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If you have any **suggestions** for current events and/or concerns, please send them directly to me using this email address. Comments are welcomed.

We value **your input** about our books, other products, and service. Use this email address to let us know how we are doing.

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SUMMER ISSUE FOR YOUR ACCOUNTING CLASSROOM

This is our only summer issue of your author-produced service for our friends who teach or have an interest in first-year accounting, including alumni of our conferences and workshops and users of our textbooks. The teaching resources described below are contained in the attached pdf file in a form that you can print out for reference and reproduce for your classes. Watch for your next issue in late August.

ACCOUNTING IN THE NEWS

Topic: Revenue and expense recognition, accounting methods, earnings management, international company

“Remarkable Year” raises questions: It pays to read the fine print” IAS Survey Update, July 2001
See pdf file for details and discussion questions.

REAL-WORLD CASE

Topic: Corporate income statement, quality of earnings

Which Tech Leader Had the Best Performance?
IBM and Microsoft See pdf file for case with solution.

TEACHING ANNOUNCEMENTS

Topic: 2004 Technology Innovation Award
Read how to apply.

Topic: Using Performance Measurement as a Means of Adding Relevance to the Beginning Accounting Course
Hear the authors, Bel Needles and Marian Powers, on a panel at the American Accounting Association annual meeting in Hawaii, 10:15-11:45 am, August 6, 2003.
See attached file for details on these announcements.

**ACCOUNTING IN THE NEWS:
A TEACHING POINT BY NEEDLES & POWERS**

Topics: Revenue and expense recognition, accounting methods, earnings management, international company

“Remarkable Year’ raises questions: It pays to read the fine print”

The big German travel company, Preussag, reported that the year 2000 was “a remarkable year’ in which the company achieved “all-time high” results and “profit rose by 16.5%.” The financial reports reveal that profits would not have been so remarkable if the effects of four voluntary accounting changes had been taken into account. Profits would have increased by only 6.7%, if Preussag had not made these changes. The company began recognizing revenue from holiday packages at the beginning of the holiday instead of at the stage of completion, and it began deferring the cost of brochures over future tourist seasons. In addition, the cost of “empty-leg flights” at the beginning and at the end of each tourist season was now amortized over the season. Finally the inventory method was changed from LIFO to average. None of these cosmetic changes affect future cash flows or change the company’s operations for the better.*

Discussion questions:

1. What are the four changes Preussag made in its accounting methods?
2. How did each of the changes work to increase Preussag’s reported income in 2000?
3. Why do none of these changes affect the company’s cash flows?

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* David Cairns International, *IAS Survey Update*, July 2001

Topic: Corporate income statement, quality of earnings

Which Tech Leader Had the Best Performance?

IBM and Microsoft

In a recent year, analysts expected **International Business Machines (IBM)** to earn \$1.32 per share. The company actually earned \$1.33. **Microsoft Corporation** was expected to earn \$.43 per share, but earned only \$.41. Further reading of the corporate income statements of these companies shows that Microsoft had a special charge (with corresponding liability) of \$660 million or \$.06 per share based on the settlement of a class-action lawsuit filed on behalf of consumers. IBM did not have such a charge. *

Who did better, Microsoft or IBM? Use quality of earnings to support your answer. Also, what is the effect of Microsoft's special charge on current and future cash flows?

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* *The Wall Street Journal*, January 18, 2002

The quality of a company's earnings refers to the substance of earnings and their sustainability into future accounting periods. One way to judge a company's earnings trends is by whether or not the company is able to beat analysts' forecasts and by how much. The special charge for Microsoft is a one-time charge that will free future periods earnings from bearing this cost. Thus, without the special charge Microsoft would have beat analysts' forecasts by \$.04 per share ($\$.41 + \$.06$). IBM beat analysts' forecasts by only \$.01 per share ($\$1.33 - \1.32). Microsoft's sustainable earnings increased by a higher percentage than IBM's. On this basis, Microsoft had better performance than IBM.

(Note: The fact that IBM's earnings per share are more than Microsoft's is irrelevant because the companies are different sizes and have different numbers of shares outstanding.)

From a cash flow perspective, Microsoft's special charge did not have any current affect on cash flows because it was not paid but created a liability. The liability will have to be paid in the future, which will adversely affect Microsoft's future cash flows.

ACCOUNTING INSTRUCTORS' REPORT

IS PLEASED TO ANNOUNCE THE 2004 COMPETITION FOR THE

TECHNOLOGY INNOVATION AWARD

Competition: The award is for the most innovative use in a college course of technology associated with the Needles Series of Accounting Textbooks including Internet-based software (Houghton Mifflin).

Award: The winner will receive a plaque and an invitation to attend the Conference on Accounting Education in 2004 as our guest, at which he or she will present the innovation. The innovation will be highlighted in *Accounting Instructors' Report*.

Software: The software may be any software associated with the Needles Series of Accounting textbooks, including but not limited to, Fingraph® Financial Analyst™ CD-ROM (Houghton Mifflin, 1999), Transaction Tutor, Excel Spreadsheets, PowerPoint Slides, videos, general ledger software, Blackboard or Web CT or other Internet use. The software may be used in class or out-of-class and can be used in distance learning.

Eligibility: To be eligible, applicants must have used the software with a textbook by Needles, et al. (except Fingraph® Financial Analyst™), in a recent college course.

Application: Applications should include a copy of the syllabus for the course in which the software is used, a description of how the software is used in the learning experience (if not evident in the syllabus), examples of student reports or output, and a short description and comment by the instructor. The decision of the selection committee is final.

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Deadline: January 15, 2004

Selection Deadline: February 1, 2004

IF YOU ARE ATTENDING THE AAA ANNUAL MEETING IN HAWAII IN AUGUST, PLEASE PUT OUR PANEL ON YOUR AGENDA. HERE'S THE DETAILS.

Panel: Using Performance Measurement as a Means of Adding Relevance to the Beginning Accounting Course

Date: Wednesday, August 6, 2003
Time: 10:15-11:45 am
Location: Check the program
Area of Interest: The beginning accounting course
Substantive issue: Increasing the value of the beginning accounting course by emphasizing performance measurement

Panelists and topics:

“Using the Balanced Scorecard as a Tool in Teaching Beginning Accounting,” Salvador D. Aceves, University of San Francisco

“Using Integrated Financial Ratio Analysis in Beginning Accounting,” Belverd E. Needles, Jr., DePaul University

“Teaching the Story Told by the Statement of Cash Flows,” Marian Powers, Northwestern University

This panel addresses a major issue faced by all teachers of the beginning accounting course: how does one increase the value of the knowledge that students receive and what knowledge will make the course more relevant to them as future business people and managers?

In the first presentation, Salvador Aceves will show how use of the balanced scorecard may be a unifying concept, bringing together the financial performance measures with the internal measures of financial and non-financial measures. In the second presentation, Belverd Needles will present a model of financial ratio analysis that goes beyond simply computing ratios related to various topics to show how the ratios relate to each other in providing a comprehensive view of a company's performance. The conceptual model will include performance drivers, performance measures, asset utilization, and strategic objectives. In the third presentation, Marian Powers will examine the statement of cash flows, one of the most misunderstood statements. Instead of focusing solely on the presentation and preparation of the statement of cash flows as most professors do, Dr. Powers will critique the statement and identify the link between earnings, cash flows, asset utilization, and value creation.