	TOPICS	READINGS	HW
26-Jan	Introduction to Course	Chapter 1	
28-Jan	Double entry bookkeeping	Chapter 2	
2-Feb	Fundamentals of Financial Statements	Chapter 3	HP
4-Feb	Fundamentals of Financial Reporting	Chapter 4	
9-Feb	From Economic Events to Financial Statements		Radiation Shields Part I
11-Feb	Revenue and Expense Recognition		
16-Feb	Financial Statements as a Management Planning Tool		<i>Hanson Ski Products</i>
18-Feb	<i>Integrating Financial Statements</i>		Radiation Shields Part II
23-Feb	Review for Quiz 1		
25-Feb	Quiz 1		
1-Mar	Statement of Cash Flows – Indirect Method	Chapter 12	Alpha and Beta Corporations
3-Mar	Accounts Receivable	Chapter 6	
8-Mar	Accounts Receivable		Sears, Roebuck & Co.
10-Mar	Accounting for Inventories and Cost of Goods Sold (COGS)	Chapter 7	
15-Mar; 17-Mar	<i>Spring Break, No Class</i>		
22-Mar	Accounting for Inventories and Cost of Goods Sold (COGS)		
24-Mar	Property, Plant, and Equipment (Fixed Assets)	Chapter 8	
29-Mar	Property, Plant, and Equipment		Depreciation at Delta Air Lines and Singapore Airlines

DATE	TOPICS	READINGS	HW
31-Mar	Review for Quiz 2		
5-Apr	Quiz 2		
7-Apr	<i>Intangible Assets</i>		Microsoft's Financial Reporting Strategy
12-Apr	Liabilities	Chapter 9	
14-Apr	Shareholder's Equity	Chapter 11	
19-Apr	Shareholder's Equity		Dell Computer
21-Apr	Financial Securities		
26-Apr	Financial Securities and Fair Value Accounting		Intel Corp.
28-Apr	Financial Ratios		
3-May	Review for Quiz 3		
5-May	Quiz 3		