

**University of Illinois at Urbana-Champaign**  
**Accountancy 493D – Financial Reporting**  
**Fall 2003**

Instructor: Rajib Doogar  
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Office hours: M W, 4:00-5:00 pm and by appointment.

Course Home Page: [www.cba.uiuc.edu/doogar/Accy493/493.htm](http://www.cba.uiuc.edu/doogar/Accy493/493.htm)

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Office hours: T R, 4:00-5:00 pm and by appointment.

**Class meeting times:**

Section D1	M, W	8:00 - 9:50 am	431 Armory
Section D2	M, W	10:00 -11:50 am	431 Armory
Section MSA	M, W	2:00 - 3:50 pm	112 Speech and Hearing

**Text and readings:** A custom readings packet available from TIS book store and select chapters from the following texts:

AA: Fischer, P.M., W.J. Taylor and R.H. Cheng. *Advanced Accounting*. 8 ed. South-Western.  
IA: Kieso, D.E., J.J. Weygandt and T.D. Warfield. *Intermediate Accounting* 11 ed. Wiley.  
PCF: Brealey, R.A. & S.C. Myers. *Principles of Corporate Finance*. 7ed. McGrawHill, NY.

The following optional readings may be helpful (and interesting):

Mulford, C.W. and E.E. Comiskey. 2002 *The Financial Numbers Game: Detecting Creative Accounting Practices*. John Wiley & Sons, New York, NY.

Schilit, Howard. 2002. *Financial Shenanigans : How to Detect Accounting Gimmicks & Fraud in Financial Reports*. McGraw-Hill, New York, NY.

**Course Objectives:**

Financial reporting 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.

**Expectations**

Students are expected to prepare the assigned readings and work through the homework problems before coming to class. If the assigned reading is a case, preparation includes any preliminary calculations that may be informative.

**Homework**

The number of problems assigned for homework varies. On days when more than three problems are assigned for homework, you may select three problems to solve for homework. Homework is due at the beginning of class each day. Bring two copies of your homework solutions to class each day. On randomly selected days 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. No late work will be accepted under any circumstances. No make-up work will be assigned.

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**Quizzes & Exams**

There will be six quizzes and three exams (two mid-term and one final) given on the dates indicated in the schedule. All quizzes and exams will be closed book, closed notes with no text-storing calculators allowed. It is not contemplated that you will miss a quiz or an exam. No make-up quizzes or exams will be given. Absences will be dealt with based upon the circumstances.

**Grading**

<u>Item</u>	<u>Points</u>
Homework	100
Class participation	75
Quizzes (best 5 @ 20 points each)	100
2 Midterms and 1 Final Exam (3 X 75 points each)	225
<u>Total</u>	<u>500</u>

Your final grade will be based on the sum of the points earned on these components applied to a final grade scale.

**Other**

I encourage students to provide me with feedback about all aspects of the course. It is best to contact me by e-mail. However you are welcome to stop by during office hours or by appointment as well.

