



**- SPRING 2021 -**

**Professor:**

Massimiliano Bonacchi  
[mbonacch@stern.nyu.edu](mailto:mbonacch@stern.nyu.edu)

Office : 10-97

Office Hours: by appointment

**Teaching Assistant**

Davide Berretti

[davide.berretti@stern.nyu.edu](mailto:davide.berretti@stern.nyu.edu)

Office Hours: by appointment

## **COURSE OVERVIEW**

This core course will explain the financial language used in businesses and discuss the financial metrics used to evaluate the feasibility and success of businesses. The course will use real cases to explain how the choice of business strategy and its execution is reflected in financial statements.

The *main goal* of this course is to equip you with the knowledge to:

- a. learn a foreign language such as Accounting,
- b. read, interpret, and analyze financial statement data to make informed business decisions regarding investment, credit, or resource allocation.
- c. prepare projections by forecasting future financial statements

## **COURSE OBJECTIVES**

By the end of the course, you should be able to:

- Appreciate how business activities are captured by financial statements.
- Understand the difference between cash and accrual accounting.
- Interpret Balance Sheets, Income Statements, and Statement of Cash Flows.
- Prepare simple financial statements.
- Explain how components of financial statements are linked together.
- Prepare simple journal entries, ledgers, trial balances, and end-of-period adjusting entries.
- Have a basic understanding of how to build a business budget and plans
- Apply ratio analysis to companies in different industries

## **CLASS HANDOUTS**

Your mandatory reading materials are your Handouts.

Class notes, class exercises, solutions to class exercises, review questions, solutions to review questions, sample exams and all other lecture-related materials are available in electronic format on NYU Classes.

## **OPTIONAL ELECTRONIC TEXT**

Some of you prefer to supplement your class notes with other materials. Here is a book that I recommend.

*Easton, P., Wild, J., Halsey, R., and M. McNally, Financial Accounting for MBAs, Cambridge Business Publishers.*

<https://mybusinesscourse.com/book/financialaccountingformbas8e#purchase> no access code needed

## ASSESSMENTS

Your final grade is calculated based on:

2 Group Assignments	20
2 Mini Tests	20
Final Exam	60

### Group Assignments

There are 2 group assignments for this course. You can find the due dates of your assignments on our class schedule. **You are supposed to work on the assignments in your preassigned group.** Your assignments should clearly state the team members' full names. **However, only one member of your team should submit the assignment.**

### Mini Tests (individual assessment, collaboration NOT allowed)

To ensure that you put in consistent effort into the course, 2 mini tests are designed to test your accounting knowledge in selected topics. You can find the test dates on our class schedule. **You are NOT allowed to work through the questions in groups for your mini tests.**

### Final Exam

The final exam will cover the full course and is 3 hours long.

## GRADING

The course will follow the grading policies of core courses:

A/A- max of 35% of the class

## CLASS SCHEDULE

At the end of this document, you will find a class schedule. You will find it beneficial to read the assigned handouts. **For those without accounting background, you may want to read the assigned background readings from the recommended text.** When reviewing the handouts, you will find class exercises assigned for selected topics. Discussions of class-exercises have been scheduled during class time and will take place typically after a new topic is introduced. These class-exercises are designed to consolidate your understanding of key accounting concepts and apply your accounting knowledge to situations/cases with a dimension of realism. Solutions to class exercises are posted on NYU Classes as well. 'Review questions with solutions' are additional questions that you can attempt to better grasp the accounting concepts/issues.

## FEEDBACK

I encourage you to provide feedback on class topics, content, and cases. I appreciate any concerns, questions, or opinions regarding the course. I would like to continue to improve this course; participants' feedback is critical.

## ACADEMIC INTEGRITY

Academic integrity and honesty is central to our mission as an educational institution. [The MBA Code of Conduct](#), which all students sign, therefore places particular emphasis on academic integrity. Notably this includes refraining from any method or means that provides an unfair advantage in exams or papers, and clearly acknowledging the work of others in your own work. As a reminder, the [entire Code of Conduct is available here](#).

To help ensure the integrity of our learning community, prose assignments you submit to NYU Classes 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.

