

# Understanding Financial Statements (FA 318)

Instructor: Ed Paulson, PhD, MBA  
DePaul University

Session: Spring, 2016  
Location: O'Hare Campus  
Dates/Time: Wednesday, 6:15-9:30  
Credit Hours: 2 competences - H2X, A4, FX

## **Course Description**

Business managers as well as investors must have a basic understanding of financial statements as not only a management tool but also as a way of communicating the financial and operational well-being of a company. This course teaches students the essential elements of financial statements, their interpretation, along with their financial and ethical impact on business investors, personal investment, and society. This is a particularly important topic and skill in today's economic climate that will benefit students not only at work but in their personal life as well. No financial or accounting background is required to take this class although basic algebra skills are used. Instructor: Ed Paulson, PhD, [www.edpaulson.com](http://www.edpaulson.com), Phone: 630-960-3299; Email [author@edpaulson.com](mailto:author@edpaulson.com) ; Competencies: H-2-X, F-X, A-4

## **General Information**

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## **Faculty Biographical Sketch**

Ed Paulson is an experienced business manager, consultant and entrepreneur who uses financial analysis in his decision making. He holds a PhD, an MBA and has written over 15 business and technology management books. He has more than 30 years of industry experience in places like Chicago, Austin, Texas and Silicon Valley and has taught business and communication courses for DePaul University since 2001.

## **Competencies**

BA-1999 Competencies: A-4, H-2-X, F-X

A-4: Can analyze a problem using two different ethical systems. [Throughout the course we will discuss specific business situations, the ethical implications of the situation and decision options.]

H-2-X: Can evaluate the impact of financial reporting on business organizations. [The various mini case studies and final project investigate the impact of improper financial reporting and subsequent legal action on the company, employees and investors.]

F-X: Can effectively interpret financial statements in light of specific personal, business, ethical, or societal evaluation objectives. [This is a common theme woven throughout the course which is reinforced and evaluated on the quizzes, discussions and final project.]

### ***Required Text Book***

Financial and Business Statements, Third Edition by George T. Friedlob and Franklin J. Plewa, Jr.; Barons Educational Series, Copyright 2006. ISBN: 0-7641-3418-3. Available from Amazon.com and other online locations. You might get a copy from the DePaul Library. List price: \$16.99 but you can probably get it for much less than that if you look around.

It may be viewable online at [books.google.com](http://books.google.com) but I strongly suggest you get a copy of your own for note taking and to write in, especially if you are new to the subject matter.

### ***Learning Experience, Evidence Students Will Submit and Assessment Criteria***

This is a highly interactive class and much learning happens in the classroom. Students will learn not only the guidelines for preparing a set of financial statements but also the ways in which a financial statement is open to interpretation. They will review basic accounting principles, terminology and also the reasons that financial statements exist in the first place. Students will demonstrate an understanding of the topic through class discussion (of which there is much), quizzes and a student presentation made to the class on a company (of their choosing) that is being investigated by the Securities and Exchange Commission (SEC) for financial irregularities. The presentations focus specifically on the legal and ethical violations uncovered by the SEC and the impact on shareholders, employees and the general market.

Final grade will be determined by A for 90+ points, B for 80-89 points, C for 70-79 points, D for 60-69 points and F for anything under 60 points. Plus and minus grades will be given. Points are determined as follows: Three quizzes worth 20 points each for a total of 60 possible points, the final presentation (lasting a maximum of 15 minutes) worth 20 points and the instructor subjective evaluation worth 20 points for a total possible of 100 points. Students who miss a quiz may make up the quiz by arranging with the instructor prior to the session of the scheduled quiz, by e-mail, to arrive at the next following class session at least 45 minutes before the start of class to take the makeup quiz. Students who miss the designated makeup time will automatically receive 0 points for the quiz.

