Pathways Vision Model
Applications in Introductory Financial Accounting

Brigham Young University

April 3, 2015

G. Peter Wilson

Slides will be posted at

www.navigatingaccounting.com/presentation/presentations#Teaching
Simplicity on the far side of complexity
First day – accounting judgments
Analysis days – outsider-users’ decisions
Non-analysis days – insider-preparers’ decisions
"I wouldn’t give a fig for the simplicity this side of complexity but I’d give my life for simplicity on the far side of complexity"

Oliver Wendell Holmes
SIMPPLICITY ON THIS SIDE OF COMPLEXITY

Simple but shallow

Perception

SIMPPLICITY ON THE FAR SIDE OF COMPLEXITY

Simple yet deep

Reality

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SIMPPLICITY ON THE FAR SIDE OF COMPLEXITY

Simple yet deep

Robust concepts and frameworks

Rich applications
Pathways Vision Model

Simplicity on the Far Side of Complexity

Outsiders

Insiders

Reporting entity
bs.wis.050 Applying definitions and measurement to assets, liabilities and owners’ equity

This exercise will help you better understand some of the key concepts in accounting by relating them to a representative student. We introduce the concepts here and develop them more formally in later modules. No solution is provided.

Part I: Asset definition

Here are some things you need to know to complete the exercises:

- Assets are resources with probable future benefits controlled by the entity as a result of past events or circumstances.
- A resource can meet the definition of an asset and still not be reported on the entity’s balance sheet.
- To be recognized on the balance sheet, a resource must meet two criteria: it must meet the definition of an asset and it must be possible to measure its financial value reliably.

Required

Answer the following from the perspective of a representative student:

You are an entity and you have a balance sheet.

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

Things You Need to Know

- Assets are resources with probable future benefits controlled by the entity as a result of past events or circumstances.
- A resource can meet the definition of an asset and still not be reported on the entity’s balance sheet.
- To be recognized on the balance sheet, a resource must meet two criteria: it must meet the definition of an asset and it must be possible to measure its financial value reliably.

Questions

Answer the following question from the perspective of a representative student in your group.

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?
Teaching video for first day exercise

http://www.navigatingaccounting.com/content/instructors-forum#part-2-asset-liability-and-owners-equity-measures-anchor
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?
is.hun.afp.040 Analyzing information to assess companies’ future prospects

(Analysis Mini-Case Series)

This exercise has an open-ended question that allows for several good alternative responses. While there aren’t correct responses to the question, some are definitely better than others. Generally, responses are better to the extent they identify and fully vet arguments, counterarguments, and rebuttals, include appropriate qualifiers, and provide insights regarding the way you assessed the relative merits of the arguments, counterarguments and rebuttals. See The Toulmin Model of Argumentation as a reference.

Additionally, responses must cite sources and use quotation marks when copying word for word. Admittedly, this is overkill here because you can only use the provided information. However, citing here is good practice for situations where there are fewer or no restrictions on the admissible information. Still, you needn’t cite the provided tabular data.
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Analysis Days – Outsider-Users’ Decisions

**Claim**

Part I: Your qualified claim and opening remarks

Fill in the blank with either Coke or Pepsi:

____________________________ 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**

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).

**Arguments**

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.
Pathways Vision Model
Analysis Days – Outsider-Users’ Decisions

Exercises

ish.un.a0.40 Analyzing information to assess companies’ future prospects

(Analysis Mini-Case Studies)

This exercise has an open-ended question that allows for several good alternative responses. While there aren’t correct responses to the question, some are definitely better than others. Generally, responses are better to the extent they identify and fully vet arguments, counterarguments, and rebuttals, include appropriate qualifiers, and provide insights regarding the way you assessed the relative merits of the arguments, counterarguments and rebuttals. See The Toulmin Model of Argumentation as a reference.

Additionally, responses must cite sources and use quotation marks when copying word for word. Admittedly, this is overkill here because you can only use the provided information. However, citing here is good practice for situations where there are fewer or no restrictions on the admissible information. Still, you needn’t cite the provided tabular data.

