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ACTG 615.01: Accounting Theory

Teresa K. Beed

University of Montana - Missoula, teresa.beed@umontana.edu

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T. Beed - GBB 315
243-6494
teresa.beed@business.umt.edu

ACTG 615 - Fall 2014
Office hours: MW 11-12, Tues 9-12
Also by appointment or drop in
NOTE: Office hours may change sometimes

Flexibility is the key in this class. Starting and ending class times, class lengths, and class assignment dates may change with advance notice during the semester.

Date	Reading	Assignment
Aug. 25	- - -	Introduction
27	Meet in GBB213 (small lab)	(Class starts at 8:10am - research)
Sept. 1	Holiday	- - -
3	1(4-14)*, 3	A. (Accounting Theory) B. (History)
8	4, 2(46-48)	C. (Regulation)
10	5(146-165)*	D. (GAAP)
15	7(223-top of 251, 254-256)	E. (Conceptual Framework)
17	(HO Readings)	(9:00am start) F. (XBRL – Prof. Herbold)
22	9	G. (Uniformity and Disclosure)
25	Thursday (9:40-11) (HO Readings)	H. (Comprehensive Income) I. (Dev. Stage Cos)
29	12*	J. (Income Statement)
Oct. 1	- - -	(8-9am MAcct Panel) CATCHUP - CLASS WILL BE HELD
6	EXAM I	Individual test and group test (DOUBLE CLASS)
8	No class – finalize D&B	- - -
9	Thursday D & B Due in Beed’s office by Noon	
13	APB #22, 8*, 6(208-215)	K. (Disclosure) L. (Useful Information)
15	FAS #131, FAS #34	M. (Segment Reporting) N. (Interest Capitalization)
20	11(401-406, 433-437, 446-449), 10(383,385))	O. (Stockholder’s Equity)
22	- - -	CATCHUP – CLASS WILL BE HELD
27	14*, Appendix 1-A*	P. (Price Changes)
29	- - -	CATCHUP – CLASS WILL BE HELD
Nov. 3	17*	Q.(Leases) START AT 8:30 – LONGER CLASS
5	EXAM II	Individual test and group test (DOUBLE CLASS)
10	No class – finalize term papers and homework questions	
12	Homework Qsts and Term Papers Due (sent via e-mail) & (Review Exam II)	
17	No class – Work on PowerPoint/Prezi Presentations	
19	No class – Work on PowerPoint/Prezi Presentations	
24	(HO Readings)	R. Derivatives – Prof. Manuel
26	Holiday	- - -
Dec 2	2 Papers (HO Homework)	S. (Bitcoins) T. (Dividends)
4	2 Papers (HO Homework)	U.(Soc. Resp. Investing) V.(Inflation)
Final Week EXAM III 8:30-10, Tuesday, December 9 – Individual exam only		
<u>Chapter 1</u> - SKIP section on “Types of Measurements’ on 9-10.		
<u>Chapter 5</u> - Do pay attention to the equations at the end of this chapter. They are theoretical equations, not mathematical equations.		
<u>Chapter 8</u> - SKIP from top of 267-279, 282-291, and bottom of 295-300, Do read pg. 288.		
<u>Chapter 12</u> - SKIP section on Future Events on 474-477 and Specialized Subjects on 487-495.		
<u>Chapter 14</u> – SKIP pages 581-585		
<u>Appendix 1-A</u> - Ignore the exhibits per se. Concentrate on the concepts of each attribute being discussed.		
<u>Chapter 17</u> – SKIP 690-middle of 692		

Appendices are not included in assignments unless so indicated.

School of Business Mission Statement

The University of Montana's School of Business Administration is a collegial learning community dedicated to the teaching, exploration, and application of the knowledge and skills necessary to succeed in a competitive marketplace.

Masters of Accountancy Mission Statement

The Masters of Accountancy program provides breadth and depth in accounting, taxation, and business to develop a high level of understanding, skill and leadership capability for advancement in the accounting profession and other related business careers.

