



SOM 521: FINANCIAL REPORTING I

Course Syllabus, Spring 2004

Instructor: Ray Pfeiffer

Mondays and Wednesdays, 10:10-11:25

Isenberg School of Management Room 127

Course Number 56311

Brief Course Description

This course, together with Financial Reporting II, provides comprehensive coverage of primary financial accounting and reporting topics. Financial reporting is the communication of financial information about organizations to parties internal and external to the organization. In contrast to Introduction to Accounting I, which is an overview of and introduction to financial reporting, this course explores financial reporting in greater depth, including a focus on the conceptual framework and on managers' reporting choices within accepted accounting principles.

Course Objectives

I have several goals for you in this course. First, I want you to *master* a set of skills (e.g., how to account for transactions, how to prepare financial statements, how to interpret financial statements). Traditionally, these skills have been the sole focus of courses like this one. However, the business world and the accounting profession continue to change very dramatically, and this has placed additional demands on you as a student.

One change is the increased prevalence of computer-based accounting systems. Much of the work once done by accounting professionals is now done by machine. Accordingly, today's accounting graduates must possess higher-level skills. In particular, I strive to make sure that you are developing the skills and knowledge that will enable you to become effective decision makers and business advisors, not just 'number crunchers.'

To help you prepare for such additional demands, I include the following additional goals in this course:

- (1) You should develop an appreciation of the conceptual framework underlying Generally Accepted Accounting Principles. This includes developing an understanding of the forces that shape accounting practice and cause it to be consistent and sometimes

inconsistent, and learning to recognize common patterns and exceptions to those patterns that exist in accounting practice. It also includes understanding the tradeoffs involved in standard setting, the limitations of current accounting standards, and the effects that these tradeoffs and limitations have on the quality and content of financial statements.

- (2) You should gain an appreciation of firms' ability and incentives to choose from among a wide variety of alternative measurement bases and accounting procedures and the effects that those choices have on readers of firms' financial statements. This requires an integrated understanding of business from many dimensions. Together with this perspective, I want you to be sophisticated readers of financial reports who appreciate the subtleties of financial communication and who can 'read between the lines' to draw inferences that will lead to good decisions.
- (3) Communication is an essential part of the work of an accountant. Accordingly, an additional objective of this course is to develop your oral and written communication skills.

The Instructor

Name: Ray Pfeiffer, Ph.D., CPA, Associate Professor
Office address: 355 Isenberg School of Management
E-mail: pfeiffer@acctg.umass.edu
Web URL: <http://intra.som.umass.edu/pfeiffer>
Phone: 413 545 5653
Office mailbox: Located in 367 Isenberg School of Management
Office hours: Mondays, Tuesdays, and Wednesdays: 4-5 and by appointment

Education: Stroudsburg High School, Stroudsburg, Pennsylvania, 1983; Moravian College (Bethlehem, Pennsylvania) — B.A. (Accounting) 1987; University of North Carolina; Chapel Hill, North Carolina — Ph.D. (Accounting) 1994.

Work experience: Assistant Professor, University of Massachusetts, 1994-1999; Associate Professor, University of Massachusetts, 2000-present; Audit staff of Deloitte & Touche, 1987-1990; Staff accountant, Stone, Cyphers, McCoy, and DeAngelo, PC, summer 1986. Certified Public Accountant, Pennsylvania and North Carolina.

Research interests: Financial reporting issues, financial reporting regulation, firms' accounting and disclosure choices, and stock market investors' and financial analysts' use of financial statement information.

Outside interests: Arranging and composing music, playing the piano, tennis, cooking, film, politics.

Teaching philosophy:

My goals as a teacher are to (1) inspire my students to learn; and (2) to challenge them to reach their fullest potential. To help the students achieve these goals, I embrace the following philosophy regarding my teaching:

1. I believe my purpose as a teacher goes beyond the teaching of accounting. It is equally important to help students to grow as people, to support their intellectual and professional development, to challenge their assumptions, and to expand their world views. In this regard, I wholeheartedly embrace the following perspective offered by Martin Luther King:

“Education must enable one to sift and weigh evidence, to discern the true from the false, the real from the unreal, and the facts from the fiction. The function of education, therefore, is to teach one to think intensively and to think critically.”

