Introduction to Financial Accounting

Office PAC 211
Extension 2354
Office Hours MWF 11:00-Noon
and by appointment
Email: ramiller@wesleyan.edu

Course Specifications

Accounting systems provide financial information critical to managing, valuing, and regulating businesses, government organizations, and households. This course will cover basic accounting concepts and procedures (double entry bookkeeping, the accounting cycle), summary statements (balance sheets, income statements, flow of funds), evaluation of financial results, and financial planning. Considerable attention will be placed on economic concepts, among them present value and discounting, internal rate of return, risk analysis, normal profit as an economic cost, cost curves of a firm, and the cost of financial capital. Examples of the uses of accounting will include the mortgage crisis, social security and other retirement plans, Ponzi schemes, capital budgeting, and mergers and acquisitions.

Prerequisite: Economics 101 or 110 or permission of the instructor and faculty advisor. Registration in September (post preregistration in April) requires both the instructor’s permission and the faculty advisor’s permission.

Math expectation: Working knowledge of algebra and graphing.
Economics expectation: Cost curves for a firm; Keynesian C+I+G (or IS-LM)

Required materials:


Calculator: Handheld calculator with y^x button. (examples: TI-30Xa solar scientific (Amazon $10.99) Casio fx 260 solar scientific (Amazon $11.95)

Print subscriptions (sign up in class on first day): 10 weeks: $19.95, or 15 weeks: $29.95, or 25 weeks: $45.95

Reserve: Reserve materials will be assigned from time to time from the Olin Library home page:
http://www.wesleyan.edu/libr/
under course reserves click on E-Res
Search by Course number, course name, department, and instructor
Password Econ127

Handouts: these will supplement the text and the problem sets.
Problem Sets: Will be assigned to assist in the understanding of the materials. Many will be used as the basis for class discussion. Your answers should be folded lengthwise (vertically), with your name (written legibly) on the outside.

Honor System: The honor code is applicable in this course to tests, quizzes, papers, and the final exam, in which no communication (verbal, electronic, hand signals, or otherwise) is permitted. You will be asked to write and sign the honor pledge (“In accordance with the honor code, I affirm that this work has been completed without improper assistance”) at the end of these tests and quizzes.
Problem Sets: You are encouraged to discuss the answers among yourselves, but the answers you submit must be your own.

Absences: I expect you to attend all class sessions. You are responsible for knowing the material covered in class (much of which will amplify, and some of which will disagree with, material in the assigned readings). Do not expect a replay of material you missed because of absence. If you miss class for a legitimate reason (e.g. illness, death in your immediate family), you need not contact me, unless you miss a test or quiz. For an excused absence, I need a note from your class dean or from the Wesleyan health service.

Class Questions and Discussion: You are encouraged to ask questions (raise your hand) for additional explanation and to amplify the points raised in the class. I expect to raise questions with you for discussion.

Current Events: The news media, particularly the WSJ, report current events in the world economy which are relevant for this course. Some of them will be material for discussion.

Promptness: Class starts at 10:00am eastern time and I expect an uninterrupted 50 minutes of your attention.

Miscellaneous:

a. No wearing of head gear in class (unless it has religious significance); no wearing of head phones or ear phones or ear buds (unless your hearing is impaired).
b. No eating or drinking in class.
c. Turn off all cell phones, beepers, radios, etc.
d. No laptops or other electronic devices at any time (exception: hand held calculator).
e. Bring textbooks (Fields and Advani) and calculator to class.
f. No tweeting, texting, emailing, facebooking, game playing, or tape recording during class.
g. If you require an exception to any of these requirements, please speak to me.

Select a publicly traded U.S. corporation and obtain its most recent annual report to shareholders and its most recent 10-K report to the S.E.C. Annual reports to shareholders can be obtained from Public Register (www.prars.com), from the companies directly (public information office), from the internet, and from Moringstar reports.

Tests and Grading:

1 hour test on Friday, October 12
1 hour test on Monday, November 19th
Final examination as scheduled by the Registrar during final exam week of December 12-15
Occasional quizzes, announced and unannounced.

Grade weights:

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<td>Problem sets</td>
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100%

For a survey of CFO salaries: http://on.wsj.com/cfopay/2011
Econ 127 Introduction to Financial Accounting
Fall, 2012

TOPICS AND READINGS

(R: on e-res at Olin; G: Google)

I. INTRODUCTION
1. **Legal Structure:** Corporations, partnerships, etc.
   - R: Marks and Minnow, Corporate Governance 3rd (2004), pp 8-13
   - G: Limited Liability Partnerships (nolo.com)
   - G: S Corporations v LLC
   - G: 501 (c) 3 corporations
   - G: B corporations
   - Fields, Glossary, 289-308
   - Advani: Glossary, 259-267

II. ACCOUNTING SUMMAIRES
2. **Accounting Summaries:** Balance Sheets, Income Statements and Flow of Funds Statements (sources and uses of funds) (What accountants do)
   - AT&T: Accounting summaries; CEO’s, CFO’s auditor’s statements
   - Fields: pp 1-16 (Introduction), pp 75-82 (GAAP)
   - G: IFRS vs GAAP
   - Advani: 3-17

3. **Balance Sheets** (stock concept)
   - Fields, Ch 1 (19-54)
   - G: Balance Sheet
   - Fields Ch 11 (223-239)
   - Advani: 19-36, 145-157

