

**The Peter F. Drucker and Masatoshi Ito Graduate School of Management
Claremont Graduate University**

**Management 326 Financial Accounting
Tuesday 9 – 12 AM Fall 2007
(Syllabus subject to change)**

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Fall 2007
Office Hours:
Tuesday: 12:00 a.m.-1:00 p.m. and by appointment
TA: TBA

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Course Overview and Learning Objectives:

Management 326 is a one semester survey of Financial Accounting. Because of the breadth of this course, it is not reasonable to expect a student to master the subject matter. Instead, the goal of the course is to gain an appreciation and understanding of the topics covered.

Accounting is frequently referred to as the “language of business,” and thus, is an essential tool for all managers who strive to be effective communicators. There are two pedagogical approaches to the study of Accounting. The “traditional” approach takes the perspective of the accounting data preparer and emphasizes the proper recording of business transactions. This approach focuses on the use of debits and credits, T-accounts, journal entries, worksheets, and the like. A second pedagogical approach, which is utilized in Management 326, involves the study of Accounting from the perspective of the data user (e.g., an investor, manager, or lender). This does not mean that the technical aspects of Accounting will be ignored, but rather that they will not be the central focus of learning; and instead, the educational goal of Management 326 is for the student to become a competent user of Accounting information. Thus, much of our time in Management 326 will be spent on learning how to interpret, understand, and use the basic financial statements. As part of this learning process, we will investigate the various rules utilized in the preparation of financial statements, the flexibility that exists in the application of these rules, the possible incentives that corporate managers face when selecting the various rules to apply, and the alternative outputs that result from these accounting policy choices.

By the time you complete this course, you should be able to:

- >Prepare financial statements from accounting events.
- >Use selected financial ratios to evaluate a company's financial performance.
- >Develop pro forma financial statements to evaluate a company's future earnings and cash flow.
- >Explain how retail, service and manufacturing companies recognize their operating revenues.
- >Explain how inventory is valued using FIFO, LIFO, and the Weighted-average cost method.
- >Explain how depreciation is calculated using the straight-line and declining-balance methods.

- >Understand the accounting for unconsolidated affiliate-companies, joint ventures, and special purpose entities.
- >Explain how bonds and notes are valued and reported in corporate financial statements.
- >Explain the difference between a commitment and a contingent liability.
- >Explain the accounting for share issuances, repurchases, stock splits and stock dividends.

Primary Text (required): *Financial Accounting for Executives*, by K.R. Ferris and J.S. Wallace, Cambridge Publications, Inc. (2007).

Financial Calculator: It is recommended (but not required) that students purchase a financial calculator having preprogrammed keys for the present value and future-value functions. Suggested models include the HP 10-BII and the TI BA-II Plus; but, any model with the programmed function keys will do.

Course Packet: A course packet containing case studies to be prepared for class will be distributed in class.

Assignments: The class schedule (attached) indicates those problems, exercises, or case studies which should be prepared for each class. Although the assignments will not be turned in for grading (unless specifically identified for submission), students are expected to complete all assignments prior to class. All assigned problems, exercises, and case studies will be discussed in class (see Method of Instruction). Students are encouraged to form study groups and to prepare any assignments as a group.

Method of Instruction: The method of instruction utilized in Management 326 is a blend of the lecture approach and the Socratic Method. Under the Socratic Method, much of the responsibility for learning is transferred to the student because the student is often called upon to take, and defend, a position relative to the issues being studied. Thus, significant preparation and active participation by the student is expected. In recognition of the importance attached to this component of the class, student participation is assigned a significant weighting in the calculation of final course grades (see Grading and Academic Honesty). Students are requested to submit a daily self-evaluation of their class participation at the conclusion of each class.

Attendance: It is a school policy that attendance is mandatory. All absences must be approved and more than two absences will result in a failing grade for the course.

Grading and Academic Honesty: Final course grading will be determined as follows:

Class participation	20%
Midterm	30%
Final exam	30%
Financial statement project	10%
Pro forma project	10%
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	100%

Students are encouraged to form study groups to assist in the preparation of assignments for class. Further, students may work in teams of two to complete the financial statement

project (Island Teriyaki) and the pro forma project (Johnson and Johnson). The midterm and final examinations, however, are individual activities, and students may neither give nor receive assistance in the completion of either the midterm or the final exam. Any evidence of academic dishonesty on either the midterm or final exam will result in a failing grade on the exam.

Class Participation: Students are expected to be prepared to actively participate in all class and case discussions. Further, students are expected to submit a daily self-evaluation of their class participation at the conclusion of each class. Participation evaluation forms will be available at the start of each class session. To assist in the self-evaluation of class participation, the following schema provides some guidelines to help you evaluate both the quantity and quality of your participation:

Excellent Performance: A

- initiates information relative to topics discussed
- accurately exhibits knowledge of assignment content
- raises questions that need to be explored further

Good Performance: B

- regularly participates in discussion
- consistently demonstrates knowledge of reading assignments
- demonstrates ability to analyze / apply course material

Fair Performance: C

- participates in group discussions when solicited
- demonstrates some knowledge of course material

Poor Performance: D

- occasional input, often irrelevant, unrelated to topic or fails to participate, even when specifically asked

**MGT 326
Course Outline
Fall 2007**

Session/ Date	Topic(s)	Readings	Preparation
Sept. 4	<ul style="list-style-type: none"> • Introduction & course overview • Accounting: The Language of Business- Key Concepts and Terminology • The Basic Financial Statements 	<ul style="list-style-type: none"> • F&W: Ch 1 	E1.22,E1.25