2. I believe that I succeed as a teacher when my students are inspired to teach themselves. Ideally, my role is to appeal to each individual’s inner intellectual curiosity, which I believe is the most valuable educational resource.
3. I believe in challenging my students to reach very high standards of performance and in providing them with the resources they need to reach those standards. I believe that just about anybody can learn just about anything in such an environment.
4. I take my role in the learning process very seriously. I am personally invested in my students’ success or failure because I care very deeply that they learn.
5. I believe that the most important element of learning is building structure. Without a framework, students are unlikely to internalize facts, rules, ideas, and techniques. With a framework and the ability to build their own frameworks, students can become critical thinkers and thus more effective learners and professionals.
6. I believe that I should continuously improve my teaching ability and the content of my courses. This includes keeping the material current with the state of the art in the academic literature and in practice; finding new ways to make the material appeal to students’ curiosity; making efficient use of class time; and introducing new pedagogical tools that recognize diverse learning styles and enhance my ability to reach my students.

Love of teaching was my first inspiration to pursue an academic career. In my nine years of teaching (all here at UMass), I realize that I love it even more than I thought I would. My work as a teacher is a crucial part of my contribution to my profession, to the University,

and to society. As such, the privilege to teach continues to be a enormous source of personal reward and inspiration for me.

Our Learning Community¹

Through this course, we have elected to join a learning community, because we are all dedicated to the same goal: learning as much as possible about the material at hand. To make this community function effectively, we each need to be clear about our roles and our commitments to one another.

- ▷ I commit to interacting with you in a professional manner, and I expect the same in return.
- ▷ I will be prepared for every class.
- ▷ I will attempt to answer any questions that you have, if not on the spot, as soon as possible thereafter.
- ▷ I will do my best to be fair in my assignment of grades.
- ▷ I will attempt to help you understand what you read in the course readings, but also to add value to the course by contributing insights and information that is not in the readings.
- ▷ I will try to continuously improve this class. If there is something that I can do to make the class better during the semester, I will try to make changes. And I will make changes based on the students' end of semester evaluations as well.

And your role in this learning community includes the following responsibilities:

- ▷ I expect that you will come to class. Your presence in the classroom benefits you, your classmates, and me.
- ▷ I expect that you will plan your schedule appropriately to allow sufficient time to be successful in this course. This course requires a large amount of work outside the classroom. There is a lot of reading and a large amount of homework. I know of no way to learn this material other than through plentiful, careful, painstaking study.
- ▷ I expect you to come to class prepared to learn. That means that I expect that you will complete the 'advance preparation' noted in the course calendar below. It is nearly impossible to learn all that you must from the class meetings without first struggling with the material on your own.
- ▷ I expect that you will ask questions of me and of your colleagues when you do not understand something you read, something I said, or something one of your colleagues said in class. Many of the concepts and skills you will encounter this semester are very difficult. You will be frequently confused by things you read and things you hear in

¹The inspiration for this section of the syllabus is not mine alone — I owe a debt of gratitude to two outstanding teachers for helping me to develop these perspectives: Peter Wilson of Boston College, and Dennis Hanno from UMass.

class. It is imperative that your confusion be as temporary as possible. If you do not feel comfortable asking your questions in class, I expect that you will ask me in my office during my office hours. Asking questions is one of the most important ways to learn.

- ▷ I expect that you will abide by the University's Academic Honesty Policy.

Students with Special Needs

Please feel free to tell me about any physical or learning disability that threatens your success in this class. I will do what I can to help minimize any difficulties you may have.

Required Textbook

Kieso, Donald E., Jerry J. Weygandt, and Terry D. Warfield, Intermediate Accounting, Eleventh edition, John Wiley and Sons, Inc., New York, 2004. ISBN 0-471-07208-7 (or 0-471-45012-X for a slip-cover 2-volume version of the book). 32 copies of the textbook are available at the Jeffery Amherst College Store, 26 South Prospect Street, Amherst (253-3870) for \$146.75. I have **not** ordered any copies at the UMass textbook annex. You will use this text again for Financial Reporting II.

