PEPPERDINE UNIVERSITY
THE GEORGE L. GRAZIADIO
SCHOOL OF BUSINESS AND MANAGEMENT

SCOTT ANDERSON
MBFE 652.41
ACCOUNTING INFORMATION and CONTROL SYSTEMS
FALL, 2003
MONDAY 6 – 10 PM
ORANGE COUNTY CENTER

SYLLABUS
Introduction

Contrary to popular perception, accounting is not how the game of business is played. While it may seem that "everything has to go through accounting", accounting is simply how the game of business is monitored and scored. Without the customer, the customer's need, marketing, sales, and manufacturing et al, there is nothing for accounting to account for.

Accounting provides historical financial information which people can use to help make future economic decisions for the enterprise.

The goal of the course, then, is to acquaint managers with the concepts and practices of accounting so managers can use accounting information to help move the enterprise towards its stated goals and objectives:

a) whether the enterprise is for-profit, tax exempt (aka non-profit) or just for fun; and
b) whether the person is in marketing, sales, operations, human resources, customer service, R&D, or manufacturing; and
c) whether the person is staff, line, management, president, trooper, or entrepreneur.

The course will be taught from the prospective of what a manager outside accounting needs to know about accounting to deal in the real business world.

Course Description

The course will introduce the theory and practice involved in the preparation and interpretation of general purpose financial statements with emphasis on external reporting responsibilities of the corporate form of business. Students will undertake a case study involving the preparation of an integrated set of financial statements which will then be used as a forecasting tool as well as the study of the annual financial statements of several different public companies. Students will also study the use of accounting data for internal planning and control, the theories and practices of cost accounting and analysis of data for management decision-making.

Course Objectives

The objectives for the students in the course are:

1) to develop a working knowledge of the fundamental terms, definitions, and principles used by accountants in the accounting process and in the preparation of financial statements; and
2) to understand and use selected ratios to analyze and critique financial statements; and
3) to construct a set of integrated financial statements which can them be used as a forecasting tool; and
4) to understand the concept of present value and it applications in accounting and capital budgeting; and
5) to understand the use of accounting data in the accumulation of cost information for making decisions in business context; and above all,
6) to understand that accounting is how the game of business is scored and not how the game of business is played.
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Text and Course Materials

Required:

i) Textbook for the course: *Accounting, What the Numbers Mean*, Marshall, McManus, and Viele. 6th ed. (McGraw Hill/Irwin). Noted below as MMV.

ii) Financial calculator: Any calculator that will do “present value”, “future value”, and NPV & IRR (internal rate of return) of a series of uneven cash flows. Among finance and banking cognoscenti, the HP 12C is the weapon of choice.

iii) Boeing Co. Annual Report (see ordering instructions below)

Class Preparation

Please prepare the materials listed below each session for that session. A through understanding of the material in the first part of the course is necessary for the second part of the course.

It is expected that you will be prepared for each of our sessions. Such preparation includes having done the reading and the homework for the session so that you may contribute to the class discussion. As the ability to explain your work and your conclusions are as important as the conclusions themselves, you can expect to be called on several times during each class session to answer my question or to answer the question of or to comment on the answer of another student.

Homework

A COPY of your homework is to be turned in at the beginning of each session. Please show the Session # beside your name on the homework. Please staple the pages if more than one page is being turned in. Bring the original of your homework to class for your use during class, for your notes, and for further study.

Homework may be done on a computer. Homework may be done in a study group.

Work that is late will not be counted.

Homework submitted via email will not be accepted.

If you cannot make a class--for whatever reason--have someone take notes for you. If you miss a class, please mail the homework for that class ordinary first class mail to me at the Pepperdine Orange County Campus at the address above. Registered or certified mail is not necessary. The post mark (not postage meter mark) will be counted as proof of timely mailing--if an assignment is due on the 15th and is postmarked on the 15th, it will be counted as on time no matter when I receive it.

Grading

The course work will be weighted about as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Exam I</td>
<td>25%</td>
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<tr>
<td>Exam II</td>
<td>25%</td>
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<tr>
<td>Exam III</td>
<td>25%</td>
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<tr>
<td>Rhodes Environmental Case Study</td>
<td>7%</td>
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<tr>
<td>Homework and Quizzes + Special Assignment</td>
<td>8%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>10%</td>
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In addition to quantitative answers, each exam will contain definitions, "explain what is meant by", "explain the difference between", ratio analysis of a set of financial statements, and similar questions requiring a qualitative answer of several short sentences. (Those words and concepts whose explanations are candidates for the exam will be clearly highlighted during the class work.)