MAcct Assessment and Assurance of Learning Goals

As part of our assessment process and assurance-of-learning standards, the MAcct Curriculum and Assessment Committee has adopted five learning goals for MAcct students. MAcct students will:

- 1) Obtain a deeper mastery of technical accounting competencies
- 2) Understand the role of the accounting profession in business and the economy, along with the importance of professionalism and ethics in carrying out this role
- 3) Will be effective communicators
- 4) Will apply critical thinking skills
- 5) Be prepared for certification as a CPA.

Course Learning Goals

- 1) Practice writing on complex accounting concepts
- 2) Demonstrate the ability to work in groups
- 3) Learn how to research a hot accounting topic
- 4) Demonstrate the ability to give a formal, professional presentation to regional CPAs
- 5) Understand the history and role of the FASB in the current accounting arena

HOMEWORK:

- Homework points are based on homework turned in and credit received as a percent of total points received on all homework collected. For example, if you get credit for 80% of the homework, you will get 80 points (100 x 80%). No late homework will be accepted except for unusual circumstances that I determine are appropriate on an individual basis. **HOMEWORK MUST BE TYPED AND SPELLCHECKED.** It can be single-spaced or double-spaced. You do NOT turn in the extra questions, but certainly should do them for your own benefit!
- I will collect the homework every day and skim it. But, I will seriously grade only one or two of the assigned questions per class period. Your grade for the day will depend on the answer to the one or two I choose to grade, in comparison to the answers of others, and on your apparent completion of all questions asked. So, do a good job on all of them.
- **Deadline is NOON.** On Nov. 12, your group will make send a copy of your term paper via an e-mail attachment. As a group, you will compose and hand out four homework questions covering your paper. They are also due on Nov. 12 via e-mail. **A hard copy of your paper will be given to Beed. The correct answers to the homework, and where they could be found in your paper, will be compiled on a separate sheet and given to Beed to be used to grade the homework handed in by the class.** These questions will be graded for quality and material coverage. All group members will receive the same grade for these questions. **Homework answers will not be shared with class members in other groups.** GROUP MEMBERS DO NOT DO THEIR OWN HOMEWORK FOR THEIR OWN TOPIC.
- Group papers will be used as homework assignments for the last two class days. Group term papers will also be the basis for the professional presentations.

Academic Conduct Code All students must practice academic honesty. Academic misconduct is subject to an academic penalty by the course instructor and/or a disciplinary sanction by the University. All students need to be familiar with the Student conduct code. The Code is available for review online at http://life.umt.edu/vpsa/policies/student_conduct.php. Read the Code.

POINTS: Your grade will consist mainly of the following points:

EXAM I (individual and group exam)	120	There are no makeup exams due to the group nature of the exams.
EXAM II (individual and group exam)	120	
EXAM III (individual exam only)	64	
HOMEWORK	100	
DESC. AND BIBLIOG.	20	
TERM PAPER	100	
Personal Opinion - term paper	10	
PEER GROUP EVALUATION (D & B)	10 (By individuals)	
PEER GROUP EVAL (PAPER & PRESENTATION)	10 (By individuals)	
4 GROUP HOMEWORK QSTS & ANSWERS	20	
Paper/presentation ranking	10 (By classmates)	
Class Presentation Ranking and Evaluation	50 (By Beed and guests)	
Total points possible	634	

Free points - Attend at least three speaker presentations during the semester. They will be announced as dates/times are known. Some are on Friday mornings, some are during the day, and some are at night. You will earn 5 'free' points for each of the three that you choose to attend. At the end of the semester, you will send me a list of the ones you attended based on an honor code.

FASB Codification online access for students. Go to <http://aaahq.org/asclLogin.cfm> . Username is AAA51783. Password is w2ZBP6z Use proper case in all cases. You may need this for your term paper topics and will need it for Prof. Premuroso's Codification lecture in Prof. McNellis's class.

CPA Letter Daily Subscribe at <http://www.smartbrief.com/cpa/index.jsp>

This news service comes via e-mail every week day and you will need it to use it for your term paper topics.

