

Course Information

Title:	Financial Accounting I	Semester:	Fall, 2008
Number:	CBA-ACTG 502, code is 10190	Credits:	4
Place:	Burnham Hall, Room 308	Times:	Monday 6-9pm

Course Professors & Admin

Professor: Michael T. Kirschenheiter	Phone: (312) 996-2284
Email: mkirsche@uic.edu	Office Hours: Monday 2:30-4 pm, or by appointment

Course Descriptions for Actg 502

The objective of this course is to build upon the basic understanding of accounting fundamentals developed in Actg 500. As in Actg 500, we focus on how accounting data is used to make better decisions and investigate the limitations of its use. The objectives of the class sessions are to develop the fundamentals of each topic; explore the implication of each topic through examples (problem-solving); and incorporate the topic into the framework of the accounting process and the financial statements. I give more details on material covered in the "Material Coverage" section a couple pages below (see pp. 4-5 in this syllabus).

While the course objectives are pretty standard, I also have two general themes which are a little different and which run throughout all my courses. The first is that there is no "truth" in accounting. One consequence of this theme is that determining whether a financial accounting report is "good" or "bad" requires specifying who is reading the report. The second theme is that accounting measures wealth. One consequence of this is that the essence of financial accounting reduces to tracking the difference between the flow of cash and the flow of wealth; if you can explain the difference then you know just about all there is to know from an accounting standpoint. I will expand on both of these themes in the first lecture.

Policies and Requirements

Prerequisites: There are no pre-requisites for this course.

Required Text and Materials: The primary course materials are the lectures, readings, cases and problem sets, all available on-line. All problems sets should be submitted electronically. In addition, I offer as reference a textbook: Financial Reporting and Analysis, by Lawrence Revsine, Daniel W. Collins, W. Bruce Johnson and H. Fred Mittelstaedt, (4th edition), McGraw-Hill Irwin, (abbreviated as RCJM). I also offer as another reference a second textbook, Intermediate Accounting, by Donald E. Kieso, Jerry J. Weygandt and Terry D. Warfield, (12th edition), John Wiley and Sons Inc., (abbreviated as KWW). I think RCJM is better, but have used KWW in the past. As you will see, my lectures can be used with either text, although the RCJM is the assigned text for this class. The text information is summarized below.

Assigned Textbook

Title:	Financial Reporting and Analysis
Author:	Lawrence Revsine, Daniel W. Collins, W. Bruce Johnson and H. Fred Mittelstaedt,
Edition:	4 th edition, (I strongly suggest using this edition, as earlier editions leave out to much of the current financial reporting material).
Publisher:	McGraw-Hill Irwin

Additional Reference Textbook

Title:	Intermediate Accounting
Author:	Donald E. Kieso, Jerry J. Weygandt and Terry D. Warfield
Edition:	12 th (earlier editions may be used, if you do not go back to far, but you have to figure out the readings).
Publisher:	John Wiley and Sons Inc.,

The text is not the sole tool for learning, the primary tool is answering questions using actual F/S. While the 4th edition of RCJM is the assigned text, you can use any edition or either text, indeed you can use any book you wish; the problems I assign will refer to the editions listed. As mentioned above, there will be cases and problem sets, lecture notes and articles, as well as practice exams, all of which will be available on line. More important than reading the text or even doing textbook problems is to do the cases and the problem sets. I have included lecture notes and cases from my Actg 500 class here at UIC; those cases form a solid foundation for what we cover here in Actg 502. As you will see with the problem sets, Actg 502 is just a deluxe version of Actg 500, with more complications, details and subtleties.

As mentioned earlier, there will be cases and problem sets, lecture notes and articles, as well as practice exams, all of which will be available on line.

Policies and Requirements (cont.)

Grading: Currently, there are 6 homework assignments and two exams scheduled for Actg. 502, a midterm exam on the 10th session and a final during our 16th meeting. The problem sets should be submitted on time and will be graded. I determine course grades by allocating 20% of the total grade to class participation and problem sets (8% to the participation grade and 12% for problem sets) and the remaining 80% to the exams. I will allocate the 80% between your two exams using method A or B below, whichever method gives you the highest score. These methods are as follows:

Method A: 40% to Midterm 40% to Final (i.e., half of the 80% to each exam).
Method B: 20% to Midterm 60% to Final (i.e., ¼ of 80% to midterm, ¾ to final).

Both exams will be open-book exams and both will be timed (probably 2 hours for each). I will describe the grades on the suggested solutions, which I draft for all the examinations I conduct. Briefly, I request that **any queries about grading must be submitted in writing**. I respond to any query in writing, and will re-grade the entire semester's work if I deem a re-grading of the work is appropriate.

