



MGV 400Av: FINANCIAL ACCOUNTING

Course Objective

To make you informed users of financial information prepared under U.S. “generally accepted accounting principles” (GAAP). GAAP defines the set of accounting method and disclosure practices from which firms select when providing information to external parties, such as investors, financial analysts, lenders, and regulators. The Financial Accounting Standard Board (FASB), a private sector regulatory authority, sets GAAP. The primary emphasis of this course is to assist you in developing basic skills required to interpret, analyze, and evaluate information reported in GAAP financial statements.

Textbook

Hanlon, M. L., Magee, R. P., Pfeiffer, G. L., & Dyckman, T. R. (2020). *Financial Accounting* (6th ed.). Westmont, IL: Cambridge Business Publishers.
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Course Assessments

Course grades will be based on the following components (details on each component are provided below):

a) Asynchronous Response Completion	10%
b) Live Session Preparation	10%
c) Live Session Attendance (attend 9/10 for full credit)	10%
c) Quizzes (9 quizzes, equally weighted)	60%
d) Final Quiz (end of Week 10)	10%

All deliverables should submitted via the LMS.

Course Letter Grade

The minimum letter grade is based on percentage of points earned and corresponds to the following scale:

A+ 98–100%	B+ 87–89%	C+ 77–79%	D 60–69%
A 93–97%	B 83–86%	C 73–76%	F 0–59%
A- 90–92%	B- 80–82%	C- 70–72%	

If needed, grades will be curved such that *at least* 45% of students in the combined sections in the quarter earn an A- or better and *at least* 70% earn a B+ or better.

a) Exercises and questions in asynchronous course sessions

Completion of all exercises and questions in asynchronous course sessions. This work is graded as Pass/Fail per week: If a student completes the asynchronous session and all of the exercises and questions within that session for a given week, he/she will receive full credit for that week. Otherwise he/she will receive no credit for that week.

b) Live Session Preparation

Students are expected to complete and submit preassigned work at least ten minutes before the live session. Weekly deliverables should be submitted via the LMS under "Assessments", "Live Session Preparation". Late work will not be accepted, as solutions are reviewed in the live session. This work is graded based on effort and completeness.

c) Attendance of live sessions

Students are encouraged to attend all synchronous sessions. The attendance policy is in place to incentive students to attend class. Attending nine out of ten sessions results in full credit. In the event that you need to miss more than one session, please contact the live session instructor.

d) Quizzes (end of Weeks 1 through 9)

Each weekly quiz will be at a time of the student's choice, but must be completed by 11:59 pm on the Sunday following the end of that week's synchronous session. Students are encouraged to complete the quiz by Saturday evening, and consider Sunday as the grace period for unexpected events that may occur, as the quiz will close at 11:59 pm on Sunday. The first quiz is 50 minutes and quizzes 2-9 are each 60 minutes. All quizzes are closed book (with the exception of the formula sheet provided by the instructor on the LMS). Students will be permitted to use a calculator or excel. Each quiz will cover material covered in that week's asynchronous and synchronous sessions. Each quiz contains 10 questions. The format of the quiz is multiple choice and short answer. Students will be required to submit the calculations supporting their answers either on the last question of the quiz (as an upload) or by emailing the professor the file within 5 minutes of completing the quiz.

Students may not discuss the quiz material and may not share solution files with other students while the quiz is still open, and students may not discuss or share quiz material with students across quarters. These activities are in violation of the UC Davis Code of Academic Conduct. Violations for all parties involved will be reported to the Academic Director of the MBA program and the UC Davis Office of Judicial Affairs.

e) Final Exam (end of Week 10)

The final exam will be a financial analysis case. It will be provided at the close of the last section of the last class and is due by the following Tuesday at 11:59 pm. The case is open book, and students are permitted to collaborate with other students in the course. However, each student create and turn in their own solution file (e.g., students may not share their excel files, each student should create their own).

Academic Honesty

The GSM takes academic honesty very seriously and vigorously enforces university policy related to infractions. Click on the link to review the UC Davis Code of Academic Conduct: [Code's web page](#). Receiving and/or sharing of materials or information about materials (e.g., quizzes, exams, assignment solutions) with other students, whether past or present, is a violation of academic honesty. Accessing solution manuals is also a violation of academic honesty.

Expectations for Live Session Behavior

- It is expected that all class members will treat each other with respect and dignity.
- It is unacceptable behavior to insult, harass, or demean any member of the class.
- Professional business behavior should be modeled in the classroom, including use of appropriate language, jokes, or stories.

