Accountancy 493D – Financial Reporting
Fall 2002

Instructor: Rajib Doogar     Office: 225 E David Kinley Hall
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Office hours: M W: 10:00-11:30 and by appointment.
Course Home Page:  www.cba.uiuc.edu/doogar/Accy493/493.htm

TA: Keejae Hong       Office: 235 S Armory
Phone: 217.265.8198     E-mail: kphong@uiuc.edu
Office hours: Tuesday 3:00-5:00 and by appointment.

Class meeting times:  Section D1:   M W 8:00-9:50   431 Armory
                      Section MSA  M W 3:00-4:50   215 DKH

Text and readings:  Readings and Case Packet

Course Objectives:
This course examines financial reporting by business entities. Accounting reports are useful for (among other things) determining how stakeholders share in the economic surplus generated by a firm and as part of a complex mosaic of information used in lending and investment decisions. Consequently, financial reports and accounting policy choices are influenced by the economic self interests of managers and owners as well as key decision-makers’ need for reliable and relevant information. This course is organized around some recurrent themes of the craft: How are transactions to be classified? How should values be measured? How should they best be disclosed or communicated? We use these questions to better understand the basics of US GAAP for some important classes of transactions and for key elements of the financial statements.

Expectations
I expect you to prepare the assigned readings for the day and to work through the homework problems before you come to class. If the assigned reading is a case, you should read the case several times and do any preliminary calculations that you think may be informative. No late work will be accepted under any circumstances. No make-up work will be assigned.

My goal is to help you learn! Please e-mail me as soon as you detect a problem with your progress.

Grading

<table>
<thead>
<tr>
<th>Item</th>
<th>Points</th>
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<tbody>
<tr>
<td>Homework &amp; Quizzes (10 out of 12 @ 10 points each)</td>
<td>100</td>
</tr>
<tr>
<td>Class participation</td>
<td>50</td>
</tr>
<tr>
<td>Midterm Exams (2 @ 125 points each)</td>
<td>250</td>
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<tr>
<td>Presentation and Final Project</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
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Your final grade will be based on the sum of the points earned on these components applied to a final grade scale.
Homework & Quizzes
There will be random quizzes and homework exercises assigned in class. All homework must be turned in on the date/time announced. Missing class is not an acceptable excuse for not turning in homework on time. There will be more than ten opportunities to turn in homework/quizzes, but only the ten best scores will count. Bring two copies of homework solutions to class: you will be asked to turn in one copy at the beginning of class. The other copy will be very useful to you during the class discussion.

Class Participation
Class participation points are awarded based on some combination of
1) preparedness with facts and numbers,
2) ability to make or ask pertinent comments/questions,
3) your impact on other people’s thinking, and,
4) my subjective assessment of your overall contribution to the learning environment over the course of the semester.

Two things to note about my class. First, merely showing up for class earns zero credit. Second, lack of preparedness is an unforgivable sin in an accounting professional and I hold every student to a very high standard of preparedness. It is your professional obligation to thoroughly prepare the material for each day before coming to class.

Midterm Exams
These are two in-class, closed book, closed notes exam with no text-storing calculators allowed. The first exam will cover material from days 1-9, the second exam, days 11-21. No makeup exams will be given. If you cannot take one of the mid-terms for reasons I do not approve of, you will be assigned a score of zero for the exam.

Group work: Presentations and Reports
Teams of up to four students will analyze and prepare a 10-15 page report on a pre-assigned case and present and defend their analysis in class.

