

# *Economics of Accounting*

*ECO305 – Spring 2019*

*Wednesday 10-1 PM, George Ignatieff Theatre*

## **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 – and perhaps only – way to develop an understanding of accounting is to perform the requisite journal 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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## **Office Hours**

I hold office hours every Thursday beginning January 17, from 1-3 PM. 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/1AbIoYNv1le9Vt4zM0WZTssPs1BnFrQ3IioDrOUQEjI0/edit#gid=0>.

## **Prerequisites**

You must have completed the appropriate prerequisites to continue in this course:

<https://www.economics.utoronto.ca/index.php/index/undergraduate/load/prerequisites>

## **Learning outcomes**

If successful, you will be able to:

- measure how a given transaction affects the four financial statements,
- contrast accounting principles under US GAAP and IFRS accounting regimes,
- analyze company performance under cash and accrual accounting.
- adjust company performance for managerial discretion such as LIFO v. FIFO.
- and speak the language of business! Words such as leverage, solvency, liquidity, profit margin, overhead, and their associated ratios will become familiar.

## Additional reasons you might enjoy this course

- You enjoy solving problems by applying accounting rules.
- You will be better prepared to write professional designations such as the Canadian Securities Course and the Chartered Financial Analysis.
- You will appreciate why firms target financial ratios.
- You will find it easier to understand how different industries produce profits.

## Class time

	Day	Time	Location
Lecture	Wednesday	10:00 – 1:00pm	George Ignatieff Theatre

In ECO305, you will experience a flipped classroom. As homework, you will read the textbook, watch online videos, and answer online questions to ensure you are prepared for class. I may **briefly** review key topics however during class, the majority of our time will be spent solving problems and discussing economic consequences. This means you should arrive with your (i) calculator, (ii) pen/pencil, and (iii) paper. A laptop and/or printed slides are also highly recommended. I will do my best to keep lectures to two hours however we have a lot of material to cover! Occasionally, we will need to use more time.

## 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 and accessed through Quercus. 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>.

**Please be sure to purchase your copy through the U of T EBookstore:**

<http://www.campusebookstore.com/AccessCodes/AccessCodeBrowse.aspx?CODEID=23972> – the cost will be \$60.00. Purchasing your copy direct from Wiley is more expensive!

## iClicker

During class time, 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 reward you for completing the assigned readings and remaining attentive in class. Your replies are recorded even if you are not registered, but you must register to earn credit for your work. 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 do so. Register your iClicker on Quercus to avoid any additional fees. You can find instructions here:

<http://teaching.utoronto.ca/ed-tech/teaching-technology/iclickers/registering-your-iclicker/>

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 behaviour 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 your iClicker on **Quercus**. If you're still worried, you may ask me to check following class.

## Calculator

You may also 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 Quercus. WileyPLUS is also accessed through the course site on Quercus.

## 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 questions about course content via email. In the event that an e-mail communication is needed, please use your UTOR e-mail account (the “utoronto” account). E-mails from other accounts may not reach my inbox and your email helps me identify you. 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**. 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.

# Evaluations

	Date	Grade
In-class quiz	February 6	10%
Term Test	March 13	25%
Participation	Weekly	10%
Online quizzes	Weekly	5%
Final exam	Exam period: April 6-30	50%

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

The in-class quiz will consist of both multiple-choice questions and written-answers. 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 held in-class. The in-class quiz, term test, and final exam will be **cumulative** – you must not forget what you’ve already learned!

An online quiz will be due one-hour prior to each lecture. These questions will test are meant to prepare you for class – they are **NOT** necessarily representative of test question difficulty! The in-class assessments will be more analytical and outcome-oriented.

## 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 commensurate with your contribution. You earn two marks for answering each question and two marks for the correct answer. Each class, you earn a percentage of the total marks available which counts towards your final participation grade. You may miss one class without negatively affecting your grade however subsequent absences will receive a grade of zero for that class.

## Missed tests

Missed online quizzes will receive a grade of zero. If you miss the in-class quiz for a properly documented reason (see below), your grade-weight will shift to the term test. If you miss the term test, there will be a makeup test on Friday, November 23 at 4:00 PM. You also must solve and hand in the term test prior to writing the make-up. The makeup test is worth 25 percent of your final grade. If you also missed the in-class quiz, your makeup test will be worth 40 percent of your final grade. If you miss the makeup test for any reason, you will receive a grade of zero.

Proper documentation includes a certified medical reason, or other approved cause, you must provide printed documentation (such as a medical note or death certificate) to validate your absence. Acceptable medical notes include the UofT Verification of Illness or Injury Form, Student Health or Disability Related Certificate, a College Registrar’s Letter, or an Accessibility Services Letter. Further, you must submit the document(s) to me **in person within five business days** following the quiz or test. You may do so either immediately following lecture or during office hours.

For your convenience, you may find the the University of Toronto official Verification of Student Illness or Injury form here: <http://www.illnessverification.utoronto.ca/index.php>

## 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 Quercus. You must submit your appeal no later than one week after the solutions have been posted on Quercus. Please note that all questions will be remarked – 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 on 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

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- 1 The measurement, mechanics, and uses of financial statements
- 2 Current and long-lived Assets
- 3 Contingent, Current, and long-lived Liabilities
- 4 Accrual, Fair Value, and Cash Flow Accounting
- 5 Fundamental and Financial Statement Analysis

## Get-to-know-your-classmates game – yay!

- Introduce yourself to someone you don't already know.
  - See which question she/he can answer, record her/his name and move on to meet another colleague!
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1. Who has spent a semester studying at another institution?
2. Who lives close enough to walk to campus?
3. Who is planning to start a career in the management of people?
4. Who will be working for a financial institution this summer?
5. Who has completed the Canadian Securities Course?
6. Who speaks one of the romance languages (ie Spanish, French, etc.) proficiently?
7. Who can program proficiently in Python?
8. Who has already **completed** ECO359?