

Administrative Science 221 – Financial Accounting	Linwood Downs
Spring 2007 Lovejoy 205 Tuesday / Thursday 9:30 am – 10:45 am	Colby Office – Lunder 223 Colby Telephone Extension 5207 Office Hours: Tuesday / Thursday 10:45 – 12:45 pm Monday (by appointment) / pre- exam review sessions
Course web page: http://www.colby.edu/academics_cs/courses/AD221/	Tel. (207) 763-4699 (207) 763-3562 call at any time before 9:30 pm. For facsimile – please call
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Course Summary:

An introduction to financial accounting and financial statement analysis from the user’s perspective. Topics include accounting concepts, measurement conventions, choices, limitations, and issues.

Introduction:

Businesses and other organizations make decisions and enter into implicit and explicit agreements every day. These decisions and agreements can be as simple as purchasing notepaper and as complex as starting a new business or selling an existing business. These decisions and agreements, commonly known as transactions, create benefits and obligations for a business. Benefits, and the dissipation of benefits, and obligations, and the satisfaction of obligations need to be memorialized by an organization so that internal and external parties can understand past decisions and make informed future decisions.

According to Merriam - Webster’s Collegiate Dictionary (10th edition, Merriam-Webster, Inc, Springfield, MA 1994), accounting is a “system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results”. Financial Accounting is a system of accounting where an organization compiles and summarizes transactions in a standardized format that allows both internal and external users to review and analyze financial information. This common format includes reporting on the financial condition of an organization at a point of time (what benefits and obligations it has), how the organization has operated over a period of time (what benefits and obligations have been developed or created and what have been used or satisfied), and how (and how much) cash has been generated and has been disbursed.

The goal of this course is to have you knowledgeable of how businesses report their activities to users through financial statements and how users analyze and interpret this information. We will consider how financial statements are produced, presentation options producers (accountants) consider, and the limitations of financial statements.

COURSE OUTLINE

The course is broken into 3 segments:

1. Introduction, basic financial statements and fundamentals of accounting (10 Classes)

In this section we investigate the role of accounting in an organization. We first identify and discuss the principal financial statements: the Balance Sheet (usually called the “Statement of Financial Condition”), the Income Statement (“Statement of Operations”), and Cash Flow Statement (“Statement of Cash Flows”). We then identify users of financial statements, describe and understand the logic of financial statements, the process of recording transactions, the underlying principles of accounting (lower of cost or market valuation, accrual basis for revenues and expense, etc.), the accounting cycle and how financial statements are produced. Basic financial statement analytical skills are introduced.

2. Fundamental financial statement analysis (2 Classes)

In this section we further develop skills to analyze the principal financial statements, concentrating on the concepts of profitability (earning a return on assets and return on equity investment) and liquidity (ability of the business to meet its obligations when due). We will perform both time series analyses and cross-sectional analyses of financial statements to get a stronger understanding of a business in order to make quality financial decisions. This section completes our introduction into the basics of financial accounting. We will be using these analytical skills for the remainder of the course.

3. Digging deeper into the numbers for analysis – Details Are Important! (14 classes)

The second half of the course introduces the user to the world of generally accepted accounting principles (GAAP) as promulgated in Financial Accounting Standards (FAS) issued by the Financial Accounting Standards Board (FASB). These principles and standards are reviewed and analyzed by considering individual items on the Balance Sheet, along with their corresponding Income Statement and Cash Flow statement items.

We consider the options that financial statement producers have in presenting accounting information, discuss their motivations for choosing one standard vs. an alternative, and review the effects on financial statement presentation and analysis. We conclude by discussing what a comprehensive financial statement can tell us about an organization, its management, operations, and possibly its future prospects.

COURSE PREREQUISITE

AD 212 American Business and Management

TEXT:

Financial Accounting: An Introduction to Concepts, Methods, and Uses – 12th Edition, Clyde P. Stickney and Roman L. Weil, Thomson – Southwestern, Mason, OH, 2007.