Other
My policy is to address issues before they become problems. Consequently I encourage students to provide me with feedback about all aspects of the course and my interactions with you. **It is best to contact me by e-mail.** However you are welcome to stop by during office hours or by appointment as well.
<table>
<thead>
<tr>
<th>Class Meeting</th>
<th>Readings</th>
<th>Assignments</th>
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<tbody>
<tr>
<td>Day 2: Wed 9/4</td>
<td>Strategic Aspects of Financial Reporting: The Role of Asymmetric Information</td>
<td>Read material and case</td>
</tr>
<tr>
<td>Day 3: Mon 9/9</td>
<td>Choice of Organizational Form and Implications for Accounting</td>
<td>TBA</td>
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<tr>
<td>Day 4: Wed 9/11</td>
<td>Globalization and Choice of Organizational Scope &amp; Location</td>
<td>TBA</td>
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<tr>
<td>Day 5: Mon 9/16</td>
<td>Strategic Investments: Alliances and Equity Investments</td>
<td>TBA</td>
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<tr>
<td>Day 6: Wed 9/18</td>
<td>Mergers and Acquisitions: Economic and Strategic Considerations</td>
<td>TBA</td>
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<td>Day 7: Mon 9/23</td>
<td>Mergers and Acquisitions: Accounting for Business Combinations I</td>
<td>TBA</td>
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<tr>
<td>Day 8: Wed 9/25</td>
<td>Mergers and Acquisitions: Accounting for Business Combinations II</td>
<td>TBA</td>
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<tr>
<td>Day 9: Mon 9/30</td>
<td>Topics in Reporting: Foreign Currency Translations and Segmental Reporting</td>
<td>TBA</td>
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<tr>
<td>Day 10: Wed 10/2</td>
<td>Reorganization: Divestiture, Restructuring and Bankruptcy</td>
<td>TBA</td>
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<td>Day 11: Mon 10/7</td>
<td>Review</td>
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<td>Day 12: Wed 10/9</td>
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<td>Day 13: Mon 10/14</td>
<td>Financing: Capital Structure Theory and Practice</td>
<td>TBA</td>
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<td>Day 14: Wed 10/16</td>
<td>Debt &amp; Convertibles</td>
<td>TBA</td>
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<td>Day 15: Mon 10/21</td>
<td>Equity: Common, Preferred, Convertible &amp; EPS</td>
<td>TBA</td>
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<td>Day 16: Wed 10/23</td>
<td>Repurchases &amp; Dividends</td>
<td>TBA</td>
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<td>Day 17: Mon 10/28</td>
<td>Compensation</td>
<td>TBA</td>
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<td>Day 18: Wed 10/30</td>
<td>Compensation continued</td>
<td>TBA</td>
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<td>Day 19: Mon 11/4</td>
<td>Leases</td>
<td>TBA</td>
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<td>Day 20: Wed 11/6</td>
<td>Pensions</td>
<td>TBA</td>
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<tr>
<td>Day 21: Mon 11/11</td>
<td>Pensions continued</td>
<td>TBA</td>
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<td>Day 23: Mon 11/18</td>
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<tr>
<td>Day 25: Mon 12/2</td>
<td>Presentations II Final Project</td>
<td>Reports Due</td>
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<tr>
<td>Day 26: Wed 12/4</td>
<td>Presentations II Final Project</td>
<td>Reports Due</td>
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<tr>
<td>Day 27: Mon 12/9</td>
<td>Presentations II Final Project</td>
<td>Reports Due</td>
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<tr>
<td>Day 28: Wed 12/11</td>
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<td>TBA</td>
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Tentative Class Schedule and Readings List*

* Changes in content and/or scheduling may be made as the course progresses. These changes will be announced in class or communicated via e-mail. You are responsible for making yourself aware of these changes.

Note: RC indicates that the reading appears in the “Readings and Cases” readings packet.

Module 1: Introduction and Overview

Day 1 Course Introduction: Financial Reporting Fundamentals

HBS 9-100-010 Perspective, Institutions and Basic Issues [RC #1]
HBS 9-195-160 Financial Reporting Fundamentals [RC #3]

Day 2 Strategic Aspects of Financial Reporting: The Role of Asymmetric Information

HBS 9-190-188 Financial Reporting Strategy and Analysis under Asymmetric Info [RC #4]
HBS 9-193-045 Diversity in Accounting Principles: a Problem, a Strategic Imperative or a Strategic Opportunity? [RC #5]
HBS 9-101-072 Accounting for the Intel Pentium Chip Flaw. [RC #6]

Module 2: Organizational Form and Scope

Day 3 Choice of Organizational Form

“Corporate Form of Organization” Nikolai and Bazley, Intermediate Accounting, pp. 642-7. [RC #7]
“Partnerships: Characteristics, Formation and Accounting for Activities” Fischer et. al., Advanced Accounting, Ch. 14 pp. 1-16, 28-35. [RC #8]

Day 4 Globalization and the Scale and Scope of Organization

HBS 9-194-055 Measuring Foreign Activites [RC #9]
“Foreign Currency Transactions”, Fischer et. al., Advanced Accounting, Ch 10 pp.1-33 [RC #10]

Day 5 Strategic Alliances and Equity Investments

“Strategic Alliances: Teaming and Allying for Advantage” Pitts and Lei, Strategic Management, pp. 264-93. [RC #11]
“Equity Method for Unconsolidated Investments” Fischer et. al., Advanced Accounting, Ch. 6 pp. 23-31, 44-46. [RC #13]
Day 6 Introduction to Mergers and Acquisitions
“Business Combinations: America’s Most Popular Business Activity, Accounting’s Biggest Controversy” Fischer et al., Advanced Accounting, Ch. 1 pp. 1-39 [RC #14]

Day 7/8 Mergers and Acquisitions: The details
“Consolidated Statements: Date of Acquisition” Fischer et al., Advanced Accounting, Ch. 2 pp. 1-51. [RC #18]
“Consolidated Statements: Subsequent to Acquisition” Fischer et al. Advanced Accounting, Ch. 3 pp. 1-26, 34-53 and 59-66. [RC #19]
Optional Readings

