Transforming the Student Experience in Accounting
Flipping the Classroom to Up our Game

University of Calgary
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Slides will be posted at
www.navigatingaccounting.com/presentation/presentations#Teaching
Agenda

- **Framing**
  - Flipping
  - Building blocks and goals
  - Pathways Vision Model

- **Hands on demonstrations**
  - Balance-sheet judgments
  - Record keeping and reporting
  - Critical thinking and accounting judgments

- **Take aways**
What is flipping?

“Students gain first exposure to new material outside of class, usually via reading or lecture videos, and then use class time to do the harder work of assimilating that knowledge, perhaps through problem-solving, discussion, or debates.”

http://cft.vanderbilt.edu/guides-sub-pages/flipping-the-classroom/
Framing

Upping our Game

Traditional Class

Before class

During class

Thinking skills covered during class

Flipped Class

Before class

During class

Thinking skills covered during class
Framing
Easier Said Than Done

We’re asking students to

- Do more work before class
- Participate at a higher-level in class
- Master tougher material for exams

1. Robust concepts and frameworks

2. Rich applications

3. Detailed course maps

4. Enabling technology

5. Effective motivation
Help students develop

- Robust conceptual frameworks they can apply to navigate complexity and uncertainty throughout their careers
- Relationship skills and attitudes that promote effective and rewarding interactions with others
- A passion for life-long learning and strategies to learn on their own

“A full 90 percent of all the data in the world has been generated over the last two years.”

http://www.sciencedaily.com/releases/2013/05/130522085217.htm
“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
Framing

Pathways Commission Vision Model

- Inclusive
- Interdependent elements
- Simple, yet deep
Framing

Pathways Commission Vision Model

Outsiders

Insiders

Reporting entity
Framing
Find the Healthy Tension Between Teaching and Research

Core Competencies of Highly Successful Scholars

- Real Phenomena
- Creative & Persuasive
- Structuring Expertise
- Relationship Skills
Framing

Simplicity on the Far Side of Complexity

Success Factors

- Internalize concepts
- Apply concepts repeatedly in diverse contexts

http://integral-options.blogspot.com/2013/03/eric-storm-and-beth-meredith-beyond.html
SIMPLICITY ON THE FAR SIDE OF COMPLEXITY

Simple yet **deep**

Robust concepts and frameworks

Rich applications
Framing

Course Design Choices

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

Session 1

- Analysis
- Ratio effects
- Financial-statement effects
- Entries
- Computations
- Accounting Judgments
- Analyze economic activity
  - Events
  - Risks & incentives
A balance sheet is a fuzzy, but useful, picture of a company’s financial health at a reporting date, if properly interpreted.
There is an assignment for the first class!

See the Session 1 assignment
Session 1: Introduction to course

Things you should do to prepare for class

Read

- Course Goals, Principles, Policies and Tips (earlier in this document)

View the Grading Policies video linked to earlier in this document.

We will not discuss these issues during class but will gladly do so before class, after class, or during an office visit. They are very important!

Do

- If you would like to form your own group, see Group Work (earlier in this document)

Watch

- Pathways Vision Model

  - Part 1 [4 minutes]
    Part 1 introduces the Pathways Vision Model.
  - Part 2 [8 minutes]
    Part 2 explains the models where people make decisions or are involved in activities (spine).
  - Part 3 [10 minutes]
    Part 3 explains the models that connect and motivate decisions.
  - Part 4 [4 minutes]
    Part 4 explains the models connections to course title: Financial Accounting: An Enlightening Journey into the Language of Business.

- Course Goals and Relevance [4 minutes]

  Financial Accounting course goals
  Relevance of goals to your career

- Introduction to Financial Statements

  - Part 1 [11 minutes]
    Part 1 introduces the purpose, structure, and uses of balance sheets.
  - Part 2 [14 minutes]
    Part 2 introduces the purpose, structure, and uses of income statements.
  - Part 3 [16 minutes]
    Part 3 introduces the purpose, structure, and uses of cash flow statements.
Using Navigating Accounting

We’ve spend over 20 years developing *Navigating Accounting* content, so it may be overwhelming if you just randomly browse this site (which, of course, you are welcome to do). However, if you want a structured approach to browsing or would like some navigation tips, click here.