Sept. 11	<ul style="list-style-type: none"> • Key Assumptions followed in the Preparation of Financial Statements • From Business Events to Financial Statements-Introduction 	• F&W: Ch 2	E2.2,E2.8,P2.2
Sept. 18	<ul style="list-style-type: none"> • From Business Events to Financial Statements 	• F&W: Ch 2	Prepare solutions to questions 1 & 2 of P2.13. Q2.10,Q2.11
Sept. 25	<ul style="list-style-type: none"> • Extracting Cash Flow data from Income Statements and Balance Sheets--the Indirect Method 	• F&W: Ch 3	P3.25, P3.26 (Do P3.26 first!)
Oct. 2	<ul style="list-style-type: none"> • Financial Statement Analysis • Johnson & Johnson 2006 Annual Report (The J&J financial report can be accessed at www.jnj.com. Click on "Investor Relations" and "Annual Reports") • Financial Statement Project Due (see Page 5 of your syllabus for details) 	• F&W: Ch 4	<p>Calculate the following ratios for J&J for 2005 and 2006:</p> <ul style="list-style-type: none"> ○ Return on equity ○ Return on assets(define as NI divided by total assets) ○ Return on sales ○ Financial leverage ○ Total asset turnover ○ Common-size income statements ○ Accounts receivable turnover ○ Inventory turnover ○ Fixed asset turnover ○ Quick ratio ○ Total debt-to-total assets ratio ○ Interest coverage ratio <p>Benchmark J&J's performance on ROE, ROA, and ROS against the following competitors: Merck (MRK), Novartis (NVS), and Proctor & Gamble (PG)</p>
Oct. 9	<ul style="list-style-type: none"> • Integrative Case Study: <i>Molokai Gas, Inc.</i>, Pulling it All Together! 		Prepare questions (a) and (b) of the Molokai Gas, Inc. case study Using your results from (a) and (b), prepare a complete ratio analysis (see the list of ratios for J&J) for Molokai Gas
Oct. 16	Midterm examination (covers Chapters 1-4 in F&W)		

Oct. 23	<ul style="list-style-type: none"> • Current Assets: <ul style="list-style-type: none"> ○ Cash & cash equivalents ○ Accounts receivable ○ Marketable securities ○ Inventories (and the cost of goods sold) 	• F&W: Ch 5 & 6	E5.17, E6.13 (perpetual method only), E6.14 (perpetual method only)
Oct. 30	<ul style="list-style-type: none"> • Non-current Assets <ul style="list-style-type: none"> ○ Property, plant & equipment ○ Intangible assets ○ Natural resources Shareholders' Equity 	• F&W: Ch 7	E7.17,E7.24
Nov. 6	<ul style="list-style-type: none"> • Long-term Investments <ul style="list-style-type: none"> ○ The Equity Method • Consolidated Reporting 	• F&W: Chap 8	E8.26,P8.38
Nov. 13	<ul style="list-style-type: none"> • Debt and the time value of money 	• F&W: Ch 9	P9.27,P9.28
	<ul style="list-style-type: none"> • Off-balance sheet debt: Operating Leases 		P9.33
Nov. 20	<ul style="list-style-type: none"> • Debt Valuation & Reporting: Deferred Income Taxes, Retirement Obligations, Commitments & Contingent Liabilities 	• F&W: Ch 10	Q10.1 Review the footnotes of Johnson & Johnson to determine if the company's retirement obligations are fully funded (or not).
	<ul style="list-style-type: none"> • Cash flows revisited 		P12.24
Nov. 27	<ul style="list-style-type: none"> • Integrative Case Study: Home Store, Inc. 		Address the following questions for Home Store, Inc. 1. What is your assessment of the company's recent financial performance? 2. How has the company financed its growth in the past 3. Does this company have any problems? How can they be fixed? 4. How much cash will the company need in 2004 if sales grow 20% as planned?
Dec. 4	<ul style="list-style-type: none"> • Review & wrap-up • J&J Pro forma 		No assignment

**financial statement
project due**

Dec. 10/11 **Final examination** (covers Chapters 5-11 in F&W)

Financial Statement Project: Island Teriyaki:

Using the year-end financial statements for 2003 developed in class for P 2.13 as your starting point, prepare the year-end 2004 financial statements (i.e., income statement, balance sheet, and statement of cash flows) for Island Teriyaki (i.e., Question 3 in the case) to turn in for grading purposes. You may work with one other student on this project (i.e., teams of two students are permitted). This project is due on October 2, 2007.

Pro Forma Project: The Johnson and Johnson (J&J)

Using the J&J annual report for 2006, and the financial analysis of J&J conducted in class, develop a set of pro forma financial statements (i.e., income statement, balance sheet, and statement of cash flows) for 2007, 2008, and 2009 using EXCEL. As a starting point, you will want to review an analyst's report for J&J available on the World Wide Web. You may use the report to obtain an estimate of J&J's expected growth in revenues; all other assumptions remain your responsibility. You may work with one other classmate on this project (i.e., teams of two are permitted). Along with your pro forma financial statements for 2007 to 2009, you are requested to submit (a) a copy of your EXCEL formulas, and (b) a list of the key assumptions that you made to arrive at your pro forma statements. Assumptions are needed for all line items on the income statement (except revenues) and on the balance sheet. (Note: You can display your EXCEL formulas using the following keystroke: CTRL+~ (both keys must be held simultaneously)). This project is due on December 4, 2007.