**NEW YORK UNIVERSITY**

Stern School of Business

Principles of Financial Accounting

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| **Professor:** David M. Perkal | **E-mail:** dmp222@stern.nyu.edu |
| **Office:** 10-87 | **Office Hours:** By Appointment Only |

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| **Lectures:** M & W 11:00 – 12:15 pm (Tisch LC-25)  |
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| **Teaching Assistant:** Shawn Chen (shawn.chen@stern.nyu.edu) |

**Course Overview:**

A solid foundation in the fundamentals of accounting is critical to understanding business. The financial information that a company generates and communicates to internal and external decision-makers such as owners, managers, employees, investors, creditors, analysts and regulators is the narrative of the company.

The first part of the course is dedicated to analyzing and constructing the three components of financial statements: the income statement, the balance sheet and the statement of cash flows. The second part of the course is dedicated to deconstructing the balance sheet and analyzing the assets, liabilities and shareholders’ equity in greater detail.

**Textbook:**

The textbook for the course is Horngren, Sundem, Elliott, and Philbrick (“HSEP”), *Introduction to Financial Accounting,* Eleventh Edition (Copyright 2014).

**Class Format:**

The class lectures are based on Powerpoint slides which highlight the material in the HSEP chapters. The slides without answers to the practice problems are available to students on the course website. It is recommended that students print these slides and bring them to class each lecture. Upon completion of each topic, the slides with answers to the practice problems will be available. The class sessions are participatory as students are asked to complete practice problems during the lectures since the best way to learn accounting is by doing. Each student should bring a calculator and his/her company 10-K (see Class Project) to class as visualizing how information is presented in financial statements unequivocally assists in understanding the material.

It is recommended that students review one of the aforementioned textbooks and the slides without answers before each lecture. This will enrich the students’ classroom experience. Maintaining this discipline throughout the course will certainly provide a greater understanding and appreciation of the subject matter. The material covered in this introductory course is cumulative as lectures build on prior topics. Therefore, cramming before exams is neither conducive to retaining the subject matter nor performing well on the exams.

**Grading:**

Homework: 10% (1% each)

Class Project: 20%

Exams: 40% (8% each)

Final Exam: 30%

**Homework:**

The homework assignments are due at the beginning of each lecture following the completion of that topic. If a homework assignment is late, it will receive a grade of zero. Homework assignments will receive a grade of zero, one-half point or one point based on the accuracy of the answers and the level of effort. The answers to each homework assignment will be distributed after each homework assignment is submitted.

**Class Project:**

Students will form groups of four to six and select a publicly-traded company listed on either the NYSE or NASDAQ to analyze. A list of all of the companies in the S&P 500 Index is posted on the course website to assist in the selection. However, students should NOT select a financial services company to analyze as they can be difficult to navigate. By the second week, each group will notify the professor and/or teaching assistant of the group members and company selected. If a student is unable to form a group, he/she should notify the professor and/or teaching assistant, and a group will be selected for him/her. Each group will print the most recent 10-K of the company from [www.sec.gov](http://www.sec.gov). This will serve as the primary source document for the project. On or before the last day of class, each group will submit the 10-K with the analysis based on the subject matter covered throughout the course. Late submissions will receive a grade of zero. Each student will receive the grade that the group receives for the project. Therefore, working together as a team with each member contributing equally will be of paramount importance. The class project is the culmination of the course. It provides each student with the opportunity to apply the skills and analytical techniques learned throughout the course. Upon completion of the project, each student should have the confidence and ability to not only understand the financial reporting of a company, but also to formulate an educated opinion about a company.

**Exams:**

All of the exams will be closed book and closed note. Make-up exams will only be permitted with a university-approved excuse such as illness or family emergency. If a student has to miss an exam, he/she must notify the professor prior to the exam. Failure to do so will result in a grade of zero for the exam.

