ACCT 742

Course Syllabus: Problems in Financial Reporting

Professor Brian Bushee   **Fall 2009**

Course Overview

This course is designed to increase your ability to extract and interpret information in financial statements. We will focus on using 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

WebCafé: This site includes all cases (except HBS cases), practice problems, lecture slides, exam material, and any optional notes and articles on each topic. Note that <u>no</u> material will be distributed in class. Please download anything you need prior to class.

Study.Net: The two HBS cases used in the course are available on Study.Net.

Textbook (optional): GAAP 2009: Handbook of Policies and Procedures by Siegel, Levine, Quershi, and Shim, CCH. This is not a traditional textbook, but rather an excellent summary of accounting rules and procedures grouped by topic. I do not expect you to read this cover-to-cover. Rather, this book should serve as a supplemental reference source when the webCafé material does not provide sufficient background or explanations.

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 on the WebCafé and/or textbook to attempt the cases prior to class. 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.

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 drop requests after the fifth class (September 23). If you hold a seat on this date, you must take the course for a letter grade.
- I will only approve out-of-auction section swaps if someone is willing to counterswap into the section. Both parties will receive the out-of-auction penalties noted on the **Grad Division website**. Otherwise, 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.

Grading
Your course grade will be determined as follows:

Class Participation (Individual)	20%
Cases (5 out of 8) (Group)	25%
Group Project (Group)	25%
Take-home Exam (Individual)	30%
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 12:00 pm 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 Friday, November 13**. The project assignment can be found on the WebCafé.

Take-home exam: A take-home exam will be posted to the WebCafé by **9:00 am on Tuesday, December 15**. You will have up to six days to work on the exam, which must be handed in **by 4:00 pm on Monday, December, 21**. You may submit the exam electronically or in person.

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 his exam will be provided as the time gets closer.

F policy: In the past, students have received failing grades for the course. 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 do not put any time in the course. If think you are or will be 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.

Office Hours (1317 SH-DH): By appointment. Please contact me via e-mail (bushee@wharton.upenn.edu) to schedule office visits.

ACCT 742: Case Summary and Hand-in Schedule
Fall 2009

Date		Topic	Case	Groups Hand-in
W	09/09	Course Introduction	Enron	
M	09/14	Ratio Analysis	Blue Earth Technology	
W	09/16	Earnings Quality: Nonrecurring Items	FenceAlign	
M	09/21	Earnings Quality: EPS, Pro Forma	Intuit	A
W	09/23	Cash Flow Quality	Upsilon Capital Partners	B
M	09/28	No Class: Yom Kippur		
W	09/30	Revenue Recognition: Gross vs. Net	Merck	C
M	10/05	Expense Recognition: Matching	Pre-Paid Legal	A
W	10/07	Deferred Taxes	General Motors	B
M	10/12	Asset Securitization	Oakwood Homes	C
W	10/14	Subprime Issues	New Century Financial	A
M	10/19	No Class: FIP Week		
W	10/21	No Class: FIP Week		
M	10/26	Intangibles and Goodwill	The Shaw Group	B
W	10/28	Long-Lived Assets: International	Land Securities Group	C
M	11/02	Fair Value	Morgan Stanley	A
W	11/04	Long-term Debt: Market vs. Book	Royal Bank of Scotland	B
M	11/09	Contingent Liabilities	Intel	C
W	11/11	No class: Work on Group Projects		
F	**11/13**	**Group projects due**	**Submit by 11:00 PM**	
M	11/16	Leases: Lessees and Lessors	IBM	A
W	11/18	Pensions and OPEB	CBS	B
M	11/23	Stock-Based Compensation	Cisco	C
W	11/25	Intercorporate Investments	Coca-cola	A
M	11/30	Variable Interest Entities	Citigroup	B
W	12/02	Foreign Currency Translation	Eye Pass Worldwide	C
M	12/07	Derivatives	Ford	ABC
W	12/09	Interim Reporting	Fairmont Global	ABC
T	12/15	**Take-home exam begins**	**Posted on webCafé**	
M	12/21	**Take-home exam due**	**Submit by 4:00 PM**	

ACCT 742: Topic and Assignment Schedule
Fall 2009

Note: GAAP = GAAP 2009 Handbook

1	W	09/09	**Course Introduction**
	➔		"Enron, intelligence, and the perils of too much information," by M. Gladwell

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2	M	09/14	**Ratio Analysis**
	➔		Case: Blue Earth Technology

