

**Accounting 743 (243)**  
**Accounting for Mergers, Acquisitions,**  
**and Complex Financial Structures**  
**Autumn Semester 2008**

**General Course Description**

*Aut disce aut discede* (either learn or depart)

**Instructor**

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**New Policies and Special Procedures for 2008**

**New Policy on Dropping Acct 743**

Henceforth all Acct 743 registrants only have until the end of the 5<sup>th</sup> lecture to elect to drop Acct 743 (effectively, only until 3 pm on September 18): all Acct 743 registrants who are registered for Acct 743 after 3 pm on September 18 shall be put in the Acct 743 grading pool at the end of the semester and receive a final grade, including the possibility of a failing grade.<sup>1,2</sup> *There are no exceptions to this policy!*

Please be advised that that 30% of all students who registered initially for Acct 743 (243) in the autumn semester of 2007 failed to complete the class. Students are discouraged from registering for Acct 743 (243) if they anticipate any problems whatsoever with performing at a high level: *if in doubt, do not register for Acct 743 (243)!*

**New Policy for Classroom Demeanor**

In addition to a long-standing ban on consuming food in the classroom (see “Zero-tolerance policy on class decorum,” below), henceforth all text messaging, or other use of cell (mobile) phones, is strictly prohibited. *This policy shall be strictly enforced!* Students shall be asked to disable their phones before the start of each class.

**Alternative Recommendations for Supplementary Materials**

Along with course materials of lecture notes, readings, and cases, students are encouraged (but not required) to purchase a textbook as a supplementary reference source for topics discussed in class. In particular, in recent years I have recommended that a student acquire recent editions of *Advanced Accounting*, Floyd A. Beams, *et al.* (Prentice Hall, NJ). Prentice Hall claims on their web site that a 10<sup>th</sup> edition of *Advanced Accounting* will be available in time for the autumn semester, but I have little confidence that this will be the case. In addition, recent changes to accounting standards will render some features of editions prior to the 10<sup>th</sup> obsolete in 2009. Thus, here are 3 recommendations for acquiring an additional reference.

1. Purchase the 3<sup>rd</sup> edition of *Fundamentals of Advanced Accounting*, Hoyle, Schaefer, and Doupnik (McGraw-Hill, NY), ISBN number 978-0-07-337946-3. This edition incorporates recent changes to accounting standards.
2. Wait for Prentice Hall to make available the 10<sup>th</sup> edition of *Advanced Accounting*, Floyd A. Beams, *et al.* Do not wait so long, however, that you fail Acct 743 (243) for lack of a supplementary reference.
3. Purchase an 8<sup>th</sup> or 9<sup>th</sup> edition of *Advanced Accounting*, Floyd A. Beams, *et al.*, which should be available very cheaply because the editions are effectively obsolete, and grapple with the fact that some features will be obsolete starting in 2009.<sup>3</sup> Remember: some supplementary reference, even an obsolete textbook, is better than no reference.<sup>4</sup>

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<sup>1</sup> Acct 742 shall have the same policy: students only have until the 5<sup>th</sup> lecture to elect to drop the class.

<sup>2</sup> Acct 243 registrants have until October 10 to elect to drop Acct 243.

<sup>3</sup> These editions have the ISBN numbers 0-13-066183-X. and 0-13-185122-5, respectively.

<sup>4</sup> Copies of the 8<sup>th</sup> or 9<sup>th</sup> edition of *Advanced Accounting*, Floyd A. Beams, *et al.* are also on reserve in Lippincott Library.

## **Special Procedure for Religious Holidays**

This year Rosh Hashanah and Yom Kippur fall on scheduled class dates, September 30 and October 9, respectively. To ensure that every student has an opportunity to attend all the lectures, I have scheduled Quiz #1 on September 30 (Rosh Hashanah) and Quiz #2 on October 9 (Yom Kippur). Then, to accommodate possible conflicts with these dates, students shall be provided with the opportunity to take Quiz #1 and Quiz #2 on September 29 and October 8, respectively, regardless of religious affiliation. The only requirement is that students notify me in advance and provide me with information about their availability on September 29 and October 8.