Student Membership in MSCPA <https://www.mscca.org/join>

Fall Semester Recruiting Events

- MSCPA Opportunity Night – Montana firms Sept. 16
- Meet the Firms Night – Moss Adams, Deloitte, PWC, KPMG Sept. 17
- Watch for details on e-mails from SOBA Central

ASSIGNMENT MATERIAL:

Wolk, Harry I., James L. Dodd, and John. J. Rozycki (2013), *Accounting Theory*, (Eighth Edition, Sage Publishing Company)

Each of you is allowed to make one copy of FASB Standards. The following standards will need to be copied for class and can be found at www.fasb.org/st/. You do not need to copy or read the appendices to the standards. Copy the amended version choice.

- FAS #34, #131, FAS #7
- APB No. 22 – handed out in class
- Material on Comprehensive Income, Derivatives, and XBRL – handed out in class or sent as e-mail attachments.

There is no such thing as a late description and bibliography or a late term paper.

Whatever your group has done by the required deadline on each is what I will grade. Substantial points are lost if either is turned in incomplete, however. Your group is responsible for these assignments as a group and no excuses regarding "whose fault it is" if the assignment is late will be accepted.

Group Presentation Ground Rules:

- You will use PowerPoint or Prezi to present your material.
- You will dress in professional attire – as if you were at an interview.
- The presentation must cover the material in your term paper, but you may add other material also.
- Each person must give approximately an equal part of the presentation, but it must flow. It must be evident that you built and worked on the presentation together and that each person did not just take one part and then the whole was pasted together. Each of you needs to work on building the PowerPoint – this 'skill' is expected in 'real life.' All of you will use it during your part of the presentation. Someone else will not 'run' it for you. You are ready to present when it is clear that all of you could give any part of the presentation. In other words, you are not prepared only to give 'your' small part of the talk. Practice is a must.
- Presentations need to be at least 35-50 minutes in length. You may not exceed 50 minutes. Make sure you are presenting new material as you progress – do not be repetitive.
- Questions and answers will follow. I will request that all questions be held until the end of the presentation. All of you will answer questions and I will expect all of you to be able to answer questions over all of the talk, not just the section you presented. You must know the material that everyone presented. It is a group paper and a group presentation.
- Fancy PowerPoint items (such as shooting stars, music, and information entering from all directions) is O.K. but is not required. Remember, the medium must be used to increase the quality of the content. Fancy presentation with little or no content is a bomb.
- Since other faculty and accounting professionals from the area will be invited to all presentations, you must begin the presentation by introducing yourselves. Last year, one group had pictures and names and each person stood under his/her picture and name.
- Teams will prepare a handout of their PowerPoint presentations to give to each guest. Beed will let you know how many copies you need. The PowerPoint handouts can be duplexed.
- Other handout material is acceptable, but not required. And, again, it should be clear that it improves the presentation and isn't just wasted paper.
- **For at least a good portion of your talk, you have to leave the back of the podium and move around a bit in front of the room. Do not end up having the audience say that you read your talk to them. Many groups do not set up a podium at all.**
- All visitors, CPAs and faculty, in attendance will complete an evaluation form after each presentation. These evaluations will be used to determine your final presentation score. Each person in your group might not receive the same presentation score.

ASSIGNMENTS

A. (Chapter 1)

1. a) When you registered for this class, what did you think the material in the class would cover? In other words, what did **you** envision an Accounting Theory class to be about?
b) According to the book, what is the purpose of accounting theory?
2. In your own words, define what objectivity means in accounting.

EXTRA

3. Accounting policies are derived from three main sources. Name and briefly describe the role each source plays in the policy-making process.

B. (Chapter 3)

BOOK QUESTION: 15

1. Why was there a lack of uniformity in accounting practices between companies before the 1920s?
2. What two things put heavy pressure on the accounting profession to provide financial statements that allowed uniformity and comparability between companies?
3. Since the SEC first allowed the accounting profession to put out accounting rules, how many groups have done this? Name the groups and the time periods during which each promulgated rules. Name at least one reason why each of the first two groups was dissolved and replaced by the next group.
4. Who were the main users of financial reports before the 1920s, what types of information did they want, and why did they want it?

EXTRA

BOOK QUESTION: 9

5. What part did the Wheat Committee play in changing accounting rule-making?
6. What are some of the current complaints about the FASB?
7. What is the EITF and what role does it play in accounting rule-making?