3	W	09/16	**Earnings Quality: Nonrecurring Items**
			GAAP: Chapter 9; Chapter 8, p. 8.02; Chapter 1, p. 1.09
	➔		Case: FenceAlign

4	M	09/21	**Earnings Quality: EPS, Pro Forma**
			GAAP: Chapter 1, pp. 1.54-1.63
			Practice Problem: Evanston Precision Systems
	➔		Case: Intuit

5	W	09/23	**Cash Flow Quality**
			GAAP: Chapter 6
			Practice Problem: Psilos Corp.
	➔		Case: Upsilon Capital Partners

☺	W	09/28	**No Class: Fall Break**

6	M	09/30	**Revenue Recognition: Gross vs. Net**
	➔		Case: Merck

7	W	10/05	**Expense Recognition: Matching**
			Practice Problem: Zeeland
	➔		Case: Pre-paid Legal

8	M	10/07	**Deferred Taxes**
			GAAP: Chapter 15
			Practice Problems: Caterpillar, NOL
	➔		Case: General Motors

9	M	10/12	**Asset Securitization**
			GAAP: Chapter 17, pp. 17.24-17.30
			Practice Problem: Berger Finance
	➔		Case: Oakwood Homes

10	W	10/14	**Subprime Issues**
			GAAP: Chapter 3, pp. 3.13-3.16, Chapter 17, pp. 17.24-17.30
			Practice Problem: Olde Centurion Lǽnend
	➔		Case: New Century Financial

| ☺ | M | 10/19 | **No Class: FIP Week** |

| ☺ | W | 10/21 | **No Class: FIP Week** |

11	M	10/26	**Intangibles and Goodwill**
			GAAP: Chapter 11; Chapter 3, pp. 3.71-3.79; Chapter 2, pp. 2.13-2.16
			Practice Problem: Wieland Group
	➔		Case: The Shaw Group

12	W	10/28	**Long-Lived Assets: International Differences**
			GAAP: Chapter 3, pp. 3.34-3.40
			Practice Problem: Riedl Realty
	➔		Case: Land Securities Group

13	M	11/02	**Fair Value**
			GAAP: Chapter 10, pp. 10.01-10.37; Chapter 4, pp. 4.09-4.19
			Practice Problem: Essig Bancorp
	➔		Case: Morgan Stanley

14	W	11/04	**Long-term Debt: Market vs. Book**
			GAAP: Chapter 4
			Practice Problem: Metro-Golden-Mayer
	➔		Case: Royal Bank of Scotland

15	M	11/09	**Contingent Liabilities**
			GAAP: Chapter 4, pp. 4.20-4.23; Chapter 8, pp. 8.12-8.15
			Practice Problem: V.G. Miller Corp.
	➔		Case: Intel

| ☺ | W | 11/11 | **No Class: Work on Group Projects!** |

| ☠ | F | 11/13 | **GROUP PROJECTS DUE by 11:00 PM** |

16	M	11/16	**Leases: Lessee and Lessor Accounting**
			GAAP: Chapter 13
			Practice Problem: Wal-Mart, Xerxes
	➔		Case: IBM

17	W	11/18	**Pensions and OPEB**
			GAAP: Chapter 14
			Practice Problem: Smith Inc.
	➔		Case: CBS

18	M	11/23	**Stock-Based Compensation**
			GAAP: Chapter 1, pp. 1.13-1.32
			Practice Problems: Fairfax, Gibbon
	➔		Case: Cisco

19	W	11/25	**Intercorporate Investments**
			GAAP: Chapter 12, pp. 12.01-12.27; Chapter 10, pp. 10.39-10.47
			Practice Problems: P & S, General Electric
	➔		Case: Coca-Cola

20	M	11/30	**Variable Interest Entities**
			GAAP: Chapter 12, pp. 12.27-12.29
			Practice Problem: Synthetic Ventures
	➔		Case: Citigroup

21	W	12/02	**Foreign Currency Translation**
			GAAP: Chapter 16
			Practice Problem: Hyperaña Co.
	➔		Case: Eye Pass Worldwide

22	M	12/07	**Derivatives**
			GAAP: Chapter 17, pp. 17.01-17.24; 17.30-17.40
			Practice Problem: Klossner Candy
	➔		Case: Ford

23	W	12/09	**Interim Reporting / Course wrap-up**
			GAAP: Chapter 7, pp. 7.01-7.07
	➔		Case: Fairmont Global

☠	T	12/15	**Take-home exam begins, posted on webCafé by 9:00 am**

☠	M	12/21	**TAKE-HOME EXAM DUE at 4:00 PM**