Quizzes are possible. While none are planned, the option of spot quizzes depending on how the class is going, is reserved.
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Attendance Policy
“You snooze, you loose.”
(Class participation is worth 10% of your grade)

WARNING

READING, CLASS PREPARATION, AND HOMEWORK WILL PROBABLY TAKE 10-12 HOURS PER CLASS SESSION. PLEASE PLAN ACCORDINGLY.

HARD WORK IN THIS COURSE WILL GIVE YOU A VALUABLE ADVANTAGE IN YOUR LATER MBA COURSES PARTICULARLY IN MBFE 660A SIMULATION AND IN MBFE 655 FINANCE SO IT IS WORTH THE EFFORT.

THE MATERIAL IN THIS COURSE IS NOT DIFFICULT BUT THE CONCEPTS TAKE SOME TIME AND WORK TO DIGEST AND TO UNDERSTAND. THUS, YOU PROBABLY CANNOT EXPECT TO "CRAM" THE MATERIAL IN THE LAST FEW NIGHTS BEFORE EACH EXAM.

THE CHANCES ARE THAT IF YOU FALL BEHIND, YOU WILL HAVE GREAT DIFFICULTY WITH THE SUBSEQUENT EXAMS AND YOU WILL MISS OUT ON MUCH IN YOUR LATER COURSES OF STUDY.

Annual Reports

The Boeing Co. (due for Session IV) Go to Boeing.com. Click Investor Relations. Click Corporate Secretary. Click on the title “Order Printed Material”. Scroll to bottom of the form and order the annual report for the “Current Year” and the “10-K” for the “Current Year”. The reports are free but may take three to four weeks to arrive.

Additional annual reports including some or all of the following companies, will be provided: Walt Disney, Phillip Morris, Starbucks, Deitrich’s Coffee, and Wellpoint.

University Policies

Conduct

“The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

• Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
• Forgery, alteration, or misuse of University documents, records, or identification.
• Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
• Interference with the academic or administrative process of the University or any of the approved activities.
• Otherwise unprotected behavior that disrupts the classroom environment.
• Theft or damage to property.
• Violation of civil or criminal codes of local, state, or federal governments.
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- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.

Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

- **Dismissal** – separation of the student from the University on a permanent basis.
- **Suspension** – separation of the student from the University for a specified length of time.
- **Probation** – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.”

Policy on Disabilities

Assistance for Students with Disabilities

“Students with disabilities, whether mental or physical, are encouraged to contact the Equal Opportunity Office before the academic year begins or soon after classes are in session. This office will assist each student by providing general information about campus facilities and available resources. The office will assist in providing reasonable accommodation to students with disabilities pursuant to applicable laws. Inquiries should be directed to equal opportunity officer, Dr. Calvin H. Bowers, (310) 456-4208. (Students who wish to file a formal grievance should refer to the “Nondiscrimination Policy,” which is listed in the “Legal Notices” section of this catalog.)”

GSBM Catalog, pg. 29.
Assignments and Schedule

The first two of the three parts of the course focus on Financial Accounting which is accounting as information to make decisions by various individuals and parties outside the company. *This is the toughest part of the course. The assignments take the longest time because the material, concepts, definitions, and ratios, are all new. The best way to look at this part of the course is that you are building basic vocabulary. Extra efforts here to get the basics down will make the rest of the course and the MBA program easier and more meaningful."

8/25/03 Session I- Introduction to accounting, financial statements and principles; definitions and ratios
  Order: Boeing annual report (see page 4)
  Read: MMV Chapters 1 & 2
  Do for class discussion (which means you should do these exercises and be prepared to be called on; do not need to hand in) Exercises. 2-1, 2-3, 2-5, 2-7, 2-9 (what would the B/S look like before liquidation?)
  Hand In: Problems: 2-11 (Do formal B/S and I/S for 2-11), 2-13, 2-17
  Hand out: Definitions for Exam I
  Discuss Special Assignment due 10/13

9/1/03 No Class: -Enjoy the Labor Day Weekend (use the extra time to catch up)

9/8/03 Session II- *The material in this session is the heart of the course and the key to Exam I. Transactional analysis; more definitions, more ratios*
  Read: MMV Chapters 4 then 3
  Study Emphasis: Exhibit 4-1
  Do for class discussion: Exercises: 4-1 include optional part of 4-1, 4-5 (ignore j/e requirement), 4-7 (ignore j/e requirement), 4-11, 4-13; 3-7, 3-9,
  Hand In Problems: 4-17, 4-18(a), 4-19(a), 4-21, 3-9, 3-11 (do not do web update), 3-13

