THE DARLA MOORE SCHOOL OF BUSINESS
UNIVERSITY OF SOUTH CAROLINA

DMSB 710: FINANCIAL ACCOUNTING IN THE GLOBAL ENVIRONMENT
Summer 2008

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E-Mail: wendy.bailey@moore.sc.edu (this is the best way to contact me)
Course Web Page: http://blackboard.sc.edu
Office Hours: Monday through Friday 1:30pm – 3:30 pm or by appointment; feel free to stop by if my door is open

COURSE OBJECTIVES
This course is designed to introduce you to the concepts and fundamentals of financial accounting. Financial accounting focuses on providing useful information to users for external decision making purposes. The objective of this course is to help you become an informed user of firms' external financial reports by teaching you the basic structure of such reports and the process by which they are prepared. By the end of this course, you should be able to understand a company’s financial statements and make economic decisions using the information found in an annual report or 10K.

TEXTBOOK AND OTHER COURSE MATERIALS
Libby, Libby and Short, MBA Companion to Financial Accounting, 5th Edition
Hirst and McAnnally, Cases in Financial Reporting, 5th Edition

Other Materials: Course Readings (links available on Blackboard)
Homework Manager (purchase a registration code at link on Blackboard)

FINANCIAL ACCOUNTING BASICS
The Financial Accounting Basics module (see last page of syllabus) should be completed prior to the start of class on July 8, 2008. This module consists of a five-part video streamed Power Point presentation. All students must complete the Comprehensive Exercise at the end of Part 5 and turn in a hardcopy solution to that exercise at the first class meeting on July 8, 2008.

ATTENDANCE AND CLASS PARTICIPATION
This course moves very quickly so it is very important that you keep up with the material from the start. In order to succeed in this course, you should attend class regularly, complete your class assignments in a timely manner and participate during class sessions. Regular attendance and class participation are a course requirement and lack of attendance or participation will have a significant impact on your grade. All students are encouraged to participate in every class session. If class participation is poor, several names will be randomly selected and I will direct questions to those individuals.

CLASS DISCUSSION
In class, we will discuss financial reporting cases from the Hirst and McAnally casebook and assigned financial articles. To help you prepare for the class discussion, you should read through the case and be prepared to answer questions in class, especially those specified “concepts” portion of the case.
**BACKGROUND EXERCISES AND PROBLEMS**
Background exercises and problems from each chapter are essential for mastering the course material. You are asked to complete background exercises and submit them electronically at the course Homework Manager (also posted on Blackboard):

- Section 1: [http://mh6.brownstone.net/classes/DMSB710Sec001/](http://mh6.brownstone.net/classes/DMSB710Sec001/)
- Section 2: [http://mh6.brownstone.net/classes/DMSB710Sec002/](http://mh6.brownstone.net/classes/DMSB710Sec002/)

The background exercises follow the textbook format but the numbers are uniquely determined based on an algorithm. Feedback and solutions will be available immediately after submitting assignment. Additional practice problems are also available at course Homework Manager. Homework Manager can be purchased at the link posted on Blackboard.

**QUIZZES**
There will be two online quizzes that must be completed by date indicated. These quizzes are designed to make sure you have mastered the material discussed in class and to help you prepare for the final comprehensive exam.

**FINAL COMPREHENSIVE EXAMINATION**
There will be one final comprehensive exam (closed book and closed notes) that must be taken on the date indicated. The exam will consist of a combination of short answer and problems that are similar to the background exercises, case and article questions.

**MAKE-UP EXAMINATION POLICY**
In general, **there are no make-up exams**. If extraordinary circumstances prevent you from taking an exam at the specified time, you must make arrangements with me at least several days prior to the date of the exam. In general, I reserve the right to impose up to a 10% penalty for such arrangements. No late exams will be given to students who simply miss an exam without having made prior arrangements. Any student who misses an exam must discuss that situation with me or they will receive a failing grade for the course.

**METHOD OF EVALUATION**
Your grade will be determined as follows:

- Background Exercises, Comprehensive Exercise and Participation: 20 points (10%)
- Analysis Project: 40 points (20%)
- Online Quizzes (2): 40 points (20%)
- Final Comprehensive Exam: 100 points (50%)

Total: 200 points

Final course grades will be adjusted based on the course average (traditionally a B+) but should approximate the following:

- A: 180-200 points (90%-100%)
- B+: 174-179 points (87%-90%)
- B: 160-173 points (80%-87%)
- C+: 154-159 points (77%-80%)
- C: 140-153 points (70%-77%)
- D+: 134-139 points (67%-70%)
- D: 120-133 points (60%-67%)
- F: < 120 points (< 60%)
ANALYSIS PROJECT
You will be responsible for completing a financial analysis project that is designed to help you apply the concepts learned in class. You may complete this analysis project as an individual or as a member of a team no larger than three people. Late final project reports will incur a 10% per day penalty.