Please bring this book with you to class. We will solve problems from the ends of the chapters during class as examples to illustrate concepts.

Grades

I will evaluate your performance against the objectives I outlined above using evidence from four sources: exams, quizzes, and graded writing assignments. These inputs to your grade will be weighed as follows:

<u>Input</u>	<u>Weight</u>
Exam I	15%
Exam II	20%
Quizzes	25%
Writing assignments	20%
Final exam	20%
Total	<u>100%</u>

Letter grades will correspond to the following numerical grades:²

²Hint: In other words, your final grade is a weighted average of the scores you earn on each of the components. You can compute your own grade as follows:

$$\text{Final grade} = \text{Exam I} * 0.15 + \text{Exam II} * 0.20 + \text{Quiz} * 0.25 + \text{WAI} * 0.10 + \text{WAI} * 0.10 + \text{Final exam} * 0.20$$

A	> 93%	C	73-77%
AB	88-93%	CD	68-72%
B	83-87%	D	60-67%
BC	78-82%	F	< 60%

The grading system is intended to accomplish several objectives: (1) it diversifies your grade across a relatively large number of inputs to decrease the chance that unusual performances will distort the overall grade; (2) it awards significant weight to the quizzes, which reward effort and mastery throughout the semester, instead of performance on just a few days (as the exams do); (3) it gives less weight to the first exam to allow you to get used to my testing approach and expectations without significant penalty; (4) it is consistent with the objectives of the course — grades are awarded for both mastery of technical subject matter through the midterms, quizzes, and final (Objective 1 above) and for critical thinking and analysis and communication (Objectives 2 and 3 above); and (5) achievement of a grade of 'A' is reserved for clear evidence of excellent performance.

Exams: There will be two exams during the semester. These exams will be given in class on the days scheduled in the "Course Calendar" below. Exams will cover the conceptual material and skills discussed in the textbook and in class, and they will test your mastery of the concepts using examples similar to those in the end of chapter questions and problems. The best way to prepare for the midterms is to review your notes from class and your reading notes and to practice *correctly* solving as many problems as you can. Just as with any other skill, practice is the key to success.

Quizzes: To help you overcome the very strong tendency to ignore my advice that you spend time preparing for class, I will be conducting short quizzes. The quizzes are meant to help you to stay current with the material. I expect that although they may not be fun, they will greatly enhance your learning and what you take away from this course.

On every class day that we begin a new chapter, there will be a very short, in-class quiz that is designed to test your mastery of the previous chapter and your preparation for the chapter we're about to begin studying. The quiz questions will be drawn either from the 'Questions' or 'Brief Exercises' at the end of each chapter. In computing your overall quiz grade, I will eliminate the lowest two quiz grades from consideration.

Writing assignments: There will be two graded writing assignments during the semester. These assignments will simulate scenarios that accounting professionals deal with in practice. Answers to the questions will require careful thinking and more elaborate, written responses than traditional homework or exam problems.

Because my goals with respect to the writing assignments include both developing your analytical skills and your communication skills, I will award grades on the writing assignment

based on both the accounting arguments and understanding you demonstrate and on the effectiveness of your writing. To help you with the latter, a consultant from the 'Writing Across the Curriculum' program will provide professional edits of your document (at no charge) before you submit it to me. You should think of these as take-home exams. Each student will write their own paper; you cannot obtain assistance from or give assistance to any other person. Further details for these assignments will be provided when they are distributed during the semester.

Final exam: The final exam will be a *cumulative* review of all of the material from throughout the semester, with an emphasis on the material in the last few chapters we cover. As soon as I learn the date, time, and location of the final exam, I will announce it in class.