C. (Chapter 4 and Part of Chapter 2)

BOOK QUESTIONS from Chapter 4: 1, 2, 23

1. What is the most surprising thing you learned in this chapter? Why was it surprising to you?
2. How can accounting information be neutral and take economic consequences into consideration? You must define each term before you answer the question!

EXTRA – Book Questions from Chapter 4: 7, 24

3. Will improved financial reporting eliminate fraud and business failure? Why or why not?
4. In your own words, what is agency theory and how does it relate to financial accounting?
5. In general, what types of accounting policies do auditors oppose? Why?

D. (Chapter 5)

BOOK QUESTION: 9

1. a) How has use of the monetary unit for financial statement measurement caused problems? b) What has recently been done with financial statements to try to counteract this problem?
2. Why is materiality in accounting a hard concept to define and use?
3. When the entity theory (page 160) was first proposed, creditors became worried. Why? (Think about this. The answer is only found indirectly in the book.)
4. What is an interim financial statement and why have they become popular?
5. How is the residual equity theory used in calculation of earnings per share? (Think about this. It is not directly in the book.)

E. (Chapter 7)

BOOK QUESTION: 3

1. Do the authors of the text seem to believe that economic consequences should be the main characteristic the FASB considers when setting standards? If so, why? If not, what is the main characteristic?
2. Reread the information in Chapter 4 regarding due process. Compare the concepts of due process, neutrality, and economic consequences as they relate to accounting policy setting. (Define each concept first and then compare them to each other as they relate to accounting policy setting.)
3. Briefly summarize the main idea behind each of the seven concepts of the original Conceptual Framework Project.
4. Why do you think that Reliability is being replaced by Faithful Representation? Think about this. It is not directly in the book.

F. (XBRL by Prof. Herbold) Questions to be sent to you via e-mail.

G. (Chapter 9)

BOOK QUESTION: 10

1. What is a "safe harbor" provision and why would the accounting profession like more of these provisions?
2. What is competitive disadvantage with regard to financial statements? How does it relate to the disclosure concept?
3. What is a relevant circumstance in financial accounting? Define the term and give an example. Note: When you give an example, explain HOW it is an example. Hint: This must include a mention of cash flow.
4. What is the difference between finite uniformity, rigid uniformity, and flexibility? Define each term and then give an example of each. NOTE: When you give an example, YOU have to indicate how it is an example

EXTRA BOOK QUESTIONS: 7, 17, 21

5. What is information overload in accounting? Why can it be a problem?
6. What is the problem with allocations in accounting?

H. (Comprehensive Income - HO Reading)

1. What is the purpose of reporting comprehensive income?
2. Under existing accounting standards what items will be included in "other comprehensive income?" There are four – be specific.
3. FASB allowed two formats for reporting comprehensive income. What are they?
4. How should tax effects be displayed according to this standard?
5. Under what circumstances can a company not complete/report a Statement of Comprehensive Income?
6. IASB allows an additional item to be included in 'other comprehensive income.' What is it?

I. (FAS #7 – ASU 915)

1. Define development stage company.
2. Development stage companies wanted different reporting standards for themselves. Why do you think they wanted different standards? (The answer is not directly in the reading. Give a good answer of your own.)
3. Did the FASB allow a different set of rules for development stage companies? Give a reason for your answer.

EXTRA

4. List several activities in which development stage companies are involved.

J. (Chapter 12)

1. What is income smoothing? Why might management want to smooth income?
2. What is earnings management?
3. Differentiate between the current operating vs. all-inclusive income concepts. (Do not just define each.) Which method is used today?
4. The following categories of items are found on financial statements. Put each one in the proper order in which it would be found on the income statement. If a listed item is not found on the income statement, give a detailed explanation regarding exactly where it would be found on a set of financial statements. Assume a multiple-step income statement format. You may need to use your intermediate book to help you.
 - *Discontinued operations
 - *Prior period adjustment
 - *Dividends
 - *Earnings per share
 - *Operating expenses
 - *"Other" revenues and expenses
 - *Sales
 - *Cost of goods sold
 - *Extraordinary gain/loss
 - *Cash flow from financing activities
 - * Unrealized gain/loss on an available for sale security
 - *Accumulated Other Comprehensive Income
5. a) What are the two situations that create a prior period adjustment? b) Why do you think it was decided to leave these items off the income statement?