You will research two companies within a single industry. Your industry should either produce and sell a product, or resell products produced by other companies (e.g., retailer). You may not select financial institutions (e.g., banks, insurance, brokerage firms), utility companies, or companies that primarily provide a service (e.g., hotel, health care provider). Your two companies must have positive net income in each of the last three years. At least one of your two companies must be a domestic (U.S.) company.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Requirements</th>
<th>Due Date</th>
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<tbody>
<tr>
<td>Analysis Project #1</td>
<td>Chose two companies within an industry and have it approved by me via email. Also submit a link to the either the annual report on the companies’ web pages (see investor relation section) or the 10K at EDGAR <a href="http://www.sec.gov/edgar/searchedgar/webusers.htm">http://www.sec.gov/edgar/searchedgar/webusers.htm</a></td>
<td>Tuesday, July 15, 2008 (5:00 p.m.)</td>
</tr>
<tr>
<td>Analysis Project #2</td>
<td>Submit a summarized common size balance sheet (2 years), income statement (3 years) and statement of cash flows (3 years). Also submit a table of ratios for each company as applicable.</td>
<td>Monday, August 4, 2008 (5:00 p.m.)</td>
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<tr>
<td>Analysis Project #3</td>
<td>Submit your final report.</td>
<td>Thursday, August 14, 2008 (5:00 p.m.)</td>
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You will complete a comprehensive analysis of each company’s financial statements including a discussion of profitability, asset utilization, liquidity, solvency, quality of earnings, and risk assessment. Your final report should be a concise but comprehensive analysis that ends with a recommendation. While ratios and other supporting analyses should be included as appendices to the written report, the written portion must stand on its own.

To help you make your recommendation, assume each company has offered you a management trainee position with excellent long-term advancement opportunities. Your compensation would consist of (a) salary and (b) bonus tied to a combination of (i) growth in earnings and (ii) increase in the company’s stock price. Based on your financial statement analysis, indicate and briefly discuss which company offers the best long-term employment perspective.

To help you in your analysis, consider your answers to the following questions for each company. Where possible, calculate and compare ratios for the most recent two years including a year-to-year change ([Current Year – Last Year]/Last Year). Be sure to indicate whether the ratio has improved, deteriorated, or stayed about the same over the two-year period.

Current Assets and Liabilities
a. What is the company’s receivables turnover ratio and average days’ to collect receivables? Has the company financed its receivables?
b. What inventory method does the company use? What is the company’s inventory turnover ratio and average days’ supply in inventory?
c. What is the company’s current ratio (year-to-year change)? What caused the change, if any?
Noncurrent Assets
a. What general categories of property, plant and equipment does the company have? Does the company lease any assets?
b. What depreciation method(s) does the company use? What percentage of estimated life of fixed assets is remaining?
c. Does the company capitalize any expenses?
d. How much did the company spend to acquire property, plant and equipment? Is it comparable year-to-year? How much did the company receive selling property, plant and equipment?
e. Does the company have any intangible assets? What does the company say about its accounting policy for intangible assets? Did the company report any goodwill impairment?
f. Does the company have any investments in other companies? If so, how are they reported?
g. What is the total asset turnover (year-to-year change)?

Long-term Debt and Other Liabilities
a. Does the company have long-term debt? If so, what kind? What is the range of interest rates and maturity dates on outstanding long-term debt? How much of long-term debt comes due currently?
b. What is the debt-to-equity ratio (year-to-year change)? In general terms, what caused this ratio to change over the two-year period?
c. What is the times-interest-earned ratio (year-to-year change)? In general terms, what caused this ratio to change over the two-year period?
d. Did the company report any contingencies, commitments or reserves?
e. Does the company have a pension? If so, what type? Is the pension underfunded or overfunded?