## **Teams**

Also new for this year, students shall be asked to form and register teams, where a team may consist of between 1 and 4 students. Teams may be comprised of students who are not registered in the same section of Acct 743 (243). A team shall be responsible for any task assigned any (individual) student who is a member of a team. For example, if a student is assigned the task of presenting a case in class, *all* members of the team are responsible for the case presentation. Teams must register on the class web site in Wharton web café in the folder titled “Team Registration.”

## **Standard Policies and Procedures**

### **Teaching assistants**

No teaching assistants have been assigned to Acct 743 (243). Students who require assistance in learning the course material are encouraged to seek another elective.

### **Registration**

Acct 743 registration falls under the exclusive purview of the MBA office; Acct 243 registration falls under the exclusive purview of the Accounting Department. Complaints, recriminations, invectives, etc., about the Acct 743 registration process should be addressed to Dean Marguerite Bishop-Lane; those that concern Acct 243 should be addressed to Meredith Wickman (1303A SH-DH).

### **Course materials**

A four volume set of spiral bound course materials is available from Wharton Reprographics, but must be pre-ordered in advance (specifically, Volumes I, II, and III of lecture material and cases, and Volume IV, Suggested Solutions to Selected Cases). These materials are also available on the class web site (in the Wharton web café) in pdf format.

### **Class objectives**

The objective of this course is to discuss and understand the accounting that underlies merger, acquisition, and investment activities among firms, and how these activities result in complex financial structures. Key topics include the purchase accounting method for acquisitions, the equity method for investments, the preparation and interpretation of consolidated financial statements, tax implications of mergers and acquisitions, earnings-per-share considerations, the accounting implications of intercompany transactions, the accounting implications of non-domestic investments, etc. For a more detailed listing of individual topics, look below under “Topics” in the **Schedule of Assignments**.

This class pursues its objective in three ways. First, we analyze in detail the accounting that underlies each topic using the material found in any standard, advanced accounting textbook as a pedagogical guide for relevant issues. Second, through various lecture materials and cases, we highlight and expand on these topics. Finally, we examine the financial statements of publicly traded companies to illustrate the application of these issues. The primary objective of the class is to become proficient in preparing and analyzing the financial statements of firms that merge and acquire other firms as part of their normal course of operations. Toward that goal, we attempt to understand the historical context and contemporary thought that has led to the promulgation of current accounting pronouncements on this topic.

This course is recommended to students who intend to work in the financial services area, broadly defined. Specifically, the course is recommended for students who, in their careers, anticipate that they will be required either

to prepare pro forma consolidated statements for *prospective* acquisitions, or analyze the consolidated statements of *existing* complex financial structures.

### **Expectations about students' performance**

The material in this course is unavoidably difficult, and thus requires the following disclaimer. Acct 743 (243) is an advanced elective for students who: 1) believe that they have achieved already a high level of proficiency in accounting, as demonstrated by having either received a top grade in their prior accounting preparation (e.g., nothing less than a grade of "A" in any prior accounting class) or earned the equivalent of an accounting concentration in an accredited undergraduate business curriculum; 2) perceive that intellectually they are easily in the top 20% of their respective academic programs (e.g., Wharton MBA program; Wharton undergraduate program; Penn Law; etc.); and 3) are at ease with material that is rigorous and quantitative, such as mathematics, engineering, computer science, etc. *If you do not fit this profile then you should not register for this class!*

Acct 243 registrants are required to have *completed successfully* one of either Acct 201 or 202. Failure to have done so shall result in a student being dropped from the roster (the transcripts of all Acct 243 registrants shall be screened to ensure this policy is followed).

For more discussion concerning expectations about students' performance, look below under **Class Policy and Procedures**.

### **Supplementary materials**

Reference the discussion under "New Policies and Special Procedures."