## STUDENT ACCESSIBILITY

New York University is committed to providing equal educational opportunity and participation for students with disabilities. Students who are interested in applying for academic accommodations are advised to reach out to the Moses Center for Student Accessibility (CSA) as early as possible in the semester. If you already receive accommodations through CSA, you are encouraged to request your accommodation letters through the Moses portal as soon as possible.

Moses Center for Student Accessibility (CSA), 212-998-4980, [mosescsa@nyu.edu](mailto:mosescsa@nyu.edu), [www.nyu.edu/csa](http://www.nyu.edu/csa)

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](mailto:mosescsa@nyu.edu)) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the Moses Center for Student Accessibility, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation. For more information, visit the CSA website: <https://www.nyu.edu/students/communities-and-groups/student-accessibility.html>

## STUDENT WELLNESS

Classes can get stressful. I encourage you to reach out if you need help. The NYU Wellness Exchange offers mental health support. You can reach them 24/7 at 212 443 9999, or via the “NYU Wellness Exchange” app. There are also drop in hours and appointments. Find out more at <http://www.nyu.edu/students/health-and-wellness/counseling-services.html>

## Tentative Class Schedule

Date	Class Content	Hand-out	Assessment Date
Session 1: 2/2	Introduction to a new language	1	
Session 2: 2/4	The accounting cycle: journal entries and T-accounts	2	
Session 3: 2/9	Adjusting Entries and Completing the Accounting Cycle; Reading Balance Sheet and Income statements	2	
Session 4: 2/11	Statement of Cash Flow	4	Mini-test #1 due 2/10 by 11:00 PM EST
Session 5: 2/16	Analyzing and Interpreting Financial Statements Measuring and driving performance in the Fashion and Tech industry	5	Mini-test #2 due 2/15 by 11:00 PM EST
Session 6: 2/18	Keynote Speaker: Federico Marchetti Founder of YOOX and YNAP, Chairman and CEO of YOOX NET-A-PORTER GROUP <a href="https://www.federicomarchetti.com/">https://www.federicomarchetti.com/</a>		
Session 7: 2/23	Projecting Financial Statements		Assignment #1 due 2/22 by 11:00 PM EST
Session 8: 2/25	Guest Speakers: - <i>Andrea Pini</i> : CFO North America at <b>Gucci</b> - <i>Massimiliano Pellegrini</i> : CEO <b>Namirial</b> , former President of Mobile Services at <b>RealNetworks</b>  Grand Finale		Assignment #2 due 2/28 by 11:00 PM EST
Session 9: 3/1	Final Exam		

*Enjoy the accounting experience, let the fun begin!*

# COURSE OUTLINE

## Session 1: Introduction to a new language

### Accounting is the Language of Business

Topics	<ul style="list-style-type: none"><li>▪ Introduction and course logistics</li><li>▪ Financial information: users, uses, and vulnerabilities.</li><li>▪ Balance Sheet and the accounting equation</li><li>▪ Overview of the 4 statements<ul style="list-style-type: none"><li>- Balance Sheet: Statement of Financial Positions</li><li>- Income Statement: Statement of Operations</li><li>- Statement of shareholders' equity</li><li>- Statement of Cash Flows</li></ul></li></ul>
Readings	<p><b>Background Reading - Class Notes 1</b> (mandatory)</p> <p>Textbook (optional): <b>Module 1</b> and <b>Module 2</b> (Easton, P., Wild, J., Halsey, R., and M. McNally, Financial Accounting for MBAs, Cambridge Business Publishers.)</p>
Self-study Problems & Assignments	Class Exercise: Chocolate Cake (see lecture slides)
Session Plan	<p>We will learn that accounting is information that is useful to make decisions. Financial accounting (managerial accounting) provides information for decision-makers primarily outside (inside) the firm.</p> <p>We will start with an overview of financial reporting. What types of reports are required? Who makes the rules? Who enforces the rules? Then, we will cover the balance sheet equation and define/discuss Assets, Liabilities, and Stockholders' Equity.</p> <p>We will introduce a case of a start-up company to provide you with insights into all of the necessary steps to go from recording the first transactions of a new business all the way through its first set of financial statements.</p> <p>Finally, we will also discuss the “big picture” of the course, course objectives (both yours and mine), and key dates in the course.</p>

