How to Teach
the Pathways Vision Model Elements

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Boston College

2014 AAA Southeast Region Meeting
April 4, 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?

Cash and cash equivalents

Goodwill?
Developing Concept Maps and Related Skills

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

2nd Session

<table>
<thead>
<tr>
<th>Assets</th>
<th>Non-current</th>
<th>Liabilities</th>
<th>Owners’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td>Current</td>
<td>Non-current</td>
</tr>
<tr>
<td>C</td>
<td>ARR</td>
<td>INVEN</td>
<td>OCA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PPE</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2012</td>
<td>+ $153</td>
<td>+ $70</td>
<td>+ $163</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Period Entries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other period entries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2013</td>
<td>+ $243</td>
<td>+ $20</td>
<td>+ $20</td>
</tr>
</tbody>
</table>

Bischoff Global Sportswear Statements of Financial Position

December 31, 2013 and December 31, 2012

(In Millions)

Assets

<table>
<thead>
<tr>
<th>Current</th>
<th>Non-current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$31</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>106</td>
</tr>
<tr>
<td>Inventories</td>
<td>147</td>
</tr>
<tr>
<td>Other current assets</td>
<td>226</td>
</tr>
<tr>
<td>Total current assets</td>
<td>513</td>
</tr>
<tr>
<td>Non-current</td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
<td>164</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>233</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>427</td>
</tr>
<tr>
<td>Total assets</td>
<td>940</td>
</tr>
</tbody>
</table>

Liabilities and Shareholders’ Equity

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Shareholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>25</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>90</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>115</td>
</tr>
<tr>
<td>Non-current</td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>105</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>100</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>205</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>320</td>
</tr>
<tr>
<td>Stockholders’ equity</td>
<td>261</td>
</tr>
<tr>
<td>Share capital</td>
<td>261</td>
</tr>
<tr>
<td>Other shareholders’ equity</td>
<td>300</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>561</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ equity</td>
<td>881</td>
</tr>
</tbody>
</table>
4th Session

Developing Concept Maps & Related Skills

Analysis Consideration (AC) Map – Phase 1

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.

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
Developing Concept Maps & Related Skills

Owners’ Equity Change (OEC) Map

5th Session

Helps students record any entry

\[ \Delta A \quad \text{Change in Assets} \quad - \quad \Delta L \quad \text{Change in Liabilities} \quad = \quad \Delta OE \quad \text{Change in Owners’ Equity} \]

Transactions with owners during the period that changed the value of the net assets

\[ \quad - \quad \text{Contributions from owners} \quad - \quad \text{Distributions to owners} \quad \]

Other events or circumstances during the period that changed the value of net assets

\[ \quad + \quad \text{Comprehensive Income} \quad + \quad \text{Change in accounting policy and restatements} \quad \]

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
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:


- 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 rwbncore010 – Bischoff and Intel
  http://www.navigatingaccounting.com/exercise/exercise-rwbncore010
- Exercise rwbncore030 – Neil Company
  http://www.navigatingaccounting.com/exercise/exercise-rwbncore030

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 rwbncore020 – HP
Applying Completed Concept Maps
Allowance for Bad Debts

16th Session

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

<table>
<thead>
<tr>
<th>Allowance for doubtful accounts</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance beginning of the period</td>
<td>$12,100</td>
<td>$11,600</td>
<td>$10,000</td>
</tr>
<tr>
<td>Additions</td>
<td>13,200</td>
<td>11,700</td>
<td>11,300</td>
</tr>
<tr>
<td>Deductions</td>
<td>(12,000)</td>
<td>(11,200)</td>
<td>(9,700)</td>
</tr>
<tr>
<td>Balance, end of the period</td>
<td>$13,300</td>
<td>$12,100</td>
<td>$11,600</td>
</tr>
</tbody>
</table>

Which of the following is the best response?