### **Academic calendar**

The University academic calendar shall be adhered to faithfully with one exception. Official Fall Break in the University calendar is October 11-14. The MBA office has extended the University's official Fall Break to October 15 (Wednesday). I shall extend Fall Break further to October 16 (Thursday). This means that there are no classes on either October 14 or 16: *in effect, there are no classes the entire week of Fall Break!*

### **Class Policy and Procedures**

**Zero-tolerance policy on attendance at lectures.** Starting with the 4<sup>th</sup> class (on September 16), and extending up through until the Thanksgiving Break, student attendance shall be recorded. Specifically, a seating chart shall be determined based on students' seating preferences as of the end of 3<sup>rd</sup> class (on September 11). It should be unnecessary to state that students shall *only* be assigned seats in the section for which they are registered. Starting with the 4<sup>th</sup> class (on September 16) and continuing through until the 19<sup>th</sup> class (on November 13) class attendance shall be taken at the *start* of each class. Between the 4<sup>th</sup> class and the 19<sup>th</sup> class, and excluding the quiz dates (see below), there are 13 lectures. Failure to be counted as present at the *start* of 9 of 13 lectures shall result in a student being dropped from the class (i.e., a student shall receive a "withdrawal" on his or her transcript). This allows each student 4 absences/tardy attendances (ATAs). Note that the 4 ATAs are inclusive of *all* rationales for missing class, such as illness, travel, interviews, prior commitments, etc. *There are no exceptions to this policy!*

ATAs shall be carefully recorded at the start of each class so as to establish the necessary documentation in the event a student disputes whether he or she has exceeded his or her ATAs. Carefully note that a student shall be dropped from the class at *my* discretion (based on having exceeded his or her allotment of ATAs), not at a *student's* discretion.

If *once or twice* during the semester a student has a conflict with the section for which he or she has registered, a student may attend one of the other sections and register his or her attendance on the seating chart for that day (and thus avoid an ATA). If a student fails to attend the section for which he or she has registered more frequently than that, however, the student shall be assessed an ATA.

So as to *further* discourage students from failing to attend class, all students who miss a scheduled lecture shall be put into a pool for that day; students shall be picked randomly from this pool and assigned a task, such as presenting a case in the next scheduled class. Notification that a student has been assigned a task shall be by e-mail. When assigned a task, shirking is unacceptable.

Below is one student's e-mail response to having been assigned a case.

Dear Professor,

So as to demonstrate that kindness is the highest virtue, I shall gladly suffer the punishment of presenting in class for the benefit of my colleagues...

*Failure to present an assigned case in the next scheduled class shall result in a reduction in a student's overall grade at the end of the semester!*

**Zero-tolerance policy on class decorum.** All classes start promptly. In addition, so as to cultivate the best pedagogical environment, food shall be prohibited from the classroom; students are permitted, however, to take one beverage to class.

**Seating charts.** Each student shall have an assigned seat in the section in which he or she has registered. The seating chart shall be determined based on students' preferences as of the end of the 3<sup>rd</sup> class (September 11).

### **Grading**

**Quizzes.** Quizzes shall be administered in class on the following dates: September 30, October 9, November 4 and 18, and December 4. There is no final exam or quiz in the regularly scheduled final exam period. Each quiz is closed-book, closed-notes, and individual product; "cheat-sheets" or other summaries of class material are strictly prohibited! Students shall be given the entire 80-minute class period to complete a quiz. Each quiz shall be graded based on 50 points.

**Zero-tolerance policy on attendance at quizzes.** Students are required to attend scheduled quizzes in the sections for which they are registered: *there are no "make-up" quizzes.*<sup>5</sup>

Conflicts that result in missing a quiz shall be categorized as follows. A "Class A" conflict is something tantamount to a medical emergency. In the event of a medical emergency that incapacitates a student at the time of a scheduled quiz, and for which a student has documentation, that quiz shall be ignored and the student shall be graded exclusively based on his or her performance on the other four quizzes. In effect, a student's cumulative performance on the other four quizzes shall be grossed up by 25%. A "Class B" conflict is something tantamount to an unforeseen conflict with another academic obligation. In the event that a student has a conflict of this nature, in place of the missing quiz the *lowest* score among the four other quizzes a student takes shall be substituted. A "Class C" conflict is anything deemed avoidable or frivolous. In this event a student shall be assigned a score of zero for that quiz.

I am the sole arbiter of the appropriate categorization of a conflict.

A student must take *at least* four quizzes to receive credit for the class!