In general, students should adhere to the [UC Davis Principles of Community](#), copied below.

The University of California, Davis, is first and foremost an institution of learning and teaching, committed to serving the needs of society. Our campus community reflects and is a part of a society comprising all races, creeds, and social circumstances. The successful conduct of the university's affairs requires that every member of the university community acknowledge and practice the following basic principles:

We affirm the inherent dignity in all of us, and we strive to maintain a climate of justice marked by respect for each other. We acknowledge that our society carries within it historical and deep-rooted misunderstandings and biases, and therefore we will endeavor to foster mutual understanding among the many parts of our whole.

We affirm the right of freedom of expression within our community and affirm our commitment to the highest standards of civility and decency toward all. We recognize the right of every individual to think and speak as dictated by personal belief, to express any idea, and to disagree with or counter another's point of view, limited only by university regulations governing time, place, and manner. We promote open expression of our individuality and our diversity within the bounds of courtesy, sensitivity, and respect.

We confront and reject all manifestations of discrimination, including those based on race, ethnicity, gender, age, disability, sexual orientation, religious or political beliefs, status within or outside the university, or any of the other differences among people that have been excuses for misunderstanding, dissension, or hatred. We recognize and cherish the richness contributed to our lives by our diversity. We take pride in our various achievements, and we celebrate our differences.

We recognize that each of us has an obligation to the community of which we have chosen to be a part. We will strive to build a true community of spirit and purpose based on mutual respect and caring.

Course Schedule

Important Notes

- In textbook readings, ignore any text references to journal entries, t-accounts, debits and credits. Journal entries, t-accounts, debits and credits will not be used in this course; instead, we will use the FSET to record transactions.
- Solutions to optional practice problems are provided in the files on the LMS.
- Assignments to be submitted one hour before synchronous sessions are due one hour before scheduled live session. Weekly deliverables should be submitted via the LMS under “Assessments”, “Asynchronous Response Completion”.
- Unless otherwise indicated, the practice problems and live session preparation assignment are provided in the textbook.

Week 1: Introduction

- Segments: Demand for Accounting Information; Business Activities; Financial Statements: Reporting Periods; The Balance Sheet; The Income Statement; The Statement of Stockholders' Equity; The Statement of Cash Flows; Financial Statement Linkages; Regulations; Ratios
- Asynchronous preparation: Read Chapter 1 and Appendix 1A
- Live Session Preparation Assignment: 1-29, 1-38, 1-42
- Optional practice problems (solutions provided): 1-37, 1-41, 1-44

Week 2: Financial Statements

- Segments: Assets; Liabilities; Equity; Recording Economic Transactions: The Balance Sheet; Jana Juice Part I, Reporting Financial Performance: The Income Statement; Recording Economic Transactions: The Income Statement; Jana Juice Part II
- Asynchronous preparation: Read Chapter 2 (exclude pages 62–70)
- Live Session Preparation Assignment: 2-62 Part A; extend 2-62 to prepare a balance sheet at June 30.
 - *Note: The balance sheet is prepared from the FSET. The various asset, liability and equity accounts are listed as separate columns in the FSET. The income statement is also prepared from the FSET. The right most numerical column (i.e., “Net Income”) shows the effect of the transactions on the income statement; use that, along with the adjoining description to prepare the statement.*
 - *Note on 2-62: After week 3, you should be able to do 2-62 Part B.*
- Optional practice problems (solutions provided): 2-26, 2-47, 2-57 Part A, 2-67 Parts A, B, and E.
 - *Note on 2-57 and 2-67: After week 3, you should be able to do 2-57 Part B and 2-67 Parts C and D.*

