How to Teach the Pathways Vision Model Elements

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Boston College

2014 AAA Western Region Meeting

April 25, 2014

Slides posted at

www.navigatingaccounting.com/presentation/presentations

How to Teach the Pathways Vision Model Elements

Agenda

- Framing:
  - Biggest challenges
  - Levers to address challenges
  - Learning framework
- How we teach the intro course:
  - First day: Shattering misconceptions
  - Developing concept maps and related skills
  - Applying concept maps:
    - Allowance for bad debts
    - Comparing companies' future prospect
  - Last day: Pulling it all together

Framing

Our Biggest Challenges

- How do we accommodate students' differences?

- How do we put 20 pounds of sugar into a 5 pound bag?

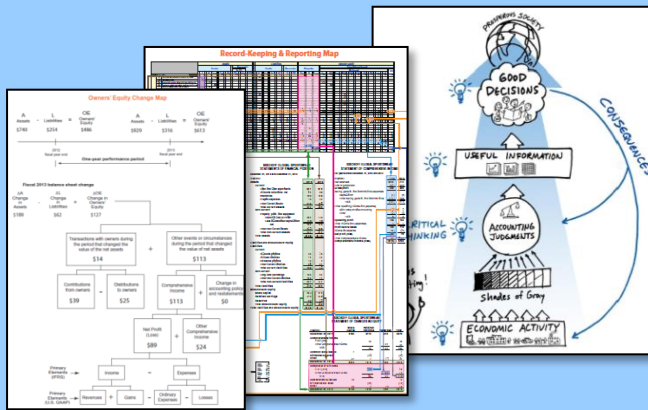
- How do we respond to MOOC threats?

Framing

Levers We Use to Address Challenges

1. Robust concepts & frameworks applied extensively to global companies

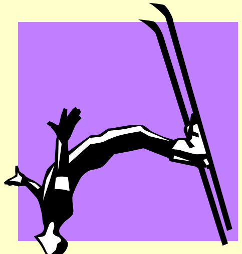
   TODAY'S FOCUS

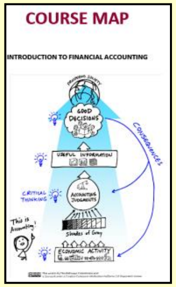


2. Technology

3. Incentives to motivate preparation and participation

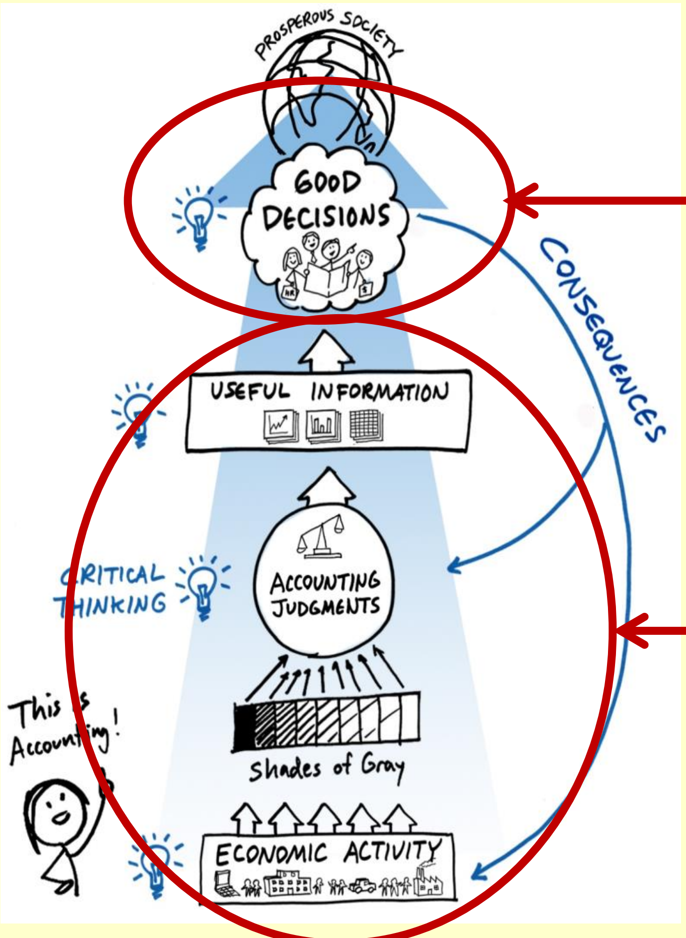
4. Flipping





Framing

Outsider-Insider-Outsider (O-I-O) Learning Framework



Step 1

What do I see on the surface?

Step 2

What's behind what I see?

Step 3

How do I use what I see and my understanding of what's behind what I see?

First Day: Shattering Misconceptions

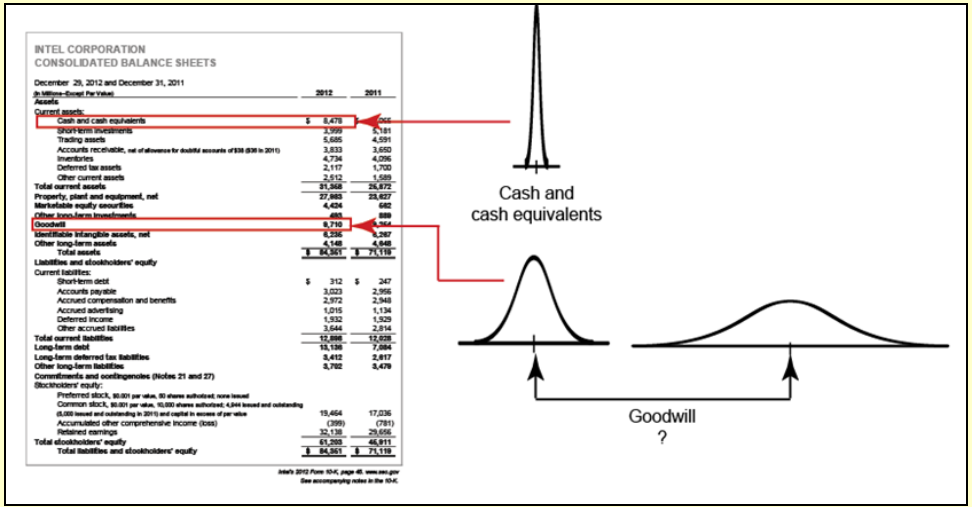
Balance Sheet Elements and Measurement Judgments

1st Session

- Explore measurement judgments in settings students understand
- Illustrate how lessons apply to more complex real-world settings
- Grasp that judgments can create ‘fuzziness’

You have a balance sheet:

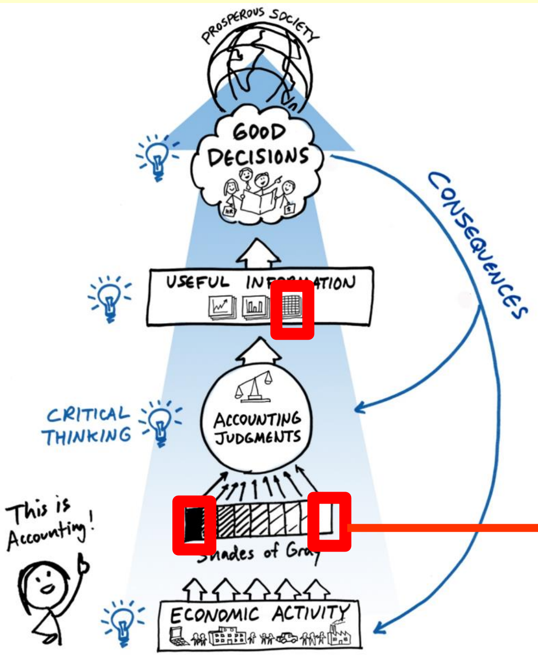
- Measurement aside, what tends to be your 2-3 biggest assets?
- That is, what are the resources with probable future benefits you control as a result of past events or circumstances?



Developing Concept Maps and Related Skills

Record Keeping and Reporting (R&R) Map – Phase 1

2nd Session



			Assets											=		Liabilities								+	Owners' Equity	
			Current							+	Non-current			=		Current			+	Non-current				+	Permanent	
		+	C	+	AR	+	Inven	+	OCA	+	PPE	+	ONCA	=	+	AP	+	OCL	+	LTD	+	ONCL	+	SCap	+	OPOE
December 31, 2012		+	+ $13	+	+ $78	+	+ $103	+	+ $178	+	+ $175	+	+ $199	=	+	+ $35	+	+ $95	+	+ $60	+	+ $70	+	+ $214	+	+ $272
Period Entries	E1 Issued share capital for cash	+	+ 10	+		+		+		+		+		=	+		+		+		+		+	+ 10	+	
	E2 Issued non-current debt for cash	+	+ 10	+		+		+		+		+		=	+		+		+	+ 10	+		+		+	
	E3 Purchased PP&E with cash	+	- 20	+		+		+		+	+ 20	+		=	+		+		+		+		+		+	
	E4 Purchased merchandise for resale	+		+		+	+ 80	+		+		+		=	+	+ 80	+		+		+		+		+	
	E5 Paid invoices due	+	- 225	+		+		+		+		+		=	+	- 225	+		+		+		+		+	
	Other period entries	+	+ 243	+	+ 28	+	- 36	+	+ $51	+	- 1	+	+ 34	=	+	+ 135	+	+ $2	+	+ 35	+	+ 30	+	+ 29	+	- 25
December 31, 2013		+	+ $31	+	+ $106	+	+ $147	+	+ $229	+	+ $194	+	+ $233	=	+	+ $25	+	+ $97	+	+ $105	+	+ $100	+	+ $253	+	+ $360

