This course studies the construction, evaluation, and interpretation of the principal components of corporations’ financial reports: the balance sheet, the income statement, the statement of cash flows, and the statement of shareholders’ equity, along with these statements’ supplementary notes. Much of the class will be devoted to understanding how individual transactions affect these principal financial statements. The course also contains a brief introduction to financial statement analysis. We will learn some aspects of how and when a firm’s financial reports accurately reflect its earnings-related activities.

The course also examines some of the ways in which managers’ accounting decisions affect published financial statements. There is often sufficient discretion in how firms record and/or structure transactions so as to affect the appearance of a firm’s financial statements. As examples, by judiciously (a) choosing among financial methods (e.g., choosing between LIFO versus FIFO), (b) making estimates (e.g., forecasting warranty costs), and/or (c) structuring transactions (e.g., engaging in off-balance-sheet financing), a manager may be able to affect dramatically a financial statement’s appearance. We will study examples of firms using this latitude to achieve various objectives (e.g., avoid financial distress, potentially influence litigation outcomes, etc.). We will also study how information in the notes to the statements allows the savvy financial statement reader to undo some of the cosmetic effects associated with these choices.

Much of the course is devoted to learning how to account for basic transactions. Why? For two reasons: first, because a manager does not understand a transaction unless he/she knows how to account for it. Second, a manager does not know how to interpret a firm’s financial statements unless he/she knows how the transactions of the firm can affect its financial statement’s appearance. By the end of the course, you should obtain a mastery of how many common business transactions are recorded in financial accounting, and also the ability to interpret the fundamental components of firms’ financial statements.
Course Materials and Canvas Website


This is an excellent textbook, but it has one deficiency: in attempting to be all things to all students, it contains the accounting rules used both under U.S. GAAP and under IFRS (international financial reporting standards), the latter sometimes also called “IASB” (International Accounting Standards Board) GAAP. Although there are broad similarities between U.S. GAAP and IFRS, there are occasional differences. I believe that financial accounting is difficult enough to learn even when dealing with just one set of accounting standards, and consequently, that it is undesirable to try to learn financial accounting under two distinct sets of accounting standards. Accordingly, *throughout this class, you are only responsible for accounting under U.S. GAAP.*

The sixth edition is available in two formats: (1) A physical copy of the text or (2) an e-book version of the text is available for a six-month rental from myBusinessCourse.com. Under this second alternative, you need to be online to access the text.

It is my understanding that, in some classes, many Kellogg students elect not to purchase the textbook for the class. *This should not be one of those classes!* You must have easy access to the textbook. I have assigned problems from the textbook. I will also draw many quiz questions and exam questions from the textbook. In some classes, I will also go over homework assignments from the textbook.

I will make no use of any supplementary materials produced by the publisher. (The publisher offers various resources, such as e-lectures, guided problem solutions, and additional practice on problems marked with a red check in the text. If you purchase a new physical text or the e-book, you also receive complementary access to this material for six months. If you purchase a used copy of the text, then you may purchase six months access to these materials through myBusinessCourse.com.) Whether you elect to get any of these supplementary materials is entirely up to you.

The entire solutions manual will be posted on the course web site for the duration of the quarter.

The link to the Canvas website may be found here: INSERT LINK HERE. The Canvas website will have posted on it some sample quizzes and sample exam questions, from prior iterations of the class. I will also post lecture notes on Canvas.

**Readings**

You are expected to do the assigned reading and the assigned problems *prior* to class.

Contemporary readings from the financial press, and from the recently available financial statements, will be distributed as the quarter progresses.
Pace and Class Format

Even for students with prior exposure to financial accounting, I think this course covers an incredible amount of material quickly. Ideally, if I could control the schedule for this course, I would cover the material over a longer period of time than is allotted for this class. But, since I am restricted to the schedule imposed by Kellogg’s quarterly format, this forces the class to have what is, overall, a fast pace.

Given the in-class time constraints, and given the overall volume of the material in the class to be covered, you should recognize that it is not possible, in principle, for us to discuss every topic of importance in class. This is particularly true for some topics covered later in the quarter. Consequently, the in-class discussion should be viewed as a guide to cover the major conceptual points, but it cannot cover all that merits learning in the course. This is typical of graduate classes at leading business schools: you bear ultimate responsibility for learning the material.

You and I jointly face challenges involving remote teaching. A major issue is student engagement. Notwithstanding financial accounting’s inherently interesting material, I could imagine – if I just lecture – that students could be less than fully engaged in the class. In order to keep students engaged with the material, I am going to have – with the exception of the first week’s class - student led discussions of each set of notes for the class. Students will be called on to present the note sets that form the basis of lectures for each class. More details regarding how students get chosen to lead these discussions will be discussed further in the first class.

