WALL STREET JOURNAL ASSIGNMENTS

Objectives
The objectives of these assignments are to introduce you to business press, to help you to cultivate habit of reading business periodicals and articles, and to learn to understand them so that a source to update your knowledge is available after graduation.

Classroom can cover only so much material. There are many facets of management that cannot be adequately dealt with in classrooms. The business environment changes rapidly (new accounting standards, new financial instruments, for example) and only a business periodical can discuss such changes in a timely manner.

Assignments
1) To read the Wall Street Journal (WSJ) everyday
2) Identify articles dealing with financial matters (accounting or finance related)
3) Understand clearly the content of the articles (use Internet, library resources in reserve & reference section if needed).
4) Then, in your own words, explain the gist of the article to me in a memo form. You will assume that I, the reader, have only rudimentary knowledge of accounting and finance. Your objective in writing the memo is to explain the article clearly.
5) You will write 14 memos over the semester. You must write at least one memo per week after you start receiving the WSJ. To catch up you are allowed to write 2 memos a week in the beginning but pace your memos so that you finish your 14th memo on the last day of the class. If you finish writing 14 memos early, then you must continue to write additional memos until the 14th week. A memo for a class is due before that class, so memo number 6 is due before 6th class.

Grading
There will be 25 points allotted to this assignment.

Requirements
1) This is not a group project, each person must work individually. No sharing of anything except the newspaper.
2) Memo must be in your own words. Use of sentences from the newspaper or other sources will be considered plagiarism. (Read carefully section titled Academic Integrity in your Course Outline.) No direct quotes of any kind are allowed.
3) A memo must be written and submitted within seven days of the appearance of an article in the paper. For example, if a news item appears on Wednesday, then the memo on it must be submitted by next Wednesday. No exceptions.
4) The memo must be at least 400 words long. (About 1.5 double-spaced pages. Check
number of words in your memo using word-count application in your word processing program.

5) **It must follow exactly the title format used in the sample.**

6) Make sure spellings, grammar and syntax in the memo are correct.

7) Articles from other periodicals including the interactive Wall Street Journal are not accepted.

8) Memos must be submitted as e-mails to acct4100@clarku.edu within time period specified in item 3 above. **The memo should be written as an e-mail and not as an attachment to e-mail.** If you so desire, you can use a word processor program to write the memo and then paste the memo on to an email. Note that this e-mail address is for memos only. Use my other e-mail address, ddhavale@clarku.edu, for communicating with me.

9) You should save either electronic or paper copies of all memos in case there is some discrepancy and you are asked to resubmit a memo.

10) Number your memos consecutively starting with one and keep track of the numbers. These numbers are used in recording your memo submissions.

11) Students needing assistance in writing in English can take advantage of the services offered by the GSOM Writing Tutor. For more information and appointments go to the announcements page and click on “Information about Tutor for Writing in English” link.

12) **Do not submit a photocopy of the WSJ article with your memo.**

13) **Do not spend more than one hour writing your memo. It is not considered a major exercise. It is not assigned as a writing exercise. If English is not your first language, then do not be concerned about grammatical or syntax errors in your memo, I do not deduct points for those errors. You must check, however, your spellings using a spell checker before submission. I expect you to spend more time reading the WSJ, not writing memos.**
The Financial Accounting Standards Board, despite widespread criticism from the business community, is proceeding with a controversial rule that would force companies to report the fair market value of derivatives on their books.

Though the FASB made some changes to accommodate the complaints, the proposed rule could still have a major impact on corporate earnings by forcing companies to include any potential profit or loss form derivatives contracts in their final results.

The FASB had initially planned to delay the rule for further comment. But FASB members voted 6-1 yesterday against such a move. The FASB, the chief accounting rule maker for publicly traded companies, now plans to make final changes by the fourth quarter of this year and have the rule take effect for fiscal years starting after Dec. 15, 1998.

