

## **Financial Accounting and Reporting**

**Ilan Guttman**

In general terms, financial accounting is the measurement of economic activity for decision-making. Financial statements are a key product of this measurement process and an important component of firms' financial reporting activities.

The objective of this course is not to train you to become an accountant, but rather to help you develop into an informed user of financial statement information. While financial statement users face a wide variety of decisions, they are often interested in understanding the implications of financial statement information for the future cash flows and earnings potential of a firm. We will focus on understanding the mapping between underlying economic events and financial statements, and on understanding how this mapping affects inferences about future profitability. Because annual reports are somewhat formidable, we will spend time familiarizing ourselves with how firms present the information for various accounts in the financial statements, including the footnotes. We also will discuss the role of the various institutions involved in the reporting process. By understanding the environment in which financial reporting takes place you will be in a better position to evaluate critically the disclosures made by firms in published financial statements.

Several features of the course are used to facilitate these learning objectives. The textbook provides a conceptual foundation for the course by introducing the accounting framework and by characterizing accounting principles and alternative methods. Class time will be allocated to a combination of short lectures and discussions of the assigned materials. The assigned cases serve as a basis for class discussion and provide a challenging test of your understanding of the topic. They are based on corporate financial statements and illustrate the issues associated with various accounting methods and the manner in which the related information is disclosed. In addition, the assigned cases demonstrate the “real life” magnitude of income and balance sheet differences under alternative accounting methods, as well as a variety of financial reporting discretion practices.

### **Organizational Matters**

#### Textbook:

Hanlon M., R. Magee, and G. Pfeiffer, *Financial Accounting*, 7<sup>th</sup> Edition, Cambridge Business Publishers, 2023 (eBook or printed textbook).

Given the high cost of textbooks, you can use older editions of the textbook, however, there might be some minor differences in the assigned reading). For most classes there will be assigned reading from the textbook.

## Grading:

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty has adopted a grading guideline for core courses in which up to 35% of students can receive an “A” or “A-“ grade.

Final grades will be determined as follows:

Homework Assignments	15%
Midterm exam	30%
Final exam	45%
Classroom Performance	10%

## Exams:

The exams will be closed book and closed notes.

Although the final exam is cumulative, it will focus on materials covered after the midterm exam.

## Classroom performance:

Classroom performance comprises participation in class discussions, preparation for class, and attendance during class. I view class discussion as an integral part of the learning experience of the course. Your class participation grade will be based on contribution to class discussion, not based on the amount of time you talk. I recognize that students with different backgrounds will contribute differently to class discussion. Contributions can take many forms, including, but not limited to, insightful comments and thoughtful questions.

Meaningful class participation requires adequate preparation of the assignments for each class. In the rare instance that an emergency precludes you from preparing adequately for a particular class, you should notify me before the class begins. Attendance is expected for all sessions. However, if for some reason you will miss class or will be late for class, send me an email before class. Tardiness, entering or leaving during class, and/or lack of attendance will have a negative effect on your classroom performance grade.

## Homework Assignments:

Homework assignments will be posted on NYU LMS (Brightspace).

Homework assignments need to be submitted on Brightspace, before the beginning of class. Your write-up of homework should be concise and computer generated. The assignments will be graded based mostly on effort displayed. You are allowed to discuss the homework assignments and prepare the write-ups in groups of no more than three students. By having your name on a submitted assignment, you confirm that you contributed to the homework assignment.

Please make sure to have a copy of your homework during class for the case discussion.

Electronic devices and class notes:

Electronic devices can be used during class only for class related activities.

Experience and research have shown that use of electronic devices during class significantly disrupts learning, both for the students using the device and for others in the class. As such, please do not browse the web, go over emails or do any other non-class related activities on your electronic devices during class.

Course Website:

All course material will be posted on NYU LMS (Brightspace). Prior to each class, I will post the handouts for the class. After each class I will post my slides from class. The homework assignment and templates for some of the assigned cases will also be posted on Brightspace.

Office Hour:

Wednesday 11am-12pm, KMC 10-92.

Teaching Assistants:

You are welcome to attend the office hour of any of the two TAs. With grading related questions, please contact the TF assigned to your section.

Location of TFs' office hours - KMC 10-67

Section 2 – Qishen Fu ([qf2071@stern.nyu.edu](mailto:qf2071@stern.nyu.edu)), Tuesday 4:30-5:30pm

Section 4 – Jessie Guo ( [jg6180@stern.nyu.edu](mailto:jg6180@stern.nyu.edu)), Thursday 11:30-12:30pm

Section 6 – Mallory Leiding ( [cml7827@stern.nyu.edu](mailto:cml7827@stern.nyu.edu)), Monday 12-1pm

