

PEPPERDINE UNIVERSITY
THE GEORGE L. GRAZIADIO
SCHOOL OF BUSINESS AND MANAGEMENT

Dr. Andreas Simon

ACCT 601

Advanced Financial Accounting

Spring 2016

Thursday 1 PM – 5 PM

Malibu Campus

SYLLABUS

Advanced Financial Accounting
ACCT 601.04 MS
Spring 2016

Day/ Class Time: Thursdays 1 PM – 5 PM

Location: Malibu Campus, Beckman Mgmt Center L1

Professor: Andreas Simon, Ph.D.

Office address: Beckman Mgmt 346, Drescher Campus, Malibu

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Office hours: Thursdays 5-6 PM, and by appointment

1. COURSE INTRODUCTION

Welcome to Advanced Financial Accounting. The objective of this course is to build the knowledge of business students who seek to become more sophisticated users of financial statement information and who further wish to use financial accounting information effectively in decision making. The course is focused on advanced financial accounting and financial reporting requirements. However, it takes you beyond the requirements by considering how to recognize the economic limitations of reporting rules and how to compensate for those limitations.

The course uses simple examples to provide students with a clear understanding of accounting concepts. It stresses the ability to apply these concepts to real world cases, which by their very nature are complex and ambiguous. In addition to text-oriented materials, the classes also include cases so that students can discuss applications of basic concepts, actual financial reports, and articles from newspapers.

2. COURSE DESCRIPTION

ACCT 601 introduces various topics beyond an introductory level including irregular items disclosed on the income statement, goodwill, identifiable intangible assets, asset impairment, long-term liability accounting, various revenue recognition issues, and other selected topics. Topics are introduced from a preparer's point of view and, as time allows, interpretation and analysis issues are discussed.

3. COURSE OBJECTIVES

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

- Understand the major accounting choices affecting financial statements and managerial incentives that influence these choices,
- Analyze financial statements, footnotes, and other corporate disclosures (e.g. conference calls) and interpret articles from the popular press and media reporting on accounting events
- Apply accounting knowledge to solve business problems and make informed business decisions

4. TOTAL DIRECTED INSTRUCTION HOURS:

30 Hours, 2 units

5. COURSE MATERIALS

Required:

Purchasing the Course Pack: You will receive an Email from the Professor which includes a link. Click on this link and follow the instructions which will enable you to purchase the course pack. There is no additional required book for this course. I will assign relevant reading prior to each class, and it will be included in the course pack for you.

Recommended (NOT REQUIRED):

- *Financial Accounting and Reporting: A Global Perspective*, 3rd Edition; By Stolowy, Lebas, and Ding (ISBN: 978-1-4080-2113-2)
- *Equity Valuation and Analysis*, Lundholm and Sloan, McGraw-Hill Companies, 3rd edition.
- *Financial Accounting for MBAs*, 5th Edition; by Easton, Wild, Halsey, and McAnally. (13-ISBN: 978-1-934319-98-7).

All relevant materials beyond the textbook and course reader (e.g. practice solutions, assignment solutions, and grades) will be posted to **Courses (aka Sakai)**. In addition to lecture-related materials, optional readings from the press ('illustrations') related to the topics covered are also posted Courses. You can access Courses through the following web address: <https://courses.pepperdine.edu/> You need to login using your Pepperdine ID and password.

6. GRADES

Assessment	Delivery	Points
Midterm	Individual	400
In-class exercise	Group	100
Research project	Group	400
Participation	Individual	100
TOTAL		1000

Failure to complete any of these deliverables will result in either a grade of incomplete (see university catalog for when this is appropriate) or a fail. A brief description of these assignments is given below; we will discuss them further in class together.

Grading Scale (based on a 1,000 point scale):

Overall Avg.	Letter Grade	Quality
950-1000	A	Outstanding
910-949.9	A-	Excellent
890-909.9	B+	Very Good
840-889.9	B	Good
800-839.9	B-	Above Average
780-799.9	C+	Average

730-779.9	C	Less than Average
700-729.9	C-	Fair
670-699.9	D+	Less than Fair
630-669.9	D-	Barely acceptable
629.9 & below	F	Fail

Grade letters will be determined based on the actual percentage score – with no rounding, i.e. an overall score of 839.5 will be awarded a “B-”.

Midterm:

The midterm is individual work. In other words, you may not consult any other individuals during the examination. You can use a **one-page cheat sheet**, however. The cheat sheet cannot be a copy of in-class or assignment solutions, but rather has to be your notes or solution steps. The mid-term includes multiple-choice questions, short-answer essay questions, small case analyses, and computational problems.

