

Economics of Accounting

ECO305 – Fall 2017

Wednesday 10-1pm, Classroom: SS-1085

Course Description

Accounting is a source of information that is central to the functioning of markets and the livelihood of firms. It is used to overcome asymmetric information in a variety of situations. For example, managers have an incentive to mislead owners about the profitability of operations. Together, we will look at how accounting regimes such as U.S. GAAP and IFRS attempt to create reliable information for market participants. The best – or perhaps only – way to develop an understanding of accounting is to perform the requisite accounting entries. We will then take these rules one step further to analyze their affect on economic outcomes. Towards the end of the course, we will study how mark-to-market and mark-to-model accounting can help us better understand the risk, and hence value, of a firm. And we will look at how regulation can affect the portfolio decisions of financial companies.

Instructor & TA information

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Prerequisites

Students must have completed the appropriate prerequisites to continue in this course:
<https://www.economics.utoronto.ca/index.php/index/undergraduate/load/prerequisites>

Learning outcomes

Successful students will be able to:

- measure how a given transaction affects the four financial statements,
- analyse how different rules affect economic outcomes such as firm profitability, employee compensation, and government revenue,
- derive a model showing how balance sheets can exacerbate recessions,
- learn accounting terms that make-up the language of business,

- answer challenging multiple-choice questions that are often asked during professional designation exams.

Class time

In ECO305, you will experience a flipped classroom. As homework, you will read the textbook, watch online videos, and answer some simple multiple choice questions to ensure that you remember what you've learned. In class, I may **briefly** review key topics however the majority of our time will be spent solving problems and discussing economic consequences. This means you should come prepared with your (i) calculator, (ii) pen/pencil, and (iii) paper. A laptop and/or printed slides may also be helpful. You should be prepared to attend class for the full three hours! Occasionally, the TA may conduct a tutorial or solve problems.

Textbook and WileyPLUS

Pratt, Jamie and Michael Peters *Financial Accounting in an Economic Context*, 10th Edition (2017)
WileyPLUS is a research-based online environment for effective teaching and learning. It includes an electronic, printable copy of the textbook. The cost is \$60.00 and it is mandatory. It covers most, but not all, of the concepts covered in class. It can be purchased through the University bookstore.

You will be required to purchase access to WileyPLUS that you can access through Portal. Each week, you will be assigned some lecture videos to watch and a textbook chapter to read. You will then write an online quiz that is due one hour before each lecture. For customer support and tips on how to navigate WileyPLUS, visit <https://hub.wiley.com/community/support/wileyplus>

iclicker

During all lectures iClicker questions encourage you to prepare for class, talk about economics and accounting, and identify misunderstandings. Like any class participation, quality matters. Correct iClicker responses earn full marks. This will encourage you to complete the assigned readings and remain attentive in class.

It is your responsibility to: correctly register your iClicker, bring it to class, arrive on time, and stay for the entire class. You may collaborate with your classmates: in fact, you are encouraged to. To register (or re-register) go to <https://www1.iclicker.com/register-a-remote>. You MUST use your UTORid – NOT your student # – as your 'Student ID.' You must properly register before the last class (or your iClicker mark will be zero). Your replies are recorded even if you are not registered, but registration tells us who gets credit for that work. If you encounter a \$6.99 fee for registering your remote, please see me after class: bring your iClicker remote and TCard.

How can I tell if my iClicker is working? When your response is received by an iClicker base, a green light illuminates on your iClicker remote. Please make sure to vote only while voting is active in our class. A red light (or no light) indicates a problem. The last answer you press (while voting is still active) is graded. Nearly all strange remote behavior can be fixed by replacing ALL batteries. For support call 866-209-5698 or visit <http://support.iclicker.com/>.

How can I be sure if I am earning marks with my iClicker? There are two separate requirements: (1) attend class, answer while voting is active, and get a green light and (2) properly register with your

UTORid. Check (1) during class. To check (2), go to <https://www.iclicker.com/find-your-remote-id>, enter your UTORid, and make sure your registration is active.

Calculator

You will also likely want a non-programmable financial calculator such as the:

1. Texas Instruments BA II Plus (including BA II Plus Professional)
2. Hewlett Packard 12C (including the HP 12C Platinum, 12C Platinum 25th anniversary edition, 12C 30th anniversary edition, and HP 12C Prestige)

These are the only two calculators approved for the CFA exams that I imagine many of you would consider taking. You may use an alternative non-programmable calculator, but I cannot guarantee it will perform the necessary actions. Basically, you want a calculator that can perform present value calculations but is also non-programmable.