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

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

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

(d) none of the above
16th Session

Respond:
Review key concepts

Applying Completed Concept Maps

Allowance for Bad Debts

Burke’s Bikes
Valuation and Qualifying Accounts (Schedule II)
For fiscal years ended December 31

<table>
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<th>2011</th>
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</thead>
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<td>Balance beginning of the period</td>
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<td>$11,600</td>
<td>$10,000</td>
</tr>
<tr>
<td>Additions</td>
<td>13,200</td>
<td>11,700</td>
<td>11,300</td>
</tr>
<tr>
<td>Deductions</td>
<td>(12,000)</td>
<td>(11,200)</td>
<td>(9,700)</td>
</tr>
<tr>
<td>Balance, end of the period</td>
<td>$13,300</td>
<td>$12,100</td>
<td>$11,600</td>
</tr>
</tbody>
</table>

Replenishing allowance at end of 2012

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad debt expense</td>
<td>$11,700</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>$11,700</td>
</tr>
</tbody>
</table>

Current Period
2012

Future Periods
2013

During the current period the entity concludes it is probable there will be an adverse future event.
16th Session
Respond: Review select homework problems

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

<table>
<thead>
<tr>
<th>Replenish bad debt allowance</th>
<th>CONSOLIDATED BALANCE SHEETS</th>
<th>CONSOLIDATED STATEMENTS OF INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Line Items</td>
<td>Increases</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY</th>
<th>STATEMENT OF CASH FLOWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line Items</td>
<td>Increases</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Applying Completed Concept Maps

16th Session
Respond: Review select homework problems

Solution

Replenish bad debt allowance

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad debt expense: accounts receivable &amp; financing receivables</td>
<td>$142</td>
</tr>
<tr>
<td>Allowance for bad debts: accounts receivable</td>
<td>$100</td>
</tr>
<tr>
<td>Allowance for bad debts: financing receivables</td>
<td>$42</td>
</tr>
</tbody>
</table>

HEWLETT PACKARD COMPANY AND SUBSIDIARIES
Valuation and Qualifying Accounts
For the fiscal years ended October 31

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for doubtful accounts accounts receivable:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of period</td>
<td>$470</td>
<td>$525</td>
<td>$629</td>
</tr>
<tr>
<td>Increase in allowance from acquisitions</td>
<td>27</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Addition of bad debt provision</td>
<td>100</td>
<td>23</td>
<td>80</td>
</tr>
<tr>
<td>Deductions, net of recoveries</td>
<td>(106)</td>
<td>(105)</td>
<td>(191)</td>
</tr>
<tr>
<td>Balance, end of period</td>
<td>$464</td>
<td>$470</td>
<td>$525</td>
</tr>
</tbody>
</table>

Allowance for doubtful accounts financing receivables:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of period</td>
<td>130</td>
<td>140</td>
<td>108</td>
</tr>
<tr>
<td>Additions to allowance</td>
<td>42</td>
<td>58</td>
<td>76</td>
</tr>
<tr>
<td>Deductions, net of recoveries</td>
<td>(23)</td>
<td>(68)</td>
<td>(44)</td>
</tr>
<tr>
<td>Balance, end of period</td>
<td>$149</td>
<td>$130</td>
<td>$140</td>
</tr>
</tbody>
</table>
16th Session
Respond:
Review select homework problems
16th Session
Respond: Review select homework problems

Replenish bad debt allowance

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad debt expense: accounts receivable &amp; financing receivables</td>
<td>$142</td>
</tr>
<tr>
<td>Allowance for bad debts: accounts receivable</td>
<td>$100</td>
</tr>
<tr>
<td>Allowance for bad debts: financing receivables</td>
<td>$42</td>
</tr>
</tbody>
</table>

HEWLETT PACKARD COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the fiscal years ended October 31

| In millions |
|-------------|-----------|
| 2012        | 2011      | 2010      |
| Cash flows from operating activities: |          |          |
| Net (loss) earnings | $ (12,650) | $ 7,074  | $ 8,701  |
| Adjustments to reconcile net (loss) earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 5,085     | 4,984     | 4,820     |
| Impairment of goodwill and purchased intangible assets | 18,035    | 885       |          |
| Stock-based compensation expense | 835       | 685       | 606       |
| Provision for doubtful accounts accounts and financing receivables | 142       | 81        | 156       |
Apply and Extend: Clicker question

16\textsuperscript{th} Session

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?