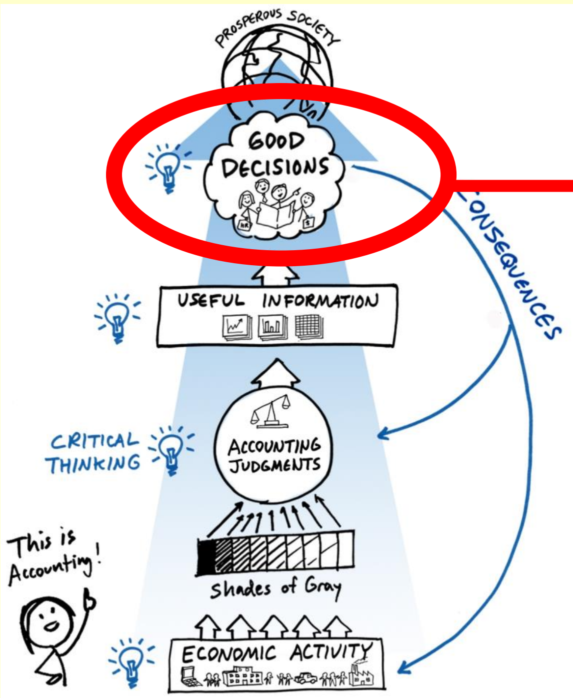
BISCHOFF GLOBAL SPORTSWEAR
STATEMENTS OF FINANCIAL POSITION

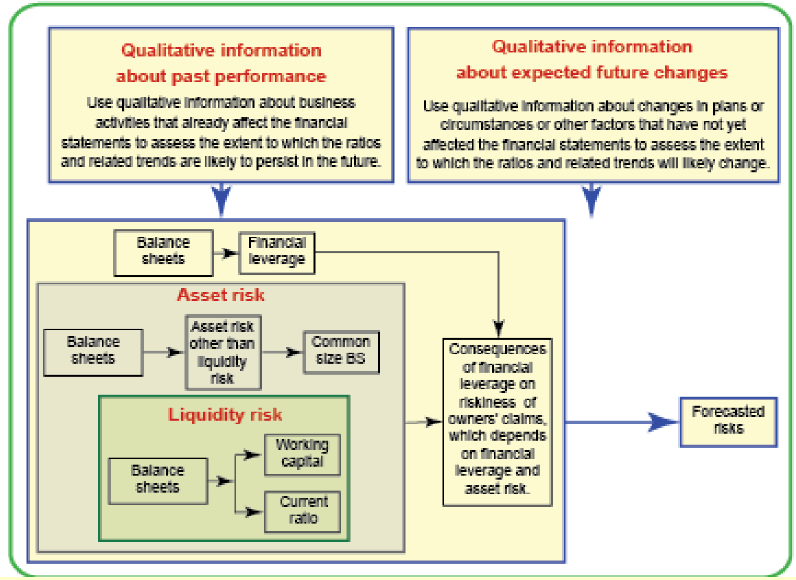
December 31, 2013 and December 31, 2012

(In Millions)

	2013	2012
Assets		
Current		
Cash and cash equivalents	$31	$13
Accounts receivable, net	106	78
Inventories	147	103
Other current assets	229	178
Total current assets	513	372
Non-current		
Property, plant, and equipment, net	194	175
Other non-current assets	233	199
Total non-current assets	427	374
Total assets	$940	$746
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	25	35
Other current liabilities	97	95
Total current liabilities	122	130
Non-current		
Long-term borrowings	105	60
Other non-current liabilities	100	70
Total non-current liabilities	205	130
Total liabilities	327	260
Stockholders' equity		
Share capital	253	214
Other stockholders' equity	360	272
Total stockholders' equity	613	486
Total liabilities and stockholders' equity	$940	$746

4th Session





Part I: Your qualified claim and opening remarks

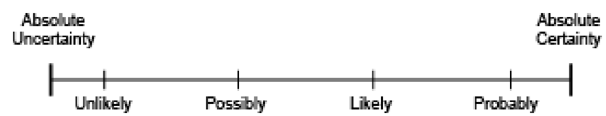
Claim:

Fill in the blank with either Starwood Hotels or Marriott International:

_______________________ appears to have had a stronger financial health and recovery during 2011-2012.
[Starwood Hotels or Marriott International]

Qualifiers:

Put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far.



The Toulmin Method of Argumentation: The Second Triad, Keith Green
http://www.youtube.com/watch?v=gRaC_vZID8

Part II: Your arguments

Provide no more than three arguments in support of your claim in the space provided below, numbered and arranged according to your assessment of their strength (from strongest to weakest).

Part III: Your counterarguments and rebuttals

Provide no more than three counterarguments to your claim, numbered and arranged according to your assessment of their challenge to the claim (from strongest to weakest). If possible provide rebuttals immediately below each counterargument.

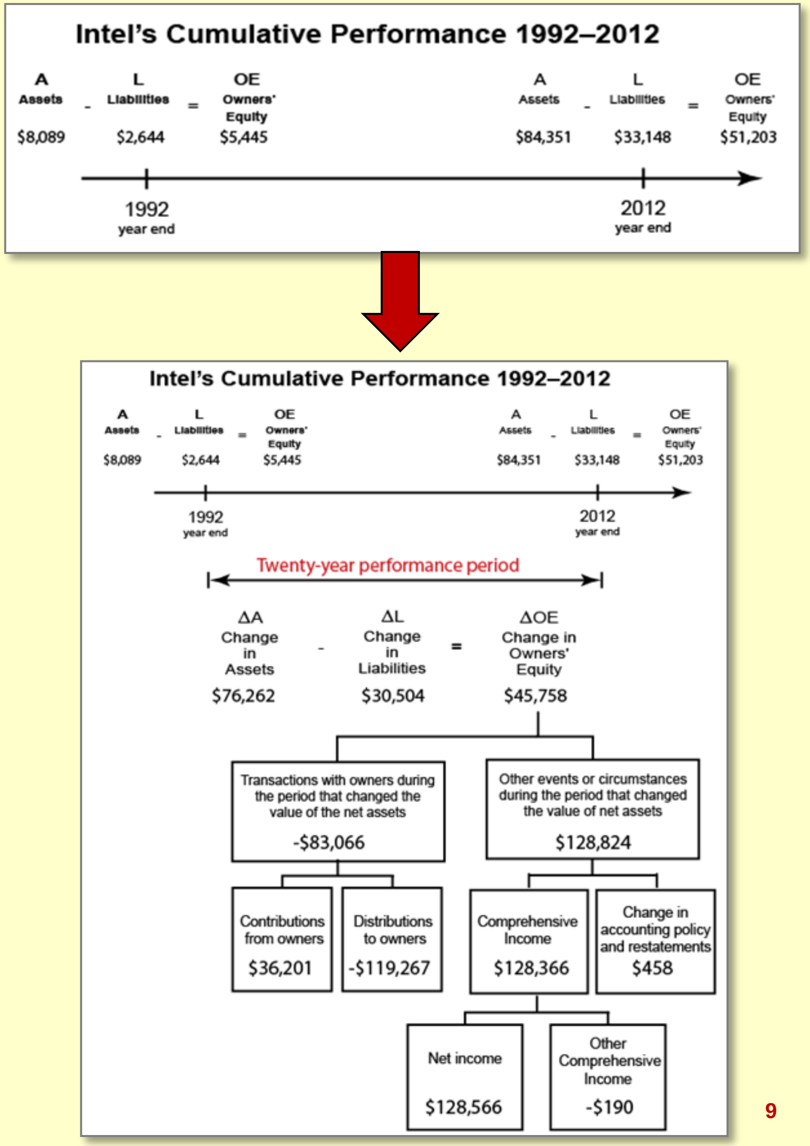
Developing Concept Maps and Related Skills

Owners' Equity Change (OEC) Map

5th Session

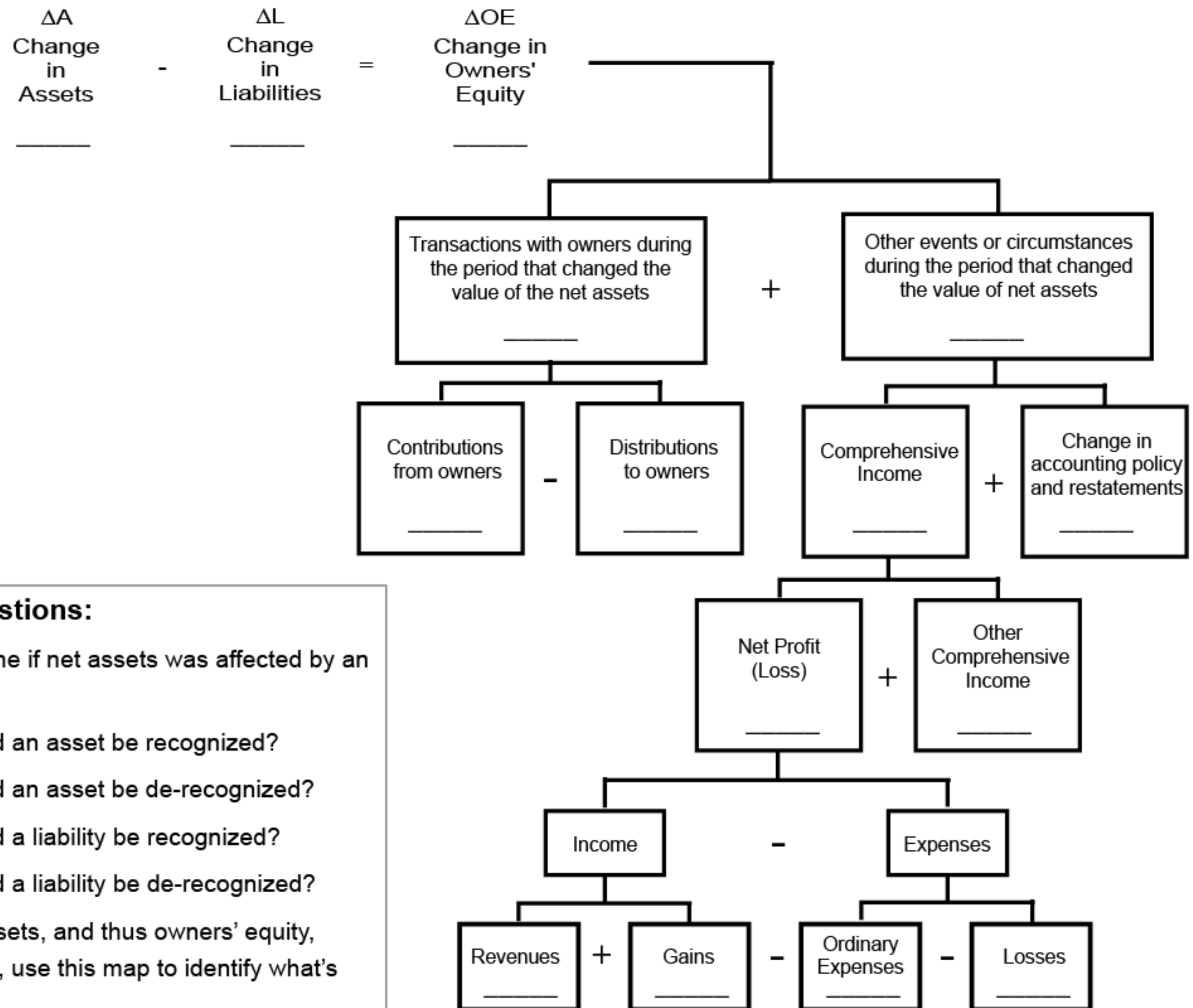
Helps students understand:

- Elements of statements of comprehensive income
- Elements of statements of change in owners' equity
- How balance sheets, income statements, and statements of owners' equity are connected



5th Session

Helps students record any entry



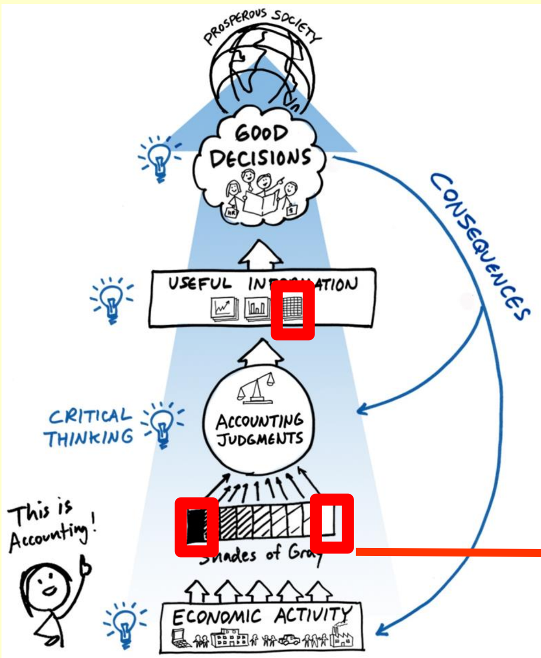
Four Questions:

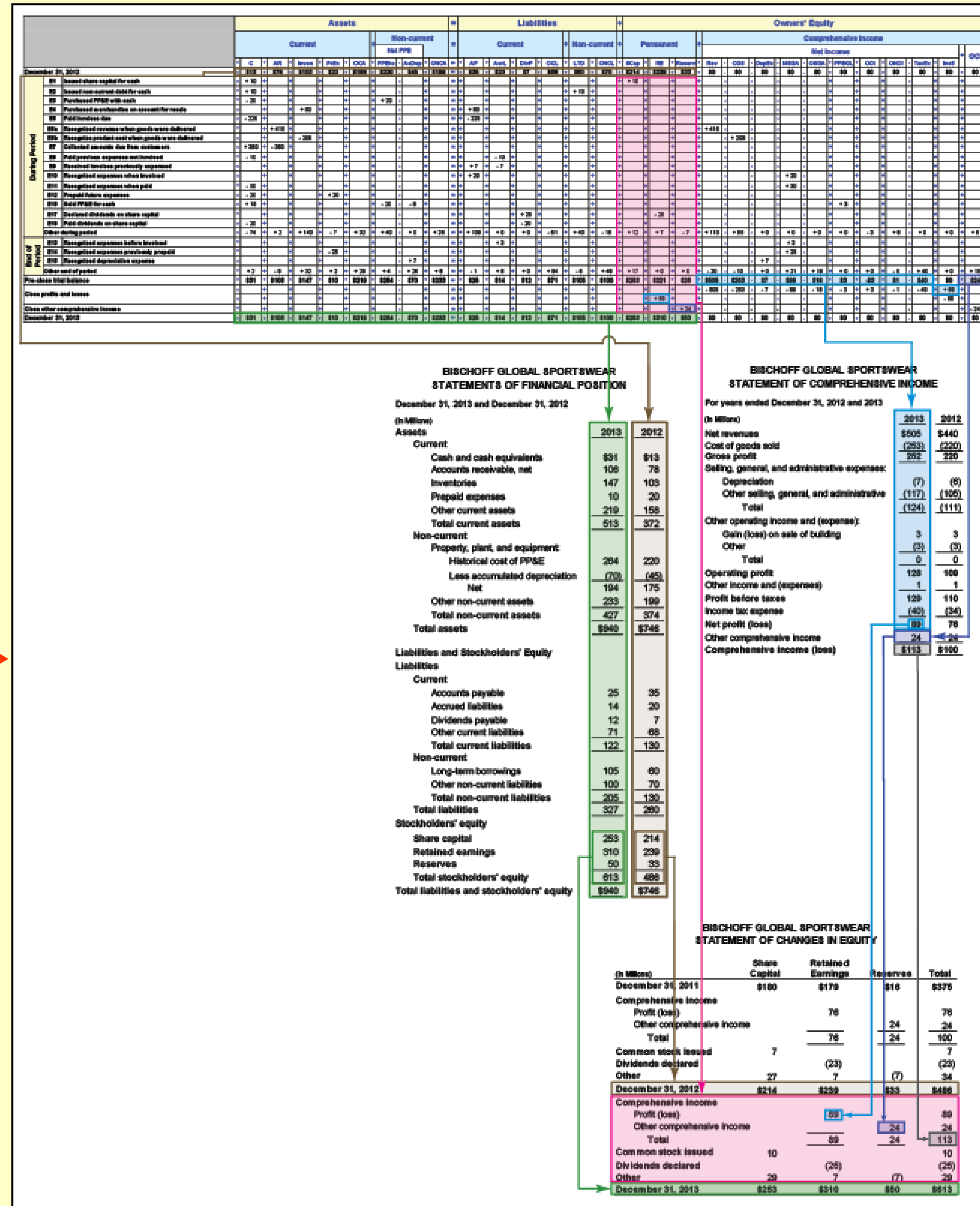
- Determine if net assets was affected by an event:
  - Should an asset be recognized?
  - Should an asset be de-recognized?
  - Should a liability be recognized?
  - Should a liability be de-recognized?
- If net assets, and thus owners' equity, changed, use this map to identify what's affected.

Developing Concept Maps and Related Skills

Record Keeping and Reporting (R&R) Map – Phase 2

5th Session

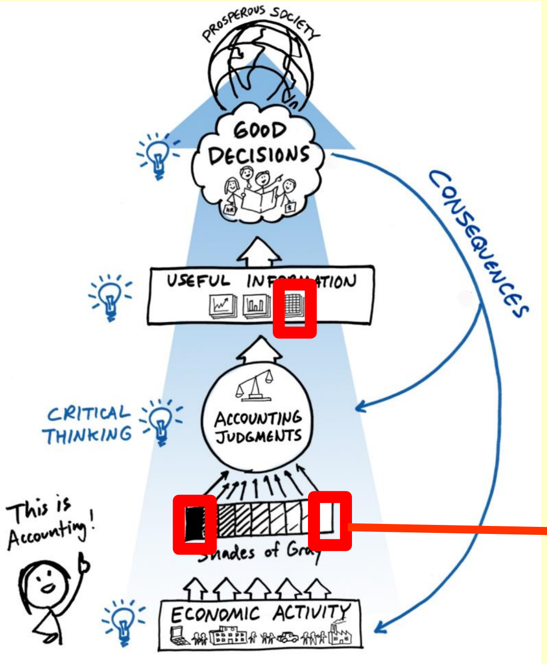


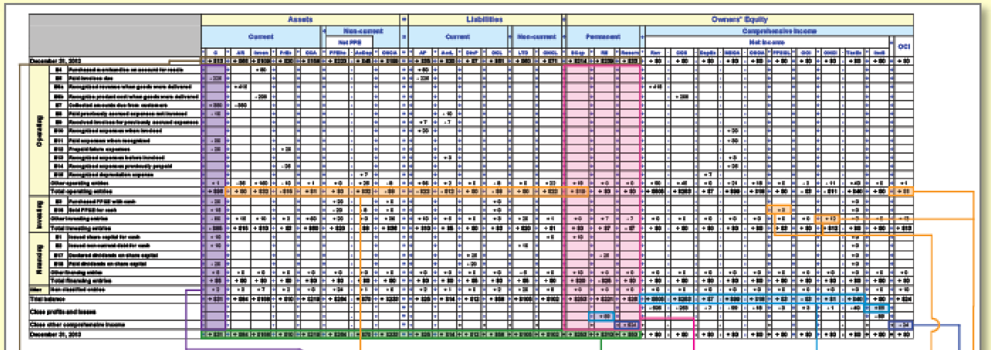


Developing Concept Maps and Related Skills

Record Keeping and Reporting (R&R) Map – Completed

15th Session





BISCHOFF GLOBAL SPORTSWEAR
STATEMENT OF CASH FLOWS (Direct format)
For years ended December 31, 2012 and 2013
(in Millions)

	2013	2012
Cash flows from operating activities		
Collected accounts receivable	$380	$293
Paid accounts payable	(225)	(201)
Paid accrued expenses not invoiced	(10)	(9)
Paid expenses recognized when paid	(30)	(27)
Paid prepaid expenses	(20)	(18)
Other operating cash flows	1	(13)
Net cash provided by (used in) operations	$96	$25
Cash flows from investing activities		
Payments for property, plant, and equipment	(20)	(17)
Other investing cash flows	(65)	(23)
Net cash provided by (used in) investing activities	(85)	(40)
Cash flows from financing activities		
Proceeds from issue of share capital	10	7
Proceeds from borrowings	10	9
Other financing cash flows	(15)	(14)
Net cash provided by (used in) financing activities	5	2
Net increase (decrease) in cash during year	16	(13)
Other	2	2
Cash and Cash equivalents at start of year	13	24
Cash and Cash equivalents at end of year	$31	$13