Helpful Hints

As I mentioned before, this course requires a lot of work. How much work? Of course, that depends factors unique to each of us. However, I can give you some guidance. I recommend the following study plan:

- (1) Carefully study each chapter and take notes as you read of the key insights you gain.
- (2) Answer the 'Questions' at the end of the chapter, if not in writing, at least verbally to yourself — make sure you did not miss anything in your reading.
- (3) Attempt to solve as many of the 'Basic Exercises' and 'Exercises' that are indicated for each chapter in the 'Course Calendar' below as you can, for I will select problems from that list to illustrate in class.
- (4) Come to class with a list of questions from your study that you weren't able to resolve on your own. Either ask these questions in class, or ask me during my office hours. These first four items should be done *before* we discuss the chapter in class. That way, you will get much more out of the class meeting.
- (5) Do as much of the recommended homework as you can. Note that the homework covers only a subset of the material in the chapter. I encourage you to do as many of the problems and exercises at the end of the chapter as you need to master the concepts in the chapter. Additionally, solve as many of the 'Exercises,' 'Problems,' and 'Conceptual Cases' at the end of the chapter as you can. For all of the work you do, it is vital that you check your answers against the solutions. You will learn a great deal by making errors and then finding where you went wrong. If you cannot understand where you're going wrong, please come see me for help. I will make available on the course website the solutions to all end-of-chapter materials.

Following this study pattern will probably require a lot of time. However, if you follow this advice, your chances of mastering the material (and receiving a high grade in this course) are substantially increased.

Makeup policy

QUIZZES: Quizzes are given during regularly scheduled class time. Therefore there should be no reason why you should miss a quiz, other than for illness or other extenuating reasons as outlined in the University's Undergraduate Rights and Responsibilities handbook. In such cases, if you tell me the reason for the excused absence, I will not penalize you for the missed quiz. Note that it is *your* responsibility to notify me as to the reason for your absence. However, there will no makeups for unexcused absences. Recall that I drop the lowest two quizzes, so the effect of unexcused absences is mitigated.

WRITING ASSIGNMENTS: The due dates for the writing assignments will be announced in class. Unexplained, late submissions will be penalized. Given the adequate advance notice of these due dates, I do not expect that there will be any late submissions.

EXAMS: The midterm exams are scheduled during class time as shown in the accompanying course calendar. Therefore, there should be no time conflicts. However, in the unusual circumstance where you must miss an exam, it is *your* responsibility to make alternate arrangements with me in advance if you have a legitimate reason for not being able to take an exam at the scheduled time.

Finally...

I love teaching this class. I look forward to a stimulating and rewarding semester, and I hope that this turns out to be a successful experience for all of us.

Course Calendar

Below is the a plan for using the available class time we have this semester. It is my best estimate of how the semester will progress, but from time to time, we may be having so much fun that we might fall a bit behind. If that happens, I will announce slight modifications to the plan in class.

For each topic area, I have assigned reading from the textbook. I have also listed some problems from the end of each chapter that I have called a "self test." I strongly encourage you to answer these questions in particular in preparation for that day's class. They are designed to assess your understanding of major concepts from the chapters. And I will often select the problems that we work together during class time from that list. If you cannot solve all of these problems, it is an indication that you need help and that you will not do very well on the exams. Be sure to get help early and often from your colleagues in the class or from me if you do not understand how to work on these problems.

I have also provided a list of homework problems for each chapter, due dates for the writing assignments, and the dates of the exams.

Date	Topic	Stuff to do Before Class on this Date	Recommended Homework
Wednesday, 1-28	What is this course all about?		
Monday, 2-2	Financial reporting - a big picture	Read Chapter 1. Self-test: Q3-7, 17, 25-27	
Wednesday, 2-4	A conceptual framework for accounting rules	Read Chapter 2. Self-test: BE 6, 9, E 4, 7, 8	C1-3, C1-9, C1-13, C1-18
Monday, 2-9	Bookkeeping - a review	Read Chapter 3, including appendix 3A. Self-test: BE 2, 4,6,9,11,13, E 1,10.	C2-3, 6, 7, Financial Statement Analysis Case
Wednesday, 2-11			
Monday, 2-16	***** Holiday: Presidents' Day *****		
Wednesday, 2-18	Time value of money: a review	Read Chapter 6; exclude the Appendix. Self-test: BE 1-5,9,11,14,15, E 6,14,17.	P3-1, E3-4, P3-3, P3-5, P3-11. Comparative analysis case
Monday, 2-23	Accounting for cash and receivables	Read Chapter 7, incl. Appendix 7A. Self-test: BE 1, 4, 5, 6, 11, 13, E 1, 3, 4, 7, 11, 12, 16, 24.	First writing assignment due today.
Wednesday, 2-25			Time value handout
Monday, 3-1	Inventory: cost and cost flows	Read Chapter 8. Self-test: BE 3,5-7,9, E 1, 2, 8, 12, 18, 17, 25.	P7-1,5,6,7,10,C7-3, Comparative analysis case.
Wednesday, 3-3			

