

Accounting 742
Problems in Financial Reporting

The Wharton School
Spring 2008

Professor Brian Bushee
bushee@wharton.upenn.edu

1317 SH-DH
215-898-4872

Course Overview

This course is designed to increase your ability to extract and interpret information in financial statements. It should improve your ability to use the disclosures in a firm's annual or quarterly report to determine its accounting policy for a particular type of transaction and to determine how that policy choice both affects its primary financial statements and reflects the underlying economics of the firm. This course should also improve your ability to use financial statements as part of an overall assessment of the firm's strategy and the potential rewards and risks of dealing with the firm (as an investor, creditor, supplier, employee, etc.).

An important objective of the course is to provide experience in doing research to solve problems in real financial statements. Much like the real world, you will be expected to solve problems with minimal guidance on exactly how to proceed. Rather, you will be expected to use resources such as the textbook, notes from your intro class, and examples on the course WebCafé to learn the fundamental mechanics so that you can apply them to the problem at hand. Thus, this course assumes a solid understanding of basic financial accounting (i.e., ACCT 620/621).

Course Materials

Course pack (required): All cases for the course will be provided in the course pack available from Wharton Reprographics.

Textbook (recommended): Revsine, Collins, and Johnson, *Financial Reporting & Analysis*, 3rd edition, 2005 (Prentice Hall). This text is a good reference on accounting and disclosure topics. It also contains explanations of most of the financial statement analysis issues we address. However, no problems will be assigned from the textbook.

WebCafé: This site includes course information, important announcements, and any lecture slides, practice problems, course handouts, and optional articles on each topic. Note that any lecture slides will not be distributed in class. Please download these prior to class.

Other resource (optional—only for those seeking a comprehensive technical reference):

Though not necessary for the course, the *2008 GAAP Guide Level A* by Jan R. Williams and Joseph V. Carcello, available on Amazon.com (and on reserve in Lippincott), is an excellent technical reference for those entering careers involving financial analysis.

Office Hours: By appointment. E-mail is the best way to contact me and to schedule office visits.

Course Registration Policies

Due to the historically heavy demand for the course, I have instituted the following course registration policies:

- After the auction ends, only students registered for the course will be allowed to attend class. No auditing or “sitting-in” will be permitted.
- I will not approve any out-of-auction section swaps. All section swaps must be resolved through the auction. Note that the registrar will not allow students to be registered for multiple courses at the same time.
- I will not approve any drop requests after the fifth class (January 31). If you hold a seat on this date, you must take the course for a letter grade.

Grading

Your course grade will be determined as follows:

Class Participation (Individual)	20%
Cases (5 out of 8) (Group)	25%
Group Project (Group)	25%
<u>Take-home Exam (Individual)</u>	<u>30%</u>
Total	100%

Class participation: I expect you to come to class prepared to discuss the cases for that day. I will call on students that volunteer to participate and try to avoid cold calling. After each class, I award each student up to three points based on the quality on their class participation that day. I give points for anything that positively contributes to the class discussion, such as an attempt to reason through a problem (including “wrong” answers), a pertinent question, or a relevant fact from the case. There is no bonus for quantity of comments in a class. *Please note that if you do not speak in class at all during the term, 20% of your final grade will be a zero, making it difficult to get an A in the class.*

Group formation: Please form groups of 4 to 5 students before the 3rd day of class. Students who have trouble finding a group will be assigned to one by me. Members of the group can be registered in any of the three sections of my course. Once your group is finalized, please sign up on the WebCafé as an “A”, “B”, or “C” group, which determines your case assignments.

Cases: Please submit answers to 5 of the 8 cases marked with your group's letter in the schedule that follows. I will award each submission up to three points based on effort and completeness, rather than on accuracy, so make sure you attempt to answer all questions. Your grade will be based on your 5 highest case grades: you can submit more than 5 of the required cases, and have the lowest grades dropped, or you can choose which 5 cases to submit.

*Cases must be submitted to the Assignment Submissions subfolder in your Team Folder on WebCafé **prior to 10:30 am on the day of the class.** Late assignments will receive a grade reduction. Submit only one write-up per group, and include the names of all group members and the sections of the course in which each member is registered. *Making use of suggested case solutions from prior years or copying the case write-up of anyone outside your group will constitute cheating and could result in all group members receiving a grade of F for the course.**

Group project: Please submit the group project to the Assignment Submissions subfolder on the WebCafé **by 11:00 pm on Thursday, March 6**. The project assignment can be found in the course pack or on the WebCafé.