BISCHOFF GLOBAL SPORTSWEAR
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and December 31, 2012
(In Millions)

	2013	2012
Assets		
Current		
Cash and cash equivalents	$31	$13
Accounts receivable, net	84	66
Inventories	158	109
Prepaid expenses	10	20
Other current assets	219	158
Total current assets	502	366
Non-current		
Property, plant, and equipment:		
Historical cost of PP&E	264	220
Less accumulated depreciation	(70)	(45)
Net	194	175
Other non-current assets	233	199
Total non-current assets	427	374
Total assets	$929	$740
Liabilities and Stockholders' Equity		
Liabilities		
Current		
Accounts payable	25	35
Accrued liabilities	14	20
Dividends payable	12	7
Other current liabilities	58	61
Total current liabilities	109	123
Non-current		
Long-term borrowings	105	60
Other non-current liabilities	102	71
Total non-current liabilities	207	131
Total liabilities	316	254
Stockholders' equity		
Share capital	253	214
Retained earnings	310	239
Reserves	50	33
Total stockholders' equity	613	486
Total liabilities and stockholders' equity	$929	$740

BISCHOFF GLOBAL SPORTSWEAR
STATEMENT OF COMPREHENSIVE INCOME
For years ended December 31, 2012 and 2013
(in Millions)

	2013	2012
Net revenues	$505	$440
Cost of goods sold	(253)	(220)
Gross profit	252	220
Selling, general, and administrative expenses:		
Depreciation	(7)	(6)
Other selling, general, and administrative	(117)	(105)
Total	(124)	(111)
Other operating income and (expense):		
Gain (loss) on sale of building	3	3
Other	(3)	(3)
Total	0	0
Operating profit	128	109
Other income and (expenses)	1	1
Profit before taxes	129	110
Income tax expense	(40)	(34)
Net profit (loss)	89	76
Other comprehensive income	24	24
Comprehensive income (loss)	$113	$100

BISCHOFF GLOBAL SPORTSWEAR
STATEMENT OF CASH FLOWS
For years ended December 31, 2012 and 2013
(in Millions)

	2013	2012
Cash flows from operating activities		
Net profit	$89	$76
Adjustments		
(Gain) loss on sale of PP&E	(3)	(3)
Depreciation	32	28
Accounts receivable	0	(38)
Inventories	(32)	(36)
Prepaid expenses	15	13
Accounts payable	(22)	(21)
Accrued liabilities	(12)	(10)
Other	29	16
Net cash provided by (used in) operations	96	25

BISCHOFF GLOBAL SPORTSWEAR
STATEMENT OF CHANGES IN EQUITY

(In Millions)	Share Capital	Retained Earnings	Reserves	Total
December 31, 2011	$180	$179	$16	$375
Comprehensive income				
Profit (loss)		76		76
Other comprehensive income			24	24
Total		76	24	100
Common stock issued	7			7
Dividends declared		(23)		(23)
Other	27	7	(7)	34
December 31, 2012	$214	$239	$33	$486
Comprehensive income				
Profit (loss)		89		89
Other comprehensive income			24	24
Total		89	24	113
Common stock issued	10			10
Dividends declared		(25)		(25)
Other	29	7	(7)	29
December 31, 2013	$253	$310	$50	$613

16th Session

Pre-class work

Begin to learn terms and concepts from on-line texts/videos

Apply concepts to fictitious companies

Learn how to locate and interpret real-company disclosures

Apply concepts to real companies

Session 16: Customer-related allowances: Bad debts

Read

We have yet to create videos for customer-related allowances. However, these topics are covered in a written document, *Revenue and Customer-Related Balance Sheet Concepts*, along with other topics we will not be covering in this course:

http://www.navigatingaccounting.com/sites/default/files/Posted/Chapters/Ch_07_rv/3 Wbn/5_txt/Documents/Acrobat/rv_wbn_revenue_and_customer_related_balance_sheet_concepts.pdf

- Skim: pages 4-8 (starting with Risks and Risk Sharing)
- Skim: pages 10-11 (starting with Accounting Implication of Risks)
- Skim: page 16 (through to the start of Discounts for Early Payments)
- Skim: pages 18-19 (return to the assumptions as needed to comprehend the examples)
- Grasp: pages 20-21 (parts (a) and (b) of the example – no collateral)
- Skim: pages 21-22 (parts (d) and (e) of the example – collateral)
- Master: page 22 (part (f) of the example – connection to credit risk)
- Skim: pages 22- 23 (starting with Recovering Write-offs)
- Master: pages 23- 26 (starting with Example)

Do

Practice exercises – Within course scope, but not discussed in class

- Exercise rv.wbn.rec.010 – Bischoff and Intel

  http://www.navigatingaccounting.com/exercise/exercise-rvwbnrec010

- Exercise rv.wbn.rec.030 – Neal Company

  http://www.navigatingaccounting.com/exercise/exercise-rvwbnrec030

Read

- Grasp: pages 27-30 (through Measuring and Calibrating Credit Risk)
- Skim: remainder of page 30 and page 31

Do

Assigned exercise – highest priority for class discussion

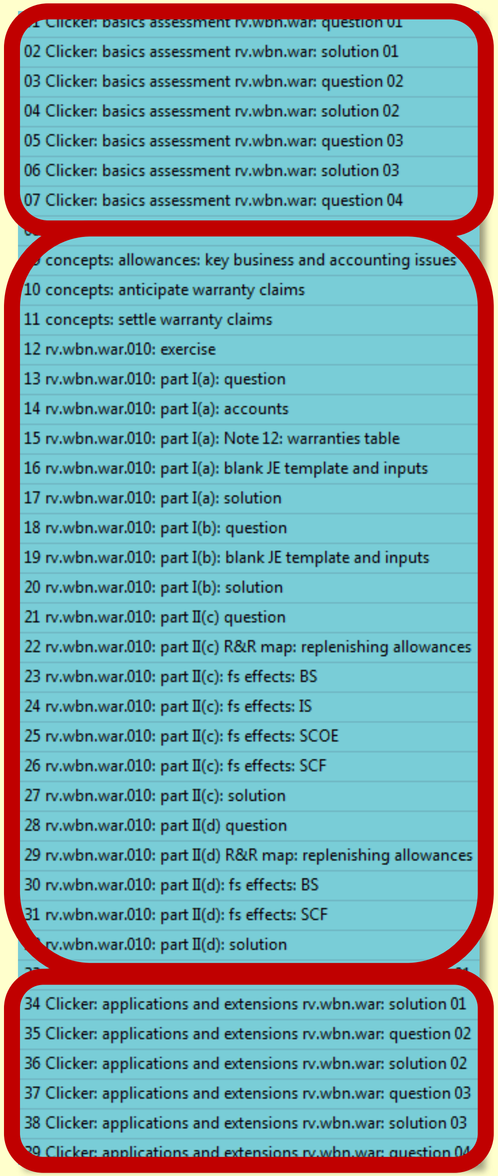
- Exercise rv.wbn.rec.020 – HP

  http://www.navigatingaccounting.com/exercise/exercise-rvwbnrec020

Applying Completed Concept Maps
Allowance for Bad Debts

16th Session

Class OneNote Slides

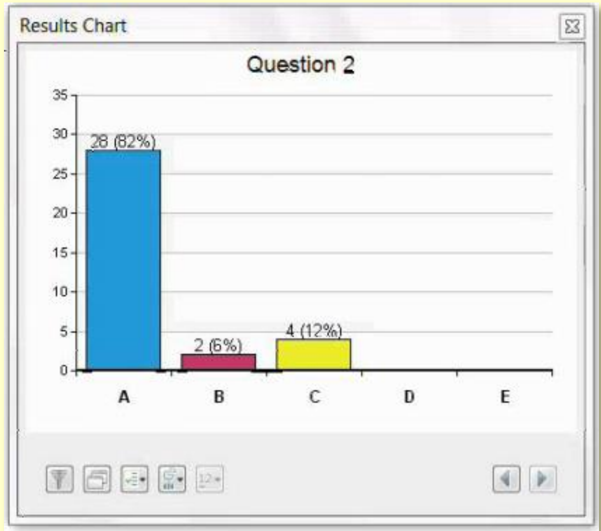


Typical Class Structure

- **Sample**: Basic assessment
  - "Know what you don't know"
- **Respond**: Mini-lectures
  - Concepts
  - Homework problems
- **Apply and Extend**: Problem solving
  - New context
  - More complex context
- **Discuss:** Related risks & judgments

16th Session

Sample: Basic clicker question



Question

What adjusting entry did BB record on (or shortly after) December 31, 2013 to replenish the allowance for doubtful accounts (assuming this was the first time the allowance was replenished in 2013)?

Burke's Bikes
Valuation and Qualifying Accounts (Schedule II)

	For fiscal years ended December 31		
	2013	2012	2011
Allowance for doubtful accounts			
Balance beginning of the period	$12,100	$11,600	$10,000
Additions	13,200	11,700	11,300
Deductions	(12,000)	(11,200)	(9,700)
Balance, end of the period	$13,300	$12,100	$11,600

Which of the following is the best response?