Derivatives are financial contract whose value is linked to, or derived from, that of an underlying asset such as a bond, stock or commodity. Companies typically use derivatives to offset, or “hedge,” a variety of risks, such as exposure to interest rate or currency movements.

Potential Impact

The FASB proposal would for the first time bring derivatives onto corporate balance sheets so that investors and others can better appreciate their potential impact. Most derivatives don’t show up on balance sheets because they don’t have a “historical cost” – defined as the sum a dealer would be willing to pay to buy or sell a derivatives contact on the day it is entered into. But with the new rule, companies would have to include any potential profit or loss from the derivatives contact, as well as the underlying hedge position, in the earnings, which could significantly affect the final results.

Republican members of Congress and executives of companies such as Citicorp, Coca-Cola Co. and McDonald’s Corp. have blasted the proposal, contending that it would cause earning volatility. Critics also argue that some derivatives contacts have no readily available, reliable, standardized measure of fair market value.

But Anthony Cope, an FASB board member, said in an interview that board members believe they have addressed such concerns. The changes made in the proposal “were all in the direction that were recommended by financial statement users, preparers and auditors,” he said. He added that “we believe that they are adequate techniques to measure derivatives reliably.”

The FASB also got support from Arthur C. Levitt, chairman of the Securities and Exchange Commission, who has publicly denounced critics of the proposal. “We are in a situation today in which the notional amount of derivatives outstanding reaches some $70 trillion,” the chairman said in a recent speech. “Accounting has simply failed to keep pace with this exponential growth. “ Any further delay, he warned, would be “inconsistent with the way the standard-setting process should be conducted.”

Numerous Changes

To accommodate its critics, the FASB has permitted numerous changes to its original June 30, 1996, proposal. For example, the case of a future sale or purchase, the FASB said it will let companies record a hedge derivates’s gain or loss in the same period that a hedge asset or hedged liability is reported in earnings or incurred.

Following heavy criticism from corporate users, the FASB has permitted numerous changes to its original June 30, 1996, proposal. For example, in the case of a future sale or purchase, the FASB said it will let companies record a hedge derivative’s gain or loss in the same period that a hedge asset or hedged same that a hedged asset or hedged liability is reported in earnings or incurred.

Officials of American-based banks, which are some of the biggest users of derivatives, were clearly distressed by the FASB’s decision. Paul Ogorzelex, executive vice president at BankAmerica Corp.’s Bank of America in San Francisco, characterized the move as “a mistake.” He said “there are still questions as to
whether this complicated and sweeping proposal can work.” He added that “we see a tremendous cost in implementing this standard, plus there are big problems in affixing a subjective fair market value to the more exotic instruments, like swaps.”

William Roberts, senior vice president and controller of First Chicago NBD Corp., added: “I guess I’m surprised that they are confident – I’m certainly not – that what they come up with is workable.” He contended that “getting our accounting system geared up to handle these changes is going to be a huge challenge.”
Derivatives have been used extensively by publicly-traded corporations in the U.S. to minimize risks involved in financial transactions. A derivative is a financial contract whose value is determined by the value of some other financial instrument. The notional amount (the contracted amount) of derivatives used has reached some $70 trillion.

Currently there is no accounting standard that addresses the issues raised by derivatives, hence the gain or loss from derivatives does not appear directly on income statements or balance sheets. So an investor has no idea the impact of derivative contracts on the corporation’s bottom line. There is no up-front amount involved in purchase of derivative contracts hence they have no historical cost. The gain/loss is measured when a contract is settled.

According to the new accounting standard such gain/loss whether realized or unrealized would be included in the income each year. Critics complain that this would result in unnecessary volatility in net income, that practical implementation of this standard is costly and for many derivative contracts there is no objective fashion in which their value may be determined.

(This example memo is only 197 words long, you are expected to write 400-words memo. This is not the only way to write a memo for this article, other approaches are possible. I stayed with information contained in the article. Additional research will provide you with more information to write about.)

From: Your name here
Date: July 20, 1997

You must follow the title portion of this memo precisely for all your memos.