I do not give makeup tests because it is impossible to make an equivalent test without placing the student at either an advantage or disadvantage. After returning the test, if you believe you should receive additional credit please provide a written explanation in support of your position with your answer from your exam paper for me to review. I will need quiet time to review your submittal so that I can give it the serious thought your request deserves. You need to submit your request to me in person or by email within one week after I return your test. Thanks for understanding.

Although I do not expect cheating in my class, the penalty is an **F for the course**. Cheating occurs when you look at one or more students' papers during an exam or obtain help from faculty or students outside your team on assigned homework sets or tests. Plagiarism occurs when you copy large sections of an author’s material without referencing it. If in doubt, please email me.

Research project:

The purpose of this project is to apply what you have learned from the class readings and discussions and assignments to a research situation. Please pick a company that interests you and walk the class through your company. The presentation should address the following points: revenue recognition of your company, accrual vs. cash flow analysis, intangible assets, information on debt, share-based compensation as well as comprehensive income, pro-forma and earnings call/ Twitter information.

Participation:

Your participation in the class discussions will also be graded. Participation is expected and is critical to your success. This is a very subjective grade and will consist of my perception of your preparedness for class discussions, your ability and willingness to communicate your ideas as well as respond to others and your attitude during class discussions. In addition, we will be evaluating your attitude in terms of maturity, accountability and professionalism.

7. COURSE POLICIES AND PROCEDURES

This class makes extensive use of Excel spreadsheets to analyze company data. Most of the spreadsheets include a vast of data and may appear at first glance a little overwhelming. To help you find your way around the Excel sheets I recorded screencasts for each one of them for your

own studies. **Tip: Open the Excel file and listen to my screencast at the same time. The screencast will explain what you see in each sheet and how to analyze and interpret the financial data presented.**

My main concern is that discussions are focused on the topics covered in the course and not on other matters. I assume you will expect me to provide you with a state-of-the-art course that is designed to both challenge you and assist you in your efforts to build your human capital. I promise you that I will do my best to give you a meaningful experience in enhancing your ability to read, evaluate and employ corporate financial statements in a decision making context. My goal is to help you to be successful and knowledgeable about the subject matter of this course. **Tip: Please treat your classmates and me with respect.**

I respond to student e-mails as quickly as possible, and am also happy to talk with you on the phone, or Skype or during office hours. We can set up a mutually convenient phone or meeting time. I plan to hold office time dedicated to you once a week. You may email me for help from 8:30 a.m. to 8:30 p.m., any day except Sunday and I will get back to you within 24 hours. **Tip: Please contact me if you have questions.**

8. CONDUCT

Turnitin and Plagiarism

This course may require electronic submission of essays, papers, or other written projects through the plagiarism detection service Turnitin (<http://www.turnitin.com>). Turnitin is an online plagiarism detection service that conducts textual similarity reviews of submitted papers. When papers are submitted to Turnitin, the service will retain a copy of the submitted work in the Turnitin database for the sole purpose of detecting plagiarism in future submitted works. Students retain copyright on their original course work. The use of Turnitin is subject to the Terms of Use agreement posted on the Turnitin.com website. You may request, in writing, to not have your papers submitted through Turnitin. If you choose to opt-out of the Turnitin submission process, you will need to provide additional research documentation and attach additional materials (to be clarified by the instructor) to help the instructor assess the originality of your work.

University Code of Ethics

The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

- Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
- Forgery, alteration, or misuse of University documents, records, or identification.

- Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
- Interference with the academic or administrative process of the University or any of the approved activities.
- Otherwise unprotected behavior that disrupts the classroom environment.
- Theft or damage to property.
- Violation of civil or criminal codes of local, state, or federal governments.
- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.

Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

Dismissal – *separation of the student from the University on a permanent basis.*

Suspension – *separation of the student from the University for a specified length of time.*

Probation – *status of the student indicating that the relationship with the University is tenuous and that the student's records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student's privileges may accompany probation."*

For the full conduct statement and University Code of Ethics, please visit page 13 of the 2013-2014 Academic Catalogue

Policy on Disabilities

Assistance for Students with Disabilities

The Disability Services Office (DSO) offers a variety of services and accommodations to students with disabilities based on appropriate documentation, nature of disability, and academic need. In order to initiate services, students should meet with the Director of the DSO at the beginning of the semester to discuss reasonable accommodation. If a student does not request accommodation or provide documentation, the faculty member is under no obligation to provide accommodations. You may contact the Director of Disability Services at (310) 506-6500. For further information, visit the DSO Web site at: <http://www.pepperdine.edu/disabilityservices/>.