One difficulty that sometimes arises in this course is cross-student heterogeneity: particularly in the first half of the course, there tends to be wide disparities among students’ financial accounting backgrounds. As a consequence, some students may ask interesting, sophisticated questions the answers to which require somewhat advanced accounting knowledge. While I am happy to entertain such questions, on occasion, I may defer answering them until after class, or later in the course, so as to not disrupt the flow (or level) of the classroom discussion. Please do not be offended if, on occasion, I defer or decline addressing such questions.

Grading

Grading will be based on the following weighting scheme:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Statement Journal</td>
<td>10%</td>
</tr>
<tr>
<td>Student led presentations</td>
<td>25%</td>
</tr>
<tr>
<td>Quizzes and exam</td>
<td>65%</td>
</tr>
<tr>
<td>Quiz Grade = Best 4 of six quizzes</td>
<td></td>
</tr>
<tr>
<td>Combined quiz and exam grade based on Max{.4 x Quiz Grade + .6 Final Exam, Final Exam}</td>
<td></td>
</tr>
</tbody>
</table>

Exam and Quizzes

Quizzes and exams constitute 65% of the course grade. There will be a total of 6 quizzes
administered in class, at the end of each class in Weeks 4 through 9. The quiz component of the grade will be based on the best four of six quizzes, assuming you do better on the quizzes than on the final exam. If you do better on the final than on the quizzes, the quiz component of the grade will be zero. The final exam is cumulative. The final exam component of the Combined quiz and exam grade will be 100% if you do better on the final than on the quizzes. If you do better on the quizzes, the final exam will count 60% toward your combined quiz and exam grade. The material covered in the quizzes always will lag the material covered in class by at least one class – so that you will NOT be quizzed on material that is first covered in class on the same day a quiz is due. There will be no makeups for missed quizzes: given how quizzes enter course grades, missing up to two quizzes has no effect on your grade. If you do better on the final exam than the quizzes, then the quizzes have no effect on your grade regardless of how many quizzes you miss.

One of the many good features of the text is the broad array of problems it contains. In order to exploit this feature of the text, I make the following promise: when taking into account all the questions on the quizzes and on the final exam together, at least fifty percent of all the questions will be essentially the same as, apart from (1) minor changes in wording or arithmetic detail, and (2) conversion of the question into either a “fill in the blank” or multiple choice format, as some question that appears at the end of the chapters of the text we will cover. (Note carefully the phrasing of the preceding statement: these questions may not be the same as the assigned problems listed in the course outline below: they may be any problems from the relevant chapters.) Thus, any student willing to work hard enough to cover all of the problems at the end of all of the assigned chapters will be assured that he/she has seen at least fifty percent of the questions on all the quizzes and the final exam before sitting down to take the quizzes or the final exam. I believe that this promise – which, obviously, is intended to motivate you to work on more than just the assigned problems - will facilitate your learning financial accounting, since you will learn more the more accounting problems you do.

Comment about the solutions manual: the assigned homework problems are bare-bones. They are the minimum problems that you should attempt to answer. But, it would be helpful, particularly for material you find difficult, to go over more than just the assigned problems. There are both direct and indirect benefits from doing so: the direct benefits are that your quiz/exam performance will improve. The indirect (and more important to me) benefit is that you will learn more. For problems that you find difficult, there are usually other similar problems, juxtaposed next to the assigned problems in the text that will give you additional opportunities to test your understanding of the material.

Note that none of the homework problems is assigned to be turned in for course credit. However, if you do not do the assigned reading and attempt the assigned problems before class, much of the significance of the class discussion will be lost; you won’t enjoy the class as much, and you won’t get as much out of the class.

All quizzes and the final exam are closed notes, closed text, no online access, no use of any computational device capable of wireless communication. I suggest the purchase of a cheap ($5) calculator capable of performing just basic arithmetic.
Financial Reporting Journal

Notwithstanding all the rules underlying the preparation of financial statements, there is an amazing amount of diversity across firms’ financial presentations. Initially, this diversity is disorienting: not all the financial statements you see in practice conform to the presentations that appear in our, or any other, textbook. As managers, you must grow accustomed to the variations in these presentations to be effective. The way to do that is to examine as many statements as possible. To encourage your financial statement exploration, I want you to construct a financial reporting “journal” in which you record what you regard as interesting observations concerning four (4) financial reports involving companies other than those whose financial statements are discussed in class. It suffices to have one typed, double-spaced page of commentary per company. You have considerable discretion regarding the contents of your commentary. It can consist of comments about unusual accounting practices, unusual financial statement presentations, puzzling notes, auditors’ opinions, trends in a firm’s financial data, MD&A discussion, etc. The important thing is to expand the scope of the financial statements you are acquainted with. Your financial reporting journal is due on the same day as the final exam, and is to be prepared individually by each student.

