



THE UNIVERSITY OF TEXAS AT AUSTIN
McCOMBS SCHOOL OF BUSINESS
ACC 381 - Financial Accounting
Unique #71130; M,T,Th 9:00-11:30; GSB 2.120
Summer 2009 Syllabus

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Office Hours : Tuesday and Thursday, 2:00 – 3:00 and by appointment
E-mail questions are also encouraged and telephone conferences and office appointment at times other than the office hours stated above can be set-up via e-mail.

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Overview

This course provides an overview of the preparation, use, and interpretation of financial accounting information and the role of that information in the economy. The course focuses on the recognition and measurement concepts underlying financial accounting, but also covers the mechanics of recording and reporting accounting information.

Prerequisites

Admission to the Master in Professional Accounting degree program.

Course Materials

The textbook for the course is *Financial Accounting*, 2nd edition, by Antle and Garstka, published by Thomson/South-Western. The *Questions, Exercises, Problems, and Cases* for this text are in a separate paperback book. Please bring to class each day the:

- Antle and Garstka *Questions, Exercises, Problems, and Cases*
- Annual Report for Whole Foods Market
- Accounting Authority Handouts

We will be referring to all three as we go through the topics. All other course materials, including homework solutions, will be provided on the Blackboard course website. (Student Support for Blackboard is 475-9400.)

Class Sessions

Please study the assigned readings prior to each class meeting. I like class to be very interactive, so I hope you are prepared to ask questions and to respond to my questions. The more you engage the easier the course will be.

Assignments and Advice

The course schedule details all readings and homework that are to be completed, or at least attempted, before each class. Homework will not be collected or graded, but I encourage you to make your best effort in completing the assigned homework before coming to class or right after class and identify the areas where you need elaboration. Students are encouraged to ask questions and to request that particular points be explained in more detail if they remain confused or uncertain about items discussed or if concepts in the readings remain unclear.

Sometimes the book and class discussion will not systematically cover an assigned question. These questions will enrich your knowledge of the subject matter. If you do not understand the answer to these questions after referring to the reading(s), solutions manual, and class comments please see me or the TA for clarification. You are responsible for this knowledge on exams.

When you do the assignments I recommend that you have the solutions manual (posted on Blackboard) with you. *After* answering each question (the key word is after, not before or during), refer to the solutions manual to see how well you did. The better prepared you are the more I can help you.

This class is very cumulative and it goes by quickly. If you fall behind it will be both very difficult to understand new material and very difficult to catch up. **Please, do not fall behind.**

Grades

Grades for the course will be assigned to conform to the following general guidelines: About 35% A or A-, about 55% B+, B, or B-, and about 10% C+ or lower. **These are guidelines, not fixed rules.**

Every effort will be made to conform to a traditional scale of:

100% through 90% = A through A-

89% through 80% = B+ through B-

79% through 70% = C+ through C-

69% through 60% = D+ through D-

below 60% = F

However, I reserve the right to adjust the final semester grades based on the class average and in accordance with the guideline and grading standards for the course.

Incompletes will be given only in the rarest of circumstances and according to university policy. Unfortunately, there will be no opportunity to raise your course grade by doing “extra credit” work after the end of, or during, the semester.

Grading Summary

Your grade will be determined by your performance on three exams. Each is worth 1/3 of your course grade.

None of the exams will be designed to be comprehensive. However, as noted above, the material is very cumulative. Therefore, your success on each progressive test will rely in significant part on your knowledge of the material covered on preceding exams.

An unexcused absence from an exam will result in a score of zero. Make-up exams will not be given except in emergencies and only within 24 hours of the scheduled examination. If you miss an exam for an illness or other emergency, you should notify me as soon as possible and present written documentation (ex. note from attending physician). I have final authority to determine if your absence is excused. If you have an excused absence from an exam and I cannot give you a make-up, your other two exams will receive extra weight to compensate for the missed exam. I will determine how the extra weight will be distributed on a case by case basis.

Grading Questions or Appeals

If you feel there exists a grading error on any of the exams, or if you feel you need to bring to my attention other facts or circumstances that might affect the grade for an exam, you will have one week from the date the exam is graded and returned to you to take such action and have the matter resolved. The one-week period will begin on the class day I pass back the exam whether you are present that day or not.