Website

Announcements and course material will be posted on Blackboard through Portal. WileyPLUS is also accessed through the course site on Blackboard.

Office Hours

I hold office hours every Tuesday 3:00 - 5:00pm. You may book 15 minute sessions to discuss course material or administrative issues. To make a reservation, please visit the Google document: <https://docs.google.com/spreadsheets/d/1AbIoYNv1e9Vt4zM0WZTssPs1BnFrQ3lioDrOUQEjI0/edit#gid=0>. If demand is high, then I will add extra time. If this time does not work for you, please email me to arrange a meeting. I will do my best to accommodate you within a reasonable period of time.

Email policy

The best form of communication in this course is in person, either with myself or a TA, during lecture, tutorials, and office hours. Generally, I do respond to question about course content via email. In the event that an e-mail communication is needed, please make sure to always identify yourself and to use your UTOR e-mail account (the “utoronto” account). E-mails from other accounts may not reach my inbox. For e-mails asking for a reply, I will reply within three business days. If I fail to do so, you should assume I forgot and re-send your message to remind me. Please include the course code, your full name as it appears on Acorn, preferred name, and student number in the body of the email. Also, please include the course code in the subject line.

Evaluations

| | Date | Grade |
|----------------|----------------------------|-------|
| In-class quiz | October 11 | 15% |
| Term Test | November 15 | 25% |
| Participation | | 10% |
| Online quizzes | | 5% |
| Final exam | Exam period: December 9–20 | 45% |

Note: Tests will be held in class. Please do not make any travel plans until the examination period has ended.

The in-class quiz will consist of multiple choice questions. It will be held in our schedule classroom at the beginning of class. The duration will be 60 minutes, and the quiz will be followed by a lecture. The term test will be 100 minutes and will also be held in-class. You may be aware that many professional designations rely on multiple-choice examinations, so you will find it useful in the future to master this type of question. As the course progresses, you will have the opportunity to write short answer questions. The in-class quiz, term test and final exam will be **cumulative** – you must not forget what you’ve already learned!

There will be nine online quizzes throughout the semester. These questions will test your knowledge and understanding to help prepare you for class – they are **NOT** representative of test question difficulty! The in-class assessments will be more analytical, outcome-oriented, and challenging.

Participation

Participation grades can be earned in the following ways: (i) attending class, (ii) correctly answering iClicker questions, and (iii) participating in class discussions. At the end of the academic year, if you facilitate learning in the classroom in a remarkable fashion, I reserve the right to boost your final grade.

Missed tests

Missed online quizzes will receive a grade of zero. If you miss the in-class quiz for a certified medical reason, or other approved cause, your grade-weight will shift to the term test. If you miss the term test, there will be a makeup test on Friday, November 24. To be eligible, you must solve and hand in the term test. For each multiple choice question, you must explain why the answer is correct – simply noting the correct answer is (usually) insufficient. The makeup test is worth 25 percent of your final grade. If you also missed the in-class quiz, this weight will shift to the final exam so your final exam will be worth 60 percent of your final grade. If you miss the makeup test for any reason, you will receive a grade of zero.

Students are required (without exception) to submit official documentation within one week of the missed quiz. In the case of illness, the University of Toronto official Verification of Student Illness or Injury form must be used. This form must be submitted to me in person (i.e., not to the Department’s receptionist and not by fax or e-mail). Students deemed ineligible for writing the make-up test will receive a grade of zero for the missed test. This form can be found here: [http://www.illnessverification.utoronto.ca/document/Verification%20of%20Student%20Illness%20\(VOI\)%20-%20Oct%2027%202016.pdf](http://www.illnessverification.utoronto.ca/document/Verification%20of%20Student%20Illness%20(VOI)%20-%20Oct%2027%202016.pdf)

Appealing your grade

Disputes over the evaluation of a test should be discussed with me. Disagreement with the marking means that an error might have been made – for instance, the marker failed to consider a part of your answer. Conversely, suggesting that you believe you deserved a higher grade is not a valid reason for a re-grade. After reviewing the solution posted on the course website, submit in person the re-grade request form on Portal. You must submit your appeal no later than one week after the solutions have been posted on Portal. Please note that all questions of the test will be remarked and not only the question in dispute.