**Grade distribution.** Grade distribution shall be determined as follows. First, all Acct 743 registrants will be put in a single pool; the pool is subject to a fixed and immutable grade distribution whose mean cannot exceed 3.33. *The current electronic grading system employed by the MBA office will not allow grades to be submitted electronically if they fail this criterion!* Second, all Acct 243 registrants shall be put in second pool; the grade distribution for the pool shall be determined based on performance relative to the Acct 743 pool (whose mean cannot exceed 3.33). Consider the following illustration. In a class with 5 students the 1<sup>st</sup>, 2<sup>nd</sup>, and 4<sup>th</sup> best students by rank are Acct 743 registrants; the 3<sup>rd</sup> and 5<sup>th</sup> best students are Acct 243 students. I assign the 1<sup>st</sup>, 2<sup>nd</sup>, and 4<sup>th</sup> best students grades of A, B+, and B-; these grades average to 3.33. Thus, the 3<sup>rd</sup> best Acct 243 registrants must receive a grade no higher than B+ and no lower than B-; the 5<sup>th</sup> best Acct 243 registrant must receive a grade no higher than B- (and as low as I deem appropriate).

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<sup>5</sup> Conflicts that arise from religious holidays on quiz dates shall be accommodated by providing a student with the opportunity to take a quiz the day *before* the regularly scheduled quiz date.

*No class credit shall be given to any student whose performance on the five scheduled quizzes is more than two standard deviations below the cumulative mean of all students in all sections. There are no exceptions to this policy!*

**Re-grades.** *Requests to re-grade quizzes are strongly discouraged!* If a student has a valid inquiry about how a quiz was graded, he or she should contact the grader by e-mail at [jwee@wharton.upenn.edu](mailto:jwee@wharton.upenn.edu), and then drop off his or her quiz with the grader by putting it in the mailbox of **S. Hamm** in the Accounting Suite (1300 SH-DH). If it appears that a student is making persistent, and frivolous, re-grading requests, he or she shall be prohibited from making additional requests and this behavior shall factor into the student's CD&P-adjustment (see below).

**Prior years' quizzes.** Virtually every variation on every quiz from prior years has been converted into a case in this year's assignments. This accounts for the surfeit of cases in the course materials.

**This year's quizzes.** Quiz answers and summary performance statistics shall be posted on the class web site (in the Wharton web café) as soon as the grading has been completed.

**Cases.** Cases are of two types: those that employ real firms and real financial data, and those that involve fictitious firms and fictitious financial data. While quiz material shall be based primarily on the latter, students are responsible for presenting and discussing both case types in class. For cases that employ real financial firms, excerpted data from a firm's 10-K, 10-Q, or annual report shall be provided as part of the case assignment. These data should be adequate for completing the case. In the event that a student believes that the excerpted data is incomplete, or simply wants more information about the firm, he or she is encouraged to find and download the relevant financial data (e.g., 10-Ks).

Cases that employ real firms and real financial data primarily involve ferreting out information in the excerpted data, or opining on the nature of a firm's disclosure. Consequently, for these cases no suggested solutions shall be provided. Suggested solutions to cases based on fictitious firms and fictitious financial data, however, shall be provided: see Volume IV, Suggested Solutions to Selected Cases.

**Classroom demeanor and participation (CD&P).** A student shall be sanctioned for poor classroom demeanor and participation (CD&P) through a reduction in his or her cumulative performance; this shall be referred to as a student's "CD&P-adjustment." A student's CD&P-adjustment shall be influenced by two factors. The first factor is class demeanor, which is defined as class attendance and prompt arrival at class when a student attends. Students who arrive after class begins at the regularly scheduled class time, or fail to attend at all, shall be sanctioned through their CD&P-adjustment (and those students who exceed their allotted ATAs shall be dropped entirely from the class). The second factor is class participation. During class students are expected to participate in class discussions. Students who are unprepared to participate shall be sanctioned through their CD&P-adjustment. The default for the CD&P-adjustment is 0: that is, a student who attends class regularly and participates in class shall be subject to no adjustment to his or her cumulative performance on the five quizzes. Alternatively, students who exhibit poor class demeanor and fail to participate shall be subject to an adjustment in a range between 0 and minus 50 points.

**Cumulative point total.** A student's cumulative point total shall be based on a student's cumulative performance in the five quizzes (which represents a total of 250 pts.), less the CD&P-adjustment (which ranges between 0 and minus 50 pts.).

**Class credit.** I reserve the right to deny class credit to any student whose performance I deem inadequate.

### **Schedule of Assignments**

The schedule of assignments begins on the next page. In this schedule, note that "rev" is an abbreviation for material authored by Robert E. Verrecchia.