Your e-mail and Blackboard

Access to your e-mail and Blackboard is required for this course and I will use the e-mail addresses that are supplied to me on Blackboard. Any outside-of-class announcement that I make (ex. corrections or clarification of items discussed in class, course schedule changes, etc.) will be sent to you via e-mail and/or posted to the class web site. It is possible that substantial content will be posted on Blackboard. It is your responsibility to regularly check both your e-mail and the class web site on Blackboard.

Questions that you may have at times other than office hours can be e-mailed directly to me. I check my e-mail on a regular basis.

Class Protocol

If for some reason you are running late, do not feel you should skip class. Please come in quietly and take a seat. If you must leave class early, please tell me before class starts. I would appreciate it greatly.

Scholastic Dishonesty

Collaboration is strongly encouraged outside of class. Collaboration is not permitted on the exams, and violations will be considered to be violations of the Honor Code.

The McCombs School of Business and the department of accounting have no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business.

By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the

University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced.

Scholastic dishonesty includes, but is not limited to: copying tests, representing (copying) the work of another person as one's own ***or allowing another person to represent your work as their own***, collaborating without authority with another student during an exam, using or having on your desk unauthorized material or aids to complete an exam (e.g., cheat sheets, solutions, graphing or programmable calculators, cell phones, etc.). Students are expected to adhere to a strict ethical standard in this course.

You should refer to the Student Judicial Services website at <http://www.utexas.edu/depts/dos/sjs> or the General Information catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Disabilities

The University has requested that I include the following information in this syllabus:

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

Electronic Class Rosters

A recent opinion from the US Department of Education states that the University must inform students in advance if their name will be appearing on an electronic class roster:

Since Fall 2001, web-based, password-protected class sites have been available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see:

<http://www.utexas.edu/student/registrar/catalogs/gi00-01/app/appc09.html>

Luca Pacioli: The Father of Accounting

In 1994, accountants from around the world gathered in an Italian village called San Sepulcro to celebrate the 500th anniversary of the first book written on double-entry accounting. The book was written by an Italian monk, Luca Pacioli (pronounced pot-CHEE-oh-lee).

The first accounting book actually was one of five sections in Pacioli's mathematics book titled "Everything about Arithmetic, Geometry, and Proportions." This section on accounting served as the world's only accounting textbook until well into the 16th century.

Because Pacioli was a Franciscan monk, he might be referred to simply as Brother Luca. While Brother Luca is often called the "Father of Accounting," he did not invent the system. Instead, he simply described a method used by merchants in Venice during the Italian Renaissance period. His system included most of the accounting cycle as we know it today. For example, he described the use journals and ledgers, and he warned that a person should not go to sleep at night until the debits equalled the credits! His ledger included assets (including receivables and inventories), liabilities, capital, income, and expense accounts. He demonstrated year-end closing entries and proposed that a trial balance be used to prove a balanced ledger. Also, his treatise alludes to a wide range of topics from accounting ethics to cost accounting.

Pacioli was about 49 years old in 1494 - just two years after Columbus discovered America - when he returned to Venice for the publication of his fifth book, *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* (Everything About Arithmetic, Geometry and Proportion). It was written as a digest and guide to existing mathematical knowledge, and bookkeeping was only one of five topics covered. The *Summa's* 36 short chapters on bookkeeping, entitled *De Computis et Scripturis* (Of Reckonings and Writings) were added "in order that the subjects of the most gracious Duke of Urbino may have complete instructions in the conduct of business," and to "give the trader without delay information as to his assets and liabilities" (All quotes from the translation by J.B. Geijsbeek, *Ancient Double Entry Bookkeeping: Lucas Pacioli's Treatise*, 1914).

Numerous tiny details of bookkeeping technique set forth by Pacioli were followed in texts and the profession for at least the next four centuries, as accounting historian Henry Rand Hatfield put it, "persisting like buttons on our coat sleeves, long after their significance had disappeared." Perhaps the best proof that Pacioli's work was considered potentially significant even at the time of publication was the very fact that it was printed on November 10, 1494. Guttenberg had just a quarter-century earlier invented metal type, and it was still an extremely expensive proposition to print a book.

Accounting practitioners in public accounting, industry, and not-for-profit organizations, as well as investors, lending institutions, business firms, and all other users for financial information are indebted to Luca Pacioli for his monumental role in the development of accounting.