2 Units = 30 Hours of Directed Instruction

Directed Instruction Activity	Hours
In-Class Instruction	24
Synchronous Instruction	2
Asynchronous Instruction	4
TOTAL	30

9. COURSE SCHEDULE

SESSION 1 – Measuring performance: Revenue Recognition and N.I.

In this session, we discuss the accounting for operating income of a firm. Accounting for operating income involves numerous estimates and choices, and GAAP often grants considerable latitude. Proper understanding of these choices is important for valuation of companies equity. The choices we will look at relate to the timing of revenue recognition, how working capital can be used to shift income, and the communication of news to investors, and reporting of pro-forma earnings.

By the end of session one you will be able to:

- Explain revenue recognition criteria and critically assess a company's revenue recognition policies.
- Understand the type of information included in managers' quarterly press releases (i.e. conference call) of financial information and analyze the investors response to the release of financial information.
- Critique the purpose and content of managers' use of pro-forma earnings and earnings guidance.

SESSION 2 – Measuring performance: Accrual vs. Cash Flow

In the minds of most investment professionals, lenders, and managers, the two most important measures of a firm's financial health and performance are its operating cash flow and its net income. In this session, we explore the measures in greater detail, examining their differences and similarities, and how they are interrelated. We will see that the accrual accounting process embeds estimates of future cash flow into current net income, and as a consequence that current period net income is often a very good predictor a future operating cash flow. We begin the session by considering various ways that cash flow data can be presented. We then consider how cash flow information can be extracted from balance sheets and income statements. Next we learn how to interpret the statement of cash flow. Finally, we consider the important concept of earnings quality and how the statement of cash flow can help us in assessing the quality of earnings.

By the end of session one you will be able to:

- Compare and contrast the cash-basis of accounting (i.e. cash flow from operations) from the accrual-basis of accounting (i.e. earnings)
- Prepare statement of cash flow using the direct and indirect method
- Use the statement of cash flows to explain a business's operating, investing, and financing activities
- Judge a firm's earnings quality using the statement of cash flows

SESSION 3 – Reporting and analyzing intercorporate investments incl. intangible assets

In this session, the acquisition, use and accounting for investments in intangible assets are investigated. Companies that derive their future benefits from “soft” assets, such as human resources (consultants, scientists) or innovation and technology (R&D, patents, software and copyrights) tend to have significantly understated or missing assets. This is because GAAP either doesn’t permit them to capitalize them. In this session we will see how to estimate the value of missing or undervalued intangibles. We will also have a look at goodwill, a special intangible asset, created in intercorporate investments.

By the end of Session Three you will be able to:

- Understand the economic limitations of GAAP for intangible assets
- Apply adjustment procedures for enhancing intangible assets
- Contrast investments in affiliated companies

SESSION 4 - Midterm

The midterm is individual work and will cover sessions 1 -3. It will take approximately 2 hours. You can bring an one-page/ one-side cheat sheet.

SESSION 5 – Reporting and analyzing non-owner financing

In this week, we start the discussion on how the financial statements reflect the sources of financing of the firm. Specifically, we will look at debt financing, aka non-owner financing. Since debt financing is usually structured over longer periods of time, it is valued on the balance sheet at present value. We will use a case study to look at the present value concept from several angles. In the second part of this session, we will apply our bond accounting knowledge to financing decisions companies have to make. Specifically, we will discuss early debt retirement and the impact of debt financing on return on equity,

By the end of session one you will be able to:

- Compute bond discounts and premiums using the effective interest rate method
- Explain in your own words the meaning of accounting losses and gains when debt is retired before maturity
- Critique the use of debt to increase return on equity

SESSION 6 – Stock-based compensation and other comprehensive income

In this session, we continue our discussion on how the financial statements reflect the sources of financing of the firm. We change the focus to equity financing, however. Although accountants define equity as just the “plug” between assets and liabilities, I would argue that important information can be found in the Statement of Changes of Shareholders’ Equity – the focus of the lecture. Specifically, we will look at employee stock options, and other comprehensive income).

By the end of session one you will be able to:

- Describe and illustrate the accounting for contributed capital and earned capital
- Judge ethical issues surrounding stock option compensation
- Explain the various components of the Other Comprehensive Income section of shareholders' equity on the balance sheet

SESSION 7 – Research Project

This is a group presentation. The guidelines are on page 4 in the syllabus. Your presentation should have no more than 8 slides and should be no longer 15 minutes.

Although I will try to maintain the class schedule and objectives, I may need to make adjustments. Maximum success in the course.