**SYLLABUS**

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| **Session(s)**  | **Agenda** |
| 1/22 | Topic: Accounting: The Language of BusinessReading: HSEP (Chapter 1) Homework: HSEP Chapter 1 - Questions 1-37, 1-39, 1-49 (Due 1/24)   |
| 1/24 & 1/29 | Topic: Measuring Income to Asset PerformanceReading: HSEP (Chapter 2) Homework: HSEP Chapter 2 - Questions 2-48, 2-49, 2-57 (Due 1/31)  |
| 1/31 & 2/5 | Topic: Recording TransactionsReading: HSEP (Chapter 3) Homework: HSEP Chapter 3 - Questions 3-33, 3-41, 3-52 (Due 2/7)  |
| 2/7 | Topic: Accrual Accounting and Financial StatementsReading: HSEP (Chapter 4) Homework: HSEP Chapter 4 - Questions 4-31, 4-39, 4-46 (Due 2/12) |
| 2/12 & 2/21 | Topic: Statement of Cash FlowsReading: HSEP (Chapter 5) Homework: HSEP Chapter 5 - Questions 5-64, 5-73 (Due 2/26) |
| **2/14** | **Exam 1**  |
| 2/26 & 3/4 | Topic: Accounting for SalesReading: HSEP (Chapter 6) Homework: HSEP Chapter 6 - Questions 6-65, 6-68, 6-71, 6-74 (Due 3/6) |
| **2/28** | **Exam 2**  |
| 3/6, 3/13, 3/25 & 3/27 | Topic: Inventories and Cost of Goods SoldReading: HSEP (Chapter 7) Homework: HSEP Chapter 7 - Questions 7-56, 7-75, 7-77, 7-79 (Due 3/27) |
| **3/11** | **Exam 3**  |
| 4/3, 4/8 & 4/10 | Topic: Long-Lived Assets and DepreciationReading: HSEP (Chapter 8) Homework: HSEP Chapter 8 - Questions 8-38, 8-52, 8-62, 8-68 (Due 4/15) |
| **4/1** | **Exam 4**  |
| 4/15, 4/22 & 4/24 | Topic: Liabilities and InterestReading: HSEP (Chapter 9) Homework: HSEP Chapter 9 - Questions 9-60, 9-63, 9-67, 9-76, 9-79 (Due 4/29)  |
| **4/17** | **Exam 5**  |
| 4/29, 5/1 & 5/6 | Topic: Stockholders’ EquityReading: HSEP (Chapter 10) Homework: HSEP Chapter 10 - Questions 10-52, 10-58, 10-60, 10-71 (Due 5/6) |

**Academic Integrity**

Our undergraduate [Academics Pillar](https://www.stern.nyu.edu/programs-admissions/undergraduate/why-stern/our-pillars) states that ***we take pride in our well-rounded education and approach our academics with honesty and integrity***. Indeed, integrity is critical to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:

* Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
* Clearly acknowledge the work and efforts of others when submitting written work as one’s own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.
* Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

The Stern Code of Conduct and Judiciary Process applies to all students enrolled in Stern courses and can be found here: <https://www.stern.nyu.edu/uc/codeofconduct>.

To help ensure the integrity of our learning community, prose assignments you submit to Brightspace will be submitted to Turnitin. Turnitin will compare your submission to a database of prior submissions to Turnitin, current and archived Web pages, periodicals, journals, and publications. Additionally, your document will become part of the Turnitin database.

**General Conduct & Behavior**

Students are also expected to maintain and abide by the highest standards of professional conduct and behavior.  Please familiarize yourself with Stern's Policy in Regard to In-Class Behavior & Expectations (<http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>) and the NYU Student Conduct Policy (<https://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/university-student-conduct-policy.html>).

**Grading Guidelines**

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 have agreed that for elective courses the individual instructor or department is responsible for determining reasonable grading guidelines.

**Student Accessibility**

If you will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Student Accessibility (212-998-4980, mosescsa@nyu.edu) verifying your registration and outlining the accommodations they recommend. For more information, visit the CSA website: <https://www.nyu.edu/students/communities-and-groups/student-accessibility.html>.

**Student Wellness**

Our aim is for students to be as successful academically as they can, and to help them overcome any impediments to that. Bookmark the NYU Stern Well-being Resource Hub (https://www.stern.nyu.edu/wellbeing) for existing services at NYU and Stern covering a wide variety of topics including financial well-being, relationship well-being, mental well-being, and more. Any student who may be struggling and believes this may affect their performance in this course is urged to contact the Moses Center for Student Accessibility (see also the Student Accessibility section of this syllabus) at 212-998-4980 to discuss academic accommodations. If mental health assistance is needed, call the NYU’s 24/7 Wellness Exchange hotline at 212-443-9999. Furthermore, please approach me if you feel comfortable doing so. This will enable me to provide relevant resources or referrals. There are also drop-in hours and appointments. Find out more at

<http://www.nyu.edu/students/health-and-wellness/counseling-services.html.>

**Name Pronunciation and Pronouns**

NYU Stern students now have the ability to include their pronouns and name pronunciation in Albert. I encourage you to share your name pronunciation and preferred pronouns this way. Please utilize this link for additional information: [Pronouns & Name Pronunciation](https://www.nyu.edu/students/student-information-and-resources/registration-records-and-graduation/forms-policies-procedures/pronouns-and-name-pronunciation.html).

**Religious Observances and Other Unique Situations**

NYU Stern is committed to ensuring an equitable educational experience for all students regardless of identity or religious/cultural background. The observance of religious and cultural holidays/traditions and the recognition of unique circumstances - such as serving as a caregiver - are important aspects of this commitment. Please review all class dates at the start of the semester and review all course requirements to identify any foreseeable conflicts with exams, course assignments, projects, or other items required for participation and attendance. Please contact me within the first two weeks of the class semester to discuss any potential conflicts.

***\*Or if full attendance is required in your class as long as the university is holding classes:***

While NYU Stern is committed to ensuring an equitable educational experience for all students regardless of identity or religious/cultural background, New York University determines when the institution is open for classes. If the observance of religious and cultural holidays/traditions and/or the recognition of unique circumstances - such as serving as a caregiver will prevent you from attending class, please be aware that this particular course requires 100% attendance. Please review all class dates to ensure you can attend all of them. If you identify any foreseeable conflicts with class attendance, exams, or other items required for participation and attendance, it is strongly recommended that you do not take this class.