EXTRA

6. What is a summary indicator in accounting? Give three examples of a summary indicator.
7. What are the three hierarchies of the matching principle and how is each applied or used in accounting?

K. (APB #22)

1. Why did the APB put out this ruling?
2. What information in general did the APB require be disclosed? (Do not give a list of specifics.)
3. Where exactly should the information be disclosed?

L. (Parts of Chapter 8 and Chapter 6)

BOOK QUESTION FROM CHAPTER 8: 31

1. What is the efficient markets hypothesis and what are its three forms? How does this relate to accounting?
2. What is the naïve investor hypothesis? Be sure to discuss cash flow when answering this question.
3. In your own words, summarize the information found on page 288.

M. (FAS #131 – ASU 280)

1. Why did the FASB put out this standard?
2. Before the quantitative threshold tests can be run, a company has to know how many segments it has in order to run tests on them. How are the number of segments originally determined (even before any test is run?)
3. After a company determines the number of significant segments it has according to the FASB guidelines, it must then apply upper and lower-limit guidelines to determine if it has too few or too many segments. What are these upper and lower-limit guidelines and how are they applied?
4. Many companies were severely opposed to the first standard on this topic (FAS #14.) Why do you think this was the case? (Think of a good answer of your own.)

EXTRA

5. In general, what types of qualitative information must a company report about its reportable segments?
6. How should companies report segments that are determined not to be reportable according to the FASB guidelines?
7. What is required on interim reports?
8. How should a company handle a segment that has never met any quantitative thresholds in previous years, but does this year?

N. (FAS #34 – ASU 835)

1. What is the limit on how much interest can be capitalized in one period?
2. Capitalization of interest can continue only while three conditions are being met. What are the three conditions?
3. The SEC seemed to be against capitalization of interest. But, after this standard came out, the SEC dropped its previous ruling. Why do you think the SEC did this? Is it because the FASB standard followed the SEC ruling? (The answer is not in the reading or in any of your other textbooks. Give a good, thoughtful answer of your own.)
4. According to GAAP, interest has always been accrued as incurred and was not capitalized. Why did the idea of capitalizing interest come up? (The answer is in the standard here and there, but think about this and give some logical reason of your own.)

EXTRA

5. What does it mean to "capitalize" an expense? (The answer is not in the reading. You know this, but if you can't remember, look it up.)
6. If interest can be capitalized, what rate should be used?

O. (Chapter 11 and part of Chapter 10)

1. According to the book, there are three components of owners' equity. Name and describe each.
2. Technically, the recipients of a stock dividend do not receive anything of value. Why not? (Carefully explain what you mean in your answer. Do not just give some definitions.)
3. Define operating cycle and then indicate how it is used for classification purposes on the balance sheet.
4. Differentiate between the asset/liability vs. revenue/expense approach of measuring income. (Do not just define each. What is the difference?)
5. What is the difference between shares authorized, shares issued and shares outstanding? (You may not find this in our text.)
6. The 1984 Revised Model Business Corporation Act legally changed what criteria could be used to determine the amount of dividends that could be paid. What was the old, general guideline and what are the new legal guidelines?
7. a) Explain the difference between principles-based vs. rules-based standards. b) Define bright line and give an example of one.

EXTRA - I highly recommend that you do the entries below!! You will be responsible for them. Give the proper entries for each of the following. The entries are not in your book. Honestly see how you do before looking them up. Test yourself. Hint: You covered these entries in principles and intermediate accounting.

In all cases, assume the par value of the stock is \$100 and originally sold for \$110.

8-10 each require two entries.

8. Declare and later pay a \$40 cash dividend.
9. Declare and later pay a small stock dividend. Assume market value is \$130.
10. Declare and later pay a large stock dividend. Assume market value is \$130.

