



## ***MGB 400AY: FINANCIAL ACCOUNTING***

### **Course Instructor**

Justin Virrey, MBA  
[jvirrey@ucdavis.edu](mailto:jvirrey@ucdavis.edu)

### **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.

### **Course In-Person Meetings:**

Room BR-1503 (Every other Saturday 1:30-5:00pm)

### **Course Virtual Meetings:**

Zoom (Wednesdays 6:00-8:00pm)

Link [Zoom Link](#)

### **Textbook**

Hanlon, M. L., Magee, R. P., Pfeiffer, G. L., & Dyckman, T. R. (2020). *Financial accounting* (6th ed.). Westmont, IL: Cambridge Business Publishers. ISBN: 978-1-61853- 311-1

You may purchase the eBook through this direct purchase link: <https://cambridgepub.com/book/dhmp6e#purchase>

## Course Assessments

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

a) Homework	25%
b) Attendance	5%
c) Quizzes (4 quizzes, In-Person, equally weighted)	50%
d) Final Exam (Online Take-Home Exam)	20%

### Course Letter Grade

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

A+ 97–100%	B+ 87–90%	C+ 77–80%	D 60–70%
A 93–97%	B 83–87%	C 73–77%	F 0–60%
A- 90–93%	B- 80–83%	C- 70–73%	

#### a) Homework

Students are expected to complete the preassigned Homework prior to the weekly Zoom sessions. Late work will be penalized, as solutions are reviewed in the live session. This work is graded based on effort and completeness and should be submitted via Canvas.

#### b) Attendance

Students are encouraged to attend all Zoom and In-Person sessions. The attendance policy is in place to incentive students to attend class. Attending 8 out of 9 weekly Zoom sessions results in full credit. All In-Person sessions are required for full credit, unless excused beforehand. If you need to miss more than one session, please contact the instructor. Each weekly Zoom session is 1 point, and each In-Person session is 2 points. Attendance is a total of 19 points

#### c) Quizzes

A Quiz will be administered during every In-Person (every other Saturday) session (with exception to the first in-person meeting). It will cover the material discussed in the prior two Zoom sessions leading up to it. Further details of the quiz (length, format, etc) will be discussed during the first class Zoom meeting.

#### d) Final Exam

The Final Exam will be cumulative in nature and administered as a Take-Home examination to be completed online via Canvas. Further details of the final exam (length, format, etc) will be discussed during the first class Zoom meeting.

## 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 Classroom 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.

## **Students with Disabilities:**

The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you have a disability requiring an accommodation, please contact the Student Disability Center, visit <https://sdc.ucdavis.edu/>, and notify me. I will work with you to establish a fair and adequate accommodation.

## **COVID-19 Policies**

The COVID-19 pandemic is providing unexpected challenges to society, including the learning environment. Safety protocols and best practices continue to change on the federal, state, local, and campus-level to address the risk of viral transmission in the community. To lower the COVID risk, please abide by all campus policies. Please see information at [www.ucdavis.edu/coronavirus](http://www.ucdavis.edu/coronavirus) for information on current campus policies.

# Course Schedule

## Important Notes

- In textbook readings, ignore any text references to journal entries and t-accounts. Journal entries and t-accounts 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 Canvas site.

## Week 1 In-Person (1/7/23):

- **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
- **Preparation:**
  - Read Chapter 1 and Appendix 1A,
- **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
- **Preparation:**
  - Read Chapter 2 (exclude pages 62–70)

## Week 1 Zoom (1/11/23): Introduction

- Optional practice problems (solutions provided): 1-37, 1-41, 1-44
- **Homework:** 1-29, 1-38, 1-42

## Week 2 Zoom (1/18/23): Financial Statements

- 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.*
- **Homework:** 2-62 Part A; extend 2-62 to prepare a balance sheet at June 30.
  - *Note on 2-62: After week 3, you should be able to do 2-62 Part B.*

### Week 3 In-Person (1/21/23):

- **Quiz 1 (Weeks 1 & 2 Material)**
- **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
- **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)
- **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
- **Preparation:**
  - Reread Chapter 3, pages 110–128 (exclude bottom of page 122 to page 124)
  - Read Chapter 6, pages 270-283

### Week 3 Zoom (1/25/23): Financial Statements, Continued

- 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.*
- **Homework:** 3-29 (see note below); 3-34 Parts A, B, and D (see notes below), 3-40.
  - *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*

#### **Week 4 Zoom (2/1/23): Financial Statements, Continued, and Revenue Recognition**

- Optional practice problems (solutions provided): 3-32 Part A, 3-35 Part A, 3-36, 6-15
- **Homework:** 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.*

#### **Week 5 In-Person (2/4/23)**

- **Quiz 2 (Weeks 3 & 4 Material)**
- **Revenue Recognition, Continued, and Receivables**
  - Segments: Contract Assets; Reporting Accounts Receivable; Accounts Receivable Transactions; Simple Example; Example; Earnings Management
- **Preparation:**
  - Read Chapter 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
- **Preparation:**
  - Read Chapter 7 and Appendix 7A

### Week 5 Zoom (2/8/23): Revenue Recognition, Continued, and Receivables

- Optional practice problems (solutions provided): 6-27, 6-34 (for Part C, use FSET), 6-37 Parts A and B
- Homework: 6-22, Riegel Corp. (provided in syllabus)

### Week 6 Zoom (2/15/23): Inventory

- Optional practice problems (solutions provided): 7-27, 7-30, 7-34
- Homework: 7-26 and Higgins Corp. (provided in syllabus)

### Week 7 In-Person (2/18/23)

- **Quiz 3 (Weeks 5 & 6 Material)**
- **Long-Term Assets**
  - Segments: Operating Assets; PPE: Capitalizing Costs; PPE: Depreciation; Changes in Depreciation Estimates; PPE: Disposals; Asset Impairments; Natural Resources; Intangible Assets
- **Preparation:**
  - Read Chapter 8
- **Statement of Cash Flows**
  - Segments: Overview; Operating, Investing and Financing Sections
- **Preparation:**
  - Read Chapter 4

### Week 7 Zoom (2/22/23): Long-Term Assets

- Optional practice problems (solutions provided): 8-22 (for Part C, use FSET), 8-28, 8-32
- **Homework:** 8-27, 8-35 (for Part B, use FSET), and The Flex Factory (provided in syllabus)

### Week 8 Zoom (3/1/23): Statement of Cash Flows

- Optional practice problems (solutions provided): 4-23, 4-28, 4-39, 4-41, 4-42, 4-43, 4-36
- **Homework:** 4-26, 4-29, 4-30



### **Week 9 In-Person (3/4/23)**

- **Quiz 4 (Weeks 7 & 8 Material)**
- **Final Exam Review**

### **Week 9 Zoom (3/8/23): Final Exam Preparation**

- **Homework:** Kelly's Kites (file in Canvas)

## 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:

	<u>Units</u>	<u>Cost per unit</u>	<u>Total Cost</u>
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.*