

The 10-K scavenger hunt: Connecting management accounting with the annual report

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ABSTRACT

This set of activities is designed to help students connect management accounting with prerequisite financial accounting courses and the annual report. Students begin by accessing the 10-K for a company from the SEC EDGAR database. Activities are provided for retrieving company information related to: the 10-K cover sheet; Certifications; Item 1 – Business; Item 1A – Risks; the company’s Code of Conduct; Cost of Sales; Selling, General and Administrative Expenses; Receivables; Inventories; Segment Reporting; Unallocated Costs; and Executive Compensation. The scavenger hunt is easily adaptable for a variety of purposes. Activities can be assigned all at once or spread out over a semester. One or more activities can easily be omitted without impacting the remaining parts of the assignment. The instructor can assign the company or allow students to select their own companies. At the completion of the assignment activities, students know how to access various company filings on the SEC EDGAR database, including the 10-K and Definitive Proxy Statement. Importantly, students see how financial accounting and management accounting are both important in preparing and using the annual report and other company filings. Students gain confidence in the relevance of what they learn in both financial and management accounting by seeing how the concepts they learn in class are used in real company filings.

Keywords: 10-K, annual report, financial accounting, management accounting

INTRODUCTION

Annual reports of real companies have been used to help introductory financial accounting students apply, synthesize and evaluate financial accounting concepts over the course of a semester (Flores, 2015). In addition, annual reports have been used across several semesters of upper-level accounting courses to assess learning and skills of accounting majors (Boldt, Hunt and Reed, 2013). The 10-K has also been used in management accounting to teach segment evaluation and develop spreadsheet skills (Braun, 2017). The scavenger hunt activities presented below are designed to help non-accounting students, both undergraduates and MBA students, see how both financial and management accounting are connected and used in the preparation and use of the annual report and accompanying filings.

The assignment presented is for a complete scavenger hunt of PepsiCo's filings. While students may not be completely familiar with all the topics, the scavenger hunt can be used within the first few weeks of the management accounting course. One advantage of placing the assignment early in the management accounting course is that students review basic financial accounting concepts that are used throughout management accounting. For example, the scavenger hunt illustrates the difference between cost of sales (product costs) and selling, general and administrative expense. However, questions can be easily omitted without encountering problems. Some instructors may prefer to spread the activities out over the semester so that students are looking at the relevant parts of the annual report when the corresponding management accounting topics are presented.

PepsiCo was selected because their annual report clearly states what is included in cost of sales and unallocated corporate costs. However, any manufacturer could be used. Additionally, some instructors may want each student to investigate a different company. Flores (2015) found that students expressed appreciation for being able to choose the companies they would investigate. Braun (2017) allows students to select from two companies, PepsiCo and Starbucks.

THE SCAVENGER HUNT

Using EDGAR and the 10-K Cover Sheet

Go to www.sec.gov and click on Company Filings in the upper right part of the screen to enter the EDGAR database of company filings. Now type in the name of the company you will be investigating, PepsiCo. This is the main summary page of filings for your company.

1. Provide the following information about the company: Name, Address, CIK (Central Index Key), Fiscal Year End, SIC Code and brief description, and the State of Incorporation.

Now enter 10-K in the Filing Type box. You will then have a list of the 10-Ks (Annual reports) the company has filed with the U.S. Securities and Exchange Commission (SEC). You want to view the most recent annual report filed. Make sure that you are selecting an annual report and not an amendment to an annual report. Answer the following questions.

2. What is the filing date of the report you will be using?
3. What is the file number (in red) of the report you will be using?

Now click on the Documents button (not the Interactive Data button) to see the 10-K in easily readable form. You will see a listing of all the parts of the submitted 10-K. Click on the

red link for the 10-K. You should now see the cover page for the company's 10-K filing. Answer the following questions.

4. What is the company's I.R.S. Employer Identification Number?
5. List the title of each class of security registered and the exchange(s) on which it is registered.
6. Is the company a well-known seasoned issuer?

Item 1 – Business

Go to the 10-K for the company. Locate the Table of Contents. Usually the Table of Contents is right after or before the cover sheet. Go to Item 1 – Business. Answer the following questions.

1. Where and when was the company originally incorporated?
2. How does the company describe itself (in brief)?
3. List the reportable segments or divisions.
4. List three of the company's main competitors.
5. How many employees does the company have? How many employees are in the United States?