TEXT WEBSITE:

http://websites.swlearning.com/cgi-Wadsworth/course_products_wp.pl?fid=M20b&product_isbn_issn=0324381980&discipline_number=400&audience_code=020

This Website is a great resource. It has chapter summaries, practice tests, and other information. You will need to go to this site to download the Transaction Spreadsheet Template and the CASES that we will discuss in class.

SEC EDGAR WEBSITE (ubiquitous source of public company annual reports – 10-K's, and other required filings)

<http://www.sec.gov/index.htm>

SOFTWARE:

We use Microsoft Excel in this course. Excel has a strong HELP function and TUTORIAL. If you need extra help, please see me.

COLBY COURSE WEBSITE:

This site will provide a copy of the syllabus, document, annual report, and spreadsheet downloads, homework solutions, and a class forum.

http://www.colby.edu/academics_cs/courses/AD221/

ASSESSMENT SUMMARY

DESCRIPTION	PERCENTAGE WEIGHT
Homework (10 assignments – 1 point each)	10%
EXAMS (NON-CUMULATIVE) (3) (30%, 30%, 20%)	80%
Exam 1: Intro, the Basics – Balance Sheet, Income Statement, Statement of Cash Flows	Exam 1: <u>March 8 (Thursday)</u>
Exam 2: Financial Analysis / Asset Issues	Exam 2: <u>April 17 (Tuesday)</u>
Exam 3: Liabilities / Equity Issues	Exam 3: <u>Finals Week</u>
PUBLIC COMPANY ANNUAL REPORT GROUP ANALYSIS REPORT	10%
	Due Last Day of Class: <u>May 10</u>

HOMEWORK is assigned weekly and is due at the end of each week (Thursday). Homework can be done in groups of up to three students. It is imperative that you independently work, understand, and complete the accounting problems. I strongly recommend that you use any group homework meetings to work through the problems and reconcile difficult concepts. **THIS IS A HANDS-ON COURSE!** It can be helpful to work the self-study problems in the text as you study and before you attempt the homework.

EXAMS include multiple choice questions and problems. Your best two exams will each be worth 30 points; your poorest effort will be worth 20 points. Exams are non-cumulative.

The **PUBLIC COMPANY ANNUAL REPORT GROUP ANALYSIS REPORT** is a short project where the group chooses a public company, obtains its most recent annual report and 1). Performs a three year time-series analysis of the Company's financial statements with a discussion of asset, liability, and equity composition, liquidity, and profitability trends. Has the Company's financial situation strengthened or weakened? 2) Perform a cross-sectional analysis of the Company versus 2-4 of its market competitors with a comparison of balance sheet composition, liquidity, and profitability. Based on your analysis, conclude as to the Company with the best overall financial health and operational performance and which Company might be best positioned financially for the future. For both analyses, are there any risks or opportunities that could identified in the financial statements and their notes?

Group size should be 2-4 students. The paper should be approximately 10 pages (double spaced, 1" margins maximum), exclusive of any spreadsheet or other exhibits.

CLASS ATTENDENCE

Class attendance is expected. We will be working on both basic and more difficult problems in class, and also expand upon the text discussions, using real-world examples. We also will have case study discussions during the second part of the course. Class participation is considered when final grades are compiled.

THREE or more unexcused absences will result in a full two grade lower final grade (e.g. an A becomes a B+, a B- becomes a C -).

SIX or more unexcused absences will result in failing the course.