(a)

Replenishing allowance	Debit	Credit
Bad debt expense	$13,200	
Allowance for doubtful accounts		$13,200

(b)

Replenishing allowance	Debit	Credit
Bad debt expense	$13,200	
Gross accounts receivable		$13,200

(c)

Replenishing allowance	Debit	Credit
Allowance for doubtful accounts	$13,200	
Gross accounts receivable		$13,200

(d) none of the above

16th Session

Respond: Review key concepts

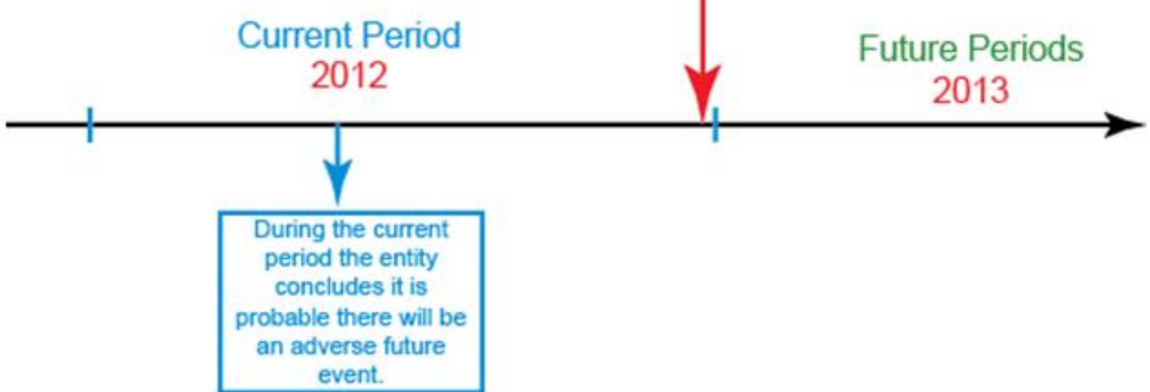
10 concepts: anticipate receivable write offs

Burke's Bikes
Valuation and Qualifying Accounts (Schedule II)

	For fiscal years ended December 31		
	2013	2012	2011
Allowance for doubtful accounts			
Balance beginning of the period	$12,100	$11,600	$10,000
Additions	13,200	11,700	11,300
Deductions	(12,000)	(11,200)	(9,700)
Balance, end of the period	$13,300	$12,100	$11,600

Replenishing allowance at end of 2012

	Debit	Credit
Bad debt expense	$11,700	
Allowance for doubtful accounts		$11,700



Applying Completed Concept Maps

Allowance for Bad Debts

16th Session

Respond: Review select homework problems

Part II

Question

(c) Determine the financial-statement effects of replenishing the allowances:

Replenish bad debt allowance

CONSOLIDATED BALANCE SHEETS

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐
	☐	☐

CONSOLIDATED STATEMENTS OF INCOME

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐
	☐	☐

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐
	☐	☐

STATEMENT OF CASH FLOWS

Line Items	Increases	Decreases
	☐	☐
	☐	☐
	☐	☐
	☐	☐

Respond: Review select homework problems

Solution

Replenish bad debt allowance

	Debit	Credit
Bad debt expense: accounts receivable & financing receivables	$142	
Allowance for bad debts: accounts receivable		$100
Allowance for bad debts: financing receivables		$42

HEWLETT PACKARD COMPANY AND SUBSIDIARIES

Valuation and Qualifying Accounts

	For the fiscal years ended October 31		
	2012	**2011**	**2010**
		In millions	
Allowance for doubtful accounts accounts receivable:			
Balance, beginning of period	$470	$525	$629
Increase in allowance from acquisitions		27	7
Addition of bad debt provision	100	23	80
Deductions, net of recoveries	(106)	(105)	(191)
Balance, end of period	$464	$470	$525
Allowance for doubtful accounts financing receivables:			
Balance, beginning of period	130	140	108
Additions to allowance	42	58	76
Deductions, net of recoveries	(23)	(68)	(44)
Balance, end of period	$149	$130	$140

16th Session

Respond: Review select homework problems

27 rv.wbn.rec.020: part II(c): fs effects: SCF

Replenish bad debt allowance

	Debit	Credit
Bad debt expense: accounts receivable & financing receivables	$142	
Allowance for bad debts: accounts receivable		$100
Allowance for bad debts: financing receivables		$42

HEWLETT PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2012	2011	2010
		In millions	
Cash flows from operating activities:			
Net (loss) earnings	$ (12,650)	$ 7,074	$ 8,761
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Depreciation and amortization	5,095	4,984	4,820
Impairment of goodwill and purchased intangible assets	18,035	885	
Stock-based compensation expense	635	685	668
Provision for doubtful accounts accounts and financing receivables	142	81	156
Provision for inventory	277	217	189
Restructuring charges	2,266	645	1,144
Deferred taxes on earnings	(711)	166	197
Excess tax benefit from stock-based compensation	(12)	(163)	(294)
Other, net	265	(46)	169

Applying Completed Concept Maps

Allowance for Bad Debts

16th Session

Apply and Extend: Clicker question

Refer to rv.wbn.rec Clickers Reference Information.

Question

Identify correct entries for Coach's "Allowance for Bad debts" for the year ended June 29, 2013.

Which of the following is the best response?

(a)

	Debit	Credit
Provision for bad debt	$529	
Allowance for doubtful accounts		$529

(b)

	Debit	Credit
Allowance for doubtful accounts	$1,651	
Gross accounts receivable		$1,651

(c)

	Debit	Credit
Gross accounts receivable	$1,651	
Allowance for doubtful accounts		$1,651

(d) (a) and (b)

Applications and Extensions Clicker: Reference Information

COACH INC
Schedule II -- Valuation and Qualifying Accounts
For Fiscal Years Ended June 29, 2013, June 30, 2012, and July 2, 2011
(amounts in thousands)

	Balance at Beginning of Year	Provision Charged to Costs and Expenses	Write-offs/ Allowances Taken	Balance at end of Year
Fiscal 2013				
Allowance for bad debts	$3,318	($529)	($1,651)	$1,138
Allowance for returns	2,810	8,644	(4,431)	7,023
Allowance for markdowns	3,685	22,484	(17,845)	8,324
Valuation allowance 1	53,503	29,252	(3,156)	79,599
Total	$63,316	$59,851	($27,083)	$96,084
Fiscal 2012				
Allowance for bad debts	$3,431	($117)	$4	$3,318
Allowance for returns	2,196	1,752	(1,138)	2,810
Allowance for markdowns	3,917	10,267	(10,499)	3,685
Valuation allowance 1	21,800	31,703		53,503
Total	$31,344	$43,605	($11,633)	$63,316
Fiscal 2011				
Allowance for bad debts	$1,943	$1,495	($7)	$3,431
Allowance for returns	1,371	3,837	(3,012)	2,196
Allowance for markdowns	3,651	7,233	(6,967)	3,917
Valuation allowance 1	1,217	20,583		21,800
Total	$8,182	$33,148	($9,986)	$31,344

16th Session

Applications and Extensions Clicker: Solution

COACH INC
Schedule II -- Valuation and Qualifying Accounts
For Fiscal Years Ended June 29, 2013, June 30, 2012, and July 2, 2011
(amounts in thousands)

	Balance at Beginning of Year	Provision Charged to Costs and Expenses	Write-offs/ Allowances Taken	Balance at end of Year
Fiscal 2013				
Allowance for bad debts	$3,318	($529)	($1,651)	$1,138
Allowance for returns	2,810	8,644	(4,431)	7,023
Allowance for markdowns	3,685	22,484	(17,845)	8,324
Valuation allowance 1	53,503	29,252	(3,156)	79,599
Total	$63,316	$59,851	($27,083)	$96,084

		Debit	Credit
~~(a)~~	Provision for bad debt	$529	
	Allowance for doubtful accounts		$529

		Debit	Credit
(b)	Allowance for doubtful accounts	$1,651	
	Gross accounts receivable		$1,651

16th Session

Discuss: Connect to WSJ Article

MARKETS

Big Banks Are Padding Profits With 'Reserve' Cash

As Revenue Slows, Some Banks Increasingly Use Loan-Loss Reserves to Boost Income

By MICHAEL RAPOPORT

Updated Oct. 25, 2013 7:23 p.m. ET

Federal regulators have warned banks to be careful about padding their profits with money set aside to cover bad loans. But some of the nation's biggest banks did more of it in the third quarter than earlier this year.

J.P. Morgan Chase & Co., Wells Fargo & Co., Bank of America Corp. and Citigroup Inc., the nation's largest banks by assets, tapped a total of $4.9 billion in loan-loss reserves in the third quarter, up by about a third from both the second quarter and the year-ago quarter after adjustments. All the banks except Citigroup showed significant increases compared with the second quarter.

The banks justify the releases. They cite improvements in credit quality and economic conditions—which make it less necessary for them to hold large amounts of reserves as a cushion against loans that go sour—and they say they are following accounting rules that require them to release funds as losses ease.

A Bank of America spokesman said "the significant impact in credit quality we've seen in the last 12 months" has driven the reserve releases. J.P. Morgan, Wells Fargo and Citigroup all pointed to previous comments their top executives recently made indicating that reserve releases were merited because of factors like improving credit quality and the recent increase in housing prices.

But the Office of the Comptroller of the Currency, which regulates nationally chartered banks and federal savings associations, is reiterating warnings to banks about overdoing it.

Wall Street Journal, October 25, 2013

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COACH INC
Schedule II -- Valuation and Qualifying Accounts
For Fiscal Years Ended June 29, 2013, June 30, 2012, and July 2, 2011
(amounts in thousands)

	Balance at Beginning of Year	Provision Charged to Costs and Expenses	Write-offs/ Allowances Taken	Balance at end of Year
Fiscal 2013				
Allowance for bad debts	$3,318	($529)	($1,651)	$1,138
Allowance for returns	2,810	8,644	(4,431)	7,023
Allowance for markdowns	3,685	22,484	(17,845)	8,324
Valuation allowance 1	53,503	29,252	(3,156)	79,599
Total	$63,316	$59,851	($27,083)	$96,084
Fiscal 2012				
Allowance for bad debts	$3,431	($117)	$4	$3,318
Allowance for returns	2,196	1,752	(1,138)	2,810
Allowance for markdowns	3,917	10,267	(10,499)	3,685
Valuation allowance 1	21,800	31,703		53,503
Total	$31,344	$43,605	($11,633)	$63,316
Fiscal 2011				
Allowance for bad debts	$1,943	$1,495	($7)	$3,431
Allowance for returns	1,371	3,837	(3,012)	2,196
Allowance for markdowns	3,651	7,233	(6,967)	3,917
Valuation allowance 1	1,217	20,583		21,800
Total	$8,182	$33,148	($9,986)	$31,344

Applying Completed Concept Maps

Allowance for Bad Debts

16th Session

MARKETS

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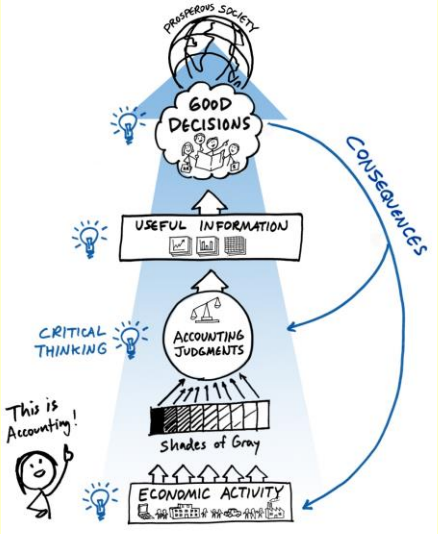
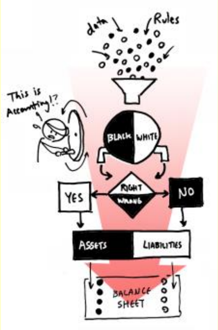
Wall Street Journal, October 25, 2013



What is the accounting reality?