Crowdmark

The department of economics has secured Crowdmark for all of our undergraduate course offerings. Crowdmark is a ‘collaborative online grading and analytics platform that helps educators evaluate student work more effectively.’ Your term tests and assignments will be scanned and uploaded to Crowdmark. It is here that your work will be graded.

Academic integrity

Academic integrity is one of the cornerstones of the University of Toronto. It is critically important both to maintain our community which honours the values of honesty, trust, respect, fairness and responsibility and to protect you, the students within this community, and the value of the degree towards which you are all working so diligently. According to Section B of the University of Toronto’s Code of Behaviour on Academic Matters <http://www.governingcouncil.utoronto.ca/Assets/Governing+Council+Digital+Assets/Policies/PDF/ppjun011995.pdf>, which all students are expected to know and respect, it is an offence for students:

- To obtain unauthorized assistance on any assignment.
- To provide unauthorized assistance to another student. This includes showing another student completed work (e.g., an answer on a test).
- To falsify or alter any documentation required by the University. This, includes, but is not limited to, doctor’s notes.
- To use or possess an unauthorized aid in any test or exam (e.g., a cell phone).
- To continue writing when the time is up in any test or exam.
- To submit a medical note to get out of a test when the student is not actually sick.

There are other offenses covered under the Code, but these are by far the most common. Please respect these rules and the values which they protect. For useful tips for avoiding academic misconduct, please visit the website of the Office of Student Academic Integrity at <http://www.artsci.utoronto.ca/osai/students/avoid-misconduct>.

Course content

| <i>Date</i> | | <i>Chapter</i> | <i>Minutes</i> |
|---------------------------------------|---|--|----------------|
| Sep 13 | In-Class | Ch. 1 – ‘The Demand for Financial Information’ | |
| | | Read Ch. 1 – ‘Financial reporting and economic context’ | 40 |
| | | Watch the Mini-Lecture Videos on WileyPlus (WP). | 39 |
| | | Watch the Applied Skills Videos (WP). | 20 |
| | Homework: | Attempt all Ch.1 practice problems under ‘PRACTICE’ (WP). | |
| | | Read Ch. 2 and watch Mini-Lecture Videos (WP). | 88 |
| | | Attempt the Ch. 2 M/C self-assessment & Video quizzes (WP). | |
| | Assessment: complete the quiz for chapters 1,2 (WP) | 30 | |
| | We will not cover the appendix to Ch. 1. or Ch. 2 | | |
| Sep 20 | In-Class: | Ch. 2 – ‘The Financial Statements’ | |
| | | Problems: E2-2, E2-5, E2-7, E2-12, ID1-1, ID1-4, ID2-1, ID2-4, ID2-5 | |
| | Homework: | Read Ch. 3: ‘Measurement Fundamentals’. | |
| | Attempt the Ch. 3 M/C self-assessment (WP), ESS 3-1 (WP). | | |
| | Assessment: complete the quiz for chapter 3 (WP). | 30 | |
| Sep 27 | In-Class: | Ch. 3 – ‘The Measurement Fundamentals’ | |
| | | Problems: E3-6, ID3-4, ID3-7, ID3-10, ID3-11, ID3-12, ID3-13 | |
| | | Read Ch. 4: ‘The Mechanics of Accounting’ | |
| | | We will cover the ch. 4 app. on cash flow next week. | |
| | Homework: | Watch the Mini-Lecture Videos (WP). | 121 |
| | Attempt the Ch. 4 M/C self-assessment & VQ (WP). | | |
| | Assessment: complete the quiz for chapter 4 (WP). | 30 | |
| Oct 4 | In-Class: | Ch. 4 – ‘The Mechanics of Accounting’ | |
| | | Problems: E4-2, P4-8, ID4-1, Ch.4 Ethics in the real world, E4-12, E4-19, ID4-1, ID4-8, ID4-13 | |
| | Homework: | Study! ESS 4-1 to 4-5, and PSS 4-1, 4-2 (WP). | |
| | Practice with sample M/C questions, re-do old WP problems, and in-class problems. | | |
| Oct 11 | In-class quiz: | Quiz covers chapters 1-4, excluding the appendices. | 60 |
| | | Questions will be multiple-choice. | |
| | In-Class: | Appendix 4A – ‘Statement of cash flows’ | |
| | | Problems: E-4-8a, E4-16a, E4-22 | |
| | Homework: | Read Ch. 6: ‘Current assets’ | |
| Watch the Mini-Lecture Videos (WP). | | 42 | |
| Watch the Applied Skills Videos (WP). | | 24 | |
| | Attempt the ESS, PSS problems and VQ (WP). | | |
| | Assessment: complete the quiz for chapter 6 (WP) | 30 | |