Exercises: Critical Thinking Using Toulmin Model

This Analysis Mini-Case Series uses the *Toulmin Model of Argumentation* as a framework for critical thinking. These are chapter exercises and listed here for your reference. New exercises (for these and other chapters) will posted as they’re completed. Click below for exercises.

**Master Book: Work-in-Process**

Click here for our Master Book: WIP: [Financial Accounting, Master Book: Work-in-Process](#)

Master Book: Work-in-Process is the complete collection of our published chapter content: videos, exercises, and text. New content is posted as it’s completed. [When will the book be complete?](#)
Balance Sheet Judgments

Locating Session 1 In-Class Exercise
Balance Sheets

CHAPTER MAP: BALANCE SHEETS

Chapter: Introduction

Outsider Perspective: What Do I See?

- Balance Sheets

Insider Perspective: What’s Behind the Numbers?

- Framing Record Keeping and Reporting
- Recording Entries: Balance-Sheet Equation Approach
- Recording Entries: Journal Entry Approach
- Accounting Judgments: Basics
Balance Sheets

Learning objectives and key take-aways

Express Route Video [16 min]

Exercises

Scenic Route Videos:

1. Reporting Dates and Periods [9 min]

   Terms and concepts: Reporting dates and periods; Calendar and fiscal years.
   Company disclosures: Southwest Airlines, Qantas Airways, and British Airways.

2. Reporting Entity [12 min]

   Terms and concepts: Parents and subsidiaries; Company reporting (parent company reporting); Group reporting (consolidated reporting); Controlling and non-controlling interests. Company disclosures: Southwest Airlines, Qantas Airways, and British Airways.
Exercises: What Do I See on Balance Sheets?

Click below for exercises and related materials.

bs.wis.010. Comparing and contrasting items on all financial statements

bs.wis.020. Identifying primary and major categories on balance sheets

bs.wis.030. Identifying common line items on balance sheets

bs.wis.040. Applying hierarchical approach to analyzing balance sheets

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

Click on the link below for the exercise.

Exercise

bs.wis.050 Applying definitions and measurement to assets, liabilities and owners’ equity [pdf]

Exercise Materials

Intel’s balance sheet [pdf]

Source: Intel’s 2000 Form 10-K www.intel.com Intel is the world’s largest semiconductor chip maker, based on revenue. US GAAP

Exercise Solution

No solution is provided.
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).
(b) Do you meet the definition of an asset on your parent’s balance sheet?
(c) Does your apartment or dorm room meet the definition of an asset on your balance sheet?
(d) Does a car leased for four years meet the definition of an asset on your balance sheet?
(e) Does a car rented for two days meet the definition of an asset on your balance sheet?
(f) Which assets on Intel’s balance sheet most resemble cash and cars on students’ balance sheets? See the exercise materials for Intel’s balance sheet.
(g) Is the patent for Intel’s latest microprocessor chipset recognized on Intel’s balance sheet?
Exercise materials

PowerPoint and OneNote slides and teaching note video
http://navigatingaccounting.com/content/instructors-forum#part-2-asset-liability-and-owners-equity-measures-anchor

Your Balance Sheet Exercise
http://www.navigatingaccounting.com/exercise/exercise-bswis050
Balance-Sheet Judgments

Session 1 – Discussion

- What are the essential design elements of the exercise?
- Would similar exercises be effective in other areas besides financial accounting?
- Outline an exercise for a topic in another area where students face similar learning challenges.
Record Keeping & Reporting

Sessions 3-16

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

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Drilling into Step 2 of Learning Framework

Accounting Decision Map

Record Keeping and Reporting

ACCOUNTING JUDGMENTS

RECOGNITION
Definition Probable Reliably Measurable

MEASUREMENT
Objective Scope Method Inputs

CLASSIFICATION
Financial Statement Location Recognition and Measurement Implications

DISCLOSURE
Financial Statement Aggregation Footnote Details

Economic Activity

ECONOMIC ACTIVITY
Shades of Gray

ACCOUNTING JUDGMENTS

GOOD DECISIONS

CONSEQUENCES

USEFUL INFORMATION

CRITICAL THINKING

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Record Keeping and Reporting