## Session 2 and 3: The accounting cycle: journal entries and T-accounts

**“You should not end a workday until your debits equal your credits” (cit. Luca Pacioli)**

Topics	<hr/> <ul style="list-style-type: none"><li>▪ <math>\Delta</math>Cash vs Net Income</li><li>▪ The financial reporting system:<ul style="list-style-type: none"><li>- Double entry bookkeeping</li><li>- Adjusting the entries</li><li>- Completing the accounting reporting cycle</li></ul></li></ul> <hr/>
Readings	<ul style="list-style-type: none"><li>▪ <b>Background Reading - Class Notes 2</b> (mandatory)</li><li>▪ Textbook (optional): <b>Module 3</b> (Easton, P., Wild, J., Halsey, R., and M. McNally, Financial Accounting for MBAs, Cambridge Business Publishers.)</li></ul> <hr/>
Self-study Problems & Assignments	<p><u>Session 2</u></p> <ul style="list-style-type: none"><li>▪ Class Exercise: Roxy</li><li>▪ Review Question: “XYZ Company”</li></ul> <p><u>Session 3</u></p> <ul style="list-style-type: none"><li>▪ Class Exercise: “The scream”</li><li>▪ Review Question: “ABC Merchandise Company”</li><li>▪ Assignment 1: you will be asked to do the steps necessary to go from recording the first transactions of a new business all the way through its first set of financial statements.</li><li>▪ <b>Mini-test #1</b></li></ul> <hr/>
Session Plan	<hr/> <p>Accounting is information, and you need to develop a new language to spread this information. To learn a foreign language such as Accounting, you need quite a bit of practice in the basic foundations (grammar, syntax, idioms, etc.). This material is not fun, but it is absolutely essential to be able to read and understand financial statements.</p> <hr/>

## Session 4: Statement of Cash Flow

### Where money comes from and where it goes

Topics	<ul style="list-style-type: none"><li>▪ The Structure of the Statement of Cash Flows</li><li>▪ Direct vs Indirect Approach to Present the Statement of Cash Flows</li><li>▪ Reconciling earnings and cash flow</li></ul>
Readings	<ul style="list-style-type: none"><li>▪ <b>Background Reading - Class Notes 4</b> (mandatory)</li><li>▪ Textbook (optional): <b>Module 11</b> (Easton, P., Wild, J., Halsey, R., and M. McNally, Financial Accounting for MBAs, Cambridge Business Publishers.)</li></ul>
Self-study Problems & Assignments	<ul style="list-style-type: none"><li>▪ Class Exercise: A Cruel World Inc</li><li>▪ Review Question: Yo</li><li>▪ Mini-test #2</li></ul>
Session Plan	<p>Cash is a fact, Net Income is an opinion! However, Net Income (if not biased) is the best predictor of future cash flow. Understanding cash flow statements represents a pivotal concept of our class. It allows a better understanding of the business model of the company. It also comes in handy for the forecasting exercise in session 7. We will start with the classification of cash flows into operating, investing, and financing activities. Then, we will work on preparing and analyzing the Statement of Cash Flows.</p>

## Session 5: Analyzing and Interpreting Financial Statements. Measuring and driving performance in the Fashion and Tech industry