Honor Code and Class Code Issues:

Problem sets assigned as homework can be discussed, but solutions submitted by each student should be his or her own individual work. For example, another student's solution should not be recopied and submitted. Old exams will be included on the network for study purposes.

The lectures are an important part of the course. As a courtesy to everyone involved in the classroom experience, please observe the following principles:

1. Please be prompt for class and try not to leave the classroom while class is in session (unless there is an emergency).
2. Do not carry on private conversations with others during class.
3. Do not bring noisy beepers or cell phones into class.
4. Use computers only for current class materials, not homework, e-mail, etc.

Material Coverage

We have 16 sessions (including the sessions for the midterm and final exams) spread over the semester. Actg 502 and Actg 503 will cover all the material in the usual intermediate accounting textbook, in our case, either the RCJM or the KWW textbook, just in a different order. In the past, we had simply followed the chapters in KWW, with Actg 502 covering the first 12 chapters and Actg 503 covering the second 12 chapters. While this was fine for students who took both courses, students who took only Actg 502 were at a disadvantage, especially when they took higher level elective courses such as financial statement analysis (Actg 516) or valuation (Actg 585). With this issue in mind, the Actg 502-3 sequence covers the KWW chapters as follows.

Allocation of KWW chapters between Actg 502 and Actg 503			
Chap #	Title	In 502	In 503
1	Fin Acctg and Stds	Partial	Yes
2	Concept'l Frmwrk	Partial	Yes
3	Accounting Info Sys	Partial	Yes
4	I/S and related	Yes	
5	B/S and CF/S	Yes	
6	Time Value of money	Yes	
7	Cash and A/R	Yes	
8	Value of Inventory	Yes	
9	Advanced Inventory	Partial	Time permitting
10	PPE	Yes	
11	Depreciation and other	Only depreciation and impairments	Time permitting
12	Intangibles		Yes
13	Current Liabilities	Yes	
14	LT Liabilities	Yes	
15	Shareholders Equity	Yes	
16	Dilutive Sec/EPS	Partial	Yes
17	Investments	Partial	Yes
18	Revenue Recognition	Partial	Yes
19	Income Taxes	Yes	Review
20	Pensions/OPEB	Yes	Review
21	Leases	Yes	Review
22	Accounting Changes	Partial	Yes
23	Return to CF/S		Yes
24	Full disclosure		Time permitting

The term "Partial" means that we review only to the extent of covering the material at the level of Actg 500. The term "Review" means you may spend time reviewing/adding material in 503.

Material Coverage (cont.)

We will allocate the chapters in the RCJM textbook in a similar fashion. Again, we cover the financial statements and their articulation, the assets and the major liabilities in Actg 502, and leave Actg 503 as a course for getting more into the accounting (and bookkeeping) details and stressing the CPA test-taking preparation. We anticipate to cover the RCJM chapters in the Actg 502-3 sequence follows.

Allocation of RCJM chapters between Actg 502 and Actg 503			
Chap #	Title	In 502	In 503
1	Economic and Institutional Setting	Partial	Yes
2	Accruals and I/S	Partial	Yes
3	Additional I/S Topics	Partial	Yes
4	B/S and CF/S	Yes	
5	F/S Analysis	Partial	Yes
6	Fin Info, Val'n and Cr Risk	Partial	Yes
7	Financial Info and Contracting	Partial	Yes
8	Cash and A/R	Yes	
9	Inventory	Yes	
10	PPE and Depreciation	Yes	
11	Basic Liabilities	Yes	Review
12	Leases	Yes	Review
13	Income Taxes	Yes	Review
14	Pensions/OPEB	Yes	Review
15	OE/S	Partial	Yes
16	Intercorporate Investments	Partial	Yes
17	Revisit CF/S	Partial	Yes
18	Int'l Financial Reporting	Time permitting	Time permitting

Simply put, Actg 502 is now designed to accomplish the following two tasks. First, to provide a more detailed foundation in accounting that supplements the material studied in Actg 500. This should prepare students wishing to take higher level electives in accounting. In addition to a discussion of the F/S and their articulation, the topics covered will be cash, A/R, inventory, PPE, current liabilities, debt, pensions and leases. The big change from prior years will be to cover pensions and leases, but to defer coverage of the financial reporting regulatory environment, the accounting recording cycle and intangibles to Actg 503.

The second task is to teach these topics at a level that facilitates the student to take and pass the CPA exam. However, any student wishing to sit for the CPA exam needs to realize that full coverage of the intermediate accounting material will be accomplished only if that student supplements their course work by also taking Actg 503.