Session 3: Introduction to record keeping and reporting

Session 4: Group assignment 1 – Analyzing balance sheets (Mini Case)

Session 5: Introduction to income statements and statements of changes in owners’ equity

Session 6: Record keeping and reporting related to income statements

Session 7: Record keeping and reporting related to statements of changes in owners’ equity

Session 8: Group assignment 2 – Analyzing financial performance

Exam 1

Session 9: Group assignment 3

Session 10: Cash flow statements: two formats and entry-by-entry effects

Session 11: Cash flow statements: operating entries: grouped effects on reconciliation

Session 12: Cash flow statements: creating them and connecting them to other statements

Session 13: SCF Entry Map

Session 14: Group assignment 4 – Analyzing cash flow statements (Mini Case)

Session 15: Customer-related allowances: Bad debts

Session 16: Customer-related allowances: Warranties

Session 17: Inventory inflows: Manufacturing and inventory impairments

Exam 2
Session 3: Introduction to record keeping and reporting

Things you should do to prepare for class

Watch

- Framing Record Keeping [12 minutes]
  Terms and concepts: top-down perspective; accounts, events, measures, entries, judgments; balance-sheet equations metric; record keeping and reporting maps; insider perspective, outsider perspective.
  - Entries Using BSE [12 minutes]
    Terms and concepts: six-step process for balance-sheet-equation (BSE) entries (1) what happened, (2) identify accounts, (3) determine account signs, (4) determine entry signs, (5) record entry, and (6) check quality.
  - Recording Entries Using the OEC Map and Glossary [8 minutes]
    Terms and concepts: using the OEC Map to help determine what happened (step 1) and using the Glossary to help determine the accounts.

Read

- Using Navigating Accounting: Paper or Paperless

Do

Assigned exercises – highest priority for class discussion

- Exercise bs.wbn.bse.030
  Topics: recording BSE entries and creating balance sheets
  Fictional company: Chancellor’s Sweet Treats
- Exercise bs.wbn.bse.040
  Topics: recording BSE entries, creating balance sheets, determining how entries affect ratios and balance sheets
  Fictional company: JP’s Smart Phone Accessories

Watch

- Recording Entries Using JE [13 minutes]
Record Keeping and Reporting

Guidance

Session 5

Introduction to income statements and statements of changes in owners’ equity
What Do I See: Income Statements?

Intel exercise that is highest priority for class discussion

Session 5: Introduction to Income statements and statements of changes in owners’ equity

Things you should do to prepare for class

Watch
- What Do I See: Income Statements? [14 minutes]

Skip this video if you have a reasonably good understanding of the OEC Map
First two menu items (time stamp 0:00 – time stamp 1:33)
Terms and concepts: fast paced review of concept covered in earlier video: OEC Map
Fictitious company: Bischoff.

- Comprehensive income [4 minutes]
  Controlling interests (time stamp 7:45 – time stamp 11:12)
  Terms and concepts: controlling and non-controlling interests
  Fictitious company: Bischoff.

- Statement of Changes in Owners’ Equity [19 minutes]
  Skip the first ten minutes of this video if you felt reasonably comfortable with the Statement of Changes of Owners’ Equity after watching the related video in the Introduction module.
  Company disclosures and take-aways (time stamp 10:29 – end)
  Terms and concepts: locating and interpreting items reported in real companies’ statements of changes in owners’ equity
  Companies: Vodafone, América Móvil and AT&T

Do
- Self-Assessment Quizzes:
  Income Statements: What Do I See: Basics [4 questions]

Assigned exercise – highest priority for class discussion
- Exercise wis.soce.023
  Topics: Intel’s OEC Map
  Company: Intel
  No solution is posted to Navigating Accounting but one will be posted to Canvas after class.

Things you should do as soon as possible
Record Keeping and Reporting

Class Structure For Non-Analysis Days

SAMPLE
Basic assessment
“Know what you don’t know”

RESPOND
Mini lectures
Review key concepts
Record Keeping and Reporting

Class Structure For Non-Analysis Days

RESPOND

Assigned exercise

Slides for interactive discussion

Exercises

is.wis.scoe.023 Applying a hierarchical approach to measuring Intel’s performance

These questions pertain to Intel’s consolidated financial statements in their fiscal 2013 annual report. See the exercise materials for this section. No solution is provided.