Usage

This exercise helps you learn how to use accounting information.

• Prepare to use your clicker to vote your claim and the likelihood it is true (your response to Part I)
• Participation: random draw table
Step 3
Analysis
Consideration Map
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?

Non-Analysis Days

Pathways Vision Model
Framing Non-Analysis Days – Insider-Preparers’ Decisions
Step 2
Accounting Decision Map
Non-Analysis Days – Insider-Preparers’ Decisions

Class Structure

15th Session

- **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

Class OneNote Slides

- Clicker basics assessment rv.wbn.war question 01
- Clicker basics assessment rv.wbn.war question 02
- Clicker basics assessment rv.wbn.war question 03
- Clicker basics assessment rv.wbn.war question 04
- Clicker basics assessment rv.wbn.war solution 01
- Clicker basics assessment rv.wbn.war solution 02
- Clicker basics assessment rv.wbn.war solution 03
- Clicker basics assessment rv.wbn.war solution 04
- Clicker basics assessment rv.wbn.war solution 05
Pathways Vision Model

Non-Analysis Days – Insider-Preparers’ Decisions

Self Assessment Quizzes
Quizzes

Know What You Don’t Know – Self Assessment Quizzes

A critical step in the learning process is to know what you don’t know and seek help as soon as possible to ensure you don’t fall behind.

Click below for quizzes that will help you know what you know and don’t know about the topic.

- Balance Sheet Quizzes
- Income Statement Quizzes
- Statement of Cash Flows Quizzes
- Revenue & Customer-related Balance Sheet Quizzes
- Cost of Sales & Supplier-related Balance Sheet Quizzes
- Deferred Expenses & Long-Lived Assets Quizzes
- Interest Expense & Creditor-Related Liabilities Quizzes
# Non-Analysis Days – Insider-Preparers’ Decisions

## Revenue & Customer-related Balance Sheet Quizzes

<table>
<thead>
<tr>
<th>Topics:</th>
<th>Basic</th>
<th>Applications and Extensions</th>
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<tbody>
<tr>
<td>Receivables</td>
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<td>rv.wbn.rec.appl.001</td>
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<tr>
<td>Warranties</td>
<td>rv.wbn.war.basic.001</td>
<td>rv.wbn.war.appl.001</td>
</tr>
</tbody>
</table>

## Quiz rv.wbn.rec.basic.001

- **Questions:** 4
- **Attempts allowed:** Unlimited
- **Available:** Always
- **Pass rate:** 90%
- **Backwards navigation:** Allowed

[Start quiz]
Question 1

Question
On January 1, 2013, Burke’s Bikes (BB) had $403,333 of gross receivables with a $12,100 allowance for uncollectible accounts. During the year ended December 31, 2013, BB wrote off $12,000 receivables. What journal entry summarizes the entries BB recorded during 2013 to recognize the write-offs?

Which of the following is the best response?

Write-off bad debts
(a) Bad debt expense $12,000
   Allowance for doubtful accounts $12,000

Write-off bad debts
(b) Allowance for doubtful accounts $12,000
   Gross accounts receivable $12,000

Write-off bad debts
(c) Gross accounts receivable $12,000
   Allowance for doubtful accounts $12,000

(d) none of the above
## Pathways Vision Model

**Non-Analysis Days – Insider-Preparers’ Decisions**

### Revenue & Customer-related Balance Sheet Quizzes

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</tr>
</tbody>
</table>

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**Quiz rv.wbn.rec.appl.001**

- **Questions:** 7
- **Attempts allowed:** Unlimited
- **Available:** Always
- **Pass rate:** 90%
- **Backwards navigation:** Allowed
**Question 1**

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) Provision for bad debt
   - Debit: $529
   - Credit: $529

(b) Allowance for doubtful accounts
   - Debit: $1,651
   - Credit: $1,651

(c) Gross accounts receivable
   - Debit: $1,651
   - Credit: $1,651

(d) (a) and (b)

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**Schedule II**

**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)

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

*Coach, 2013 10K, page 57*
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.

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
QUESTIONS OR COMMENTS