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Provision for bad debt</td>
<td>$529</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allowance for doubtful accounts</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Allowance for doubtful accounts</td>
<td>$1,651</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gross accounts receivable</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(c) Gross accounts receivable</td>
<td>$1,651</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allowance for doubtful accounts</td>
<td></td>
</tr>
</tbody>
</table>

(d) (a) and (b)
### 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><strong>Fiscal 2013</strong></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>$63,316</td>
<td>$59,851</td>
<td>($27,083)</td>
<td>$96,084</td>
</tr>
<tr>
<td><strong>Fiscal 2012</strong></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>Valuation allowance 1</td>
<td>21,800</td>
<td>31,703</td>
<td>(10,633)</td>
<td>53,503</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$31,344</td>
<td>$43,605</td>
<td>($11,633)</td>
<td>$63,316</td>
</tr>
<tr>
<td><strong>Fiscal 2011</strong></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>21,800</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$8,182</td>
<td>$33,148</td>
<td>($9,986)</td>
<td>$31,344</td>
</tr>
</tbody>
</table>
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)

<table>
<thead>
<tr>
<th></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>Total</td>
<td>$63,316</td>
<td>$59,851</td>
<td>($27,083)</td>
<td>$96,084</td>
</tr>
</tbody>
</table>

(a) Provision for bad debt

**Debit** $529 **Credit**

Allowance for doubtful accounts

**Debit** $529

(b) Allowance for doubtful accounts

**Debit** $1,651 **Credit**

Gross accounts receivable

**Debit** $1,651
Applying Completed Concept Maps

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. 26, 2013 7:20 a.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 muted 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
Applying Completed Concept Maps
Allowance for Bad Debts

16th Session

Big Banks Are Padding Profits With 'Reserve' Cash
At Revenue Slows, Some Banks Increasingly Use Loan-Loss Reserves to Boost Income

By MICHAEL RUFIGE FT

Federal regulations 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.

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

Wall Street Journal, October 25, 2013

How did readers perceive the article?

What is the accounting reality?

How do we prepare students?
19th Session

Analysis Considerations Map (Completed)

Applying Completed Concept Maps
Comparing Companies' Future Prospects

Qualitative information about past performance
Use qualitative information about business activities that already affect the financial statements to assess the extent to which the ratios and related trends are likely to persist in the future.

Qualitative information about expected future changes
Use qualitative information about changes in plans or circumstances or other factors that have not yet affected the financial statements to assess the extent to which the ratios and related trends will likely change.

Forecasted ROEs

Forecasted growth

Forecasted risks

Consequences of financial leverage on riskiness of owners' claims, which depends on financial leverage and asset risk.

Liquidity risk
Balance sheets → Financial leverage
Cash flow statements → Free cash flow
Balance sheets → Current ratio
Balance sheets → Working capital

Asset risk
Balance sheets → Asset risk other than liquidity risk
Common size BS
Consequences of financial leverage on riskiness of owners' claims, which depends on financial leverage and asset risk.