Honor Code/Classroom Etiquette

The Kellogg Honor Code applies at all times in this course, as does the Kellogg code of classroom etiquette (except as noted in the first class meeting). In particular, I consider it to be a serious honor code violation for a student to obtain assistance from or offer assistance to any other student on any quiz or on the final exam. The Honor Code and Classroom Etiquette Code are appended to this course outline.

Additions to/Emphasis added to the Code of Classroom Etiquette:

As noted above, with the exception of Week 1, I will have note sets distributed electronically to you one week before the note set will be discussed in class. You should either print out or otherwise have access to the note sets in class. I recommend the purchase of a cheap calculator. No spreadsheets or other similar technology will be used in class.

the exams. As noted above, I recommend that students buy a (cheap) calculator to perform arithmetic computations during the exam/quizzes, or else plan on doing arithmetic computations manually.

Do not be late for class: I will start class on time. You should be ready to do so too.

What to bring to class

Textbook At various points in several classes, we will make reference to the textbook. Please bring the textbook to class every class meeting.

Annual Reports I will distribute a link to CVS’s most recent annual report
electronically to our first meeting. We will make regular use of it. Please have access to CVS’s annual report for class.

**Previous Week’s Lecture Notes** Not all the material I would like to cover from week to week necessarily fits perfectly into a 1.5 hour lecture format. Consequently, to anticipate the possibility that we might continue to study material in one week that was assigned for the previous week, it is desirable for you to bring (at least electronically) the previous week’s lecture notes to class.

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**Dynamic nature of this syllabus**

The following course outline represents my plan for the quarter, but is subject to change as the course progresses if, in my opinion, a change will help promote the best collective learning experience and interests of all students in my sections. Any such changes will be communicated to you via the course web site.

A note about FSET: FSET is an acronym for “financial statement effects template.” It is a device the authors of the text have developed that combines income statement and balance sheet information for readers not familiar with journal entries. We will become proficient with journal entries and, accordingly, we will not make use of the FSET template in class. Please ignore any instructions in assigned problems that require constructing FSETs for their solution.

All problems are from the textbook unless otherwise noted; problems not from the textbook will be posted on Canvas. All reading are from the textbook. “Ch. 1,” for example, refers to Chapter 1 of the textbook.
## Class Schedule

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Topics and Assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6/27</td>
<td>Introduction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Read Ch. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Start Balance Sheet Procedures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Read Ch. 2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Problems M1-21, E1-30</td>
</tr>
<tr>
<td>2</td>
<td>7/11</td>
<td>Continue Balance Sheet Procedures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Review Ch. 2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Problems P1-37, M2-18, M2-25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recording Transactions and adjusting entries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Read Ch. 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Problems M2-20, E2-48, P2-58, M3-22(b), M3-24(b), M3-29</td>
</tr>
<tr>
<td>3</td>
<td>7/17</td>
<td>NOTE THIS IS A FRIDAY</td>
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<tr>
<td></td>
<td></td>
<td>Asset and Liability Recognition, Valuation, and Classification</td>
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<tr>
<td></td>
<td></td>
<td>Review Ch. 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Problems E-3-31, E3-32, P3-43, P3-54, C3-58, Supplementary Problem 3-34 (to be posted on Canvas)</td>
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<tr>
<td></td>
<td></td>
<td>Start Statement of Cash Flows</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Read: Ch. 4</td>
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<tr>
<td></td>
<td></td>
<td>Problems: M4-23, M4-26, E4-35</td>
</tr>
<tr>
<td>4</td>
<td>7/18</td>
<td>Statement of Cash Flows, Continued</td>
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<tr>
<td></td>
<td></td>
<td>Problems: M4-23, M4-26, E4-35, Supplementary Problem 1-42</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Statement of Cash Flows, Conclusion; Introduction to Financial Statement Analysis</td>
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<tr>
<td></td>
<td></td>
<td>Read: Start Ch. 5</td>
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<tr>
<td></td>
<td></td>
<td>Problems: E4-37, E4-42, P4-48, C4-59, Supplementary Problems 1-42, 6-33, and 7-30 (all to be posted on Canvas)</td>
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<tr>
<td></td>
<td></td>
<td>In class Quiz 1</td>
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<tr>
<td>5</td>
<td>7/25</td>
<td>Financial Statement Analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Read: Finish Ch. 5</td>
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<tr>
<td></td>
<td></td>
<td>Problems: M5-14, E5-26, E5-34, Supplementary problem 7-23 (on Canvas)</td>
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<tr>
<td></td>
<td></td>
<td>In class Quiz 2</td>
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<tr>
<td>Session</td>
<td>Date</td>
<td>Topics and Assignments</td>
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<td>---------</td>
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<td>-----------------------</td>
</tr>
</tbody>
</table>
| 6       | 8/1  | Account Receivables  
Read: Ch. 6  
Problems: M6-17, M6-21, M6-23, E6-34, P6-46  
Revenue Recognition, Income Statement Geography, Pro Forma Earnings  
In class Quiz 3 |
| 7       | 8/8  | Accounting for Long Lived Assets  
Read Ch. 8  
Problems: E8-22, E8-27, E8-31, C8-42  
Present Values* (SEE asterisk) and  
Start Accounting for Liabilities  
Read: Ch. 9 and Appendix A (pp.638-661)  
In class Quiz 4 |
| 8       | 8/15 | Finish Accounting for Liabilities  
Read: Ch. 10 (but ignore pensions)* (SEE Asterisk)  
Problems: M10-13, M10-23, P10-36, P10-40, P10-42  
In class Quiz 5 |
| 9       | 8/22 | Start Accounting for Investments* (SEE asterisk)  
Read: Ch. 12 (note 12, not 11)  
In class Quiz 6 |
| 10      | 8/29 | Finish Accounting for Investments,* (SEE asterisk)  
Problems: M11-24, M11-29,  
**Final Exam** (TBA closed notes, closed book); also, financial reporting journal due |