Part I: Owners’ Equity

(a) Use Intel’s fiscal 2013 and consolidated statements to determine its owners’ equity.

(b) Complete the owners’ equity section on the balance sheet.

Part II: True or False

(c) True or False: Intel received dividends and shareholders’ equity.

(d) True or False: Intel’s other comprehensive income was negative during fiscal 2012 (representing a loss) and positive during fiscal 2013.

(e) True or False: Intel’s net profit was positive during fiscal 2012 and negative during fiscal 2013 (representing a loss).

Usage

This exercise helps you learn how to use accounting information.

23 is.wis.scoe.023: question
24 is.wis.scoe.023: BS change template
25 is.wis.scoe.023: BS change solution
26 is.wis.scoe.022: question 01
27 is.wis.scoe.022: solution 01
28 is.wis.scoe.022: question 02
29 is.wis.scoe.022: solution 02
30 is.wis.scoe.022: question 03
31 is.wis.scoe.022: solution 03
32 is.wis.scoe.022: question 04
33 is.wis.scoe.022: solution 04
34 is.wis.scoe.022: question 05
35 is.wis.scoe.022: solution 05
36 is.wis.scoe.022: question 06
37 is.wis.scoe.022: solution 06
38 is.wis.scoe.022: question 07
39 is.wis.scoe.022: solution 07
40 is.wis.scoe.022: question 08
41 is.wis.scoe.022: solution 08
42 is.wis.scoe.022: question 09
43 is.wis.scoe.022: solution 09
44 is.wis.scoe.022: connecting BS changes to SCOE
45 is.wis.scoe.022: connecting BS changes to SCOE
Record Keeping and Reporting
Class Structure for Non-Analysis Days

APPLY & EXTEND
New context
More complex

PREVIEW
Next topic is challenging
Give them a jump start
Intel and Owners’ Equity Change (OEC) Map

Intel Exercise
http://www.navigatingaccounting.com/exercise/exercise-iswisscoe023

Owners’ Equity Change (OEC) Map

Teaching note video with PowerPoint and OneNote slides
http://www.navigatingaccounting.com/content/instructors-forum#part-7-income-measures-anchor

Starbuck’s Revenue Recognition using OEC Map

Starbuck Exercise
http://www.navigatingaccounting.com/exercise/exercise-iswbnisbse060

Class OneNote Slides for Session 5
http://www.navigatingaccounting.com/sites/default/files/Posted/Common/Instructors'_Forum/2_OneNote/Session 05.one
Critical Thinking Using Toulmin Model

Session 8

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

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Drilling into Step 3 of Learning Framework

Analysis Consideration Map
Session 8: Group assignment 2 – Analyzing financial performance

Things you should do to prepare for class

Read

- Group Assignment Policies [11 pages]
  Follow these important guidelines for preparing, submitting, and presenting group reports.

Do

Assigned exercise – highest priority for class discussion

- Exercise is hnm.afi.040
  Topics: analyzing income statements and financial performance
  Companies: Coca-Cola & PepsiCo

Things you can do to prepare for exams

Do

- Self-Assessment Quiz:
  Income Statements: How do I use the Numbers: Basics [4 questions]
  Income Statements: How do I use the Numbers: Applications and Extensions – 02 [4 questions]

- Practice Exam 1.1 Question 7
  Topic: assessing future prospects at the most recent balance sheet date, taking into consideration expected future ROEs and risks
  Companies: Walmart and Target

- Practice Exam 1.2 Question 7
  Topic: assessing performance during recent years and financial position at the most recent balance sheet date
  Companies: Macy's and Nordstrom

Assigned Case
Coke vs Pepsi
Students are to use the Toulmin Model of Argumentation

Which company, Coke or Pepsi, appears to have the better future prospects: expected future ROEs, growth rates and risks?

Analysis Consideration Map not completed by Session 8

Critical Thinking Using Toulmin Model

Session 8

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.