Week 3: Financial Statements, Continued

- Segments: Jana Juice Part II; Reporting on Equity; Jana Juice Part III; The Accounting Cycle; Jana Juice Part IV; Overview of the Adjusting Process; Adjusting Entries: Deferred (Unearned Revenue); Adjusting Entries: Deferred (Prepaid) Expenses
- Asynchronous preparation:
 - Reread Chapter 2, pages 60 to the top of 62
 - Read Chapter 3 (exclude pages 119 to the top of page 120 and pages 122–124)
- Live Session Preparation Assignment: 3-40 (see note below); 3-29 (see note below); 3-34 Parts A, B, and D (see notes below).
 - *Note on 3-40: Use the transactions listed in the book, but ignore “REQUIRED” in your book and replace with this:*
REQUIRED
 - a. *Record these transactions for April (1) using the financial statement effects template.*
 - b. *Prepare entries to adjust the books for these items using the FSET. Supplies still available on April 30 amount to \$400. Depreciation for April was \$125 on the truck and \$35 on equipment. One-fourth of the roofing fees received in advance was earned by April 30.*
 - c. *Prepare the Balance Sheet for April 30, 2019, and the Income Statement, and Statement of Stockholders’ Equity for the month ending April 30, 2019.*
 - *Note on 3-29: We don’t use t-accounts in our course. Thus, in place of the two t-accounts in the problem, use the following verbiage:*
 - *The balance in the Inventories account is as follows: December 31, 2016 is \$11,461 and December 31, 2017 is \$16,047.*
 - *The balance in the Accounts Payable account is as follows: December 31, 2016 is \$25,309 and December 31, 2017 is \$34,616.*
 - *Note on 3-34: We don’t use t-accounts in our course. Thus, in place of the two t-accounts in the problem, use the following verbiage:*
 - *The balances at January 31 are as follows in the following Balance Sheet accounts: Supplies \$800, Prepaid Insurance \$574, Wages Payable \$500, Truck \$8,700, and Accumulated Depreciation on Truck (\$2,610).*
 - *The following have been recorded for the Income Statement for the month ending January 31: Supplies Expense \$960, Insurance Expense \$82, and Wages Expense \$3,200.*
 - *Note on 3-34: After week 4, you should be able to do 3-34 Part C*
- Optional practice problems (solutions provided): 3-25 (see note below)

- *Note on 3-25: We don't use t-accounts in our course. Thus, in place of the two t-accounts in the problem, use the following verbiage:*
 - *The balance in the Inventories account is as follows: December 31, 2016 is \$13,849,931 and December 31, 2017 is \$18,486,423.*
 - *The balance in the Accounts Payable account is as follows: December 31, 2016 is \$15,210,743 and December 31, 2017 is \$22,535,802.*

Week 4: Financial Statements, Continued, and Revenue Recognition

- Segments: Adjusting Entries: Accrued Revenues; Adjusting Entries: Accrued Expenses; Financial Statements From the Adjusted Accounts; The Income Statement; Revenue Recognition; Contract Assets and Liabilities; Contract Liabilities
- Asynchronous preparation:
 - Reread Chapter 3, pages 110–128 (exclude bottom of page 122 to page 124)
 - Read Chapter 6, pages 270–283
- Live Session Preparation Assignment: Bubble Blasters Auto Spa (provided in syllabus), 6-41 Parts A, B and C; for Part B, use FSET
 - *Note on 6-41: typo – January 28, 2017 should be January 28, 2018.*
- Optional practice problems (solutions provided): 3-32 Part A, 3-35 Part A, 3-36, 6-15
 - *Note on 3-32: (3) “~~debit~~ increase to prepaid rent”, “~~credit~~ decrease to cash”. (4) “~~debiting~~ increasing cash”, “~~crediting~~ increasing contract liabilities”.*
 - *Note on 3-35: Ignore the words “debit and “credit”, and consider the balances as positive, normal balances in each of the accounts.*

Week 5: Revenue Recognition, Continued, and Receivables

- Segments: Contract Assets; Reporting Accounts Receivable; Accounts Receivable Transactions; Simple Example; Example; Earnings Management
- Asynchronous preparation: Read Chapter 6
- Live Session Preparation Assignment: 6-22, Riegel Corp. (provided in syllabus)
- Optional practice problems (solutions provided): 6-27, 6-34 (for Part C, use FSET), 6-37 Parts A and B

Week 6: Inventory

- Segments: Operating Expenses; Reporting Inventory Costs; Inventory Costing Methods; Comparison of Methods; Lower of Cost or NRV; LIFO Reserve; LIFO Liquidation; Inventory Errors
- Live Session Preparation Assignment: 7-26, Higgins Corp. (provided in syllabus)
- Asynchronous preparation: Read Chapter 7 and Appendix 7A
- Optional practice problems (solutions provided): 7-27, 7-30, 7-34

Week 7: Long-Term Assets

- Segments: Operating Assets; PPE: Capitalizing Costs; PPE: Depreciation; Changes in Depreciation Estimates; PPE: Disposals; Asset Impairments; Natural Resources; Intangible Assets
- Asynchronous preparation: Read Chapter 8
- Live Session Preparation Assignment: 8-27, 8-35 (for Part B, use FSET), The Flex Factory (provided in syllabus)
- Optional practice problems (solutions provided): 8-22 (for Part C, use FSET), 8-28, 8-32