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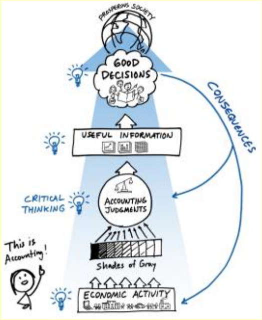
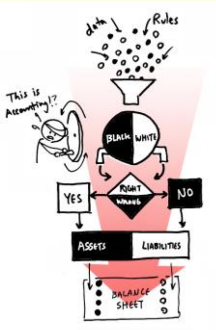
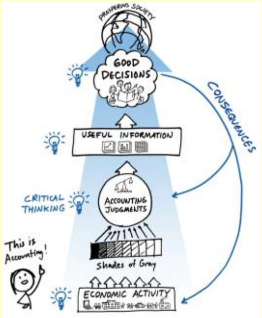


How did readers perceive the article?

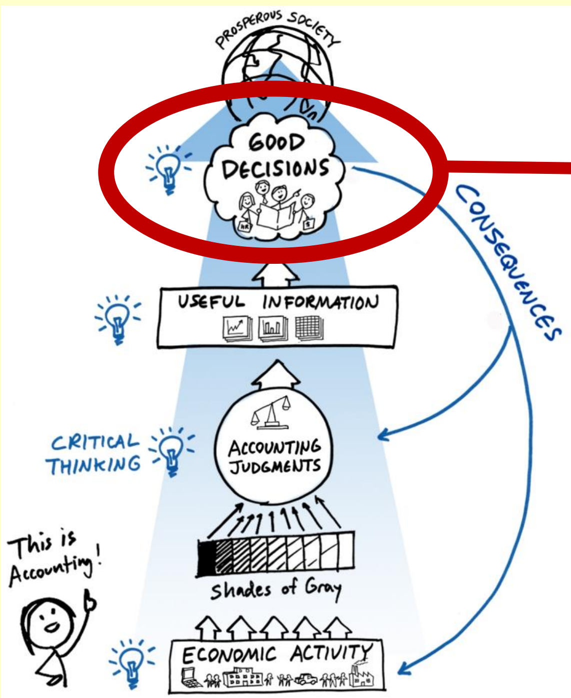


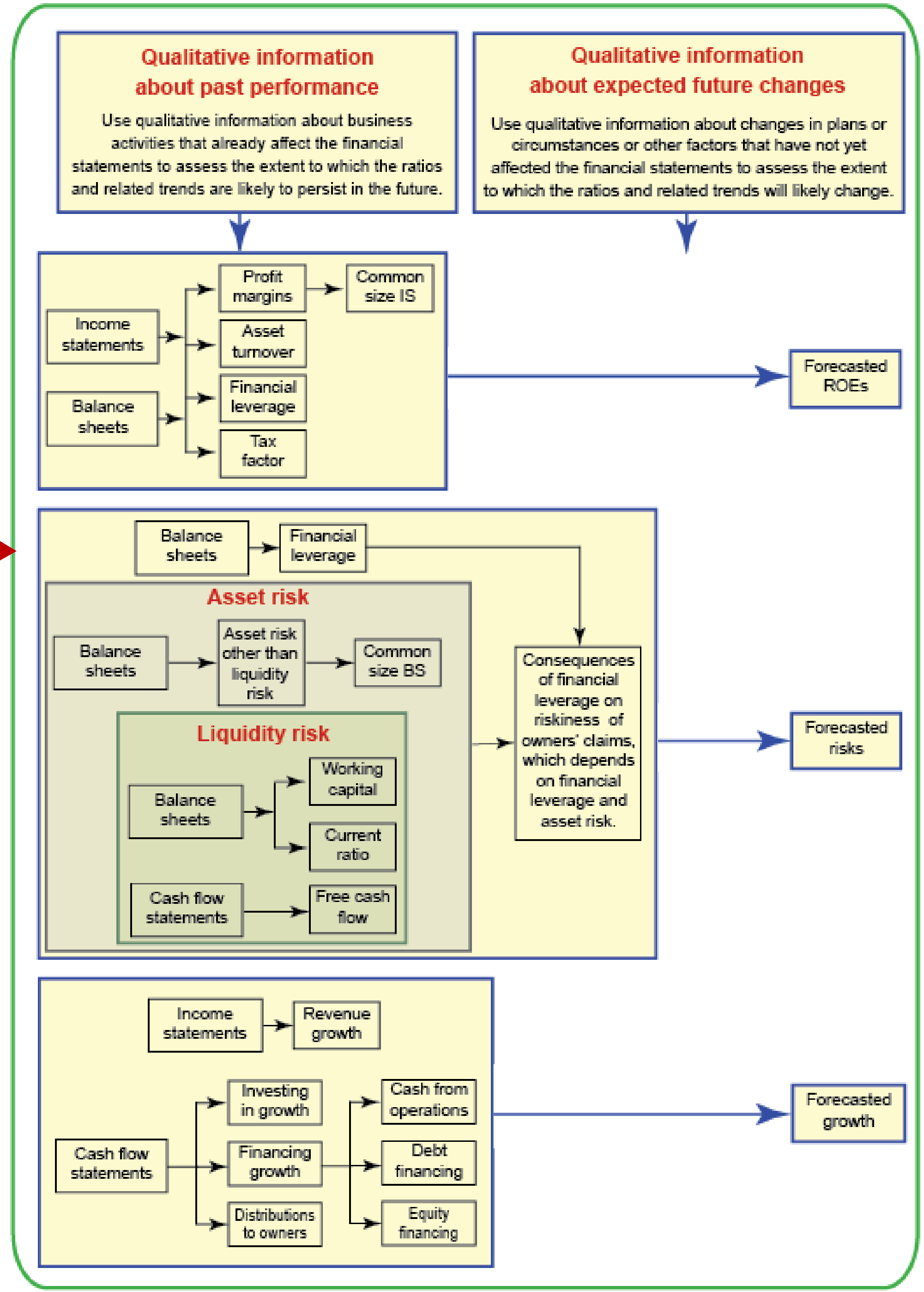


How do we prepare students?

19th Session

Analysis Considerations Map (Completed)





Applying Completed Concept Maps

Comparing Companies' Future Prospects

Applying Completed Concept Maps

Comparing Companies' Future Prospects

Analysis Considerations Map Application: Question

Required

In this question, you will explore Home Depot's and Lowe's future ROEs, growth rates, and risks.

Based solely on concepts covered thus far in the course and the provided background information and tabular data, which company, Home Depot or Lowe's, appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks?

> **Note:** If you conclude one company doesn't dominate the other on all three factors (ROEs, growth rates and risk): (1) In your opening remarks, identify the company that has the best prospects for each of the factors; and (2) incorporate the companies' relative strengths into your arguments, counterarguments, and the confidence you attribute to your claim

Applying Completed Concept Maps

Comparing Companies' Future Prospects

19th Session

Analysis Considerations Map Application: Qualitative Excerpt

Frank Blake - Home Depot Chairman and CEO

"Sales for the fourth quarter were $18.2 billion, up 13.9% from last year. Comp sales were positive 7% and our diluted earnings per share were $0.68. Our stores in the United States had a positive comp of 7.1%. Even though we were anniversarying strong sales from last year's warm weather and storm repair. All three of our U.S. division positively comped in the quarter and 38 of our top 40 markets had positive comps."

Note: "**comp sales** were positive 7%" means sales in established stores (that have been operating for a couple of years) have increased by 7%. This information helps analysts distinguish sales growth due to established stores from that due to new stores.

...

"Operationally Marvin and his team continue to make progress on our customer service initiatives. We have a target of 60-40, where 60% of our store labor hours are dedicated to customer facing activity. We ended the year at 57%. Our customer satisfaction scores improved again during the quarter as well as for the year at the same time that we had the highest annual transactions in the Company history.

During the quarter, we began the rollout of Buy Online Ship-To-Store. We already have in place Buy Online Pick-up In Store and Buy Online Return In Store. These are foundational components of our interconnected retail experience."