### Course Overview (Subject to changes)

Session	Date	Topic	Homework
1	Sep 4	Introduction to Course and Financial Reporting	
2	Sep 11	Fundamentals of Financial Statements Statement of Cash Flows – Direct Method	Hewlett Packard
3	Sep 18	From Economic Transactions to Financial Statements	Radiation Shields -Part 1
4	Sep 25	Financial Statements as a Management Planning Tool Revenue and Expense Recognition	Hanson Ski Products
	Oct 2	No Class (Jewish Holiday)	
5	Oct 9	Revenue and Expense Recognition Integrating Financial Statements	Radiation Shields -Part 2
6	Oct 16	Midterm	
7	Oct 23	Statement of Cash Flows – Indirect Method Accounts Receivable	Read - Statements of Cash Flows: Three Examples (do not hand in)
8	Oct 30	Statement of Cash Flows – Indirect Method Accounts Receivable	Radiation Shields -Part 3
9	Nov 6	Accounts Receivable Fixed Assets	Accounts Receivable Homework -TBD
10	Nov 13	Fixed Assets Intangible Assets Shareholders' Equity	Depreciation at Deutsche Lufthansa
11	Nov 20	Intangible Assets Shareholders' Equity Overview - Accounting for Inventories and Liabilities	BMC Software Inc.
	Nov 27	No Class (Thanksgiving break)	
12	Dec 4	Shareholders' Equity Financial Securities and Fair Value Accounting	Dell Computer
	Dec 13	Final Exam - 1:00 - 4:15pm, KMC 2-60	

## **Readings and Assignments (Subject to Change)**

(Corresponding reading assignments for 6th and 5th edition of the textbook)

**1: Sep 4**  
**Introduction to Course and Financial Reporting**

*Reading*

Chapter 1, Chapter 2 (6th and 5<sup>th</sup> edition Chapters 1 and 2)

**2: Sep 11**

**2.A Fundamentals of Financial Statements**

*Reading*

Chapter 3 (pp. 1-18, skim pp. 18-29) (6<sup>th</sup> and 5<sup>th</sup> edition pp. 100-116, skim pp. 116-126)

*Assignment*

Hewlett Packard

**2.B Statement of Cash Flows – Direct Method**

*Reading*

Chapter 4 (pp. 1–7) (6<sup>th</sup> and 5<sup>th</sup> edition pp. 156-163)

**3: Sep 18**

**From Economic Transactions to Financial Statements**

*Assignment*

Radiation Shields Inc. - Part 1

**4: Sep 25**

**4.A F/S as a Management Planning Tool**

*Assignment*

Hanson Ski Products

**NOTE:** Don't be intimidated by the sea of numbers. Most of the numbers you need to construct the balance sheets are directly given in the case. You don't need to forecast future sales, develop a schedule for collections, or re-calculate interest expense, etc. All of this has been (implicitly) done for you in the projected balance sheets, income numbers, etc. There are only a few numbers you actually need to derive.

An Excel spreadsheet with a useful format for completing the assignment is included with the case and is also available on the course web site.

#### **4.B Revenue and Expense Recognition**

*Reading*

Chapter 6 (pp. 1–11) (6th edition pp. 270-280, 5th edition - 272-278)

Chapter 7 (pp. 3–4) (6th edition pp. 328-329, 5<sup>th</sup> edition - 328-329)

#### **Oct 2 – No Class (Jewish Holiday)**

**5: Oct 9**

#### **5.A Revenue and Expense Recognition**

#### **5.B Integrating Financial Statements**

*Assignment*

Radiation Shields Part 2

**6: Oct 16 – Midterm Exam (During regular class time)**

**7: Oct 23**

#### **7.A Statement of Cash Flows – Indirect Method**

*Reading*

Chapter 4 (from page 7) (6th edition from page 162, 5<sup>th</sup> edition from page 163)

*Assignment*

Read - Statements of Cash Flows: Three Examples (do not hand in)

#### **7.B Accounts Receivable**

*Reading*

Chapter 6 (pp. 14–21) (6th edition pp. 283-291, 5<sup>th</sup> edition – 281-294)

**8: Oct 30**

**8.A Statement of Cash Flows – Indirect Method**

*Assignment*

Radiation Shields Part 3

**8.B Accounts Receivable**

**9: Nov 6**

**9.A Accounts Receivable**

*Assignment*

Accounts Receivable Homework -TBD

**9.B Fixed Assets**

*Reading*

Chapter 8 (pp. 1–16) (6th edition pp. 372-387, 5<sup>th</sup> edition – 374-387)

*Assignment*

Depreciation at Deutsche Lufthansa AG

**10: Nov 13**

**10.A Fixed Assets**

*Reading*

Chapter 8 (pp. 1–16) (6th edition pp. 372-387, 5<sup>th</sup> edition – 374-387)

*Assignment*

Depreciation at Deutsche Lufthansa AG

**10.B Intangible Assets**

*Reading*

Chapter 8 (pp. 17-23) (6th and 5<sup>th</sup> edition pp. 388-394)

**10.C Shareholders' Equity**

*Reading*

Chapter 11 (pp. 1-17) (6th edition pp. 528-544, 5<sup>th</sup> edition - 516-535)

**11: Nov 20**

**11.A Intangible Assets**

*Assignment*

BMC Software, Inc.

**11.B Shareholders' Equity**

**11.C Overview of Accounting for Inventories and Liabilities (If time allows)**

*Reading*

Chapter 7 (pp. 1–19) (6th edition pp. 326-344, 5<sup>th</sup> edition – 329-344)

Chapter 9 (pp. 1-13) (6th edition pp. 412-423, 5<sup>th</sup> edition – 414-421)

**Nov 27 – No Class (Jewish Holiday)**

**12: Dec 4**

**12.A Shareholders' Equity**

*Assignment*

Dell Computer

**12.B Financial Securities and Fair Value Accounting**

**Dec 13 - Final Exam, Final Exam - 1:00 - 4:15pm, KMC 2-60**