COURSE SCHEDULE AND TOPICS

WK/DATE	TOPIC	TUESDAY	THURSDAY
WK 1: 02/06	INTRO / FINANCIAL STATEMENT: BALANCE SHEET	(1) SW-1 Overview of Business and Accounting's Function	(2) SW-2 Balance Sheet – Statement of Financial Condition (at a point in time)
WK 2: 02/13	FINANCIAL STATEMENT: BALANCE SHEET / INCOME STATEMENT	(3) SW-2 Balance Sheet (continued)	(4) SW-2 / SW-3 Income Statement – Results of Operations (over a period of time)
WK 3: 02/20	FINANCIAL STATEMENT: INCOME STATEMENT	(5) SW-3 Income Statement	(6) SW-3 Income Statement
WK 4: 02/27	FINANCIAL STATEMENT: CASH FLOW STATEMENT	(7) SW-4 Cash Flow Statement – Effects of Business Decisions on Cash Position (over a period of time)	(8) SW-4 Cash Flow Statement
WK 5: 03/06	REVIEW / EXAM	(9) REVIEW SW 1-4	(10) <u>EXAM</u>
WK 6: 03/13	ANALYSIS: FINANCIAL STATEMENT ANALYSIS	(11) SW-5 Financial Statement Analysis – Basics	(12) SW-5 Financial Statement Analysis CASE: Fly By Night International Group
WK 7: 03/20	DETAILS: REVENUE RECOGNITION / AR	(13) SW-6 Cash, A/R, and Revenue Recognition – Sales Transactions and Timing	(14) SW-6 Revenue Recognition CASE: Boston Chicken
VACATION WEEK			

WK/DATE	TOPIC	TUESDAY	THURSDAY
WK 8: 04/03	DETAILS: INVENTORY	(15) SW-7 Inventory – Essence of Product Companies	(16) SW-7 Inventories CASE: Bethlehem Steel
WK 9: 04/10	DETAILS: FIXED ASSETS	(17) SW-8 Long – Lived Assets Source of Scale and Capacity	(18) SW-8 Long-Lived Assets CASE: AOL
WK10: 04/17	EXAM / DETAILS: SECURITIES	(19) <u>EXAM</u>	(20) SW-11 Marketable Securities, Derivatives, Corporate Investments
WK11: 04/24	DETAILS: SECURITIES	(21) SW-11 Corporate Investments	(22) SW-9 Liabilities – Senior Claims on Assets
WK12: 05/01	DETAILS: LIABILITIES	(23) SW-10 Liabilities: Off Balance Sheet Claims	(24) SW-12 Stockholders' Equity – Residual Claims on Assets
WK13: 05/08	DETAILS: EQUITY / SYNTHESIS	(25) SW-12 Quasi-Equity and Contingent Equity	(26) SYNTHESIS Comprehensive Analysis / Links to Finance - Projections / Final Comments
FINAL EXAMS			

HOMEWORK ASSIGNMENTS

	TOPIC	TUESDAY	THURSDAY
WK 1: 02/06	INTRO / FINANCIAL STATEMENT: BALANCE SHEET		
WK 2: 02/13	FINANCIAL STATEMENT: BALANCE SHEET / INCOME STATEMENT	SW-1: 5, 6, 13, 17, 23, 27, 29,33, 35	
WK 3: 02/20	FINANCIAL STATEMENT: INCOME STATEMENT	SW-2: 8, 12, 14, 24, 28, 30, 32, 34, 36, 38	
WK 4: 02/27	FINANCIAL STATEMENT: CASH FLOW STATEMENT	SW-3: 9,10,14, 18, 20, 22, 30, 32, 36, 44	
WK 5: 03/06	REVIEW / EXAM	SW-4: 24, 26, 28, 40, 41	
WK 6: 03/13	ANALYSIS: FINANCIAL STATEMENT ANALYSIS		
WK 7: 03/20	DETAILS: REVENUE RECOGNITION / AR	SW-5: 4, 12, 14, 16, 19, 22, 24, 27,28, 30	
VACATION WEEK			

WK/DATE	TOPIC	TUESDAY	THURSDAY
WK 8: 04/03	DETAILS: INVENTORY		
WK 9: 04/10	DETAILS: FIXED ASSETS	SW-5 22, 24, 26,37, 42 SW-7: 19, 39, 43	SW-6 16, 21, 30, 38, 40
WK10: 04/17	EXAM / DETAILS: SECURITIES		
WK11: 04/24	DETAILS: SECURITIES / LIABILITIES		SW-11 4, 12, 18, 32, 34, 35
WK12: 05/01	DETAILS: LIABILITIES / EQUITIES		SW-9: 3, 6, 11, 16, 22 SW-10: 2, 12, 20, 29, 34a-d
WK13: 05/08	DETAILS: EQUITY / SYNTHESIS		SW-12: 13,14,18,19,32, 36,39
FINAL EXAMS			