Stockholders’ Equity
a. Did the company issue dividends in the last two years? If so, what kind?
b. What was the cash dividend payout ratio in the most recent year? What does the company’s long-term dividend payment strategy appear to be, if any?
c. What is the price-to-book ratio? What is the price-to-earnings ratio? In general terms, what do these ratios tell you?
d. Did the company grant any stock options? Were any stock options exercised?
e. What is the dividend yield ratio?
f. Does the company have treasury stock? If so, what was the average cost per share of the shares held in treasury? Why do you think the company has acquired treasury shares?

Revenues
a. What method(s) of recognizing revenue does the company use?
b. What percentage of total revenues (sales) is derived from the company’s major line of business or operating segment?
c. What percentage of total revenues (sales) is derived from U.S. operations?
d. What was the percentage growth in sales?

Net Income
a. What was the company’s net income in the most recent year? Are there any unusual, non-recurring items (e.g., extraordinary items, discontinued operations) included in that figure?
b. What is the year-to-year change in basic earnings per share (EPS)? In general terms, what caused the change in EPS over this two-year period?
c. Are there any items reported on the income statement whose percentage of total revenues has changed significantly from one year to the next?
d. Did the company report any R&D or restructuring expenses?
e. What is the gross profit margin (year-to-year change)? What caused this ratio to change?
f. Conduct ROE driver analysis. What is the year-to-year change? What caused this ROE driver analysis to change? (Note: To answer this question you need to calculate the components of ROE for
the two most recent years and then analyze the year-to-year % change in each component.)

**Cash Flows**
a. What was the largest inflow of cash from investing and financing activities? What was the largest outflow of cash from these activities?
b. What was the largest adjustment to income (positive or negative) to arrive at cash from operations?
c. How much “free cash flow” did the company generate in the most recent year?
d. What was the capital acquisitions ratio (year-to-year change)?
e. What was the quality of income ratio (year-to-year change)?

**Other Issues**
a. Are there any significant accounting policies or disclosures?
b. Is there anything of interest reported in the audit, internal control or management report?

**Bankruptcy Prediction**
a. Calculate “Altman’s Z-score” for your company. Based on this score, what is the probability of bankruptcy for the company?

Based on extensive empirical testing, Dr. Ed Altman has developed a model of financial distress that has been found useful in predicting the likelihood of bankruptcy. Altman’s Z-score is the result of a linear function of several explanatory variables and is calculated as follows:

$$Z = 1.2 \times X_1 + 1.4 \times X_2 + 3.3 \times X_3 + 0.6 \times X_4 + 1.0 \times X_5$$

where
- $X_1 =$ Working capital/Total assets, a measure of liquidity
- $X_2 =$ Retained earnings/Total assets, a measure of firm age and cumulative profitability
- $X_3 =$ Earnings before interest and taxes/Total assets, a measure of current profitability
- $X_4 =$ Market value of equity/Total liabilities, a measure of financial structure
- $X_5 =$ Sales/Total assets, a measure of asset turnover

Z-score of less than 1.80 suggests a high probability of bankruptcy.
Z-score of more than 2.99 implies a low probability of bankruptcy.
Z-score between 1.80 and 2.99 is in the gray or ambiguous area.

**EXTRA HELP**
This can be a difficult course with lots of material to learn. Do not be afraid to seek out extra help if you are struggling. There are a variety of ways to get extra help if you are having difficulty with the course material. It is best to seek help early in the course to eliminate any problems before they become severe. Consider any or all of the following:

1. Work together with other students in the class. Remember, however, you must take your quizzes/exams alone and all submitted assignments must be your own work.
2. Come to my office during office hours for help. In addition to my regularly scheduled office hours, I am generally available at other times to answer questions.
3. E-mail questions to me at the address provided above. This is one of the best ways to get a hold of me outside of office hours.
### ACADEMIC INTEGRITY

Academic dishonesty in any form represents a violation of the university honor code and will not be tolerated:

**University of South Carolina Honor Code**

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline. All forms of academic dishonesty are prohibited. These include cheating, plagiarism, lying in academic matters, fraud, bribery, unauthorized access to tests and examinations.

In-class examinations are closed book/closed notes and all submitted work (background exercises, online quizzes, analysis project) must be your own. If an instance of academic dishonesty were to arise, the student will automatically receive a failing grade for the course and formal disciplinary proceedings will be initiated.