Week 8: Liabilities

- Segments: Contingent Liabilities; Interest-Bearing Loans; Bonds; Bonds at a Discount; Bonds: Effective Cost; Bonds at a Premium; Leases
- Asynchronous preparation:
 - Read Chapter 9
 - Read Chapter 10, pages 464–476
- Live Session Preparation Assignment: 9-38 Parts A and B, 9-55 Parts A and D
- Optional practice problems (solutions provided): 9-44 Part C, 9-45 Part D, 9-46 Part D, 9-56 Parts A and D, 10-14 Part D (Present value of lease payments is \$123,100)

Week 9: Cash Flows

- Segments: Overview; Operating Section; Adjustment Type 1: Accrued Revenues; Adjustment Type 1: Deferred Revenues; Adjustment Type 1: Accrued Expenses; Adjustment Type 1: Deferred Expenses; Adjustment Type 1: Cost of Goods Sold; Adjustment Type 2: Noncash; Adjustment Type 3: Nonoperating Gains and Losses; Summary of Adjustments; Investing and Financing Sections
- Asynchronous preparation: Read Chapter 4
- Live Session Preparation Assignment: 4-26, 4-29, 4-30
- Optional practice problems (solutions provided): 4-23, 4-28, 4-39, 4-41, 4-42, 4-43, 4-36

Week 10: International Financial Reporting With Professor Hollis A. Skaife

- Segments: International Financial Reporting; Exercise; Exercise Part 2; U.S. Standard Setting Process and IFRS
- Asynchronous preparation:
 - Read Chapter 5
 - Read “A Global Perspective” on pages 20–21
 - Review the following ratios: ROE, ROA, EPS, and P/E
- Live Session Preparation Assignment: 5-15, 5-16, 5-36, 5-37
- Optional practice problems (solutions provided): 5-19, 5-20, 5-38, 5-39

Bubble Blasters Auto Spa

Bubble Blasters Auto Spa Inc. was started on January 1, 2017.

The following accounts are on Bubble's Chart of Balance Sheet Accounts: Cash, Accounts Receivable, Equipment, Accumulated Depreciation, Prepaid Expenses, Supplies, Accounts Payable, Notes Payable, Interest Payable, Wages Payable, Unearned Revenue, Common Stock, Additional Paid in Capital, and Retained Earnings.

Bubble Blasters will report results as of the fiscal year ending December 31, 2017.

Following are fiscal 2017 transactions:

- a. January 1: The company sold 12,000 shares of \$0.50 par common stock for \$6 per share.
- b. January 1: Borrowed \$80,000 from the local bank. The loan carries a 6% annual interest rate. Interest and principal are due in full on January 1, 2026.
- c. January 1: Purchased equipment with cash to be used in the business for \$60,000. The estimated life of the equipment is 4 years, and the expected salvage value is \$8,000.
- d. January 1: Purchased an 18-month insurance policy for \$9,000 with cash. The policy begins immediately.
- e. During 2017: Paid \$8,000 cash for advertising in the local paper, \$6,500 of which was for 2017 papers and \$1,500 of which is for 2018 papers.
- f. During 2017: The firm pays each month's rent for the building space on the first of the month (i.e., the firm pays rent on January 1 for rent in January). The monthly rent is \$1,350. The firm began renting the building in January and rented it through December 31.
- g. During 2017: Purchased supplies (e.g., cleaning solutions, sponges) for \$40,000 on credit.
- h. During 2017: Paid suppliers \$25,000 in cash relating to items purchased in transaction g.
- i. During 2017: Performed and billed customers for 9,500 car washes at \$20 per car wash.
- j. During 2017: Collected \$125,000 in cash from customers billed in transaction i.
- k. During 2017: The firm pays employees on the first of each month for work performed the previous month (i.e., the firm pays employees on February 1 for work performed in January). The total monthly wages are \$3,100. Employees began work on January 1 and worked through December 31.
- l. November: Started a membership program that allowed customers to pay in advance for 10 car washes at a discounted price of \$15 per car wash. A total of 250 customers signed up for this membership program.