9/15/03 Session III- Current Assets (inventory, receivables, pre-paid expenses); cost of goods sold; more definitions; more ratios
  Read: MMV Chapter 5
  Study Emphasis: Purple box pg 160
  Do for class discussion: Exercises: 5-5, 5-7, 5-9, 5-11, 5-13, 5-15, 5-17
  Hand In: Problems: 5-21, 5-27, 5-29

9/22/03 Session IV- PPE and other Non-Current Assets; leases and FASB 13; exam review (skip Appendix on Present Value—this important topic will be studied after Exam I)
  Read: MMV Chapter 6
  Do for class discussion: 6-1, 6-3, 6-7, 6-11, 6-13
  Bring: Boeing Company annual report
  Hand In: Problems: 6-15, 6-17, 6-23
  Hand Out: PV exercises

9/29/03 Session V- EXAM I
  3-4 hour in class closed book exam. This will be the toughest of the three exams.
In this next part of the course, the focus is still on Financial Accounting but much of the work will be outside the text in the Rhodes Environmental case and the study and application of present value.

10/6/03 Session VI- Present Value, Current and Non-Current Liabilities.
Read: MMV (in this order) Appendix Chap 6, Chapter 7
Study Emphasis: Exhibits calculation of present value and future value using tables and calculator
Do for class discussion: (long but easy assignments to build familiarity with present value; do with tables, check with calculator)
   Present Value Exercises (hand-out) Problems 1 thru 5
   Chapter 6 Ex 6-9, 6-10,
   Chapter 7 Ex 7-1, 7-3, 7-5, 7-7, 7-9, 7-11, 7-13 (what is selling price of the bonds?), 7-15, 7-17, 7-19
Bring October 6, 2003 WALL STREET JOURNAL.
Hand Out: Rhodes Environmental, Definitions for Exam II
Hand In: Problem 6-25, 6-26, 7-23, 7-29

10/13/03 Session VII- Owner’s Equity
Read: MMV Chap 8
Study emphasis: chart pg 273
Do for class discussion: Exercises: 8-1, 8-3, 8-5, 8-7, 8-9, 8-11, 8-13, 8-15, 8-17,
Hand In: Special Assignment; Part (1) of Rhodes Environmental
   Problems P8-19, 8-25 (extra if time permits 8-27)

10/20/03 Session VIII- More on Income Statement and Statement of Cash Flows; (focus on indirect method).
Read: MMV Chap 9
Do for class discussion Exercises 9-1, 9-3, 9-5, 9-7, 9-9, 9-11,
Hand In: Part (2) of Rhodes Environmental
   Problems 9-17, 9-21, 9-25 (important problem), 9-29 (important problem)

10/27/03 Session IX- Financial Statement Analysis; review for exam.
Read: MMV Chap 11 and 10
Study Emphasis: Appendix to Chap 11
   (What accounting principal is violated in each item?, What ratios are affected?)
Do for class discussion: Starbucks Annual Report, Exercises 11-3, Problem 11-5, 11-7,
Hand In: Part (3) of Rhodes Environmental
   Problem 11-9, 11-13

11/3/03 Session X-EXAM II
3-4 hour in class closed book exam
The last part of the course focuses on Managerial Accounting which is the use of accounting as information to make decisions by management inside the company. The readings and assignments tend to be longer but the concepts are simpler and typically have more day-to-day application.

11/10/03 Session XI- Introduction to Managerial Accounting; Breakeven Point.
   Read: MMV Chap 12
   Study Emphasis: tradition versus contribution margin format pg 421
   Do for class discussion: Exercises 12-1, 12-3, 12-5, 12-7, 12-9
   Hand Out: Definitions for Final Exam
   Hand In: Problems: 12-11, 12-13, 12-17, 12-19, 12-21, 12-23,
            Part (4) of Rhodes Environmental

11/17/03 Session XII- Cost behavior.
   Read: MMV Chap 13
   Study Emphasis: Exhibit 13-8
   Do for class discussion: Exercises 13-1, 13-3, 13-5, 13-7, 13-9
   Hand In: Problem 13-15, 13-19, 13-21, optional: 13-23 (great question—be sure you understand the format of the income statement for a manufacturing company before attempting this problem)

11/24/03 Session XIII- More on costs, budgeting, capital budgeting (NPV, IRR, and payback).
   Read: MMV Chap 16, 14, and 15 (in that order)
   Study emphasis: Exhibit 16-3
   Do for class discussion: Exercises: 16-1, 16-3, 16-5, 16-7, 16-9, 16-15, 14-5, 14-9, 14-13, 15-1,
   Hand In: Problems: 16-19, 16-21

12/1/03 Session XIV- Final Exam
   3-4 hour in class closed book exam. This will probably be the longest of the three exams.