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Summer 2009 Course Schedule

Day-Date	Topic	Topic/Reading/Homework
M - 7/13	1	Introduction – Whole Foods Market
	2	The Accounting Cycle – S&J and Texas Tax

Learning Objectives:

- Understand the different **entity forms**.
- Understand that the purpose of the **balance sheet** is to report on **position** using the fundamental accounting equation **Assets = Liabilities + Owners' Equity**, and how transactions affect this equation.
- Understand that the purpose of the **income statement** is to report on **performance** using the basic elements **Revenues** and **Expenses**, and how transactions affect these elements.
- Understand the purpose of the **Statement of Owners' Equity** and **Statement of Cash Flow**
- Understand the purpose of the **Notes** to the financial statements.
- Understand financial statement **users**, their **decisions**, and the **information** they want.
- Understand the sources and authoritative hierarchy of **Generally Accepted Accounting Principles (GAAP)**.

T - 7/14	2	The Accounting Cycle – S&J and Texas Tax
	3	Balance Sheet Concepts

Main reading for this meeting: Antle chapters 1 (pp. 1-12, 16-20), 2, and 3
Homework for this meeting: Antle *PI-3, CI-2, C2-2*

Learning Objectives:

- Understand **deferral** and **accrual** of revenues and expenses.
 - Understand the difference between **cash accounting** and **accrual accounting**.
 - Understand the **accounting cycle**.
 - Understand the meaning of **debit** and **credit**.
 - Understand the mechanics of **journal entries**, the **general journal**.
 - Understand the mechanics of **T-accounts** in the **general ledger**.
 - Understand the mechanics of **adjusting** and **closing entries**.
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Day-Date	Topic	Topic/Reading/Homework
Th - 7/16	3	Balance Sheet Concepts
	4	Income Statement Concepts

Main reading for this meeting: SFAC 2 (paragraph 32), SFAC 3 (paragraph 83), SFAC 5 (paragraph 63), SFAC 6 (paragraphs 25-26, 35-36, 44-46, 49-50, and 54).

Extra Practice, if desired: Antle *P2-3, P2-7, P2-9* (practice on journal entries and t-accounts, one or more of these is recommended):

Learning Objectives:

- Understand the concepts of **relevance** and **reliability** in the FASB's Conceptual Framework's Hierarchy of Accounting Qualities (SFAC 2).
- As discussed in class using Amazon.Com (Antle P2-5), understand the:
 - Balance sheet elements and the meaning of **specific assets, liabilities, and owners' equity**,
 - **Current ratio, working capital, and the debt-to-equity ratio**, and
 - Relationships on the **balance sheet**.
- Understand the meaning of **recognition** under SFAC 3.
- Understand the GAAP definition of **assets, liabilities, and owners' equity** under SFAC 6, and the judgment that accounting definitions such as these sometime require.

M - 7/20	4	Income Statement Concepts Main reading for this meeting: SFAC 6 (paragraphs 78-83), SEC Staff Accounting Bulletin 101, SFAS 48 (paragraphs 6-8) Homework for this meeting: Antle <i>E3-3, E3-4, P3-5, and P3-9</i> . Extra Practice , if desired (practicing on one or more of these is recommended): Antle <i>P3-7 and P3-8</i> . In addition, if you wish to have a special challenge do Antle <i>C3-3</i> .
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Learning Objectives:

- Understand **Return on Equity (ROE)**.
 - Understand earnings **persistence** and **nonrecurring** items
 - Understand the distinction between of **recognition** and **realization** under SFAC 3.
 - Understand:
 - The definition of **revenue** under SFAC 6, the criteria for **revenue recognition** under SAB 101, and revenue recognition when a **right of return** exists under SFAS 48.
 - The definition of **expense** under SFAC 6, and
 - The definition of **gain** and **loss** under SFAC 6.
 - Understand the typical **organization** of the income statement and how it **ties** to other statements.
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Day-Date	Topic	Topic/Reading/Homework
T – 7/21	5	<p>Statement of Cash Flows Main reading for this meeting: Antle chs 4 and 13 (pp. 249 – 251) Homework for this meeting: Antle <i>P4-2</i> (this problem provides practice on journal entries, T-accounts, as well as the Statement of Cash Flows’s indirect method), <i>P4-4</i> (this problem has no current asset or current liability net income adjustments, but provides practice on some of the more difficult other adjustments in all the categories), <i>P4-5, P4-6</i> (provides practice analyzing the Statement of Cash Flows) Extra Practice, if desired: Antle <i>C4-3</i> (provides additional practice on analyzing the Statement of Cash Flows)</p>