Each class session will start with a 10-minute reflection exercise. Starting with Session 2, students should bring a dedicated spiral (or other) notebook to class for writing these weekly exercises which are excellent for reinforcing concept learning while also offering a great way to review for quizzes or other assignments. The notebook will be turned in at the end of the quarter for instructor review. This notebook should be different from the one used for taking class notes. The reflection exercise is worth 5% of the instructor's 20% and students who do not complete the exercise will automatically lose that 5%.

***Class Session Overview (subject to change at instructor discretion)***

Pre-Session 1 Reading: Chapters 1 & 2

***Session 1: The Value of Financial Statements and Ethics Overview***

Course Overview

Basic financial statement and accounting terminology

Vincentian ethics overview

Homework Reading For Next Sessions: Chapters 3, 4 & 5

***Session 2: Balance Sheet Basics***

Basic balance sheet form and structure

Assets

***Session 3: Balance Sheet Basics***

Liabilities

Owners' Equity

Homework Reading For Next Sessions: Chapters 6 & 7

***Session 4: Income Statement Basics***

The structure of the income statement

Revenue recognition

Income types

Accrual vs. cash accounting

Quiz 1 (20 %) on Sessions 1-3

***Session 5: Income Statement Basics***

Expense recognition

Relating the income statement to the balance sheet

Retained earnings, loan amortization and depreciation overview

Homework Reading For Next Session: Chapter 8

***Session 6: Cash Flow Statement Basics***

Reasons for using cash flow statement

Accounts receivable tracking

Homework Reading: Chapters 11 & 12

***Session 7: Interpreting the Overall Financial Statement***

Introduction to ratio analysis

Introduction to trend analysis

Quiz 2 (20 %) on Sessions 4-6

Homework Reading: Chapter 14

***Session 8: Understanding Costs and Budgets***

Defining budgets

The value of budgeting

Homework Reading: To be assigned.

### **Session 9: Break Even Analysis**

Definition and use of break even analysis

Homework Reading: Chapters 9, 10 & 17

### **Session 10: Group Presentations (Attendance very important)**

Quiz 3 (20 %) Cumulative

Group Presentations (20%)

Reflection exercise books handed in

### **Group Presentations**

In the final class session students will present, usually as a small group and on the company of their choice, about the accounting irregularities that prompted their chosen company to become the target of an SEC probe. There will be no more than six presentations with each one lasting NO LONGER THAN 15 minutes (Important or we will not get through all the presentations in a single session) and encompass some aspect of a topic presented in class. In essence, it should add to the overall class's body of knowledge and understanding of accounting, finance and ethics as presented in the context of this class. This is a fun and fascinating night where you all apply what you have learned to realistic analysis of companies convicted of irregularities.

Grading (20% of overall grade): All student evaluations to the group presentation will be averaged together and the entire presenting group will receive the average of the evaluations with a maximum of 20 points assignable. See the Presentation Evaluation Form posted at the D2L site for details on how your fellow classmates will evaluate your group's presentation.

It is very important that group members pull their own weight in their group: If group mates complain to the instructor about fellow group members not carrying their respective portion of the group load, the instructor will initiate an individual assessment process that could cost non-contributing students as much as a full grade point. This is really important so come ready to learn, share and support each other. You will find it more educational, personally rewarding and will likely get a better grade.

### **Instructor Portion of the Grade**

The instructor subjective evaluation comprises 20 points (20%) of the grade. The points are awarded based on a subjective basis considering attendance, the level of reflection and thought demonstrated in the reflection exercise (5%) booklet (turned in at the end of the session), level of class participation, level of group participation and the level of contribution made by the student in furthering the learning goals of the class and fellow students. Students who perform the highest in all these areas will receive the total 20 points, students who perform the lowest will receive a lower score, and other students will be scored in between.

### **Class Attendance**

Class attendance is highly recommended because much learning happens in the classroom and not just from the assigned readings. Students are expected to attend all classes and students who miss the equivalent of more than two classes of our ten week course (including late arrivals) will automatically lose one-half grade point except in VERY RARE cases which must be brought, in

writing and in advance, immediately to the instructor's attention. It is also expected that students inform the instructor before class about their inability to attend if at all possible. Students wishing to withdraw from the class should do so by the last drop date.