Day 9 Topics in Reporting
“Translation of Foreign Financial Statements” Fischer et al., Advanced Accounting, Ch. 11 pp. 1-22, 38-41 and 45-54. [RC #21]
“Disclosures About Segments of an Enterprise” Fischer et al., Advanced Accounting, Ch. 12 p. 1-32. [RC #22]
Optional Reading

Day 10 Reorganization: Divestiture, Restructuring and Bankruptcy
“Control, Governance and Financial Architecture” Brealy and Myers Principles of Corporate Finance, Ch. 34, pp. 963-986 [RC#23]
“Debt Restructuring, Corporate Reorganizations, and Liquidations” Fischer et. al. Advanced Accounting, Ch. 21 pp. 1-24. [RC #24]
HBS 9-196-135 Restructuring in the 1990s [RC #25]

Day 11 Midterm I Review

Day 12 Midterm I Exam
Module 3: Financing Business Activities

Day 13 Capital Structure
“An Overview of Corporate Financing” Brealy and Myers, Principles of Corporate Finance, Ch 14 pp. 377-395. [RC#27]
“Does Debt Policy Matter?” Brealy and Myers, Principles of Corporate Finance, Ch 17 pp. 465-483. [RC#28]
“How Much Should a Firm Borrow?” Brealy and Myers, Principles of Corporate Finance, Ch 18 pp. 489-515. [RC#29]

Day 14 Debt & Convertibles
“Using Present Value Formulas to Value Bonds” Brealy and Myers, Principles of Corporate Finance, Ch 5 pp. 47-49. [RC#30]
“Valuing Debt” Brealy and Myers, Principles of Corporate Finance, Ch 24 pp. 667-678. [RC #31]
“Warrants and Convertibles” Brealy and Myers, Principles of Corporate Finance, Ch 23 pp. 643-657. [RC #32]
“Long-term Liabilities” Nikolai and Bazley, Intermediate Accounting, pp. 529-48. [RC #33]
Optional Reading

Day 15 Equity [W Mar. 6]
“Common Stock: Characteristics, Valuation, and Issuance” Moyer et. al., Contemporary Financial Management, pp. 239-61. [RC #34]
“Preferred Stock” Moyer et. al., Contemporary Financial Management, pp. 223-26. [RC #35]
“Issuance of Capital Stock” Nikolai and Bazley, Intermediate Accounting, Ch 15 pp. 648-53. [RC #37]
“Preferred Stock Characteristics” Nikolai and Bazley, Intermediate Accounting, Ch 15 pp. 666-73. [RC #38]
“Earnings per Share” Nikolai and Bazley, Intermediate Accounting, Ch. 16, pp. 698-710. [RC #39]

Day 16 Stock Repurchases and Dividends
“The Dividend Controversy” Brealy and Myers, Principles of Corporate Finance, Ch 16 pp. 433-455. [RC #40]
“Treasury Stock” Nikolai and Bazley, Intermediate Accounting, pp. 673-80. [RC #41]
“Dividends” Nikolai and Bazley, Intermediate Accounting, pp. 711-20. [RC #42]
“Speaking of Dividends: Dividends vs. Buybacks” Lazo, Barron’s, September 6, 1999: 39. [RC #43]
Optional Reading
Module 4: Compensation & Pensions

Day 17/18 Performance Evaluation and Employee Compensation
“Options” Moyer et. al., Contemporary Financial Management, pp. 679-93. [RC #46]
HBS 9-102-039 Accounting for Employee Stock Options [RC #48]
HBS 9-100-031 The Boeing Company’s Accounting for Executive Stock Compensation [RC #49]
Trends in Compensation: WSJ Quarterly Review

Day 19 Financing with Leases [W Apr. 10, M Apr. 15]
“Lease Financing” Moyer et. al., Contemporary Financial Management, pp. 659-671. [RC #44].
HBS 9-100-003 Lease Accounting and Analysis [RC #45]
Optional Reading

Day 20/21 Post-employment Benefits
“Accounting for Postemployment Benefits” Nikolai and Bazley, Intermediate Accounting, pp. 878-924. [RC #51]

Day 22 Midterm II Review

Day 23 Midterm II Exam

Day 24 Quality of Earnings, Earnings Management
HBS 9-178-126 Quality of Earnings [RC #53]
HBS 9-101-091 GE 2000 Quality of Earnings [RC #54]
HBS 9-391-011 Making Effective Business Presentations [RC #55]
Levitt <See course website>
Schipper <See course website>
Bush <See course website>
GE coverage <See course website>