Financial Reporting and Accounting

LAWJ/G-804-08

Spring 2017

Georgetown University Law Center

Professors Philip S. Khinda and David M. Estabrook

SYLLABUS

This course introduces students to the fundamentals of Generally Accepted Accounting Principles and their application in corporate financial statements, including the accounting for specific items such as receivables, inventory, investments, fixed assets, intangible assets, liabilities, and equity. Building on this base, the course examines significant current accounting and financial reporting topics with emphasis on their practical application to the practice of law. It does so based on the development of an understanding of corporate financial statements and the underlying accounting concepts used in preparing those statements. Issues are considered within the framework of current SEC and professional requirements. Particular attention is paid to current issues and enforcement trends raised by the SEC and to the latest pronouncements of the FASB, AICPA and SEC. Selected public filings are analyzed to provide additional insights on the quality of reported earnings and financial condition of the reporting company, and the apparent effect of various alternative accounting methods.

Prerequisite: Prior completion in Securities Regulation.

1. Introduction (1/23/17)

   a. Topics to be covered and other housekeeping matters
      i. Syllabus review
      ii. Final exam (closed book; three hours)
      iii. No class recordings
      iv. Other evaluative factors
      v. Course text: *Introductory Accounting, Finance and Auditing for Lawyers, Sixth Edition*, Lawrence A. Cunningham (Thomson West)
      vii. Other course materials and sources
          (1) Assignments: “read” v. “review”
          (2) Law Library Reference Set
      viii. First Principles – the Three Pillars

*No advance assignment*
2. Identifying and Addressing Financial Reporting Issues (1/30/17)

a. Who’s who (and their respective roles and pronouncements)
   i. U.S. Congress and its related committees
   ii. Securities and Exchange Commission
       (1) Organization and responsibilities
       (2) SEC rules, releases and interpretations
       (3) Office of Chief Accountant (“OCA”) – “no-action” letters;
           Staff Accounting Bulletins (“SABs”)
       (4) Commission oversight of the accounting profession
   iii. American Institute of CPAs (“AICPA”)
   iv. Financial Accounting Standards Board (“FASB”)
   v. Independence Standards Board (“ISB”)
   vi. Public Company Accounting Oversight Board (“PCAOB”)
   vii. Other regulators, and federal and state prosecutors

b. The regulatory framework regarding liability issues
   i. SEC statutes and provisions
      (1) General reporting provisions
      (2) The antifraud provisions
      (3) The SEC’s rules of practice
      (4) Secondary and vicarious liability provisions
      (5) Federal court and administrative proceedings
      (6) Potential penalties and other sanctions
   ii. Professional requirements and potential sanctions

Read: Cunningham Chapter One (pp. 1-30)
Securities Act sections 5, 11, 12, and 17
Securities Exchange Act sections 10(b), 10A, 12, 13, 20, and 21 (compare
with sections 21A-21D)
Rule 102(e) of the SEC’s Rules of Practice, 17 C.F.R. §201.102(e)

3. The Balance Sheet and Income Statement (2/6/17)

a. Assets, Liabilities, and Equity
b. Journal entries
c. Creating the Balance Sheet
d. Revenues and Expenses
e. Creating the Income Statement

Read: Cunningham Chapter 2 (pp. 31-52)
Review: Cunningham Glossary (pp. 455-477)
Complete: Cunningham Problems 2A (p. 41) and 2B (p.53)

Optional: Schaum’s Chapters 1-3
4. The Accrual System of Accounting (2/13/17)
   a. Cash versus accrual accounting
   b. Deferrals and accruals
   c. Adjusting entries

   Read: Cunningham Chapter 3 (pp.55-67)
   Complete: Cunningham Problem 3 (p.67)

   Optional: Schaum’s Chapters 4-6

5. Inventory and the Cost of Goods Sold (Thursday 2/23/17)
   a. Periodic versus perpetual inventory accounting
   b. Determining the Cost of Goods Sold
   c. Lower of Cost or Market
   d. Disclosure and tax matters

   Read: Cunningham Chapter 4 (pp. 71-89)
   Complete: Cunningham Problems 4A and 4B (p. 89)