Required

In this question, you will explore Coke’s and Pepsi’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, Coke or Pepsi, appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future return-on-equity (ROE), growth rates, and risks?

- Respond to this question by completing Parts I–III.

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.

Use the Analysis Consideration Map - Phase 2 (on page 18) to help you develop a response that integrates the qualitative and quantitative background information.
Critical Thinking Using Toulmin Model

Requirements

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.

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.
Critical Thinking Using Toulmin Model

Step 1 – Quantitative Analysis of Present Position and Past Performance

### Comparing Income Statements and Select Performance Ratios

<table>
<thead>
<tr>
<th></th>
<th>Coca-Cola Company</th>
<th>PepsiCo, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME STATEMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net revenues</td>
<td>USD Millions $</td>
<td>USD Millions $</td>
</tr>
<tr>
<td></td>
<td>46,854</td>
<td>66,415</td>
</tr>
<tr>
<td></td>
<td>48,017</td>
<td>65,482</td>
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<tr>
<td></td>
<td>46,542</td>
<td>66,504</td>
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<tr>
<td></td>
<td>35,119</td>
<td>57,838</td>
</tr>
<tr>
<td>Cost of goods or services sold</td>
<td>18,421</td>
<td>31,243</td>
</tr>
<tr>
<td></td>
<td>19,053</td>
<td>31,330</td>
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<tr>
<td></td>
<td>18,215</td>
<td>31,093</td>
</tr>
<tr>
<td></td>
<td>12,693</td>
<td>26,575</td>
</tr>
<tr>
<td>Gross profit</td>
<td>28,433</td>
<td>35,172</td>
</tr>
<tr>
<td></td>
<td>28,964</td>
<td>34,201</td>
</tr>
<tr>
<td></td>
<td>29,327</td>
<td>34,911</td>
</tr>
<tr>
<td></td>
<td>22,426</td>
<td>31,763</td>
</tr>
<tr>
<td>Other operating income and (expenses)</td>
<td>18,205</td>
<td>25,467</td>
</tr>
<tr>
<td></td>
<td>18,185</td>
<td>25,089</td>
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<td></td>
<td>18,154</td>
<td>25,278</td>
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<td></td>
<td>13,977</td>
<td>23,933</td>
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<tr>
<td>Operating profit</td>
<td>10,228</td>
<td>9,705</td>
</tr>
<tr>
<td></td>
<td>10,779</td>
<td>9,512</td>
</tr>
<tr>
<td></td>
<td>10,173</td>
<td>9,653</td>
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<tr>
<td></td>
<td>8,445</td>
<td>8,332</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,249</td>
<td>(1,285)</td>
</tr>
<tr>
<td></td>
<td>(1,030)</td>
<td>(3,729)</td>
</tr>
<tr>
<td>Other income and (expenses)</td>
<td>814</td>
<td>838</td>
</tr>
<tr>
<td></td>
<td>799</td>
<td>100</td>
</tr>
<tr>
<td>Profit before taxes</td>
<td>11,477</td>
<td>8,801</td>
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<td></td>
<td>11,800</td>
<td>8,604</td>
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<td></td>
<td>11,454</td>
<td>8,814</td>
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<td></td>
<td>14,241</td>
<td>8,282</td>
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<td>Income tax refund and (expense)</td>
<td>[2,831]</td>
<td>[2,104]</td>
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<td></td>
<td>[2,728]</td>
<td>[2,096]</td>
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<td></td>
<td>[2,812]</td>
<td>[2,172]</td>
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<td></td>
<td>[2,380]</td>
<td>[2,894]</td>
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<td>Net profit (loss) from continuing operations</td>
<td>8,636</td>
<td>6,787</td>
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<td></td>
<td>9,086</td>
<td>6,214</td>
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<td></td>
<td>8,646</td>
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<td></td>
<td>11,850</td>
<td>6,588</td>
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</tbody>
</table>

### SELECTED FINANCIAL DATA

- **Comprehensive Income**
- **Beginning total assets**
- **Ending total assets**
- **Average total assets**
- **Beginning owner’s equity**
- **Ending owner’s equity**
- **Average owners’ equity**