### ***Incomplete Policy***

I rarely give incomplete (IN) grades and students should not expect to get an incomplete grade except in highly unusual circumstances such as medical or other types of emergencies. Incompletes must be requested by the student and approved by me by email before students should assume an incomplete is applicable. Should you receive an incomplete grade, you will be expected to meet with me to determine what must be done to correct the incomplete and that work must be fully completed by the end of the quarter following the incomplete to receive a passing grade. It is my experience that incomplete grades are often not completed so students enrolling in this class should resolve themselves to fully completing the course in the allotted time. Not completing an incomplete as agreed will result in an "F" grade. This is non-negotiable.

NOTE: The SNL student who wishes to receive the grade of IN must formally request in writing that the instructor issue this grade. This request must be made before the end of the quarter in which the student is enrolled in a course and a formal contract must be signed by both parties (see IN form on SNL website, forms page).

### ***Academic Integrity***

DePaul University is a learning community that fosters the pursuit of knowledge and the transmission of ideas within a context that emphasizes a sense of responsibility for oneself, for others and for society at large. Violations of academic integrity, in any of their forms, are, therefore, detrimental to the values of DePaul, to the students' own development as responsible members of society, and to the pursuit of knowledge and the transmission of ideas. Violations include but are not limited to the following categories: cheating; plagiarism; fabrication; falsification or sabotage of research data; destruction or misuse of the university's academic resources; alteration or falsification of academic records; and academic misconduct. Conduct that is punishable under the Academic Integrity Policy could result in additional disciplinary actions by other university officials and possible civil or criminal prosecution. Please refer to your Student Handbook or visit <http://studentaffairs.depaul.edu/homehandbook.html> for further details.

### ***Protection of Human Research Participants***

Although unlikely, this course may involve research activities intended solely for classroom learning outcomes. Collecting data from human beings for such activities do not require institutional review if there is no intent to generalize, publish, or otherwise disseminate the findings. However, students must still abide by federally-mandated guidelines for the protection of human beings who may be the sources of such data. These include, but are not limited to, keeping persons' identifiable characteristics confidential and taking care to minimize or entirely remove the possibility of mental, social, financial, or physical harm. If findings from your research activities may be disseminated beyond classroom discussion, your activities carry risk of harm to the participants, or the identities of the participants are ascertainable, students must obtain approval from the SNL Local Review Board and DePaul Institutional Review Board. Please consult with the course instructor and visit the website of the Office of Research Protections at DePaul University (<http://research.depaul.edu>) for additional information and guidance.

### ***For Students Who Need Accommodations Based on the Impact of a Disability***

Students who feel they may need an accommodation based on the impact of a disability should contact the instructor privately to discuss their specific needs. All discussions will remain confidential.

To ensure that you receive the most appropriate accommodation based on your needs, contact the instructor as early as possible in the quarter, preferably within the first week of class, and make sure you have contacted: PLS Program (for LD, AD/HD) at 773-325-4239 in the Schmidt Academic Center, room 220 or; The Office for Students with Disabilities (for all other disabilities) at 773-325-7290, DePaul University Student Center, room 307.

### ***Chronic Illness Initiative***

The Chronic Illness Initiative (CII) provides access to higher education for students disabled by chronic illnesses that unpredictably increase and decrease in severity such as chronic fatigue syndrome, rheumatoid arthritis, lupus or illnesses requiring frequent hospitalizations. At SNL, staff and faculty are compassionate and committed to helping CII students achieve their educational goals. Contact CII at [CII@depaul.edu](mailto:CII@depaul.edu).

### ***Writing Help***

For help with organizing your ideas, grammar, citing sources, avoiding plagiarism, sample SNL assignments and much more, see the [Writing Guide for SNL Students](http://snl.depaul.edu/writing/index.html) at <http://snl.depaul.edu/writing/index.html>. For on-campus and online tutoring, see the [DePaul University Writing Centers](http://condor.depaul.edu/~writing/) at <http://condor.depaul.edu/~writing/>.