Class Dates	Topic	Readings & Lectures	Case Assignments
Pre-term Preparation	Review of Financial Statement Preparation	PSS #1 (Review of Financial Statement Preparation)	
Sept. 4 Class #1	Recent Developments in M&A Accounting	Recent Developments in M&A Accounting, rev	AmerisourceBergen (Merger Disclosure) AOL Time Warner (Goodwill Impairment) JDS Uniphase (Goodwill Impairment) Alcan (Merger Adjustments & Goodwill Disclosure) Pandemonium & Serenity (Computing Goodwill) Pork & Sausage (Merger)
Sept. 9 Class #2	Balance Sheet Considerations in Mergers	Balance Sheet Considerations in Mergers, rev	Intel (In-Process R&D) Yahoo! (Goodwill Allocations) USA Interactive (Intangible Assets vs. Goodwill) Purloin & Steal (Business Combinations) Pumpkin & Squash (Business Combinations) Pistil & Stem (Business Combinations)
Sept. 11 Class #3	Tax Considerations in Mergers	Tax Considerations in Mergers, rev	Babcock and Wilcox (Taxable vs. Nontaxable Goodwill) United Retail Group, Inc. (Taxable vs. Nontaxable Goodwill) PSS #2 (Tax Considerations)
Sept. 16 Class #4	Investments	Investments, rev	General Motors (Investments) Police & Siren (Consolidated Balance Sheet) Poem & Sonnet (Equity Investments) Port & Sauternes (Equity Method) PSS #3 & #4 (Financial Statement Preparation w/ Investments)

Class Dates	Topic	Readings & Lectures	Case Assignments
Sept. 18 Class #5  <i>Final opportunity for an Acct 743 registrant to drop!</i>	Consolidated Investments	Consolidated Investments, rev	Anheuser Busch, et al. (Subsidiary Investments)  Polka-Cola & Syrup (Consolidation)  Politburo & Senate (Consolidation)  Pepper & Salt (Bargain Purchase)  Pilot & Stewardess (Bargain Purchase)  Pasta & Salad (Equity Investments)  PSS #5 & #6 (Consolidation w/ Multiple Investments)
Sept. 23 Class #6	Working Paper Adjustments	Working Paper Adjustments, rev	Comcast & Disney (Prospective Merger)  Lyondell Chemicals (Consolidation Issues), Josh Lewis (MBA '06)  Disney (Off Balance Sheet Investments)  Porcupine & Skunk (Working Paper Adjustments)  Polygamous & Single (Working Paper Adjustments)  Plum & Strudel (Cost Data and Intra Financial Reporting Period Acquisitions)  PSS #7 (Multiple Investments with Depreciable Asset Step-up)

Class Dates	Topic	Readings & Lectures	Case Assignments
Sept. 25 Class #7	Intercompany Transactions – Inventories	Intercompany Transactions - Inventory, rev	<p>Stater Bros Holdings Inc (Unconsolidated Affiliate)</p> <p>Alcan &amp; Novelis (Spin-off with unrealized, intercompany profits)</p> <p>Push &amp; Shove (Intercompany Inventory Transactions)</p> <p>Patio &amp; Solarium (Intercompany Inventory Transactions)</p> <p>Pebble &amp; Stone (Intercompany Inventory Transactions)</p> <p>Python &amp; Snake (Consolidation w/ Cost Data)</p> <p>Python &amp; Snake Revisited (Consolidation w/ Cost Data)</p> <p>Petunia &amp; Sunflower (Intercompany Inventory Transactions)</p> <p>Parsley &amp; Sage (Intercompany Inventory Transactions)</p> <p>Port &amp; Starboard (Consolidation w/ Cost Data)</p> <p>PSS #10 &amp; # 11 (Multiple Investments with Intercompany Transactions)</p>
Sept. 30 Class #8	Quiz #1		
Oct. 2 Class #9	Preferred Stock, EPS, Consolidated EPS	Preferred Stock, Earnings Per Share (EPS), and EPS Considerations in Business Combinations, rev	<p>eBay (Expensing Employee Stock Options)</p> <p><i>Special Assignment:</i> Determine the EPS for each previous PPS case (the answers are provided in Volume 5 for each case)</p> <p>MLV (EPS)</p> <p>O’Lanahan Trick-n’-Prank Company (EPS)</p> <p>Principal &amp; Student (Consolidated EPS)</p> <p>Porpoise &amp; Squid (Consolidated EPS)</p>