### RATIOS

**Level 1: Comprehensive income**

- Return-on-equity - Comprehensive Income (ROE-DI)
- Average owners’ equity

**Level 2: Major categories**

- Net profit/average owner’s equity

**Level 3: Significant Subcategories-DuPont Model**

- Profit margin ratio: profit before taxes/revenue
- Asset turnover: revenue/average total assets
- Financial leverage: average total assets/average owners’ equity
- Income tax factor: 1 - (tax expense/pretax income)
Critical Thinking Using Toulmin Model

Step 1 – Quantitative Analysis of Present Position and Past Performance

STEP-1 OUTCOMES

- **ROEs**
  - Identify ROE patterns and outliers over time for each company.
  - Analyze differences in ROEs in terms of DuPont Model measures.
  - Analyze differences in profit margins in terms of common size income statements.
  - Investigate significant differences discovered above with disclosures on companies’ balance sheets and income statements.

- **Risks**
  - Identify financial leverage patterns and outliers over time (based on book and estimated market values).
  - Analyze common-size balance sheets to identify significant assets and liabilities.
  - Analyze related asset and liquidity risks, including broader macroeconomic risks and risks specific to the company.
  - Investigate significant differences discovered above with disclosures on companies’ balance sheets.

- **Growth**
  - Identify revenue growth patterns and outliers over time for each company.
  - Analyze differences in growth in terms of revenue components (e.g., geographic regions, business segments, products versus services).
  - Analyze investment patterns over time and effects on growth.
  - Analyze distributions to owners over time and effects on growth.
Step 2 – Integration of Quantitative Step-1 Outcomes with Qualitative Information Underlying Economic Activity

Why Pepsi Has the Edge
While Coca-Cola has vowed to rebuild sales in the United States and focus on international sales, Pepsi has taken a different and smarter track. The change within Pepsi started back in 2006 with the hiring of Indra Nooyi as CEO.

A former management consultant, Nooyi understood the changing consumer with the shift from sugary soft drinks to healthy drinks and snacks. This fact is quite obvious due to the vast numbers of alternative and often health-oriented drinks found at nearly every retail outlet. The new CEO repositioned Pepsi on water, tea, juices and sport drinks. The company plans on expanding its nutritional business from $11 billion to $10 billion by 2020. It is relying on using its Gatorade, Quaker Oats, and Tropicana divisions, plus the newly formed Global Nondairy Group to follow the trend away from sugary sodas to healthier snacks and drinks.

On the other hand, Coca-Cola has been on a buying frenzy to ramp up its healthy offerings, such as VitaminWater and Oldeica. While this shift is a huge positive, soda remains 75% of Coca-Cola’s global sales.

On the other hand, Pepsi’s snack division makes up about 50% of the company’s sales volume. Soda is just 25% of the company’s U.S. sales compared to 60% of Coca-Cola’s. What this all means for investors is that Pepsi is better prepared to handle the unstoppable trend away from its flagship product than Coca-Cola.

“Coke versus Pepsi by the Numbers,” Street Authority, March 24, 2014

Excerpts from November 6, 2013 Motley Fool Article
“Both companies enjoy tremendous brand power differentiating their products from smaller competitors. Coke’s portfolio features 18 billion-dollar brands including Coca-Cola, Diet Coke, Fanta, Sprite, Coca-Cola Zero, VitaminWater, Powerade, and Minute Maid, among others. Pepsi owns more than 22 brands generating more than $1 billion in sales, including famous names like Pepsi, 7Up, Gatorade, Lays, Doritos, and Chester’s.

Also, both Coke and Pepsi are facing similar challenges—stagnant volume growth in developed countries due to maturing markets and the trend toward healthier nutritional habits. Not surprisingly, both companies are going through parallel roads in finding a solution to their challenge: product innovation and a focus on healthier alternatives in developed countries while at the same time capitalizing on volume growth opportunities in emerging markets.”