4. **Income Statements** (or Profit and Loss, or P & L) (Flow concept)
   - Fields ch 2 (55-63)
   - G: Income Statement (Wikipedia)
   - Advani: 37-52

5. **Statements of Cash Flows; Sources and uses of funds** (flow concept)
   (“profit is opinion; cash is fact.”)
   - Fields ch 2 (64-74)
   - G: Cash flow statement (Wikipedia; investopedia)
   - Advani: 53-68
6. **Annual (and Periodic) Reports** (for shareholders, SEC, IRS, investment advisors, senior managers....)
   Fields ch 5 (83-109)
   Advani: 14

7. **Debits and credits; the accounting cycle; double entry bookkeeping**
   (How accountants do it)
   G: Fra Luca Pacioli (Wikipedia)
   G: R: Understanding Double Entry Accounting – Iowa State University extension July 2009 (AgMRC)

III. OPTIONS AND ISSUES IN ACCOUNTING
8. **Depreciation** (allocating cost of original investment over time)
   G: Depreciation
   Fields: 32-34
   Advani: 51

9. **LIFO-FIFO** (cost of goods sold and inventory valuation)
   Fields 34-35
   G: LIFO-FIFO
   Advani: 47-50

10. **Fair value; market to market**
    Fields 81-82
    G: Fair value
    G: Mark to Market accounting
    R: Ray Ball, “Mark to Market accounts signal caution for Investors” (5/2/12)
    R: Richard Sloan, “Fair-value guesswork is best Left to Investor” (4/29/12)
    Advani: 32-34

IV. ECONOMICS AND ACCOUNTING
11. **Capital Budgeting:** profit rates, NPV, IRR, Return on Assets (and on sales), EVA (economic value added), residual income
    Fields: Ch 7 (142-152); ch 8 (153-164); Ch 9 (167-172), ch 10 (189-220)
    Miller: Notes on capital budgeting
    R: Miller: “The Weighted Average Cost of Capital is Not Quite Right”
    G: “Creating Value” Economic Value Added (Association of Chartered Certified Accountants)
    Advani: 87-106, 109-124, 125-143
12. **Accounting vs. Economics** (“normal profit” as a cost vs accounting profit)
   Firm’s cost curves (economic): Review a micro text (101,110, 301) for these curves
   R: Miller: “Ten Cheaper Spades....”
   R: Miller: “Capitalism with Capital....”

13. **Risk**
   Fields 172-181; 113-141
   G: Breakeven (economics)
   Fields 181-188
   G: Value-at-Risk (VAR) (Wikipedia)
   Advani: 114-119

14. **Transfer Pricing**
   G: Chapter 23: Transfer Pricing (Dennis Caplan)

V. BUBBLES, SCANDALS, AND THE GOVERNMENT
15. **Sarbanes-Oxley (SOX); Dodd-Frank**
   Fields: 78-82
   G: “Brief Summary of Sarbanes-Oxley Act of 2002” (Olin Reserve desk only)
   G: “Brief summary of the Dodd-Frank Wall Street Reform and Consumer Protection Act”
   (http://banking-senate.gov/public)
   RG: “Summary of Dodd-Frank Financial Regulation Legislation” (Huntington, of Paul, Weiss)
   R: “Too Big not to Fail” (Briefing the Dodd-Frank Act) The Economist, February 18, 2012
   Advani: 34-36

16. **Financial Bubbles, Recessions, Mortgage (and other debt) crises**
   In the US and elsewhere.
   R: Mariner and Miller: “Algebra, Home Mortgages, and Recessions”
   Advani: 209-222

17. **Accounting Scandals** (“Cooking the books”, fraud, deception, insider trading)
   Matulich and Curry, Handbook of Frauds, Scams and Swindlers:
   R: Hallain and Meyer, “High Stakes and High Energy at Enron: The Meteoric Rise and Fall of the “Crooked E” 207-219
   R: Roland E Kidwell, “Adelphia Communications....” 191-206
   R: Steven Pressman, “Charles Ponzi” 35-43
   Advani: 69-85
18. **Accounting in the US Treasury State treasuries, and pension plans**  
   Meeker: *USA Inc.* (selections)  
   G, R: CBO The underfunding of State and Local Pension plans (May 2011)  
   G, R: JEC Republicans: States of Bankruptcy Part I The Coming State Pensions Crisis (12/8/11),  
   Part II: Eurozone, USA? (5/15/12)  
   G, R: Credit Suisse, Report on multi-employee pension plans, Mar 26, 2102

19. **Government Accounting in foreign countries**  
   G,R: Timothy Irwin, “Accounting Devices and Fiscal Illusions.” IMF Staff discussion note (3/28/12)

VI. CODA: WESLEYAN’S ACCOUNTING  
20. **Wesleyan’s financial accounting**  
   R: Wesleyan balance sheets, income statements, flow of funds  
   R: Potts: selection on accounting for the Wesleyan Press (my weekly reader, our times, current events) during the 1950’s and 1960’s.

21. **Mergers and Acquisitions**  
   Advani: 177-194

22. **On Your Own**  
   (Not covered: Advani: 159-176, 195-208, 223-224, 237-248, 251-254)  
   (For reference: Advani: 255-258, plus the glossaries)