### CLASS SCHEDULE

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Case</th>
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<tbody>
<tr>
<td>FA-1</td>
<td>Tuesday, July 8</td>
<td>Chapter 1: Introduction</td>
</tr>
<tr>
<td>FA-2</td>
<td>Thursday, July 10</td>
<td>Chapter 5: Annual Reports</td>
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<tr>
<td>FA-3</td>
<td>Tuesday, July 15</td>
<td>Chapter 2: Balance Sheet</td>
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<td>Analysis Project #1 due</td>
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<tr>
<td>FA-4</td>
<td>Thursday, July 17</td>
<td>Chapter 3: Income Statement</td>
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<td>FA-5</td>
<td>Monday, July 21</td>
<td>Chapter 4: Adjusting Entries</td>
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<tr>
<td>FA-6</td>
<td>Wednesday, July 23</td>
<td>Chapter 13: Statement of Cash Flows</td>
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<tr>
<td>FA-7</td>
<td>Friday, July 25</td>
<td>Chapter 6: Accounts Receivable and Sales</td>
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<tr>
<td>FA-8</td>
<td>Tuesday, July 29</td>
<td>Chapter 7: Inventory</td>
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<td>Online Quiz 1 due</td>
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<td>FA-9</td>
<td>Friday, August 1</td>
<td>Chapter 7: Inventory (continued)</td>
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<td>FA-10</td>
<td>Monday, August 4</td>
<td>Chapter 8: Noncurrent Operational Assets</td>
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<td>Project #2 (5:00 p.m.)</td>
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<tr>
<td>FA-11</td>
<td>Tuesday, August 5</td>
<td>Supplement Section 1: Leases</td>
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<td>Chapter 9: Contingencies</td>
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<td>FA-12</td>
<td>Friday, August 8</td>
<td>Chapter 10: Long-Term Debt</td>
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<tr>
<td>FA-13</td>
<td>Monday, August 11</td>
<td>Chapter 11: Stockholders’ Equity</td>
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<td>Online Quiz 2 due</td>
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<tr>
<td>FA-14</td>
<td>Wednesday, August 13</td>
<td>Chapter 12: Investments</td>
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<td>Analysis Project #3 due</td>
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<td>Thursday, August 14</td>
<td>Final Comprehensive Examination</td>
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<td>(8:00am – 12:00pm)</td>
<td>Analysis Project #3 due</td>
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FA 1: Introduction

Readings
Textbook: Chapter 1
Case: Financial Accounting Basics Module Comprehensive Exercise

Topic Outline
♦ Purpose of Financial Accounting
♦ Accounting Equations
  • Assets = Liabilities + Stockholders’ Equity
  • Stockholders’ Equity = Contributed Capital + Retained Earnings
  • Retained Earnings = Beginning Retained Earnings + Net Income - Dividends
  • Net Income = Revenues – Expenses
FA 2: Annual Reports

Readings
Textbook: Chapter 5
Articles: Accounting Plan Would Allow Use of Foreign Rules (NY Times, 07/05/08)
         Global Accounting Effort Gains a Step (WSJ, 11/16/07)
Case: ASICS – Understanding Financial Statements (pages 1-17)

Topic Outline
♦ Financial Statements
  • Classified Balance Sheet: Current Assets, Noncurrent Assets, Current Liabilities, Long-Term Liabilities, Contributed Capital, Retained Earnings
  • Classified Income Statement: Gross Profit (Gross Margin), Income from Operations, Nonoperating Revenues/Expenses and Gains/Losses, Income before Taxes (Pre-Tax Income), Income Tax Expense, Income from Continuing Operations, Discontinued Operations, Extraordinary Items, Net Income, Earnings Per Share (Net Income/Weighted Average Common Stock Shares), Comprehensive Income
  • Statement of Stockholders’ Equity: Contributed Capital, Retained Earnings, Accumulated Comprehensive Income
  • Statement of Cash Flows: Cash from Operations, Cash from Investing, Cash from Financing
♦ Accounting Concepts
  • Materiality, Full Disclosure
♦ Generally Accepted Accounting Principles (GAAP)
  • Securities and Exchange Commission (SEC)
  • Financial Accounting Standards Board (FASB)
  • International Accounting Standards Board (IASB)
♦ Financial Analysis
  • Price/Earnings Ratio = Market Price/Net Income
  • Price/Book Ratio = Market Price/Book Value
  • Common-Sized Balance Sheet and Common-Sized Income Statement
  • Return on Equity (ROE) = Net Income/Average Stockholders’ Equity
  • ROE Profit Driver Analysis = Net Profit Margin x Asset Turnover x Financial Leverage
♦ Communication and Disclosure
  • SEC Reports: 10K, 10Q, 8Q
  • Company Reports: Press Releases, Quarterly Earnings Announcements, Annual Report
  • Analyst Reports: Earnings Forecasts, Stock Recommendations