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<b>Class Meeting</b>	<b>Readings</b>	<b>Homework</b>	<b>Practice</b>
Day 1: W 8/27	Course Introduction: Financial Reporting Fundamentals		
Day 2: W 9/3	Asymmetric Information and Strategic Choices: Contingent Liabilities		
Day 3: M 9/8	Partnership Accounting: Admission & Withdrawal	AA:E14-1,4,5	AA: E14-2, P14-1
Day 4: W 9/10	Partnership Accounting: Liquidation	AA: E 14-6,7	
Day 5: M 9/15	Strategic Investments: Alliances and Equity Investments	IA: C17-1	
Day 6: W 9/17	Strategic Investments: Alliances and Equity Investments	IA: C17-2,5, P17-5	
Day 7: M 9/22	<b>Quiz 1</b> & Mergers and Acquisitions: Economic and Strategic Considerations	AA: E1-2,5,6	AA: E1-7,8
Day 8: W 9/24	Mergers and Acquisitions: Accounting for Business Combinations I	AA: E2-2,4,6	AA: E2-7
Day 9: M 9/29	Mergers and Acquisitions: Accounting for Business Combinations II	AA: E3-5,6,7	AA: E3-3,8
Day 10: W 10/01	<b>Quiz 2</b> & Mergers and Acquisitions: Review		
Day 11: M 10/6	<b>Exam I</b>		
Day 12: W 10/8	Topics in Reporting: Foreign Currency Translations	AA: E11-2,4	AA: E11-3
Day 13: M 10/13	Topics in Reporting: Segmental Reporting	AA: E12-5,10	AA: E12-6,9
Day 14: W 10/15	<b>Quiz 3</b> & Financing: Capital Structure Theory and Practice		
Day 15: M 10/20	Accounting for Debt & Troubled Debt	IA:P14-12,13	IA: P14-1,3,4,14
Day 16: W 10/22	Equity: Common, Preferred & Repurchases	IA:E15-1,2,4,7	IA: E15-8,9
Day 17: M 10/27	Equity: Dividends	IA: E15-13,14,15	IA: P15-11,12
Day 18: W 10/29	Equity: Convertible Securities (excluding Stock Options) & EPS	IA: E16-1,8,9,19,25	IA: E16-28,P16-8
Day 19: M 11/3	<b>Quiz 4</b> & Reorganization: Divestiture, Restructuring and Asset Impairment		
Day 20: W 11/5	<b>Exam II</b>		
Day 21: M 11/10	Compensation	IA: E16-11,14,26	IA: E16-10,P16-3
Day 22: W 11/12	Compensation continued	IA: C16-2, 4	
Day 23: M 11/17	Leases	IA: E21-3,4,7,8,9	IA: P21-15
Day 24: W 11/19	Leases continued	IA: E21-14,15	IA: E21-12,16
<b>Thanksgiving Break: No classes 11/24 &amp; 11/26</b>			
Day 25: M 12/1	<b>Quiz 5</b> & Post-retirement Benefits: Pensions I	IA: E20-1,6,8,11	IA: E20-12,14
Day 26: W12/3	Post-retirement Benefits: Pensions II and OPEBs	IA: E20-20,23	IA: E20-21,24,25
Day 27: M 12/8	Post-retirement Benefits: OPEBs	IA: C20-5,7	
Day 28: W 12/10	<b>Quiz 6</b> & Review		
<b>Final Exam: TBA</b>			

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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: AA indicates readings from *Advanced Accounting*, IA indicates readings from *Intermediate Accounting* while PCF indicates readings from *Principles of Corporate Finance*. RC indicates that the reading appears in the “Readings and Cases” readings packet. EJC indicates that the article is available free of charge from the UIUC Commerce Library E-Journals Collection (linked at <http://door.library.uiuc.edu/crx> – select the link for “Business”).

## **Module 1: Introduction and Overview**

### **Day 1 Course Introduction: Financial Reporting Fundamentals**

HBS 9-100-010 Perspective, Institutions and Basic Issues [RC #1]

### **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 #2]

HBS 9-101-072 Accounting for the Intel Pentium Chip Flaw. [RC #3]

IA, Chapter 13. “Current Liabilities and Contingencies,” pp. 630-644.

## **Module 2: Organizational Form and Scope**

### **Day 3/4 Choice of Organizational Form and Financial Statement Engineering**

AA, Chapter 13. “Partnerships: Characteristics, Formation and Accounting for Activities.”

AA, Chapter 14. “Partnerships: Characteristics, Formation and Accounting for Activities.”

### **Day 5/6 Strategic Alliances and Equity Investments**

“Managing Risks in Strategic Alliances” Das and Teng, *Academy of Management Executive* 1999 November (13:4): 50-62. [EJC]

IA, Chapter 17. “Investments.”

### **Day 7 Quiz 1 & Mergers and Acquisitions: Economic and Strategic Considerations**

“Not All M&As Are Alike – and That Matters”, Bowers, *Harvard Business Review* 2001. [RC #4]

“Discipline and the Dilutive Deal”, Harding and Yale, *Harvard Business Review* 2002. [RC #5]

AA, Chapter 1. “Business Combinations.”

### **Day 8/9 Mergers and Acquisitions: The details**

AA, Chapters 2 and 3. “Consolidated Statements: Date of Acquisition.”