This summarizes the material covered in Actg 502 and our reasoning behind the design of the course. Next I provide a tentative **Detailed Class Outline**. I call it tentative as we may spend more or less time on individual areas, depending on how quickly or slowly we proceed.

Detailed Class Outline for Financial Accounting I – Actg 502:

1st Mtg, Part 1: Financial Accounting Review:

Mon Review the purpose of financial statements, relations between stocks and flows, financial
Aug 25th statement articulation, transaction analysis, the balance sheet equation and
describe how debits and credits work.

Reading: Review, i.e., Actg 500 Lecture Notes #1 to #7 (see on-line) or Chapters 1-3, 5,
6 and 8-10 in Financial Accounting for MBAs by Easton, et al., (3rd edition).

2nd Mtg: Financial Statements on Wealth - Income Statement (I/S) and Balance Sheet (B/S):

Fri Purpose and construction of I/S and B/S, emphasizing irregular items and reporting
Aug 29th issues for the I/S and additional information and disclosure techniques on the B/S.

Reading: Actg 502 Lecture Notes #1. Text: In RJCM read Chapter 2 and the section of
Chapter 4 (i.e., pages 181-196) on the B/S. KWW Read Chapter 4 and Section 1 of Chapter 5
(i.e., pages 170-190).

Practice Problems¹: RJCM, in chapter 2, all the Exercises, Problems P2-1, P2-3, P2-5 to
P2-8, and P2-11 and P2-12, and all the Cases. In Chapter 4, E4-1 to E4-6, P4-1, P4-6,
P4-7, P4-13, P4-14, and C4-1 to C4-4.² KWW, in chapter 4, all the brief exercises, all the
exercises except skip E4-13, and all the problems except skip P4-7, in Chapter 5, BE5-1 to BE5-11,
E5-1 to E5-12, and P5-1 to P5-5.³

Cases: Ben & Jerry's Transaction Analysis Worksheet.

Due: Problem Set #1 (Actg 500 type exam).

3rd Mtg: Cash Flow Statement (CF/S) and Ratio Analysis:

Mon Purpose and construction of the CF/S, emphasizing on F/S articulation via the direct
Sept. 8th CF/S and I/S, analysis of CF/S and discussion of basics of ratio analysis.

Reading: Actg 502 Lecture Notes #2 on special CF/S topics and ratios analysis. Text:
Read RCJM the rest of Chapter 4 and skim Chapter 5. KWW the rest of Chapter 5
including Appendix 5a on Ratio Analysis (i.e., pages 190-201).

Practice Problems: RCJM, all remaining Exercises, Problems and Cases in Chapter 4.
KWW, all the remaining brief exercises, exercises and problems, that is, BE5-12 to BE5-16, E5-13
to E5-18, P5-6 and P5-7.

Cases: More Ben & Jerry and other cases TBD (to be decided).

Due: Problem Set #2 (General Mills)

¹ Remember, these are optional problems offered as a way to get more practice. Hence, I tried to include all the problems that I thought you might find useful, so only do the problems that you find useful.

² In RJCM, E, P and C stand for Exercises, Problems and Cases, respectively.

³ As you may have guessed, BE, E and P stand for brief exercises, exercises and problems, respectively in KWW.

Detailed Class Outline (cont.)

4th Mtg: Cash and Accounts Receivable (A/R):

Mon Discuss the presentation of cash and A/R in the F/S, review the accounting for A/R and
Sept. 15th revenue recognition and discuss some basic analysis of these accounts from F/S
disclosures, including factoring of A/R.

Reading: Actg 502 Lecture Notes #3. Text: Read RCJM Chapter 8. KWW, read Chapter 7.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 8. KWW BE7-1 to
BE7-13, E7-1 to E7-21 and P7-1 to P7-11.

Cases: TBD.

5th Mtg: Cost of Goods Sold and Inventory Valuations:

Mon Discuss inventory cost flow methods, especially difference between LIFO and FIFO, as
Sept. 22nd well as inventory disclosures, and begin long-lived assets

Reading: Actg 502 Lecture Notes #4. Text: Read RCJM Chapter 9. KWW, read Chapter 8.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 8. KWW BE8-1 to
BE8-22, E8-1 to E8-7 and P8-1 to P8-5.

Cases: TBD.

Due: Problem Set #3 (KC and Starbucks) on F/S and articulation.