**Revenue is vanity. Profit is sanity. Cash is reality.**

Topics	<ul style="list-style-type: none"> <li>▪ Building simplified framework for analysis: Reformulated Income Statement, Balance Sheet and Cash Flow</li> <li>▪ Building a system of ratio</li> <li>▪ Drivers of profitability</li> <li>▪ Product/Season/Distribution Channel profitability</li> <li>▪ Customer profitability</li> </ul>
Readings	<ul style="list-style-type: none"> <li>▪ Handout 5 (optional)</li> <li>▪ Textbook (optional): Module 4 (Easton, P., Wild, J., Halsey, R., and M. McNally, Financial Accounting for MBAs, Cambridge Business Publishers.)</li> <li>▪ Book Chapter (optional) Bonacchi, Massimiliano, and Paolo Perego. Chapter 3 "Customer Analytics for Internal Decision-Making and Control." Chapter 4 37-66. and "Customer Equity for External Reporting and Valuation." Customer Accounting. Springer, 2019. 67-82.</li> </ul>
Self-study Problems & Assignments Session Plan	<p>The best way to tackle this course is to see yourself reading and analyzing a real financial statement. So download the financial statements of a company you are interest and build the proposed framework of analysis</p> <hr/> <p>The main Accounting ratios explain:</p> <ol style="list-style-type: none"> <li>1) how well the company is using its capital: invested capital as a whole (RNOA or ROIC) and shareholder's capital (ROE);</li> <li>2) how the company is financed, i.e. financial structure;</li> <li>3) how risky the company is;</li> <li>4) the quality of earnings (signs of earning management)</li> </ol> <p>However, for some firms and industries accounting ratios are less informative. This is especially true for intangible intensive firms where R&amp;D, information technology, brand creation and enhancement, business designs and processes, employee training and other human resources development costs, artificial intelligence and 'big data' development and exploitation, customer acquisition costs, etc. – are immediately expensed and not considered as an asset. We will learn how to complement traditional metrics with fashion and tech industry metrics (e.g. Sales per square foot, Number of active users, churn rate,...)</p> <p>Finally, when it comes to managing a company, these ratios are not enough. Managing any modern firm requires granular information about the firm's product, processes, assets, and customers. This information is a key input into a wide range of decisions: analyzing profitability of various products, managing product-line portfolio, setting prices, measuring and managing profitability of customers, making operational and strategic decisions, evaluating investments, guiding improvement efforts, and so on. In this session we will drill down into the drivers of operating profitability by looking into crucial objects such as season and retail profitability (e.g. fashion firms) and customer profitability (e.g. tech firm).</p>



**Session 6: Keynote Speaker**  
**Federico Marchetti Founder of YOOX and YNAP, Chairman**  
**and CEO of YOOX NET-A-PORTER GROUP**  
<https://www.federicomarchetti.com/>

**Session 7: Projecting Financial Statements**

**“A man who does not plan long ahead will find trouble right at his door” (cit. Confucius).**

- 
- |        |   |
|--------|---|
| Topics | <ul style="list-style-type: none"><li>▪ Develop a set of hypotheses on the future evolution of Operating, Investing and Financing activities</li><li>▪ Derive an income statement, cash flow statement, and balance sheet for the next 3-5 years</li><li>▪ Evaluate the plan with: Ratio analysis</li></ul> |
|--------|---|

---

Self-study Problems & Assignments	Assignment 2: you will be asked to prepare a business plan
--	--

---

Session Plan	<p>At the end of the day, we read and analyze financial statements to forecast the future. The best way to translate our assumptions about the future into “numbers” is to prepare an Income Statement, Balance Sheet and Cash flow statement for the next 3 to 5 years.</p> <p>We will learn how to model:</p> <ol style="list-style-type: none"><li>1) <i>revenues</i> by identifying key revenue drivers; Forecasting key revenue drivers; Tying forecasts of revenue drivers to top-line revenue numbers;</li><li>2) <i>expenses</i> by identifying key expense drivers; Forecasting key expense drivers; Tying expense forecasts to net operating profit after tax;</li><li>3) <i>working capital</i> by identifying key drivers of operating current assets (days of receivable, days of inventory) and operating current liabilities (days of payable). It will be clear that receivables and inventory increase the need for financing and payables mitigate the need for financing;</li><li>5) <i>fixed assets</i> by identifying CAPEX, useful life, and salvage (residual) value;</li><li>4) <i>financing needs</i> with debt and equity.</li></ol>
--------------	--

## Session 8: Guest Speakers and Grand Finale

### Accounting is information for decision making

---

#### Topics

- How to prepare and read an accounting report
- What decision need to be supported by accounting data
- The use of accounting metric in MBO

---

#### Session Plan

In this “Grand Finale” session I will wrap the main takes away of the course and then leave the floor for our Guest Speakers.

These speakers are bringing their experiences of how they use accounting to make day-by-day decisions. Each of you learn differently and have different backgrounds. The guest speakers may create a connection between what we have been doing in class and the real world situations you will face in your work place.

## Session 9: Final Exam