



Covid-19: An Opportunity to Craft an Effective Learning Strategy for Intermediate Accounting



Dr. Joseph Faello, Associate Professor of Accounting
Mississippi State University, Meridian Campus

Key Words

- Intermediate accounting
- Critical thinking skills
- Data analytical skills

AICPA Pre-certification Core Competencies

- Accounting
- Business
- Professional

How this Effective Learning Strategy Works:

The 2020 outbreak of the Covid-19 pandemic created economic circumstances causing many public companies to change their business operations that is reflected in the quarterly filings overlapping the onset of Covid-19 (e.g., for a December 31st year-end, that quarter is March 31, 2020).

This effective learning strategy's purpose is to show students how companies reacted to the Covid-19 outbreak and enhance their critical thinking skills. Changes in operating decisions are reflected in companies' financial reporting. Students work in groups of 2 or 3 and choose a public company from a list provided by the instructor. Each group uses the company's annual (10-K) and quarterly (10-Q) SEC filings to assess the effects of the "company's response" to Covid-19 on key financial ratios (e.g., return on equity, asset turnover, free cash flow, etc.). The company's response is either described in the notes to the financial statements or management's commentary contained in its SEC filings. From their analysis, each group determines the financial position and performance of their company before and during the pandemic. Then, they assess the company's financial performance going forward and prepare a written report.

Selected Excerpts From a Student Group's Paper. This group reported on Macy's Inc.: Macy's Inc. took actions to mitigate spread of the pandemic, minimize losses, conserve cash and increase liquidity.

- Macy's fully drew on its \$1,500 million credit facility, announced the suspension of quarterly cash dividends beginning in the second quarter of 2020, and took steps to reduce discretionary spending in order to increase liquidity.
- To conserve cash, the Board of Directors and Chief Executive Officer did not receive compensation from the beginning of the COVID-19 crisis through June 30, 2020. Additionally, cash expenditures were deferred where possible and a temporary furlough for the majority of employees was implemented that was expected to end at the beginning of July as stores reopen. In addition, certain executives that were not impacted by the furlough took a temporary reduction in their pay.

The Company is suffering from reduced efficiency. The asset efficiency ratio has dropped by nearly half, from 0.2804 in first quarter 2019 to 0.1584 in first quarter 2020. Furthermore, the Company is more highly leveraged than in 2019. First quarter leverage ratio in 2019 was 3.1734 as compared to 4.381 in 2020. This is higher than allowed by its credit agreement for its unsecured credit facility. In June, plans were in place to convert the debt to secured debt and reduce the unsecured credit available to \$75 million.

Companies Analyzed by Students Include:

- Macy's Inc.
- Delta Air Lines Inc.
- Marriott International Inc.
- Baker Hughes Company

Selected Excerpt From Student Group's Report on Macy's Inc.:

Period	Profitability	Asset Efficiency	Leverage	Return on Equity	Current Ratio	Free Cash Flow (million \$)
FY2018	0.043	1.3275	3.1865	0.1819	1.423	814
FY2019	0.0223	1.2551	3.1504	0.0882	1.1843	170
1Q2019	0.024	0.2804	3.1734	0.0214	1.4156	-384
1Q2020	-1.1375	0.1584	4.381	-0.7894	1.2361	-420