For 11-13, use the single-transaction approach. (Cost method.) (Treasury stock method)

11. Buy treasury stock at \$116.
12. Sell the treasury stock for \$123.
13. Sell the treasury stock for \$112.

For 14-17, use the two-transaction approach. (Par value/retirement method.)

14. Sell the stock originally.
15. Buy treasury stock at \$112.
16. Buy treasury stock at \$104.
17. Sell the treasury stock at \$115.

P. (Chapter 14 and Appendix 1-A)

BOOK QUESTIONS IN APPENDIX 1-A: 13, 14

1. Distinguish between a **purchasing power** gain/loss vs. a **holding** gain/loss. (Do not give an example. Answer the question.)
2. Distinguish between a **monetary holding** gain/loss vs. a **real holding** gain/loss. (Do not give an example. Answer the question.)
3. What are the three Fair Value Pricing Hierarchy levels?
4. Why are exit values generally considered to be less useful than entry values?
5. Do you believe that you would find it easier to explain price-level adjusted financial statements or current value financial statements to your non-business friends? Give a thoughtful, reasonable answer.
6. This is a problem, so show and label your work. A plot of land costing \$200,000 was acquired on January 1, 2012. The price level was 120 on that date. One-quarter of the land was sold on December 31, 2012 for \$60,000 when the general price level was 180. Compute the following holding gains or losses:
 - realized real
 - unrealized real
 - realized monetary
 - unrealized monetary.

Q. (Chapter 17 – FASB Standard #13 – ASU 840)

BOOK QUESTIONS: 6, 16

1. The concept of substance over form is quite apparent in the lease standard. How? Be specific.
2. According to FAS #13, what is the one, overriding concept that the FASB used to determine whether a lease should be capitalized? (Do not give any of the four capitalization criteria.)
3. What is the basic difference between a sales-type lease and a direct financing lease? (Do not give examples.)
4. Land leases have slightly different rules to follow than do other lease assets. What is the difference and why is land treated differently?
5. Sometimes a leased asset is amortized/depreciated over its useful life and sometimes over the lease term. How is the proper method determined? What causes the difference?
6. The FASB required lessees to use the lower of two prescribed interest rates to calculate the present value of the minimum lease payments to record the entry for the asset and the liability in a capital lease. What did that rule do to the amount to be recorded?

EXTRA BOOK QUESTIONS: 7, 10

7. What is off-balance sheet financing with regard to leases?
8. What are lease executory costs and how are they accounted for in a capital lease?
9. What is included in minimum lease payments in a capital lease?

R. (Derivatives – HO Homework and readings – FASB Standard #133 – ASU 815)

For topics (S-V) the homework will be the questions handed out with the term papers.
YOU DO NOT DO THE HOMEWORK FOR YOUR GROUP.

TERM PAPER TOPICS

Bitcoins – and other virtual currencies - What are virtual currencies? Why do they exist? Who uses them? How are they accounted for? What have been some of the problems with them?

Inflation/Deflation - How has the US dealt with inflation over time? How does the US try to control its own inflation? What happens in countries where inflation is rampant? What happens in countries when they go through periods of deflation? Is inflation a good thing or a bad thing? Is deflation a good thing or a bad thing?

Socially Responsible Investing - What is socially responsible investing? What are some examples? For those who do invest based on socially responsible guidelines, do they have to take a 'hit' to their return on investment over time? What types of socially responsible investing choices are there?

Dividends – What is the history of companies that pay stock dividends and cash dividends. Why does a company pay a dividend? Has the trend changed over time? What types of companies historically paid dividends? What types of companies pay dividends today? What happens to dividends when the economy takes a dive?

Cover the following in your paper:

- History
- Problem and what caused it
- What has been done or is currently being done by the accounting profession with regard to your topic?
- Are other groups involved? If so, who, what, and why?
- What is the current status of the topic? Has the economic change affected it?
- What are future options or possibilities regarding your topic?
- **If possible, include how your topic affects Montana.**

REMINDER:

- Your paper will be read and graded by Beed and the entire class. The final term paper grade will be based on a combined evaluation.
- The presentations will be graded based solely on evaluations of the CPAs in attendance. Students do not evaluate each others' presentations.