6th Mtg: Cost of Capacity - Valuation of PPE at and after acquisition:

Mon Begin/continue discussion of cost of capacity and how we value long-lived assets in
Sept. 29th general, and Property, Plant and Equipment (PPE) in particular, including
depreciation and gain and loss on disposition, and presentation of PPE related
information in the F/S.

Reading: Actg 502 Lecture Notes #5. Text: Read RCJM Chapter 10. KWW read all of
Chapter 10 and pages 521-36 of Chapter 11.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 8. KWW, you can
do all BE, E and P in Chapter 10, but best are BE10-5 to BE10-15 and E10-11 to E10-25. In Chapter
11, BE11-1 to BE11-5, BE11-7, E11-1 to E11-15, and P11-1 to P11-4.

Cases: TBD.

7th Mtg: Time Value of Money and Basic Liabilities:

Mon Review the equation and calculation net present value of future cash flows and the
Oct. 6th valuation of bonds and then onto other basic current and non-current liabilities.

Reading: Actg 502 Lecture Notes #6 (first half). Text: Read RCJM Chapter 11. KWW read
Chapters 6, 13 and 14.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 11. KWW do all
BE, E, and P in Ch 6 (but best are BE6-15, E6-13 to E6-15, P6-3 to P6-14), all in Ch 13 but BE13-9 &
16, E13-20 to E13-22, P13-14 & 15 and BE14-1 to BE14-15, E14-1 to E14-19 and P14-1 to P14-11.

Cases: TBD.

Due: Problem Set #4 (EA, KC and AT&T/DT) on A/R, inventory and capacity.

Detailed Class Outline (cont.)

8th Mtg: Leases:

Mon Discuss financial versus operating assets and obligations, beginning with the accounting
Oct. 13th, for debt and leases.

Reading: Actg 502 Lecture Notes #6 (2nd half). Text: Read RCJM Chapter 12. KWW, read Chapter 21.

Practice Problems: RCJM, all Exercises, Problems and Cases in Ch 12. KWW do all BE, E, and P in Chapter 21 except you can skip the following: BE21-12, E21-15, E21-16, P21-7 and P21-8.

Cases: TBD.

9th Mtg: Taxes:

Mon Discuss accounting for taxes and deferred tax accounting, explaining how the accounting
Oct. 20th works and how to read the tax footnote.

Reading: Actg 502 Lecture Notes #8. Text: Read RCJM Chapter 13. KWW read Chapter 19.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 8. KWW all brief exercises, exercises and problems in Chapter 19.

Cases: TBD.

Due: Problem Set #5 (UAL, GIS and Priceline) on leases, debt and taxes

10th Mtg on Monday, Oct. 27th:

Midterm Exam for Actg 502.

11th Mtg: Pensions and OPEB:

Mon Continue discussing obligations by moving to labor costs recorded as deferred
Nov. 3rd compensation, pensions and OPEB costs, time permitting.

Reading: Actg 502 Lecture Notes #9. Text: Read RCJM Chapter 14. KWW read Chapter 20.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 14. KWW all brief exercises, exercises and problems in Chapter 20.

Cases: TBD.

12th Mtg: Shareholders' Equity:

Mon Complete the discussion of benefit costs and then move onto the analysis of shareholders'
Nov. 10th equity with a discussion of different equity accounts, cash and stock dividends and other equity transactions.

Reading: Actg 502 Lecture Notes #10. Text: Read RCJM Chapter 15. KWW read Ch 15.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 15. KWW all the BE, E and P problems in Chapter 15.

Cases: TBD.

Detailed Class Outline (cont.)

13th Mtg: Intercorporate Investments:

Mon Finish shareholders' equity and then analyze business combinations, with a broad view of
Nov. 17th accounting for mergers and acquisitions and the accounting for equity
investments.

Reading: Actg 502 Lecture Notes #11. Text: Read RCJM Chapter 16. KWW read Ch 17.

Practice Problems: RCJM, all Exercises, Problems and Cases in Chapter 8. KWW do all BE,
E, and P in Chapter 17.

Cases: TBD.

Due: Problem Set #6 (KC) on pensions and OPEB.

14th Mtg: Finish Investments and review other areas covered in Actg 500 (time permitting):

Mon We use this and the next weeks class to catch-up and complete the discussion of
Nov. 24th equity and business combinations. We may move onto other areas, time
permitting, but this is quite ambitious as is.

Reading: Finish previous reading assignments.

Practice Problems: Complete previous practice problems

Cases: TBD.

15th Mtg: Review course material, course summary:

Mon, Dec 1st, Wrap-up course and review for exam.

16th Mtg, Monday, Dec. 8th: **Final Exam for Actg 502**