

**NEW YORK UNIVERSITY**  
Stern School of Business  
COR1-GB.1306.00 Financial Accounting and Reporting  
Saturday, 9:00 a.m. – 4:00 p.m. (TBD)

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**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.

**Text:**

Horngren, Sundem, Elliott, and Philbrick ("HSEP"), *Introduction to Financial Accounting*, Tenth or NYU Custom Edition (Copyright 2011)

**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 expected that students read the chapters in HSEP and review 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:**

Midterm:	30%
Final Exam:	40%
Class Project:	30%

**Midterm & Final Exam:**

The midterm exam will cover the first part of the course which comprises chapters one through five in HSEP. The final exam will cover chapters six through ten in HSEP. As the course is cumulative in nature, the final exam will build on the skills learned throughout the course. The exams will be closed book and closed note exams. Nonetheless, students may bring one 8 ½ x 11" sheet of paper with two sides of notes to the exams. Students should also bring a calculator. 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.

**Class Project:**

Students will form groups of four to six and select a publicly-traded company 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 as 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 his/her 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.

## SYLLABUS

Session	Topic
July 6	<p>Chapter 1: Accounting: The Language of Business Suggested Homework: HSEP 34, 37</p> <p>Chapter 2: Measuring Income to Asset Performance Suggested Homework: HSEP 48, 49, 57</p> <p>Chapter 3: Recording Transactions Suggested Homework: HSEP 33, 42, 52</p> <p>Chapter 4: Accrual Accounting and Financial Statements</p>
July 13	<p>Chapter 4: Accrual Accounting and Financial Statements (Continued) Suggested Homework: HSEP 31, 39, 46</p> <p>Chapter 5: Statement of Cash Flows; Chapter article on website Suggested Homework: HSEP 61, 70</p> <p>Chapter 6: Accounting for Sales; Chapter article on website Suggested Homework: HSEP 64, 65, 68, 76</p>
July 20	<p><b>Midterm Exam (Chapters 1-5)</b></p> <p>Chapter 7: Inventories and Cost of Goods Sold (Appendices 7A and 7B) Suggested Homework: HSEP 56, 69, 78</p>
July 27	<p>Chapter 7: Inventories and Cost of Goods Sold (Appendices 7A and 7B) (Continued); Chapter article on website</p> <p>Chapter 8: Long-Lived Assets and Depreciation; Chapter articles on website Suggested Homework: HSEP 38, 51, 62, 69</p>
August 3	<p>Chapter 9: Liabilities and Interest; Chapter articles on website Suggested Homework: HSEP 74, 81</p> <p>Chapter 10: Stockholders' Equity Suggested Homework: HSEP 49, 52, 54, 57</p>
August 10	<p><b>Final Exam (Chapters 6-10)</b></p>

## 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 capital 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?