Income statements → Revenue growth
Cash flow statements → Cash from operations
Financing growth → Debt financing
Distributions to owners → Equity financing

Profit margins → Common size IS
Asset turnover → Financial leverage
Tax factor → Balance sheets

Comparing Companies' Future Prospects

Analysis Considerations Map (Completed)
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**

<table>
<thead>
<tr>
<th>RATIOS</th>
<th>Home Depot</th>
<th>Lowe's</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 1: Comprehensive Income</strong>&lt;br&gt;Return-on-equity-Comprehensive Income (ROE-CI)&lt;br&gt;CI/average owners' equity</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
</tr>
<tr>
<td>26.01% 20.28% 17.87%</td>
<td>12.93% 10.58% 10.95%</td>
<td></td>
</tr>
<tr>
<td><strong>Level 2: Major categories</strong>&lt;br&gt;Return-on-equity (ROE)&lt;br&gt;net profit/average owner’s equity</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
</tr>
<tr>
<td>25.42% 21.11% 17.44%</td>
<td>12.89% 10.62% 10.81%</td>
<td></td>
</tr>
<tr>
<td><strong>Level 3: Significant Subcategories--DuPont Model</strong>&lt;br&gt;Profit margin ratio&lt;br&gt;profit before taxes/revenue</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
</tr>
<tr>
<td>9.66% 8.62% 7.75% 6.02%</td>
<td>6.21% 5.79% 6.61% 5.98%</td>
<td></td>
</tr>
<tr>
<td>Asset turnover&lt;br&gt;revenue/average total assets</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
</tr>
<tr>
<td>1.83 1.75 1.68</td>
<td>1.53 1.49 1.46</td>
<td></td>
</tr>
<tr>
<td>Financial leverage&lt;br&gt;average total assets/average owners’ equity</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
<td>Year ended fiscal 2012 fiscal 2011 fiscal 2010 fiscal 2009</td>
</tr>
<tr>
<td>2.29 2.19 2.12</td>
<td>2.18 1.94 1.79</td>
<td></td>
</tr>
<tr>
<td>0.63 0.64 0.63 0.66</td>
<td>0.62 0.63 0.62 0.63</td>
<td></td>
</tr>
<tr>
<td>Net revenues</td>
<td>100.00% 100.00% 100.00% 100.00%</td>
<td>100.00% 100.00% 100.00% 100.00%</td>
</tr>
<tr>
<td>Cost of goods or services sold</td>
<td>65.43% 65.53% 65.73% 66.13%</td>
<td>65.70% 65.44% 64.86% 65.14%</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>34.57% 34.47% 34.27% 33.87%</td>
<td>34.30% 34.56% 35.14% 34.86%</td>
</tr>
<tr>
<td>Other operating income and expenses</td>
<td>24.18% 25.00% 25.68% 26.61%</td>
<td>27.25% 28.03% 27.84% 28.27%</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>10.39% 9.46% 8.59% 7.26%</td>
<td>7.05% 6.53% 7.29% 6.59%</td>
</tr>
</tbody>
</table>
19th Session

Analysis
Considerations Map
Application: Toulmin Model of Argumentation

Applying Completed Concept Maps
Comparing Companies’ Future Prospects
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?
Final Session
Accounting Decisions Map

Record Keeping and Reporting

ACCOUNTING DECISIONS

Critical Thinking

Applying Pathways Vision Model to Financial Accounting

Wrap Up
Final Session
Course Review

Applying Pathways Vision Model to Financial Accounting

- Record Keeping and Reporting:
  - Record 90 entries and determine their effects on real companies' financials and ratios.
  - In depth study of all four financials during first half of the course.
  - Study 85+ companies' financials, including footnotes for some (U.S. GAAP & IFRS).

- Computation:

- Accounting Judgments:
  - Recognition
    - Definition
    - Probable
    - Reliability Measurable
  - Measurement
    - Objective
    - Scope
    - Method
    - Inputs
  - Classification
    - Financial-Statement Location
    - Recognition and Measurement Implications
  - Disclosure
    - Financial-Statement Aggregation
    - Footnote Details

- Economic Activity:
  - Significant part of most classes devoted to discussion of related transactions and risks.

- Measurement uncertainty and recognition covered first class.

- Reinforced at big-picture level throughout the course.
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

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