Note: WP is an acronym for WileyPLUS, ESS is for Exercises Self Study, PSS is for Problems Self Study, and VQ is for Video Quiz.

| <i>Date</i> | | <i>Chapter</i> | <i>Minutes</i> |
|-------------|----------------------|---|----------------|
| Oct 18 | In-Class: | Ch. 6 – ‘Current assets’ Problems: P6-3, E6-4, E6-6, E6-9, ID6-2, ID6-3, ID6-5, ID6-7 | |
| | | Read Ch.7 ‘Inventory’ | |
| | Homework: | Watch the Mini-Lecture Videos (WP). Watch the Applied Skills Videos (WP), Attempt the Ch. 7 PSS and VQ (WP). Assessment: complete the quiz for chapter 7 (WP) | 52 28 30 |
| Oct 25 | In-Class: | Ch. 7 – ‘Inventory’ Problems: E7-4, E7-5, E7-8, E7-12, ID7-1, ID7-3, ID7-5, ID7-7 | |
| | Homework: | Read Ch. 8 ‘Investment in equity’ Watch the Mini-Lecture Videos (WP). Attempt ESS #8-1 and video quizzes (WP). Assessment: complete the quiz for chapter 8 (WP) | 44 30 |
| Nov 1 | In-Class: | Ch. 8 & appendix – ‘Investment in equity securities’ Problems: E8-1, E8-7, E8-8, E8-9, E8-13, ID8-6, ID8-7, ID8-9 | |
| Nov 8 | <i>READING WEEK!</i> | | |
| Nov 15 | Term test: | covers chapters 1-8 | |
| | Homework: | Read Ch. 9 ‘Long-lived assets’ Watch the Mini-Lecture Video (WP). Watch the Applied Skills Videos (WP). Attempt ESS 9-2, 9-3, 9-4, and VQ (WP). Assessment: complete the quiz for chapter 9 (WP) | 21 24 30 |
| Nov 22 | In-Class: | Ch. 9 – ‘Long-lived assets’ Problems: BE9-4, E9-1, E9-3, E9-4, E9-7, E9-10, E9-14, ID9-1, ID9-2, ID9-6 | |
| | Homework: | Read Ch. 10, app. A,B ‘Intro to Liabilities’ Watch the Mini-Lecture Video on Volkswagen (WP). Watch the Applied Skills Videos (WP). Attempt ESS 10-1,10-2, PSS 10-1, 10-2, and VQ (WP). Assessment: complete the quiz for chapter 10 (WP) | 25 30 |

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| <i>Date</i> | <i>Chapter</i> | <i>Minutes</i> |
|-------------|---|----------------------|
| Nov 29 | In-Class: Ch. 10 – ‘Intro to Liabilities’ Problems: BE10-2, E10-1, E10-4, E10-6, E10-8, E10-10, ID10-6, ID10-11 | |
| | Homework: Ch. 11 – ‘Notes, Bonds, and Leases’ and Appendix A: TVM Watch the Mini-Lecture Videos (WP). Attempt the MC self assessment, EPP 11-2, 11-3, and VQs Attempt the Appendix A MC self assessment, ESS #1-4 Assessment: complete the quiz for chapter 11 (WP) | 52 30 |
| Dec 6 | In-Class: Ch. 11 – ‘Notes, Bonds, and Leases’ Problems: BE11-2, BE11-3, E11-2, E11-3, E11-16, E11-22, E11-26, ID11-1, ID11-2, ID11-5, ID11-11 | |
| extra | In-Class: Marked-to-Market accounting and regulatory rules Paper: Shin, H. S. (2010). Comment on ‘The Leverage Cycle’. In <i>NBER Macroeconomics Annual 2009, Volume 24</i> (pp. 75-84). University of Chicago Press. | |

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Get-to-know-your-classmates game – My fav!

1. Introduce yourself to someone you don't already know.
2. See which question she/he can answer, record her/his name and move on to meet another colleague!

Who commutes to campus for more than an hour?

Who lives on campus or less than a 30-minute walk away?

Who plays a musical instrument?

Who has returned to school after a year or more to work or travel?

Who knows someone who has passed the CFA level I exam or all CFA exams?

Who plays for a U of T Varsity Blues team ?

Who is a member of a recognized campus group at U of T?

Who can share how he/she believes this course will benefit her/his future career?