Date	Topic	Stuff to do <i>Before Class</i> on this Date	Recommended Homework
Monday, 3-8	Inventory: departures from historical cost and estimating inventory	Read Chapter 9, exclude appendix. Self-test: BE 2, 4, 5, 7-9, E 1, 4, 7, 10, 11, 16, 18.	P8-1, 7, 11, C8-10.
Wednesday, 3-10	EXAM I: Chapters 1-3, 6-8	Study like mad!	
Monday, 3-15	***** SPRING BREAK!!! *****		
Wednesday, 3-17			
Monday, 3-22	Property, plant, and equipment: acquisition and disposition	Read Chapter 10. Self-test: BE 1, 3, 4, 5, 6, 8, 10, 12, 14, E 2-4, 7, 9, 13, 15, 17, 22.	P9-2, 5, 7, 9, 12, Financial reporting problem: 3M Company.
Wednesday, 3-24			
Monday, 3-29	Property, plant, and equipment: depreciation, depletion, and impairment	Read Chapter 11, omit appendix. Self-test: BE 1-3, 5, 7, 8-10, E1-3, 5, 9, 12, 18, 21, 24	P10-3,5,6,9,11,C10-5, 6.
Wednesday, 3-31			
Monday, 4-5	Intangible assets	Read Chapter 12, including the appendix. Self-test: BE 1, 2, 4-7, 10, 12, 13, E1, 3, 4, 8, 10, 14, 16, 19	P11-2, 4, 8, C11-3, Financial Statement Analysis Case, International Reporting Case.
Wednesday, 4-7	Financial instruments: equity and debt securities	Read Chapter 17 (omit appendix). Self-test: BE 1, 2, 5, 6, 7, 8, 9, E 1-4, 9, 10, 13, 16	P12-1, 3, C12-2, 3 International Reporting Case
Monday, 4-12			
Wednesday, 4-14	Current liabilities and contingencies	Read Chapter 13, including appendix. Self-test BE 1-16, E 2, 4-8, 11, 13, 15, 19, 22	P17-1, 6, 7, 10, 11, 12, C17-1, Financial Statement Analysis Case

Date	Topic	Stuff to do <i>Before</i> Class on this Date	Recommended Homework
Monday, 4-19	***** Holiday - Patriot's Day *****		
Wednesday, 4-21	Revenue recognition	Read Chapter 18, incl. Appendix. Self-test: BE 1, 2, 4, 7, 10-12, E 1, 2, 4, 8, 11, 13, 15, 19	P13-2, 5, 6, 8, 12, 13, C13-5, 6
Thursday, 4-22	Exam II: Chapters 9-13, 18	Study like mad!!!!	
Monday, 4-26	Revenue recognition, continued		P18-1, 5, 9, C18-2, 5, Financial Reporting Problem
Wednesday, 4-28	The income statement	Read Chapter 4. Self-test: BE 2-4, 6- 10, 11, E 1-4, 8, 9, 12, 14-16	
Monday, 5-3			Writing assignment #2 due.
Wednesday, 5-5	The balance sheet and statement of cash flows	Read Chapter 5, including appendix. Self-test: BE 1, 3-10, 12, E 3, 5, 8, 9, 14, 18	
Monday, 5-10			P4-2, 3, 4, 7, C4-4, 5
Wednesday, 5-12	Reading financial statements		P5-1, 5, 7, C5-4, Financial statement analysis Case 2