Background Exercises and Problems (submit to Homework Manager)
Textbook: E1-5, E1-10, E1-14, E5-8, P5-6, P5-7
FA 3: Balance Sheet

Readings
Textbook: Chapter 2
Articles: Gauging the Worth of ‘Market Value (WSJ, 02/20/08)
Cases: Club Mediterranee S.A. – International GAAP (pages 24-30)
Lucent Technologies, Inc. – Revenue Recognition (pages 113-119)

Topic Outline
♦ Income Statement - Generally Accepted Accounting Principles (GAAP) Conceptual Framework
  • Elements: Revenues, Expenses, Gains, Losses
  • Assumptions: Time Period
  • Principals: Revenue, Matching (Accrual Basis)
♦ Accounting Process
  • Transaction Analysis: Impact on Accounts and Cash Flow
  • Journal Entries: Debits, Credits
  • Posting or Summarizing: Ledger, T-Accounts
♦ Financial Analysis
  • Financial Leverage Ratio = Average Total Assets/Average Stockholders’ Equity
  • Asset Turnover Ratio = Net Sales/Average Total Assets

Background Exercises and Problems (submit to Homework Manager)
Textbook: E2-13, E2-17
FA 4: Income Statement

Readings
Textbook: Chapter 3
Articles: When a Loss is a Gain (WSJ, 05/19/08)
Cases: Lucent Technologies, Inc. – Revenue Recognition (pages 113-119)

Topic Outline
♦ Balance Sheet - Generally Accepted Accounting Principles (GAAP) Conceptual Framework
  • Elements: Asset, Liability, Stockholders’ Equity
  • Assumptions: Separate Entity, Continuity/Going Concern
  • Principles: Historical Cost
♦ Accounting Process
  • Transaction Analysis: Impact on Accounts and Cash Flow
  • Journal Entries: Debits, Credits
  • Posting or Summarizing: Ledger, T-Accounts
♦ Financial Analysis
  • Financial Leverage Ratio = Average Total Assets/Average Stockholders’ Equity
  • Asset Turnover Ratio = Net Sales/Average Total Assets

Background Exercises and Problems (submit to Homework Manager)
Textbook: E3-9, E3-10, E3-11, P3-1
FA 5: Adjusting Entries

Readings
Textbook: Chapter 4
Articles: Apple Gets a Bruise by Blaming a $1.99 Fee on Accounting Rules (WSJ, 01/20/07)
Dell to Restate 4 Years of Results (WSJ, 08/17/07)
Why Do Investors Ignore Inquiries? (WSJ, 04/12/08)
Case: Taiwan Semiconductor – Transactions & Periodic Adjustments (pages 37-50)

Topic Outline
◆ Accounting Process
  • Trial Balance: Purpose
  • Adjusting Entries (DR/CR):
    - Deferral: Insurance Expense/Prepaid Insurance, Rent Expense/Prepaid Rent,
      Supplies Expense/Supplies Inventory, Unearned Revenue/Revenue
      Payable, Interest Expense/Interest Payable
    - Estimates/Contra Accounts: Depreciation Expense/Accumulated Depreciation,
      Bad Debt Expense/Allowance for Doubtful Accounts
  • Financial Statements: Balance Sheet, Income Statement, Statement of Retained Earnings,
    Statement of Cash Flows
  • Closing Entries: Temporary Accounts, Permanent Accounts, Post-Closing Trial Balance
◆ Financial Statement Analysis
  • Net Profit Margin = Net Income/Net Sales

Background Exercises and Problems (submit to Homework Manager)
Textbook: E4-11, E4-12, E4-13, E4-14, P4-2, P4-4
FA 6: Statement of Cash Flows

Readings
Textbook: Chapter 13
Articles: The Outlook: Across U.S., Companies Plan to Put Cash to Work (WSJ, 04/07/06)
Moving the Market: Gray Area of Cash Flow (WSJ, 01/18/06)
Case: Kohl’s Corporation – Statement of Cash Flows (pages 93-98)