Take-home exam: A take-home exam will be posted to the WebCafé at **5:00 pm on Tuesday, April 15**. You will have up to one week to work on the exam, which must be handed in **by 4:00 pm on Tuesday, April 22**.

You must work on the take-home exam individually. You are not permitted to discuss the exam with anyone else, including other students, former students, and people in the real world. However, you are permitted to use any written resource, such as your notes, the textbook, information on the company you find on the web, etc. More details on this exam will be provided as the time gets closer.

F policy: In the past, students have received failing grades for the course, including students who were otherwise scheduled to graduate. If you score below 50% of the total points for either the entire course or the final exam, I am likely to give you a grade of F.

There are two types of students that have failed the class in the past: (1) those who did poorly in ACCT 620/621 and (2) those who stop working on the class around Spring Break. If you are in either category, I strongly recommend that you do not take this class.

In addition, I have failed students in the past for cheating on the take-home exam. I reserve the right to fail students for any actions I consider to be cheating, as I discussed above. Please read these sections carefully and let me know if you have any questions.

Grading disputes: All grading disputes must be appealed within one week following the return of the assignment or exam. To have a case or exam re-graded, please submit the original case or exam (with no modifications) and a written description of your disagreement with the initial grade. I reserve the right to review the entire case or exam; thus your grade could go up *or* down. For group work, every member of the group must agree to the request for regrade.

Preparation for class: Class sessions will focus on case discussions in which we will address both mechanical accounting issues and important analytical and strategic issues. I expect you to use the resources in the course pack, textbook, and WebCafé to attempt the cases prior to class. Unlike the intro course, I will not provide lectures that show you how to work problems and then expect you to work the same problems. Instead, I want to use class time to help you understand difficult issues in solving the case and to highlight the important takeaways from the case. The bottom line is that if you do not adequately prepare for class, you will have trouble following the discussion and you are likely to get a grade of B or below.

ACCT 742: Case Summary and Hand-in Schedule Spring 2008

Date		Topic	Case	Groups Hand-in
TH	01/17	Course Introduction	Enron	
T	01/22	Ratio Analysis	Blue Earth Technology	
TH	01/24	Earnings Quality: Nonrecurring Items	Harnischfeger	
T	01/29	Earnings Quality: EPS, Pro Forma	Intuit	A
TH	01/31	Cash Flow Quality	Upsilon Capital Partners	B
T	02/05	Revenue Recognition: Gross vs. Net	Merck	C
TH	02/07	Expense Recognition: Matching	Pre-Paid Legal	A
T	02/12	Deferred Taxes	General Motors	B
TH	02/14	Long-term Accounts Receivable	Patten	C
T	02/19	Asset Securitization	Oakwood Homes	A
TH	02/21	Intangibles and Goodwill	The Shaw Group	B
T	02/26	Long-Lived Assets: International	Land Securities Group	C
TH	02/28	Fair Value	Morgan Stanley	A
T	03/04	Long-term Debt: Market vs. Book	Metro-Goldwyn-Mayer	B
TH	03/06	No class: Group projects due	SUBMIT BY 11:00 PM	
T	03/11	No Class: Spring Break		
TH	03/13	No Class: Spring Break		
T	03/18	Contingent Liabilities	Intel	C
TH	03/20	Leases: Lessees and Lessors	IBM	A
T	03/25	Pensions and OPEB	CBS	B
TH	03/27	Stock-Based Compensation	Cisco	C
T	04/01	Intercompany Investments	Coca-cola	A
TH	04/03	Variable Interest Entities	Dura Pharmaceuticals	B
T	04/08	Foreign Currency Translation	Machinery International	C
TH	04/10	Derivatives	Ford	ABC
T	04/15	Interim Reporting	Standard International	ABC
TH	04/17	No class: Take-home exam		
T	04/22	No class: Take-home exam	SUBMIT BY 4:00 PM	
TH	04/24	Go over take-home exam (optional)		
T	04/29	No class		