

## **Financial Accounting and Reporting**

**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.

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**

#### Textbook:

Hanlon M., R. Magee, and G. Pfeiffer, *Financial Accounting*, 7<sup>th</sup> Edition, Cambridge Business Publishers, 2023 (eBook or printed textbook).

Given the high cost of textbooks, you can use older editions of the textbook, however, there might be some slight differences in the assigned reading). For most classes there will be assigned reading from the textbook.

### Grading:

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 up to 35% of students can receive an “A” or “A-“ grade.

Final grades will be determined as follows:

Homework Assignments	15%
Midterm exam	30%
Final exam	45%
Classroom Performance	10%

### Exams:

The exams will be closed book and closed notes.

Although the final exam is cumulative, it will focus on materials covered after the midterm exam.

### 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. In the rare instance that an emergency precludes you from preparing adequately for a particular class, you should notify me before the class begins. Attendance is expected for all sessions. However, if for some reason you will miss class or will be late for class, send me an email before class. Tardiness, entering or leaving during class, and/or lack of attendance will have a negative effect on your classroom performance grade.

### Homework Assignments:

Homework assignments will be posted on NYU LMS (Brightspace).

Homework assignments need to be submitted on Brightspace, before the beginning of class. Your write-up of homework should be concise and 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 three students. By having your name on a submitted assignment, you confirm that you contributed to the homework assignment.

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

Electronic devices and class notes:

Electronic devices are not allowed during the class.

Experience and research have shown that use of electronic devices during class significantly disrupts learning, both for the students using the device and for others in the class.

Course Website:

All course material will be posted on NYU LMS (Brightspace). Prior to each class, I will post the handouts for the class (which I will also distribute in class). After each class I will post my slides from class. The homework assignment and templates for some of the assigned cases will also be posted on Brightspace.

Office Hour:

Wednesday 11am-12pm, KMC 10-92.

Teaching Assistants:

TBA

## Course Overview (Subject to changes)

No Classes – Monday SEP 26 (Rosh Hashana), Wednesday Oct 5 (Yom Kipur)

Session	Date	Topic	Homework
1	Sep 7	Introduction to Course and Financial Reporting	
2	Sep 14	Fundamentals of Financial Statements Statement of Cash Flows – Direct Method	Hewlett Packard
3	Sep 21	From Economic Transactions to Financial Statements	Radiation Shields - Part 1
4	Sep 28	Financial Statements as a Management Planning Tool Revenue and Expense Recognition	Hanson Ski Products
	Oct 5	No Class	
5	Oct 12	Revenue and Expense Recognition Integrating Financial Statements Review Session	Radiation Shields - Part 2
6	Oct 19	Midterm	
7	Oct 26	Statement of Cash Flows – Indirect Method Accounts Receivable	Read - Statements of Cash Flows: Three Examples (do not hand in)
8	Nov 2	Statement of Cash Flows – Indirect Method Accounts Receivable Fixed Assets	Radiation Shields - Part 3 Sears, Roebuck & Co.
9	Nov 9	Accounts Receivable Fixed Assets	Depreciation at Deutsche Lufthansa
10	Nov 16	Intangible Assets Overview - Accounting for Inventories and Liabilities Shareholders' Equity	
11	Nov 30	Shareholders' Equity Financial Securities and Fair Value Accounting	BMC Software Inc.
12	Dec 7	Financial Securities and Fair Value Accounting Financial Ratios	TBD
	Dec 16	Final Exam	1:30-4:30pm

## **Financial Accounting & Reporting Specific Assignments (Subject to Change)**

**1: Sep 7**  
**Introduction to Course and Financial Reporting**

*Reading*

Chapter 1, Chapter 2 (5th edition –same pages)

**2: Sep 14**

**2.A Fundamentals of Financial Statements**

*Reading*

Chapter 3 (pp. 100-116, skim pp. 116-126) (5th edition –same pages)

*Assignment*

Hewlett Packard

**2.B Statement of Cash Flows – Direct Method**

*Reading*

Chapter 4 (pp. 156-163) (5th edition –same pages)

**3: Sep 21**

**From Economic Transactions to Financial Statements**

*Assignment*

Radiation Shields Inc. - Part 1

**4: Sep 28**

**4.A F/S as a Management Planning Tool**

*Assignment*

Hanson Ski Products

**NOTE:** Don't be intimidated by the sea of numbers. Most of the numbers you need to construct the balance sheets are directly given in the case. You don't need to forecast future sales, develop a schedule for collections, or re-calculate interest expense, etc. All of this has been (implicitly) done for you in the projected balance sheets, income

numbers, etc. There are only a few numbers you actually need to derive. An Excel spreadsheet with a useful format for completing the assignment is included with the case and is also available on the course web site.

#### **4.B Revenue and Expense Recognition**

*Reading*

Chapter 6 (pp. 270-280) (5<sup>th</sup> edition - 272-278)

Chapter 7 (pp. 328-329) (5<sup>th</sup> edition - 328-329)

**Oct 5 – No Class (religious holiday)**

**5: Oct 12**

#### **5.A Revenue and Expense Recognition**

#### **5.B Integrating Financial Statements**

*Assignment*

Radiation Shields Part 2

#### **5.C Review Session**

**6: Oct 19 – Midterm Exam**

**7: Oct 26**

#### **7.A Statement of Cash Flows – Indirect Method**

*Reading*

Chapter 4 (from pp. 162) (5<sup>th</sup> edition – from 163)

*Assignment*

Read - Statements of Cash Flows: Three Examples (do not hand in)

**7.B Accounts Receivable**

*Reading*

Chapter 6 (pp. 283-291) (5th edition – 281-294)

**8: Nov 2**

**8.A Statement of Cash Flows – Indirect Method**

*Assignment*

Radiation Shields Part 3

**8.B Accounts Receivable**

*Assignment*

Sears, Roebuck & Co.

**8.C Fixed Assets**

*Reading*

Chapter 8 (pp. 372-387) (5th edition – 374-387)

**9: Nov 9**

**9.A Fixed Assets**

*Reading*

Chapter 8 (pp. 372-387) (5th edition – 374-387)

*Assignment*

Depreciation at Deutsche Lufthansa AG

**9.B Accounting for Inventories**

*Reading*

Chapter 7 (pp. 326-344) (5th edition – 329-344)

**9.C Intangible Assets**

*Reading*

Chapter 8 (pp. 388-394) (5th edition – same pages)

**10: Nov 16**

**10.A Overview of Accounting for Inventories and Liabilities**

*Reading*

Chapter 7 (pp. 326-344) (5th edition – 329-344)

Chapter 9 (pp. 412-423) (5th edition – 414-421)

**10.B Intangible Assets**

*Reading*

Chapter 8 (pp. 388-394) (5th edition – same pages)

**10.C Shareholders' Equity**

*Reading*

Chapter 11 (pp. 528-544) (5th edition – 516-535)

**11: Nov 30**

**11.A Intangible Assets**

*Assignment*

BMC Software, Inc.

**11.B Shareholders' Equity**

**11.C Financial Securities and Fair Value Accounting**

**12: Dec 7**

**12.A Shareholders' Equity**

*Assignment*

TBD

**12.A Financial Securities and Fair Value Accounting**



*Reading*

Chapter 12 (pp. 580-594) (5th edition – 562-575)

## **12.B Financial Ratios**

*Reading*

Chapter 5 (pp. 220-227, skim the remainder of the Chapter) (5th edition –same pages)

**Dec 16, 1:30-4:30pm - Final Exam**