Topic Outline
♦ Cash
  • Cash Equivalent, Restricted Cash, Compensating Balance
♦ Statement of Cash Flows
  • Sections: Operating (net income adjusted for non-cash items, current assets, current
    liabilities), Investing (long term assets), Financing (long term liabilities, equity), Non-
    cash Investing and Financing, Supplemental Cash Flow Information
  • Methods: Direct, Indirect
  • Interpretation: Growth, Stable/Mature, Declining
♦ Financial Statement Analysis
  • Capital Acquisitions Ratio: Cash from Operations/Cash paid for Capital Expenditures
  • Quality of Income Ratio: Cash from Operations/Net Income
  • Free Cash Flow: Cash from Operations – Dividends – Capital Expenditures
  • Common-Sized Statement of Cash Flow: Relative to Cash from Customers

Background Exercises and Problems (submit to Homework Manager)
FA 7: Accounts Receivable, Net Sales and Estimating Bad Debts

Readings
Textbook: Chapter 6
Article: Three Approaches to Reining in Customer Debt (WSJ, 09/24/07)
          Virtuous Losses (WSJ, 10/02/07)
          American Express Sets Aside More for Losses (WSJ, 10/23/07)
          Is Target Corp.’s Credit Too Generous? (WSJ, 03/11/08)
Case: Alcatel – Accounts Receivable (pages 120-127)

Topic Outline
♦ Net Sales
  • Net Sales = (Gross Cash Sales + Gross Credit Sales) – (Sales Returns + Sales Discounts + Sales Returns + Sales Allowances + Credit Card Allowances)
♦ Accounts Receivable
  • Bad Debt Expense: Conceptual Framework (Matching, Conservatism), Adjusting Journal Entry (Bad Debt Expense/Allowance for Doubtful Accounts), Write-Off (Allowance for Doubtful Accounts/Accounts Receivable)
  • Bad Debt Estimation Methods: Percentage of Credit Sales (Income Statement Approach), Accounts Receivable Aging (Balance Sheet Approach)
  • Financing Receivables: Selling A/R With or Without Recourse
♦ Financial Statement Analysis
  • Receivables Turnover = Net Sales/Average Net Accounts Receivable
  • Days Collection = 365/Receivables Turnover

Background Exercises and Problems (submit to Homework Manager)
Textbook: E6-8, E6-10, E6-14, E6-15, E6-17, P6-3
FA 8 and FA 9: Inventory and Cost of Goods Sold

Quiz #1
Online quiz #1 (see Blackboard for further details) due no later than 5:00 p.m.

Readings
Textbook: Chapter 7
Article: New Detroit Woe: Makers of Parts Won’t Cut Prices (WSJ, 03/20/07)
Companies Fall Behind in Cash Managements (WSJ, 06/19/07)
Case: Caterpillar, Deere and CNH Global – Inventory (pages 128-136)

Topic Outline
♦ Inventory and COGS
  • Calculation: Beginning Inventory + Purchases - Ending Inventory = Cost of Goods Sold
  • Financial Statement Impact: Balance Sheet (Ending Inventory), Income Statement (Cost of Goods Sold), Statement of Cash Flows (Cash Paid for Purchases and Taxes)
♦ Inventory Methods
  • FIFO: First In First Out to COGS, Last In Stays There in Ending Inventory, Recent versus Old Costs, Rising versus Falling Prices
  • LIFO: Last In First Out to COGS, First In Stays There in Ending Inventory, Recent versus Old Costs, Rising versus Falling Prices, Tax Advantages, LIFO liquidation
  • Weighted Average: Total Dollar Cost of Goods Available for Sale/Total Number of Goods Available for Sale, Rising versus Falling Prices
♦ Financial Statement Analysis
  • LIFO to FIFO Conversion: Impact on COGS, Gross Margin, Net Income
  • Inventory Turnover Ratio = COGS/Average Inventory (FIFO versus LIFO)
  • Days Held = 365/Inventory Turnover
♦ Inventory Errors
  • Financial Statement Impact: Self-Correcting, Overstating versus Understating
  • Fraud: PharMor, Cendant, MiniScribe, Crazy Eddies

Background Exercises and Problems (submit to Homework Manager)
Textbook: E7-1, E7-9, E7-16, E7-19, P7-2
FA 10: Noncurrent Operational Assets and Depreciation/Amortization

Analysis Project #2
Common-sized financial statements and ratio calculations due no later than 5:00 p.m.