Applying Completed Concept Maps

Comparing Companies' Future Prospects

19th Session

Analysis Considerations Map Application: Quantitative Excerpt

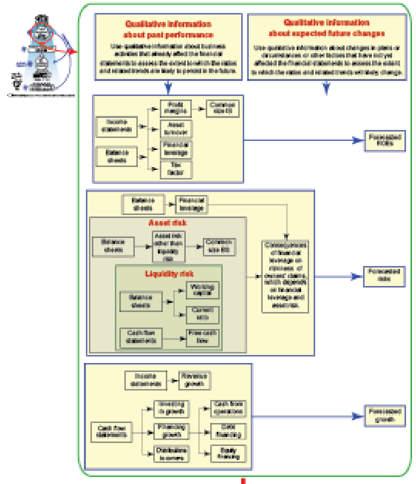
	Home Depot				Lowe's			
	year ended				year ended			
	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009
RATIOS								
Level 1: Comprehensive income								
Return-on-equity-Comprehensive Income (ROE-CI)	26.01%	20.28%	17.87%		12.93%	10.58%	10.95%	
CI/average owners' equity								
Level 2: Major categories								
Return-on-equity (ROE)	25.42%	21.11%	17.44%		12.89%	10.62%	10.81%	
net profit/average owner's equity								
Level 3: Significant Subcategories--DuPont Model								
Profit margin ratio	9.66%	8.62%	7.75%	6.02%	6.21%	5.79%	6.61%	5.98%
profit before taxes/revenue								
Asset turnover	1.83	1.75	1.68		1.53	1.49	1.46	
revenue/average total assets								
Financial leverage	2.29	2.19	2.12		2.18	1.94	1.79	
average total assets/average owners' equity								
Income tax factor	0.63	0.64	0.63	0.66	0.62	0.63	0.62	0.63
1- (tax expense/pretax income)								
Level 4: Line items								
Common size income statements:	Percent of revenues				Percent of revenues			
Net revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods or services sold	65.43%	65.53%	65.73%	66.13%	65.70%	65.44%	64.86%	65.14%
Gross profit margin	34.57%	34.47%	34.27%	33.87%	34.30%	34.56%	35.14%	34.86%
Other operating income and expenses	24.18%	25.00%	25.68%	26.61%	27.25%	28.03%	27.84%	28.27%
Operating profit margin	10.39%	9.46%	8.59%	7.26%	7.05%	6.53%	7.29%	6.59%

Applying Completed Concept Maps

Comparing Companies' Future Prospects

19th Session

Analysis Considerations Map Application: Toulmin Model of Argumentation



Claim →

Qualifiers →

Arguments →

Counterarguments →

Part I: Your qualified claim and opening remarks

Claim:

Fill in the blank with either Home Depot or Lowe's:

______________________ appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks.

Qualifiers:

Put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far.

Absolute Uncertainty — Unlikely — Possibly — Likely — Probably — Absolute Certainty

The Toulmin Method of Argumentation: The Second Triad, Keith Green
http://www.youtube.com/watch?v=-gRaC_vZID8

Part II: Your arguments

Provide no more than three arguments in support of your claim in the space provided below, numbered and arranged according to your assessment of their strength (from strongest to weakest).

Part III: Your counterarguments and rebuttals

Provide no more than three counterarguments to your claim, numbered and arranged according to your assessment of their challenge to the claim (from strongest to weakest). If possible provide rebuttals immediately below each counterargument.

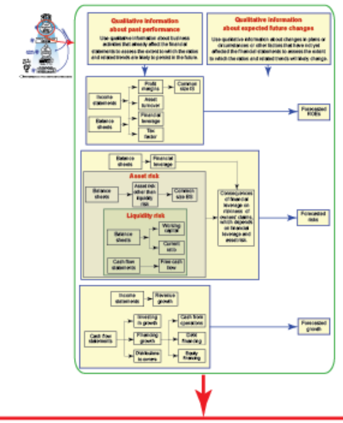
Applying Completed Concept Maps

Comparing Companies' Future Prospects

19th Session

Class Structure

- Survey groups' initial claims
- Discuss supporting arguments, counterarguments and rebuttals
- Survey groups' ending claims
- What did you learn?



Part I: Your qualified claim and opening remarks

Claim:

Fill in the blank with either Home Depot or Lowe's:

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Qualifiers:

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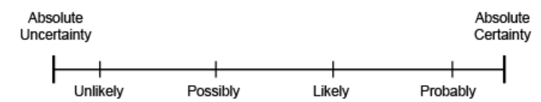

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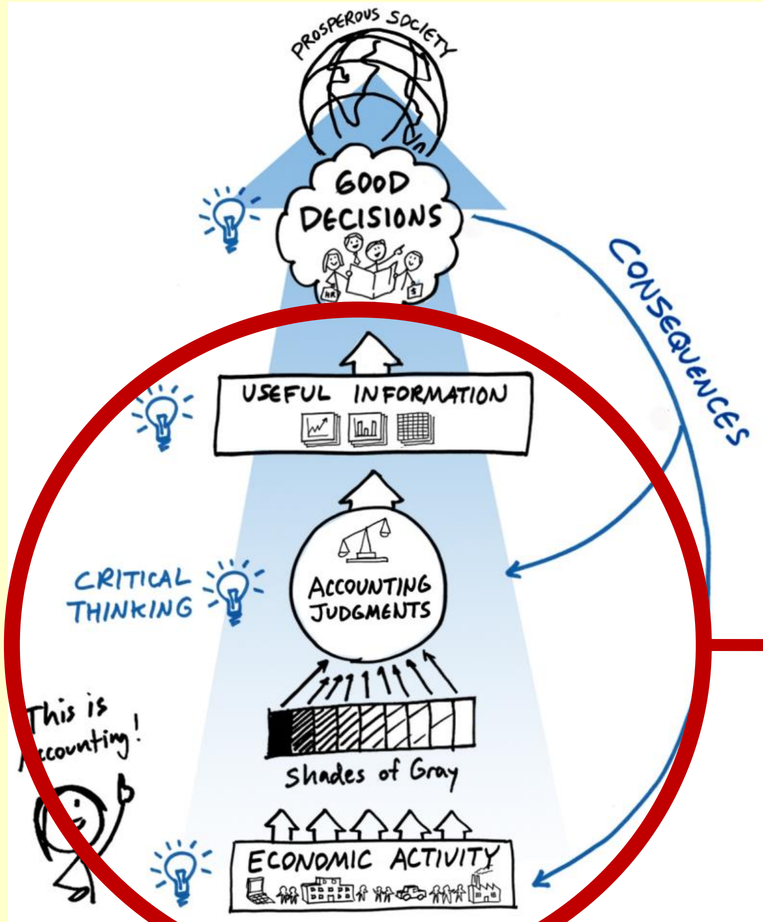
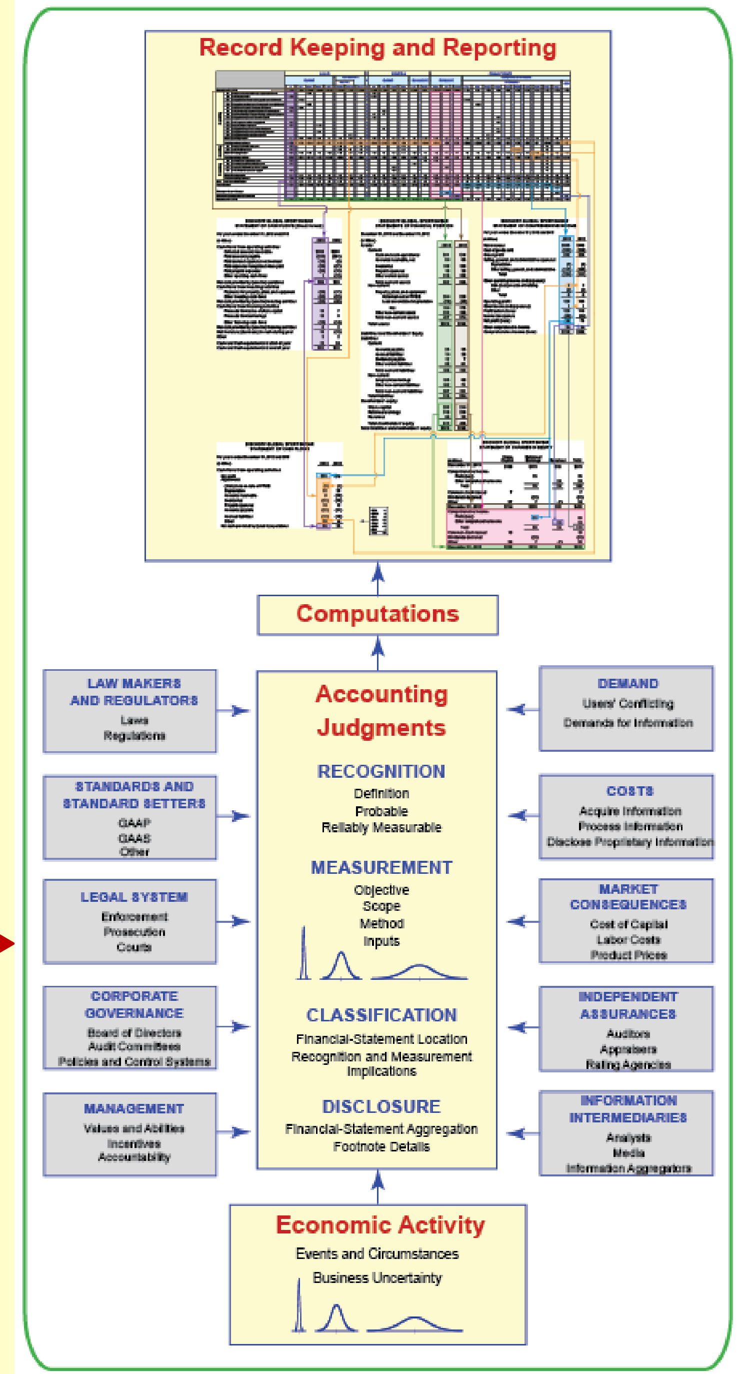
Part III: Your counterarguments and rebuttals

Provide no more than three counterarguments to your claim, numbered and arranged according to your assessment of their challenge to the claim (from strongest to weakest). If possible provide rebuttals immediately below each counterargument.