**CLASS PROJECT**

The class project is the culmination of the course. It provides each student with the opportunity to apply the skills and analytical techniques learned throughout the course. Upon completion of the project, each student should have the confidence and ability to not only understand the financial reporting of a company, but also to formulate an educated opinion about a company. Below is a suggested format and content of the report which should be approximately 15 pages, not to exceed 20 single spaced. It should begin with a brief introduction of the company and conclude with an investment opinion corroborated by the qualitative and quantitative analysis. It may be easier to initiate the analysis with the income statement, followed by either the balance sheet or statement of cash flows.

**Introduction**:

Describe the company, its products and services, locations, competitive advantages, major customers, major suppliers, senior management, board of directors, auditing firm, and any major changes including acquisitions, divestitures or lawsuits.

**Income Statement**:

*Sales*: What is the revenue recognition policy? Are there returns and allowances and cash or trade discounts? If so, what is the percentage of net sales to gross sales? Are there credit card sales? If so, describe. Discuss the revenue trends, i.e. increasing, decreasing or flat.

*Expenses*: Describe the expenses and discuss the margins and trends, i.e. increasing, decreasing or flat.

**Balance Sheet**:

Assets

*Accounts Receivable*: What is the allowance for doubtful accounts and how is it calculated? How much is historically written off? What are the accounts receivable turnover and days to collect accounts receivable? What do they reveal about the company’s collection history? Are any receivables factored? If so, describe the amount and the terms of the program.

*Inventory*: Describe the composition. Does the company use a perpetual or periodic system? Is there shrinkage? Is there an allowance for obsolete or damaged inventory? Are there write downs of inventory? What inventory valuation method is employed? If applicable, what is the LIFO reserve and what would inventory be if FIFO were used? Calculate and interpret inventory turnover and discuss the trends, i.e. increasing, decreasing or flat.

*Fixed Assets*: Describe the composition. What depreciation methods are employed and what are the useful lives of each asset? What is the net book value versus original value? Are the assets relatively new or depreciated? Have there been any impairment charges? If so, describe.

*Goodwill & Intangible Assets*: Describe the composition. What is the useful life of each asset? What is the net book value versus original value? Have there been any impairment charges? If so, describe.

*Deferred Tax Assets*: Describe the composition.

*Other Assets*: Describe the composition such as investments and prepaid expenses.

Liabilities

*Current Liabilities*: Describe the composition.

*Debt*: Describe the composition. If there are several types of debt, select two and describe the interest rates, covenants (if mentioned) and other features such as callable or convertible (if applicable).

*Leases*: Describe the finance and operating leases and the terms.

*Pensions & Other Postretirement Benefits*: Is the pension plan defined contribution or defined benefit? Is it over- or under-funded? Describe the other postretirement benefits (if applicable).

*Deferred Tax Liabilities*: Describe the composition.

*Other Liabilities*: Describe the composition such as contingent and restructuring liabilities.

**Shareholders’ Equity:**

*Common Stock*: What is the par value? How many shares are issued and outstanding? What is the book value? Does the company pay dividends? If so, describe the amount and dividend policy. Did the company repurchase shares? If so, were they retired or held in treasury stock, how many shares were repurchased and what was the cost? If the shares were held in treasury stock, what was the intended use of those shares, e.g. to service stock options?

*Additional Paid-In Capital*: What is the balance and how does it compare to common stock at par value?

*Incentive Compensation*: Does the company offer stock options and restricted stock grants? If so, describe the plans including the vesting policy.

*Preferred Stock* (if applicable): What is the par value? How many shares are issued and outstanding? What is the book value? What is the dividend rate? What is the liquidating value (if mentioned)? Are there any other features such as callable or convertible? If so, describe. Is the company paying preferred dividends each year or are they accumulating?

*Other Comprehensive Income*: Describe the composition.

**Statement of Cash Flows:**

Comment on cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. Describe the major items and their impact on each of the three sections. Describe the company’s liquidity position, i.e. does it appear to be in a strong or weak cash flow position and why?

**Ratios:**

*Financial Ratios*: Calculate and interpret EPS, P-E, dividend-yield and dividend-payout.

*Liquidity Ratio*: Calculate and interpret the current ratio for all of the periods available. Discuss the trends, i.e. increasing, decreasing or flat.

*Profitability Ratios*: Calculate and interpret gross profit margin, net profit margin, ROE and ROA for all of the periods available. Discuss the trends, i.e. increasing, decreasing or flat.

*Debt and Interest Coverage Ratios*: Calculate and interpret debt-to-equity, long-term-debt-to-total-capital, debt-to-total-assets and interest coverage for all of the periods available. Discuss the trends, i.e. increasing, decreasing or flat.

*Valuation Metrics*: What is the stock ticker symbol and on which exchange does it trade? What is the current stock price, 52-week high and 52-week low? Calculate and interpret book value of equity versus market value of equity and book value per share versus market value per share.

**Conclusion**:

Given your qualitative and quantitative analysis, would you invest in the company for either the short- or long-term? Why?