- m. December: Voted the “Best Car Wash” by a people’s poll in the city. Due to this, the Bubble Blasters Auto Spa had a one-page article in the city’s magazine. Bubbles estimates an increase of \$20,000 in sales in 2018 as a result of this good press.
- n. December: Bubble Blasters granted bonuses to three employees based on their exceptional performance in 2017. The bonus amount is \$1,000 per employee and will be paid on January 15, 2018.
- o. December 31: The firm declared and paid a dividend of \$0.10 per share.
- p. December 31: The cost of car wash supplies remaining at year end totaled \$7,500. The market value of the supplies is \$12,000.
- q. December 31: Records show that 500 “member” car washes (from the prepaid membership program in part l) were provided during 2017.

Required: Record the transactions in the FSET. The beginning balances in all the accounts are 0 because the company began operations on January 1, 2017. In good form, prepare the balance sheet at December 31, 2017, and the income statement, the statement of stockholders’ equity, and the statement of cash flows (direct method) for the period ending December 31, 2017. Turn in the FSET and the financial statements.

Riegel Motors Corp. – Accounting for Accounts Receivable

(all dollar values are in 000's).

On December 31, 2015 Riegel Motors Co. reported "Accounts Receivable, net realizable value" of \$5,440 on their balance sheet and "Allowance for Uncollectible Accounts" of \$325 in their footnotes. Thus, the gross amount of accounts receivable is \$5,765.

The company's sales grew dramatically in 2016, and the total credit sales, net of returns were \$96,755. They collected cash from customers on account of \$86,775. The company wrote off accounts of \$425.

Management using the Accounts Receivable approach for estimating uncollectable accounts. Riegel credit terms are that accounts are due within 60 days. On December 31, 2016, Riegel found that 50% of the accounts were not past due, 25% were 60-90 days old, and 25% were over 90 days old. Riegel assesses the probability of collection as follows: not past due at 98%, 60-90 days past due at 96%, and over 90 days past due at 90%.

1. What is the total dollar amount owed to Riegel Motors Company by its customers at December 31, 2015?
2. What is the total dollar amount owed to Riegel Motors Company by its customers at December 31, 2016?
3. What is the balance in the allowance for uncollectible accounts at December 31, 2016?
4. What is the net realizable value of accounts receivable at December 31, 2016?
5. Show how the receivables would be reported on the balance sheet at December 31, 2016.
6. What amount will be reported for bad debts expense (i.e., provision for bad debts) on the income statement for the fiscal year ended December 31, 2016?

Problem will be expanded in live session.

Higgins Corp. – Accounting for Inventory

The LIFO inventory records of Higgins Corporation indicated the following at December 31, 2018:

	Units	Cost per unit	Total Cost
Beginning inventory 1/1/18	7,500	\$.90	\$ 6,750
	2,500	1.30	3,250
Purchases 3/2/18	10,500	7.00	73,500
9/30/18	<u>13,500</u>	7.00	<u>94,500</u>
Available for sale	34,000		\$178,000

The company follows the periodic inventory method and assumes a LIFO cost flow assumption. An ending inventory revealed 7,000 units at December 31, 2018. The 27,000 units sold during the year were sold for \$12 per unit. Assume selling, general and administrative expenses of \$40,000 and a tax rate of 35%. Higgins prepares their financial statements annually on December 31. Assume LIFO reserve at 12/31/2017 was \$60,000.

1. Prepare an income statement for the year ending December 31, 2018 under LIFO.
2. Calculate ending inventory to be reported on the balance sheet at December 31, 2018 under LIFO.
3. What is the current cost value of ending inventory at December 31, 2018?

Problem will be expanded in live session.

The Flex Factory – Accounting for Property, Plant and Equipment

Freddy Finn came into a large inheritance and decided to invest in a gym business, which he called The Flex Factory. He paid \$100,000 for a track of land with an old building on it. He paid \$20,000 to demolish the old building. A new building was constructed on the site at a cost of \$380,000. In addition, several other costs were incurred: \$10,000 in legal fees associated with the purchase of the land, \$20,000 in architect fees associated with the new building. The Flex Factory opened on January 1, 2012. He selected June 30 for his fiscal year end.

1. In general, what should guide the determination of whether an acquisition cost is capitalized or expensed?
2. What costs should be capitalized in the Land account? What costs should be capitalized in the Building account? What justification can you provide for each of your cost classifications? Record the purchase in the FSET, assuming that he signed a mortgage payable for \$300,000 and the remainder was paid in cash.
3. Assuming that Freddy selected to depreciate the building under the straight-line method and assumed a 30-year life with a \$40,000 salvage value, record the depreciation for fiscal years 2012, 2013, and 2014 in the accounting equation. What is the effect on the income statement each year? What is reported on the balance sheet for the book value of the building?

Problem will be expanded in live session.