Class Dates	Topic	Readings & Lectures	Case Assignments
Oct. 7 Class #10	Corporate Liquidations, Reorganizations, and Leveraged Buyouts	<i>Fresh-Start Accounting: What Is the Implication on Reported Earnings of Companies Emerging from Chapter 11?</i> , Soo Kim (MBA '06), 2006  Leveraged Buyouts, rev  Enron Capitalism, etc.	MFN Financial Corporation (Reorganization)  MFN Financial Corporation's 1999 10-K & 2000 10-K (MFN - 10K-1999.pdf & MFN - 10K-2000.pdf) ©
Oct. 9 Class #11	Quiz #2		
Oct. 14 No Class!	Official Fall Term Break		
Oct. 16 No Class!	Extended Fall Term Break		
Oct. 21 Class #12	Intercompany Transactions - Depreciable and Non-depreciable Assets	Intercompany Transactions - Nondepreciable Assets, rev  Intercompany Transactions - Depreciable Assets, rev	Putter & Sandwedge (Intercompany Land Transactions)  Prometheus & Sisyphus (Consolidations w/ Intercompany Transactions)  Paranoid & Schizophrenic (Consolidations w/ Intercompany Transactions)  Peregrine & Stork (Consolidation w/ Intercompany Transactions)
Oct. 23 Class #13	Intercompany Transactions - Debt	Intercompany Transactions - Debt, rev	Pusillanimous & Strong (Intercompany Debt)  Prince & Squire (Intercompany Debt)  Popeye & Sweatpea (Intercompany Debt)  Plato & Socrates (Consolidations w/ Intercompany Transactions)

Class Dates	Topic	Readings & Lectures	Case Assignments
Oct. 28 Class #14	Interpreting Consolidated Data	---	Putrid & Stinky (Interpreting Consolidated Statements) Pluto & Saturn (Interpreting Consolidated Statements)
Oct. 30 Class #15	Review Session to Prepare for Quiz #3		
Nov. 4 Class #16	Quiz #3		
Nov. 6 Class #17	Capstone Cases	<i>Beams, et al.</i> , Chapters 5-7 (Review)	Piper & Sand (Consolidations w/ Data Flaws) Pencil & Sharpener (Consolidations w/ Data Flaws) Precipitous & Slow (Consolidation w/ Data Flaws) Pliable & Supple (Interpreting Consolidated Data)
Nov. 11 Class #18	Changes in Stock Ownership	Changes in Stock Ownership, rev	IMS Health Inc (SAB 51 Gains) Pharmacia & Monsanto (Consolidated Subsidiaries) Nextel Communications, Inc. (Deconsolidation Gains) Pin & Stripe (SAB 51 Gains) Parasite & Sycophant (Changes in Ownership) PSS #8 & #9 (Multiple Investments with Ownership Change)
Nov. 13 Class #19	Complex Affiliations	Complex Affiliations, rev	Parteehardee (Cross Holdings) Paramour (Consolidation w/ Cross Holdings) Polygraph & Subsidiaries (Complex Affiliations) Pots n' Pans (Assets-for-Equity Swap)
Nov. 18 Class #20	Quiz #4		

Class Dates	Topic	Readings & Lectures	Case Assignments
Nov. 20 Class #21	Foreign Currency Translations	Foreign Currency Translations, rev	Amazon.com (Translating Intercompany Loans)  Amazon (Translating Intercompany Loans), Peter Kim (MBA '05)  Puccini & Strauss (Translation)  Prague & Sarajevo (Translation)  Paris & Seine (Translation)  Porto & Santiago (Translation)
Nov. 22 Class #22	Foreign Currency Remeasurements	Foreign Currency Remeasurements, rev	Postage & Stamp (Remeasurement)  Pyongyang & Seoul (Remeasurement)
Nov. 27 No Class!	Thanksgiving Break		
Dec. 2 Class #23	Review Session to Prepare for Quiz #5		
Dec. 4 Class #24	Quiz #5		