*In recent iterations of the class in the past, I have lagged behind the course outline at this point. If this happens in the present class, I will let you know how the schedule and assignments will be adjusted. In any event, you can be assured that the final exam will cover no topics that we have not discussed in class.
The Kellogg Honor Code

All students enrolled in a course offered by the Kellogg School of Management agree to abide by the Kellogg Honor Code.

The Kellogg Honor Code governs student conduct pertaining to all academic, placement and extracurricular activities associated with the Kellogg School of Management. Each student agrees:

1. Not to seek an unfair advantage over other students, including but not limited to giving or receiving unauthorized aid during completion of academic requirements

2. To truthfully represent fact and self at all times

3. To respect the property and personal rights of all members of the Kellogg community

4. To uphold the Kellogg Honor Code by reporting all material violations, and by fully cooperating with and protecting confidentiality of any Honor Code proceedings.

All Kellogg students are also expected to adhere to all policies and requirements of Northwestern University and to abide by all applicable laws and regulations.

The Honor Code Philosophy Statement

The students of the Kellogg School of Management regard honesty and integrity as qualities essential to the practice and profession of management. The purpose of the Kellogg Honor Code is to promote these qualities so that each student can fully develop his or her individual potential. Upon admission, each student makes an agreement with his or her fellow students to abide by the Kellogg Honor Code. Students who violate the Kellogg Honor Code violate this agreement and must accept the sanction imposed by the Kellogg community.

The Kellogg Honor Code is administered by students and is based on the concept of self-government. The efficacy of such a student-administered honor code is dependent upon a high degree of dedication to the ideals of honesty, integrity and equal opportunity reflected by the code. The Kellogg Honor Code requires that each student act with integrity in all Kellogg activities and that each student hold his or her peers to the same standard. In agreeing to abide by the code, the Kellogg students also agree to report suspected violations. By not tolerating lapses in honesty and integrity, the Kellogg community affirms the importance of these values.

The intent of the Kellogg Honor Code is to express the ethical standards of the Kellogg community. It does not attempt to be a list of rules and sanctions.
Classroom Etiquette

The Kellogg Code of Classroom Etiquette has been established to assist student and faculty alike to foster appreciation for a classroom environment that enhances the learning experience for all students. Attention to the code will add value to the course by creating a more meaningful and constructive discussion.

Students, therefore, are expected to demonstrate classroom etiquette based on the following principles:

I. Attendance:

   i. Students are expected to attend every class throughout the term. When unable to attend, the student should notify the professor in advance.
   
   ii. Attendance is compulsory at the first class session. Failure to attend will result in your exclusion from the class if a waiting list exists. Wait listed students are eligible only if they attend the first class session.

II. Punctuality

Students are expected to arrive for class on time so that the professor may start and end the class according to schedule. Students more than five minutes late are subject to guidelines established by a class vote during the first session.

III. Exiting and Entering

Students are expected to remain in the classroom for the duration of the class. If a student must depart early due to unavoidable circumstances, the student should inform the instructor before class. Leaving and re-entering the class is not permitted except in the event of an emergency.

V. Disruptive Behavior

Students should demonstrate respect for the professor and fellow students during the class period. Students, therefore, should refrain from distracting behavior such as disruptive eating, using laptops to surf the Web or check e-mail and holding side conversations.

VI. Respect the Facilities

Students are expected to help maintain the appearance of the classroom. After class students should discard all trash.