Learning Objectives:

- Understand the organization and role of the **Statement of Cash Flows**
- Understand **operating, investing** and **financing** transactions in the Statement of Cash Flows
- Understand how to **develop** a Statement of Cash Flows, especially using the **indirect method**
- Appreciate how a user would **analyze** a Statement of Cash Flows

Th - 7/23 Exam 1 (over Topics 1-5)

M - 7/27	6	<p>Valuation Main reading: Antle ch 6 (pp. 115 – 124) Homework for this meeting: Antle ch 6 <i>E6-1, E6-9, E6-10, E6-17, E6-20,</i> <i>and P6-5(parts a and b only)</i></p>
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If time allows (which is likely), we will start Topic 7 (see Tuesday 7/28)

Learning Objectives:

- Understand the **time value of money** and **expected values** (Antle chapter 6)
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Day-Date	Topic	Topic/Reading/Homework
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T - 7/28 **Two topics will be covered today, Topics 7 and 8 (as described below)**

7 **Sales and Accounts Receivable**

Main reading for this meeting: Antle ch 8

Homework for this meeting: Antle ch 8 *E8-1, E8-2, E8-4, P8-5, P8-8(a)-(d), P8-9 (a)-(d)*, and *C8-3 (a), (c), and (d)*

Extra Practice, if desired: Antle *P8-1* and *P8-2*

Learning Objectives:

- Understand the entry that gives rise to **Sales** and **Accounts Receivable**
- Understand the meaning of **Net Sales** and how it leads to **Gross Profit** and the **Gross Profit %**
- Understand **accounts receivable terminology**, including
 - **Alternative names** for accounts receivable,
 - Accounts receivable terms like **2/10, n/30**, and
 - The implications of **time** and **uncertainty** on accounts receivable
- Understand how to account for **bad debts**, including
 - **Bad debt expense** and the **allowance for doubtful accounts**
 - The two methods for estimating these amounts—namely the **percentage of sales method** and the **aging of accounts method**
 - Accounts receivable **write-offs** and **recoveries**, and
 - **Net accounts receivable**
- Understand **accounts receivable turnover**, **days receivables outstanding**, and the **economic effect** of changing accounts receivable turnover

8 **Revenue Recognition – Special Situations**

Main reading for this meeting: PDF reading 1 on Bb under Topic 8

Supplemental reading PDF reading 2 on Bb under Topic 8

Homework for this meeting: Topic 8 PDF Problems and Topic 8 PDF Solutions on Bb, Course Documents under Topic 8—Brief Exercises 18-2, 18-4, 18-7; Exercise 18-4, 18-7, 18-8, 18-11, 18-15, 18-16, 18-17; Problem 18-3 (special situations)

Extra Practice, if desired: Brief Exercises 18-3, 18-5, and 18-6; and Problems 18-8 and 18-9

Learning Objectives:

- Understand how to account for revenue when it is recognized **after** delivery due to payment uncertainty—namely, the **installment sales method** and **cost recovery method**.
 - Understand how to account for revenue when it is recognized **before** delivery of long-term contracts—namely, the **percentage-of-completion method** and the conventional alternative—namely, the **completed contract method**.
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Day-Date	Topic	Topic/Reading/Homework
Th - 8/6	11	Long-Lived Assets Main reading for this meeting: Antle ch 11 (exclude “Economic Value of Long-Lived Assets, pp. 203 – 204, and “Financial Statement Analysis of Long-Lived Assets and Appendix 11.1, pp. 211 - 214) Supplemental reading: SFAS 144 ¶¶7, 8, 15, 16, 22, 23, 34, A11-A14 Homework for this meeting: Antle <i>E11-1, E11-4, E11-5, E11-6, P11-1, P11-5, P11-7</i>

Learning Objectives:

- Understand the difference between a **cost** and an **expense**
- Understand the difference between **capital expenditures** and **revenue expenditures**
- Understand **what** expenditures are capitalized and the underlying **general rule**
- Understand **tangible asset:**
 - **Depreciation methods**, including
 - **Straight line** depreciation
 - **Declining balance** depreciation
 - **Units of production** depreciation/depletion
 - **Sales and impairments**
- Understand **intangible asset**
 - **Characteristics** and how they differ from those of tangible assets, and
 - **Common types**, and
 - **Amortization** and **impairment**