Readings
Textbook: Chapter 8
Articles: Heard on the Street: Gray Area of Market Idle Assets Draw Questions (WSJ, 03/20/07)
         EBay Records Growth, at a Cost (WSJ, 10/18/07)
         TriCor Case May Illuminate Patent Limits (WSJ, 06/02/08)
Case: Tasty Baking Co. – Property, Plant & Equipment (pages 143-150)

Topic Outline
◆ Plant, Property and Equipment
  • Types: Land (non-depreciable), Building, Equipment
  • Cost: Historical (Acquisition) Cost
  • Depreciation: Straight Line (cost-residual/life in years), Units of Production (cost-residual/life in units), Double-Declining Balance (cost-\(a/d\times 2/life\) in years)
  • Change of Estimates: Estimated Life, Residual or Salvage Value
  • Capitalizing versus Expensing: Ordinary Maintenance, Extraordinary Repairs
  • Sale: Gains, Losses
  • Asset Impairment: Future Cash Flows < Book Value
  • Cash Flow Statement: Non-cash Items (depreciation, gains/losses), Capital Acquisitions and Expenditures, Asset Disposals
◆ Intangibles
  • Types: Patents, Copyrights, Trademarks, Goodwill, Leaseholds (Capital), Franchises
  • Cost: Legal expenses, Successful versus Unsuccessful Lawsuits
  • Amortization: Straight-Line
  • Goodwill Impairment
◆ Research and Development Costs
  • U.S. GAAP versus IASB GAAP
◆ Financial Statement Analysis
  • Fixed Asset Turnover = Net Sales/Average Net Fixed Assets
  • Percent Life Remaining = Book Value of Fixed Assets/Cost of Fixed Assets

Background Exercises and Problems (submit to Homework Manager)
Textbook: E8-4, E8-8, E8-13, E8-17, P8-4
FA 11: Leases and Contingencies

Analysis Project #2
Common-sized financial statements and ratio calculations due no later than 5:00 p.m.

Readings
Textbook: Chapter 9 pages 471-472 and 477-483
MBA Companion Section 1 Lease Accounting
Articles: You May Be Liable for the Lease (BusinessWeek, 06/05/06)
GE to Record $115 Million Expense for Asbestos Claims (WSJ, 02/17/07)
Vioxx Settlement Plan Heads for Key Deadlines (WSJ, 01/10/08)
Case: Continental Airlines, Inc. – Leases (pages 199-207)

Topic Outline
♦ Leases
  • Types: Capital, Operating
♦ Contingencies
  • Financial Statement Impact: Balance Sheet versus Note, Pending Litigation, Environmental Concerns
♦ Time Value of Money

Background Exercises and Problems (submit to Homework Manager)
Homework Manager: P9-7
MBA Companion: E1-1, E1-4, E1-5, E1-6 (solutions will be provided; you do not need to submit)
## FA 12: Long-Term Debt and Interest

### Readings
- **Textbook:** Chapter 10
- **Article:** Bond Boom’s Thin Ice (WSJ, 02/06/07)
  Call to Brave for $100 Billion Rescue (WSJ, 10/16/07)
  Investor Group Seeks Bond Protections (WSJ, 12/17/07)
- **Case:** Rite Aid Corporation - Long-Term Debt (pages 187-198)

### Topic Outline

- **Bonds**
  - **Features:** Face Value (Maturity Value, Principal, Par Value), Stated Interest (Face, Nominal), Market Interest (Effective, Yield), Interest Payment Date, Maturity Date (Life)
  - **Characteristics and Classifications:** Debenture (Unsecured), Secured, Callable, Convertible, Zero-Interest (Deep Discount)
  - **Pricing and Issuance:** Par, Premium, Discount, Time Value of Money
  - **Interest:** Effective Interest Method, Amortization Tables
  - **Retirement:** Bond Sinking Funds, Extraordinary Gain or Loss on Early Retirement

- **Financial Statement Analysis**
  - **Debt to Equity** = Total Liabilities/Total Stockholders’ Equity
  - **Times Interest Earned** = Net Income + Interest Expense + Tax Expense/Interest Expense

### Background Exercises and Problems (submit to Homework Manager)
- **Textbook:** E10-3, E10-11, E10-16, P10-1, P10-7
FA 13: Equity Transactions

Quiz #2
Online quiz #2 (see Blackboard for further details) due no later than 5:00 p.m.