“Battle Day: Coke versus Pepsi,” Andres Cardenal, November 6, 2012

Excerpts from Harvard School of Public Health Article (not dated)
- "People who consume sugary drinks regularly—1 to 3 cans a day or more—have a 26% greater risk of developing type 2 diabetes than people who rarely have such drinks.
- A study that followed 40,000 men for two decades found that those who averaged one can of a sugary beverage per day had a 20% higher risk of having a heart attack or dying from a heart attack than men who rarely consumed sugary drinks. A related study in women found a similar sugary beverage-heart disease link.
- A 23-year-long study of 80,000 women found that those who consumed one can of a sugary drink a day had a 75% higher risk of getting heart disease than women who rarely had such drinks. Researchers found a similarly elevated risk in men.
- Dr. Frank Hu, Professor of Nutrition and Epidemiology at Harvard School of Public Health, recently made a strong case that there is sufficient scientific evidence that decreased sugar-sweetened beverage consumption will reduce the prevalence of obesity and obesity related diseases.”

“Soft Drinks and Diabetes,” Harvard School of Public Health The Nutrition Source

Excerpts from June 27, 2014 Forbes Article
“The cracker segment is now the largest salty snack division, contributing almost one-fourth of the net sales. In 2013, back in 2011, potato chips was the largest segment of the U.S. survey snacks market with a 50% share, but its share has since fallen. This is mainly due to shifting consumer trends and healthier snacking.”

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Step-1 Outcomes
- ROA
- Identify ROA patterns and outliers over time for each company
- Analyze differences in ROA in terms of DuPont-model measures
- Investigate significant differences discovered above with disclosures on company balance sheets and income statements
- ROE
- Identify financial leverage patterns and outliers over time (based on both book and estimated market values)
- Analyze common-size balance sheets to identify significant assets and liabilities
- Analyze related asset and liability ratios, including broader macroeconomic data and non-specific to the company
- Investigate significant differences discovered above with disclosures on company balance sheets
- Growth
- Identify revenue growth patterns and outliers over time for each company
- Analyze differences in growth in terms of revenue components (e.g., geographic regions, business segments, products versus services)
- Analyze investment patterns over time and effects on growth
- Analyze distributions to owners over time and effects on growth

Quantitative Information Underlying Economic Activity
Step 2 – Integration of Quantitative Step-1 Outcomes with Qualitative Information About Underlying Economic Activity

**STEP-2 OUTCOMES**

- Identify qualitative evidence that would affect the persistence of future ROEs, risks, and growth for each company.
- Evaluate each companies’ future prospects by combining Step-1 historical information with qualitative information discovered above.
- Create six arguments (2 companies x 3 factors: ROE, risks, growth).
- Select the company with the best overall future prospects, taking into account the relative strengths of the arguments above:
  - Superior expected future ROEs
  - Lower expected future risks
  - Superior expected future growth
- Create a well-organized report that concisely and persuasively presents your arguments and counterarguments (arguments for the company not selected) substantiated with evidence, facts and/or logic.
• Survey groups’ initial claims
• Discuss supporting arguments, counterarguments and rebuttals
• Survey groups’ ending claims
• What did you learn?
Critical Thinking Exercises

Analysis

Toulmin Model Exercises


Toulmin Model of Argumentation Handout


Analysis Considerations Map


Analyzing Financial Statements Across Time and Industries

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

Session 15

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

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Session 15: Customer-related allowances: Bad debts

Things you should do to prepare for class

Read

- Revenue and Customer-Related Balance Sheet Concepts
  - Grasp: pages 4-7 (Credit Risk section only)
  - Grasp: pages 10-11 (starting with Accounting Implication of Risks, ending with key item on page 11)
  - 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 23-30 (starting with Example, ending with Measuring and Calibrating Credit Risk)
  - Skim: remainder of page 30 and page 31

Do

- Self-Assessment Quiz:
  Receivables: What’s Behind the Numbers: Basics [4 questions]

Assigned exercise – highest priority for class discussion

- Exercise rv.wbn.rec.020

Topics: recording entries related to the allowance for uncollectible accounts based on company disclosures, determining their financial statement consequences, and analyzing related risks

Companies: HP
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.
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
Session 15: Customer-related allowances: Bad debts