Day-Date	Topic	Topic/Reading/Homework
M - 8/10	12	<p>Long-Term Liabilities</p> <p>Main reading for this meeting: Antle ch 12 (exclude “Comparison of GAAP and Economic Values and “Financial Statement Analysis of Long-Lived Liabilities,” pp. 228 – 235)</p> <p>Homework for this meeting:</p> <p>Antle ch 12 <i>Questions 5, 7-17, 21, 23, 26, and 27</i> (treat these questions as a checklist to confirm you know relevant terminology. You don’t need to write anything down, just read each question and immediately check your answer against the solutions manual)</p> <p>Antle <i>E12-9</i> (lump-sum note), <i>E12-8</i> (interest only note), <i>E12-10</i> (interest and principal note), <i>E12-5</i> (operating vs capital lease) and <i>E12-3</i> (bonds at a discount)</p> <p>Extra Practice, if desired: <i>P12-1</i> (mortgage)</p> <p>Post-meeting: <i>P12-2 (parts a-g)</i> (coupon bond at par), <i>E12-7</i> (mortgage), <i>E12-2</i> (bond at a discount), <i>E12-4</i> (bond at a premium), <i>P12-6</i> (bond retirement), <i>E12-6</i> (operating vs capital lease, ♣ however, change the present value of the \$12,000 annuity to \$29,842 and correct the answer key by not reducing the initial principal by \$12,000♣)</p>

Learning Objectives:

- Understand how to account for different types of liability payment arrangements, including an arrangement in which:
 - A **lump-sum** payment, including all interest and principal, is made at maturity
 - **Interest only** payments are made during the holding period and the principal is paid at maturity, and
 - **Interest and principal** payments made during the holding period
 - Understand how to account for bonds:
 - Issued **at par**,
 - Issued at a **discount**,
 - Issued at a **premium**,
 - That are **retired before** their maturity date
 - Understand the differences, similarities, criteria, and accounting for **operating leases** versus **capital leases**
 - Understand accounting for **contingent liabilities**
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T - 8/11 13 Equities

Main reading for this meeting: Antle ch 13

Homework for this meeting:

Antle *Q13* 7-10, 12, 14-15, and 17-19 (if you are not familiar with terminology this is good practice)

P13-1 (good practice for recording issuing stock, purchasing treasury stock, stock dividends, and stock splits)

E13-4 (sale of treasury stock)

E13-9 (treasury stock)

P13-2 (preferred stock dividends in arrears)

P-13-4 (EPS practice)

E13-5 (bond effect on EPS)

E13-6 (stock option effect on EPS)

Extra practice, if desired:

Antle *P13-5* (good overall problem in issuing stock, purchasing treasury stock, paying dividends, EPS, etc)

Learning Objectives:

- Understand the **terminology** and **nature** of equities
 - Understand how to account for:
 - **Stock issue** and **retirement**,
 - **Treasury stock**,
 - **Preferred stock**, including conversion, redemption, and cumulative features,
 - **Cash dividends**,
 - **Stock dividends**, and
 - **Stock splits**
 - Understand how to determine:
 - Basic and diluted **EPS**, and
 - **Employee stock options**
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Th - 8/13 14 **Income Taxes, SOX, and Fair Value Accounting**
Note: If we are running short on time we will abbreviate or even possibly eliminate this topic.

Main reading for this meeting:
Income taxes—I believe I can present this topic more simply than in the book. However, if you want to do a little reading try Antle ch 14 (pp. 278 – 280). Also, you may need to refer to Antle, pp. 267-270, if you try some of the problems. These pages indicate whether there are book-tax differences for many items.
SOX (Sarbanes-Oxley)—Powerpoint slides
FMV—tbd

Homework related to income taxes: Antle *E14-6, E14-7, E14-8,* and *P14-3* (in this problem just identify what items are deferred assets and deferred liabilities)

Learning Objectives:

- Understand the basics of accounting for income taxes, including
 - **Permanent** and **temporary** book-tax differences,
 - Deferred tax **assets** and **liabilities**
 - Gain an appreciation for the **Sarbanes-Oxley Act of 2002 (SOX)** and its repercussions
 - Gain an appreciation for recent developments in **fair value accounting**
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Sat - 8/15 or Mon – 8/17 **Exam 3 (over Topics 10-14)**
Time: TBA
Location: TBA

Have an enjoyable and safe break.
I'm looking forward to seeing you on campus in the Fall.