Item 1A – Risk Factors

Go to the Table of Contents for the company's 10-K. Go to Item 1A – Risk Factors. Answer the following questions.

1. On what page does this section begin? On what page does this section end?
2. Are the listed risks the only risks the company faces?
3. What are the first two listed risk factors?
4. What is the last listed risk factor?

Certifications

Go to the Filing Detail page for the company's 10-K. This is the page that lists all the parts of the 10-K submission, not the document that begins with the Cover Sheet. There are two Certifications toward the bottom of the list. Click on the red link to access the Section 906 Certifications. Answer the following question.

1. What two things are being certified?
2. What are the names of the people making the certification and what positions do they hold?

Code of Conduct

Go to the Table of Contents for the company's 10-K. Now go to Item 10 – Directors, Executive Officers and Corporate Governance. Answer the following questions.

1. Does the company have a written code of conduct?
2. If so, who does it apply to?
3. Who is the code of conduct distributed to?
4. Where can the code of conduct be found?

Follow the directions in the 10-K to locate the code of conduct. Once at the company's website, check under About or use their search bar to find the code of conduct. Answer the following questions.

5. On what date did the current code of conduct go into effect?
6. Does the company list a main commitment or value? If so, what is it?
7. In brief, what does the code of conduct say about non-retaliation?
8. In brief, what does the code of conduct say about diversity?
9. In brief, what does the code of conduct say about human rights violations?

Financial Statements and Disclosure Notes

Go to the Table of Contents for the company's 10-K. Go to Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations. This might take you to a new Table of Contents for Item 7. Notice where the Consolidated Financial Statements begin and that the Disclosure Notes immediately follow. Do the following tasks and answer the following questions.

1. Go to the Consolidated Statement of Income. For the most recent year, what is cost of sales? Selling, general and administrative expense? Operating Profit?
2. Go to Note 1. What is included in cost of sales? What line item includes costs of moving, storing and delivering finished product?
3. Go to the Consolidated Balance Sheet. For the most recent year, what is Net Accounts and Notes Receivable?
4. Find where the company provides information on revenue recognition. This is usually Note 2 but may also be listed separately before the Consolidated Financial Statements, or it may be listed both places. What methods does the company use to estimate bad debts? What line item includes bad debts expense?
5. Go to the Consolidated Balance Sheet. For the most recent year, what is the amount of Inventories?
6. Find where the company provides additional information about Inventories. Usually Inventories information (and/or information about where else they provide Inventories information) will be provided as part of a list of Other Significant Accounting Policies near the end of the Note on Significant Accounting Policies (usually Note 2). How are Inventories valued? How is the cost of Inventories determined?
7. Using the same directions in number 6 above, find the supplemental data on Inventories. List the three types of Inventory and the amount for each Inventory for the most recent year.

Segment Reporting

Go to the Disclosure Note that discusses the company's segments or divisions. Usually this will be part of Note 1. Answer the following questions.

1. Who assesses the performance of and allocates resources to the divisions?
2. List the divisions (you can use abbreviations) and the operating profit of each division for the most recent year.

3. For the most recent year, what is Corporate unallocated profit or loss? List the amount and indicate whether it is profit or loss.
4. What costs are included in Corporate unallocated?
5. List the divisions (you can use abbreviations) and the total assets of each division for the most recent year.
6. For the most recent year, what is the amount of Corporate assets?
7. What does Corporate assets consist of?

Management Evaluation and Compensation

Most companies incorporate information on executive compensation from their proxy statement into their annual report and do not repeat this information in the 10-K. To access the definitive proxy statement, go to the main filings page for the company. If you do not see a recent filing of DEF 14A, you can enter it in the Filing Type box and search for it. Make sure you leave a space between DEF and 14A. Also be sure you are selecting the documents for the DEF 14A and not DEFA14A. Click on the red link for the Definitive Proxy Statement. Now go to the Executive Compensation section. Since executive compensation information is only one component of the definitive proxy statement, you will probably have to look in the Table of Contents for the appropriate section. Answer the following questions for the most recent year.

1. How much is the CEO's annual base salary? How much was the CEO's annual cash incentive award? What is the value of the CEO's long-term incentive award?
2. What is the pay mix for the CEO?
3. What is the pay mix for named executive officers other than the CEO?
4. Find the Summary Compensation Table. List the named executive officers and the total compensation for each officer.

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