Readings
Textbook: Chapter 11
Articles: How Borrowing Yields Dividends at Many Firms (WSJ, 03/27/07)
         IBM to Add Some Debt to Boost Stock Buybacks (WSJ, 04/25/07)
         Home Depot Details Buyback (WSJ, 09/05/02)
Case: The Dow Chemical Company – Treasury Stock (pages 228-235)

Topic Outline
♦ Owners’ Equity
  • Shares: Authorized, Issued, Outstanding, Treasury Stock
  • Types: Common Stock, Preferred Stock (Cumulative, Convertible, Callable), Contributed
    Capital in Excess of Par (Additional Paid In Capital)
  • Financial Reporting: Par (No-Par, Stated Value) Stockholders’ Equity Section, Statement
    of Stockholders’ Equity
  • Dividends: Cash Dividend, Stock Dividend, Stock Split
  • Dilutive Securities: Stock Options, Warrants, Convertible Preferred
  • Comprehensive Income: Unrealized Gains and Losses, Foreign Currency Translations
  • Retained Earnings: Net Income (Loss), Dividends
♦ Financial Statement Analysis
  • Dividend Yield = Dividend per Share/Market Price per Share
  • Dividend Payout Ratio = Dividends/Net Income

Background Exercises and Problems (submit to Homework Manager)
Textbook: E11-6, E11-9, E11-11, P11-2, P11-8
### FA 14: Investments

#### Readings
- **Textbook:** Chapter 12
  - MBA Companion, Section 2: Income Taxes
- **Articles:**
  - SEC Aims to Let Firms Explain Crunch Thorns (WSJ, 03/14/08)
  - News Corp., AOL Pursue Yahoo Deals (WSJ, 04/10/08)
  - Coke Invest in Tea Company, Expects Steeper Growth (WSJ, 02/06/08)
- **Case:** Wachovia

#### Topic Outline
- Investments
  - **Consolidation:** 50%+ ownership, minority interest (long-term liability, income statement)
  - **Equity Method:** 20-50% ownership, investment (long-term asset, equity income on income statement)
  - **Market Method:** <20% ownership, trading (market on balance sheet, unrealized gain/loss on income statement), available-for-sale (market on balance sheet, unrealized gain/loss on income statement), held-to-maturity (cost only)

#### Background Exercises and Problems (submit to Homework Manager)
- **Textbook:** E12-2, P12-5

### August 14, 2008

- Comprehensive Final Examination – 8:00 a.m.
- Analysis Project #3 due at 5:00 p.m.
Welcome to the IMBA program! One of your first courses is DMSB 710 Financial Accounting in the Global Enterprise, which begins the second week in July.

The primary objective of the Financial Accounting course is to learn how to read, understand, and use financial statements. However, to fully understand the information provided in financial statements you need to know how that information was developed. To get a head start on understanding the process used to account for business activities and prepare financial statements I have created a Financial Accounting Basics module that you are required to complete before the Financial Accounting course begins.

The Financial Accounting Basics module consists of a five-part video streamed Power Point presentation. The URLs for the videos are:

Part 1: http://breeze.sc.edu/p81191261 (22 minutes)
Part 2: http://breeze.sc.edu/p74679609 (33 minutes)
Part 3: http://breeze.sc.edu/p12633405 (33 minutes)
Part 4: http://breeze.sc.edu/p25884730 (28 minutes)
Part 5: http://breeze.sc.edu/p94322574 (20 minutes)

The Power Point slides for each part are attached to this email message. You might find it useful to download and print the Power Point slides to be able to take notes while you view the videos. (You also can review each Power Point presentation as a slide show.) This information is also posted to the Incoming Student Homepage for easy reference at: http://mooreschool.sc.edu/moore/imba/ IncomingStudentInfo/Incoming-Home.html

Your first assignment for DMSB 710 is to view each video and complete the Comprehensive Exercise at the end of Part 5. You must turn in a hardcopy of your solution to the Comprehensive Exercise at our first class meeting. Completion of this assignment is a course requirement and therefore will be included as part of your course grade.

There is a Practice Exercise at the end of Part 2 that I recommend you solve before proceeding to Part 3. The solution to this exercise is attached. (If you view the solution as a slide show you can see the order in which each T-account entry is made.)

In viewing the videos, you probably will want to stabilize the window in which the Power Point slides are presented. You can do this by going to the bottom left corner of the large window and clicking just above the “playing” bar on the Scale to Fit button. The button is mostly hidden by the “playing” bar, but by moving your cursor above this bar and clicking you should be able to uncover the Scale to Fit button. There are three buttons: Hide Toolbar, Scale to Fit, and Scroll.

If you have any questions, please contact me at wendy.bailey@moore.sc.edu

I look forward to meeting you in July!