“Is Goodwill an Asset?” Johnson and Petrone, *Accounting Horizons*, September 1998, 12(3): 293-303. [EJC]

“How Informative Are Earnings Numbers That Exclude Goodwill Amortization?” Moehle et al., *Accounting Horizons*, September 2001, 15(3): 243-255. [EJC]

### **Day 10 Quiz 2 & Conclusion of M&A Accounting discussion**

**Day 11**

**Exam I**

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**Day 12 Topics in Reporting: Foreign Currency Translation and Segmental Reporting**

AA, Chapter 11. “Translation of Foreign Financial Statements.”

“Foreign Currency Exposure of Multinational Firms: Accounting Measures and Market Valuation.” Bartov, *Contemporary Accounting Research*, 1997: 623-652.

**Day 13 Topics in Reporting: Segmental Operations**

AA, Chapter 12. “Disclosures About Segments of an Enterprise.”

Heterogeneous Investment Opportunities in Multiple-Segment Firms and the Incremental Value Relevance of Segment Accounting Data. Chen and Zhang, *The Accounting Review*, April 2003, (78:2): 397-434. [EJC]

**Module 3: Financing Business Activities**

**Day 14 Quiz 3 & Capital Structure**

PCF, Chapter 14. “An Overview of Corporate Financing” pp. 377-395.

PCF, Chapter 17. “Does Debt Policy Matter?” pp. 465-483.

PCF, Chapter 18. “How Much Should a Firm Borrow?” pp. 489-515.

**Day 15 Debt & Troubled Debt**

PCF, Chapter 24. “Valuing Debt” pp. 667-678.

PCF, Chapter 25. “The Many Different Kinds of Debt” pp. 701-718.

IA, Chapter 14. “Long-term Liabilities,” pp 689-704.

**Day 16 Equity: Common, Preferred, Repurchases**

“The Importance of Courting the Individual Investor” Vogelheim et al., *Business Horizons*, Jan.-Feb. 2001: 69-76. [EJC]

IA, Chapter 15. “Stockholders’ Equity,” pp. 723-737.

**Day 17 Dividends**

PCF, Chapter 16. “The Dividend Controversy.”

IA Chapter 15. “Stockholders’ Equity,” pp. 738-754.

“Financial Flexibility and the Choice between Dividends and Stock Repurchases,” Jagannathan et al., *Journal of Financial Economics* 57 (2000), pp. 355-384. [EJC]

**Day 18 Convertibles & EPS.**

PCF, Chapter 23. “Warrants and Convertibles.”

IA, Chapter 16. “Dilutive Securities and EPS,” pp 773-781 & 788-802.

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**Day 19 Quiz 4 & Reorganization: Restructuring**

“Divestiture: Strategy’s Missing Link” Dranikoff et al., *Harvard Business Review*, May 2002.  
[RC #6]

HBS 9-196-135 Restructuring in the 1990s.[RC #7]

“Restructuring Charges and CEO Cash Compensation: A Reexamination” Adut et al., *The Accounting Review*, January 2003, 78(1): 169-192. [EJC]

**Day 20**

**Exam II**

**Module 4: Compensation & Pensions**

**Day 21/22 Performance Evaluation and Employee Compensation**

IA, Chapter 16, “Dilutive Securities and EPS,” pp 781-788, 803-809.

HBS 9-100-031 The Boeing Company’s Accounting for Executive Stock Compensation [RC #8]

**Day 23/24 Financing with Leases**

IA, Chapter 21. “Accounting for Leases.”

“The Conceptual Framework and Accounting for Leases” Monson, *Accounting Horizons*, Sept. 2001: 275-287. [EJC]

**Day 25 Quiz 5 & Post-employment Benefits: Pensions**

IA, Chapter 20. “Accounting for Pensions and Postretirement Benefits,” pp.1017-1042.

**Day 26 Post-employment Benefits: Pensions & OPEBS**

IA, Chapter 20. “Accounting for Pensions and Postretirement Benefits,” 1042-1064.

**Day 27 Post-employment Benefits: Pensions & OPEBS Wrap-up**

IA, Chapter 20. “Accounting for Pensions and Postretirement Benefits.”

“Valuation Implications Of Reliability Differences: The Case Of Nonpension Postretirement Obligations,” Choi and Collins, *The Accounting Review*, July 1997 75(4): 351-383. [EJC]

**Day 28 Quiz 6 & Review**

HBS 9-193-045 Diversity in Accounting Principles: a Problem, a Strategic Imperative or a Strategic Opportunity? [RC #9]