

Principles of Financial Accounting

David Changwook Lee*

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. Class time/location:
 - Time: Monday and Wednesday 9:00-12:00pm / July 6th ~ Aug 15th
 - Location: TBA
2. Required Text: Libby, Libby and Short (LLS), Financial Accounting, 8th Edition. The NYU Custom Edition is also acceptable.
3. Syllabus materials are organized according to the order in which they will be discussed in class.
4. Final grades will be determined as follows:
 - 3 Homework Assignments 15%
 - Midterm 30%
 - Final exam 40%
 - Classroom Performance 15%

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

CLASS SCHEDULE (as of Feb 29, 2016)

**Below schedule is SUBJECT TO CHANGE*

DATE	TOPICS	READINGS	HW
6-July (Wed)	Introduction to Course; Double entry bookkeeping; Fundamentals of Financial Reporting	Chapter 1 &2	mini HW <i>(no need to submit)</i>
11-July (Mon)	Fundamentals of Financial Statements; From Economic Events to Financial Statements;	Chapter 3 &4	
13-July (Wed)	Revenue And Expense Recognition		HW1
18-July (Mon)	Financial Statements as a Management Planning Tool; Integrating Financial Statements		
20-July (Wed)	Statement of Cash Flows – Indirect Method; Accounts Receivable;	Chapter 12 & 6	HW2
25-July (Mon)	Accounting for Inventories and Cost Of Goods Sold (COGS); Review for Midterm	Chapter 6 & 7	
27-July (Wed)	Midterm; Property, Plant, and Equipment (Fixed Assets)	Chapter 8	mini HW <i>(no need to submit)</i>
1-Aug (Mon)	Intangible Assets; Liabilities;	Chapter 9	
3-Aug (Wed)	Liabilities (cont'd); Shareholder's Equity	Chapter 9 &11	HW 3

8-Aug (Mon)	Financial Securities; Financial Securities and Fair Value Accounting;		
10-Aug (Wed)	Financial Ratios; Review for Final;		mini HW <i>(no need to submit)</i>
15-Aug (Mon)	Final Exam		

* I appreciate Professor Ilan Guttman for sharing his class materials. All errors on this syllabus and other class documents are my own.