Things you should do to prepare for class

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Do

- **Self-Assessment Quiz:**
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- **Exercise rv.wbn.rec.020**
  - Topics: recording entries related to the allowance for uncollectible accounts based on company disclosures, determining their financial statement consequences, and analyzing related risks
  - Companies: HP
Critical Thinking Using Media Reports
Session 15 – Building Skills to Analyze WSJ Article

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
### Revenue & Customer-related Balance Sheet Quizzes

<table>
<thead>
<tr>
<th>Topics</th>
<th>Basic</th>
<th>Applications and Extensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>rv.wbn.rec.basic.001</td>
<td>rv.wbn.rec.appl.001</td>
</tr>
<tr>
<td>Warranties</td>
<td>rv.wbn.war.basic.001</td>
<td>rv.wbn.war.appl.001</td>
</tr>
</tbody>
</table>
Critical Thinking Using Media Reports
Session 15 – Building Skills to Analyze WSJ Article

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?

<table>
<thead>
<tr>
<th>Write-off bad debts</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Bad debt expense</td>
<td>$12,000</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td></td>
<td>$12,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Write-off bad debts</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Allowance for doubtful accounts</td>
<td></td>
<td>$12,000</td>
</tr>
<tr>
<td>Gross accounts receivable</td>
<td>$12,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Write-off bad debts</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(c) Gross accounts receivable</td>
<td>$12,000</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td></td>
<td>$12,000</td>
</tr>
</tbody>
</table>

| (d) none of the above | |

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Revenue & Customer-related Balance Sheet Quizzes

<table>
<thead>
<tr>
<th>Topics</th>
<th>Basic</th>
<th>Applications and Extensions</th>
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</tr>
</tbody>
</table>
Critical Thinking Using Media Reports
Session 15 – Building Skills to Analyze WSJ Article

Question 1

Coach 2013 Reference Information [pdf]

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) Provision for bad debt                     Debit  Credit
                                  $529  $529

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

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

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>Total</td>
<td>53,503</td>
<td>29,252</td>
<td>(3,156)</td>
<td>79,599</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>
</tr>
<tr>
<td>Total</td>
<td>21,800</td>
<td>31,703</td>
<td>$11,633</td>
<td>53,503</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>Total</td>
<td>1,217</td>
<td>20,583</td>
<td>(9,986)</td>
<td>21,800</td>
</tr>
</tbody>
</table>

Coach, 2013 10K, page 57
Critical Thinking and Accounting Judgments

Session 15 – Who Makes Accounting Judgments?
Critical Thinking and Accounting Judgments
Session 15 – Decision Making Judgments

Outside organizations

Voting public

Media

Education

Inside organizations
- Board
- CFO
- Controllers
- Record keepers

Special interests

Congress

SEC

Other

FASB

GAAP

PCAOB

GAAS

Auditors

Reports

Users
#1 Goals drive everything

- Robust conceptual frameworks students can apply to navigate complexity and uncertainty throughout their careers
- Relationship skills and attitudes that promote effective and rewarding interactions with others
- A passion for life-long learning and strategies to learn on their own
#2 Use building blocks to meet goals

1. Robust concepts and frameworks
2. Rich applications
3. Detailed course maps
4. Enabling technology
5. Effective motivation
#3 Seek simplicity on the far side of complexity

“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
#4 Use robust concepts and rich applications

Transforming the Student Experience in Accounting

Take Aways

SIMPLICITY ON THE FAR SIDE OF COMPLEXITY

Simple yet deep

Robust concepts and frameworks

Rich applications
Transforming the Student Experience in Accounting

Take Aways

#5 Develop competencies for effective scholarship
#6 Make great music with your students
# 7 We don’t need to be composers …

to create great music and make a difference.
Transforming the Student Experience in Accounting

Take Aways

- What are your take-aways?
- What are you willing to seriously consider as your next steps?
Transforming the Student Experience in Accounting

Resources

NavigatingAccounting.com

Instructors’ Forum: Course Maps (Syllabuses) and Teaching Videos
http://www.navigatingaccounting.com/content/instructors-forum

Critical Thinking Exercises 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

Peer Instruction Network
http://blog.peerinstruction.net/

AAA Commons
http://commons.aaahq.org/

Pathways Commission
http://pathwayscommission.org