Final Session

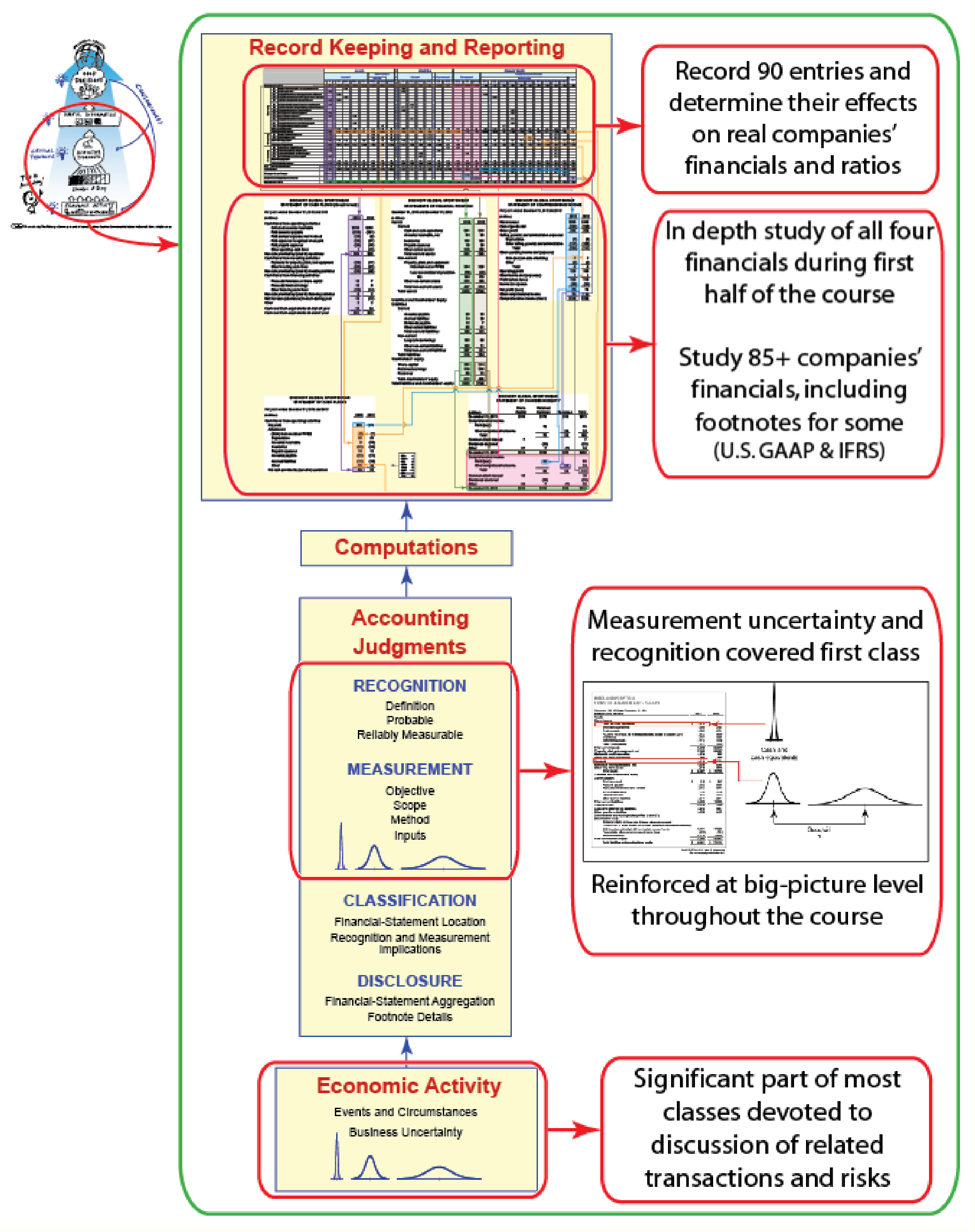
Accounting Decisions Map





Final Session

Course Review

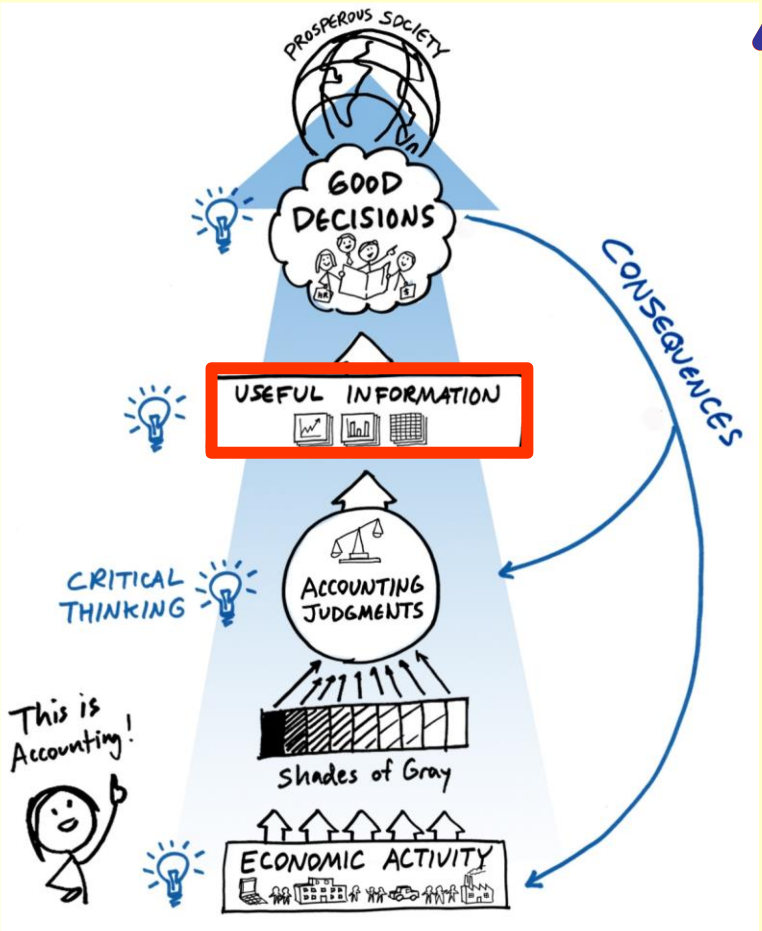


Wrap Up

Applying Pathways Vision Model to Financial Accounting

Wrap Up

Applying Pathways Vision Model to Financial Accounting

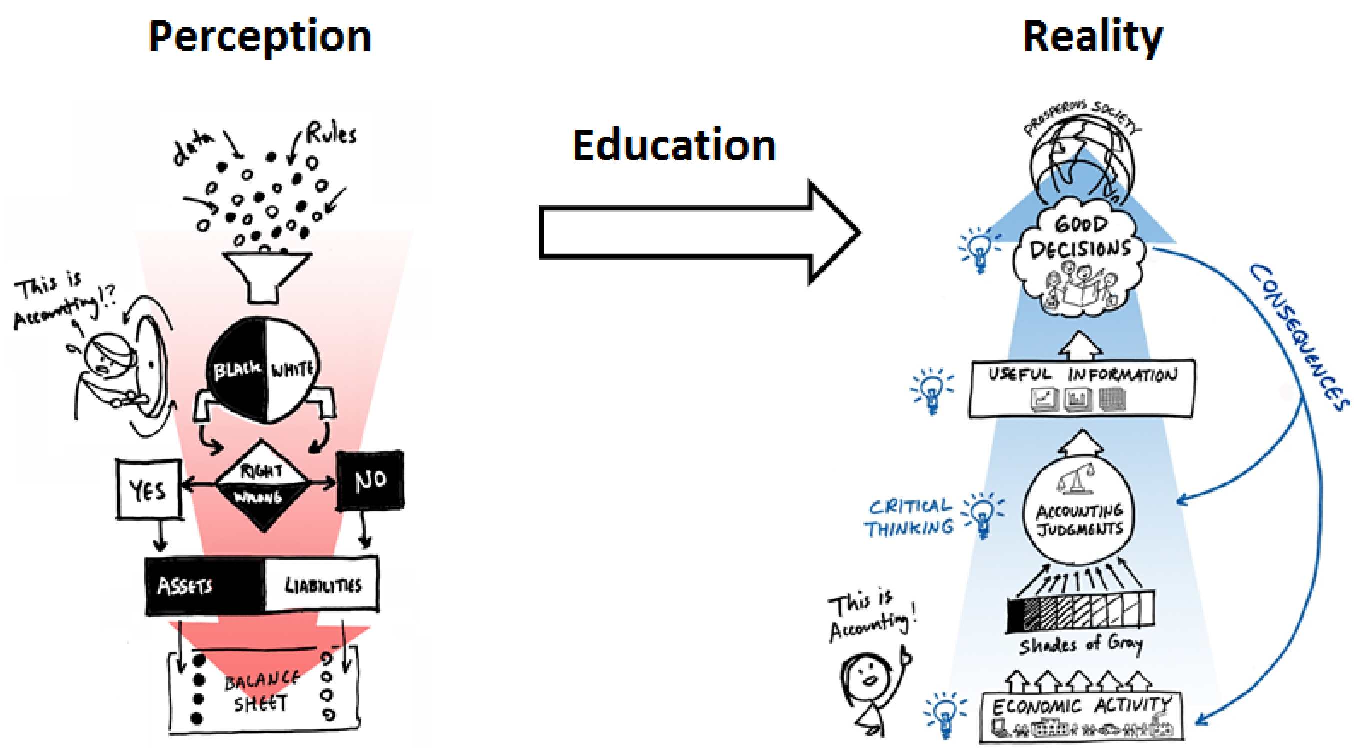


- Analysis
- Ratio effects
- Financial-statement effects
- Entries
- Computations
- Accounting Judgments
- Analyze economic activity
  - Events
  - Risks & incentives

Wrap Up

The Overarching Goal

As educators, our goal is to shift the perception towards the reality.



Pathways Vision Model Concepts and Applications

Resources

NavigatingAccounting.com

Instructors' Forum: Course Maps (Syllabuses) and Teaching Videos

http://www.navigatingaccounting.com/content/instructors-forum

Critical Thinking Exercises Using Toulmin Model

http://www.navigatingaccounting.com/exercise/exercises-critical-thinking-using-toulmin-model

Analyzing Financial Statements Across Time and Industries

http://www.navigatingaccounting.com/content/analyzing-financial-statements-across-time-and-industries

Students' Materials: Videos and Exercises

http://www.navigatingaccounting.com/book/financial-accounting

Peer Instruction Network

http://blog.peerinstruction.net/

AAA Commons

http://commons.aaahq.org/

Pathways Commission

http://pathwayscommission.org