   Optional: Schaum’s Chapters 7-8

6. Regulatory Framework and Related Securities Law Issues
   Regarding Financial Reporting (2/27/17)
   a. The “duty” to disclose
   b. Securities Act registration requirements
   c. Exchange Act reporting requirements and SEC Regulation S-K
      i. Forms 10-K, 10-Q, and 8-K
      ii. Item 103 (legal proceedings)
      iii. Item 303 (MD&A)
      iv. Item 403 (Disagreement with auditors)
      v. Item 404 (related party transactions)
   d. Accounting changes and restatements
   e. Accounting for contingencies and SFAS 5
   f. The PSLRA safe harbor for forward-looking statements
   g. Selective disclosure and Regulation FD
   h. CEO and CFO certifications

   Read: Cunningham Chapter 16 (pp. 409-424)
   1989 SEC MD&A release (May 18, 1989)

   Review: SEC Regulation S-K Items 103, 303, 304 and 404
   Regulation FD Adoption Release (Aug. 15, 2000)
7. **Fixed Assets and Depreciation; Integrated Disclosure System;**
   **Accounting Standards Codification (3/6/17)**
   
   a. Depreciation bookkeeping
   b. Depreciation methods
   c. Tax depreciation distinguished
   d. Depletion and amortization

   **Read:** Cunningham Chapter 5 (pp. 92-113)
   **Complete:** Cunningham Problem 5 (p. 112)

   **Optional:** Schaum’s Chapter 10

8. **Accounts Receivable; Investments (3/20/17)**
   
   a. Receivables and allowance for doubtful accounts
   b. Investments in debt securities
   c. Investments in equity securities

   **Read:** Cunningham Chapter 6 (pp. 117-132)
   **Complete:** Cunningham Problem 6 (p. 149)

   **Optional:** Schaum’s Chapter 9

   
   a. Consolidated financial statements
   b. Identifiable intangibles
   c. Unidentifiable intangibles
   d. Goodwill

   **Read:** Cunningham Chapter 6 (pp. 133-137)
   Cunningham Chapter 9 (pp. 215-233)
10. Securities law issues continued and other key regulatory initiatives and pronouncements (4/3/17)

a. The “Numbers Game” and “Earnings Management”
i. SAB No. 99 (materiality)
ii. SAB No. 100 (exit activities and restructuring costs)
iii. SAB No. 101 (revenue recognition)
iv. Related enforcement proceedings
b. “Deputizing Directors”: the SEC’s Audit Committee Disclosure Rules and related stock exchanges requirements
c. The Sarbanes-Oxley Act (2002), the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010), and more recent developments

Read: Cunningham Chapter 17 (pp. 427-453)
Staff Accounting Bulletins (with particular attention to SABs 99 & 101)
Audit Committee Disclosure Adoption Release (Dec. 22, 1999)
“The Numbers Game” Speech by SEC Chairman Arthur Levitt (Nov. 1998)

11. The Role of the Independent Auditor (4/10/17)

a. Gatekeeper function under the federal securities laws
b. “Generally accepted auditing standards” (or GAAS), as opposed to GAAP
i. Auditor opinions and liability
ii. Auditor requests for information
c. Auditor Independence
i. The SEC’s recent initiatives and new rules
ii. Rule 2-01, 17 C.F.R. § 210.2-01 (“Qualifications of accountants”)
iii. Financial interests (PricewaterhouseCoopers SEC settlement order)
iv. Business relationships (Peoplesoft; also Arthur Andersen OCA letter)
v. Other Non-audit Services

Read: Cunningham Chapter 15 (pp. 377-404)
PeopleSoft SEC Initial Decision (April 16, 2004)
Auditor Independence Rules Adoption Release (Nov. 21, 2000)
Rule 2-01, 17 C.F.R. § 210.2-01
PricewaterhouseCoopers SEC settlement order (January 14, 1999)
Arthur Andersen letter (April 18, 1990)
12. **Liabilities and Equity (4/17/17)**

   a. Current and noncurrent liabilities  
   b. Unearned revenue  
   c. Accounting for bonds  
   d. Stockholders equity; issuance of stock; dividends

*Read:* Cunningham Chapter 7 (pp. 153-170)
*Review:* Cunningham Chapter 17 (pp. 427-452)

*Optional:* Schaum’s Chapter 11 and 12


   a. Preparation for final exam  
   b. Question and answer session

* * *