

***Financial Accounting: Analysis and Reporting Incentives***  
***ACCT 242***  
***Prof. Stephanie Sikes – Spring 2011***  
***Syllabus***

---

Email: [ssikes@wharton.upenn.edu](mailto:ssikes@wharton.upenn.edu)  
Phone: (215) 898-7783

Office: SHDH 1320  
Office hours: Wednesday, 3:30-5:00

***Prerequisites:***

The course is designed for and is open to all majors. However, because the course requires an understanding of basic financial reporting, ACCT 101 is a prerequisite for the course.

***Course Overview:***

The course is designed to increase students' ability to extract and interpret information in financial statements. The course provides both a framework for and the tools necessary to analyze financial statements. At a conceptual level, the course emphasizes that preparers and users of financial statements have different objectives and incentives. We will spend a considerable amount of time solving problems by analyzing real financial statements. By analyzing the disclosures in a firm's annual or quarterly report, we will determine the firm's accounting policy for a particular type of transaction and determine how that policy choice not only affects the firm's primary financial statements but also reflects the underlying economics of the firm. The course should also improve students' ability to use financial statements as part of an overall assessment of a firm's strategy and the potential rewards and risks of dealing with the firm (as an investor, creditor, supplier, employee, etc.).

***Course Materials:***

*Textbook (REQUIRED):* *Financial Reporting and Analysis* by Revsine, Collins, Johnson, and Mittelstaedt, 4th edition.

For students who prefer to not buy the textbook, Lippincott Library has four copies on Reserve.

*WebCafé:* This site will include all cases (except HBS cases), practice problems, lecture slides, and any optional notes and articles on each topic. Note that I will not distribute any material in class. Please download anything you need prior to class. I post the additional articles for students who want to read more about a particular topic. Only on rare occasions will I discuss the material in the additional articles in class.

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

### ***Preparation for Class:***

Class sessions will center around case discussions in which we will address both mechanical accounting issues and important analytical and strategic issues. I expect for you to use the resources on the WebCafé and/or the 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 the 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. Thus, even if your group does not have to turn in a write-up for a particular case, I still expect for you to review the case prior to class and to be prepared to add to the class discussion. Also, I expect for all students to review the practice problems prior to coming to class. I will review most of the practice problems in class with you; however, you will get more of the class discussion if you review the problem prior to class.

### ***Grading:***

Your course grade will be determined as follows:

Class Participation (Individual)	15%
Cases (Group)	15%
Group Project (Group)	30%
<u>Final Exam (Individual)</u>	<u>40%</u>
Total	100%

*Class Participation:* I expect you to come to class on time and prepared to discuss the cases for that day. Unless you request and receive permission from me to attend a different section of the course, you must attend the section for which you are registered. After each class, I will award each student up to three points based on the quality of his or her class participation that day. I will 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 class. *Note that if you do not speak in class at all during the term, then 15% of your final grade will be a zero, making it difficult to get an A in the class.*

*Group Formation:* Students need to form groups of no larger than 3 students. A group’s members can be from a different section. Email me the list of group members by 11:00 am of the third day of class (January 24). I only want one email per group. I suggest for the student who sends the email to copy his or her group members on the email. Students who have trouble finding a group will be assigned to one by me. When you email me your group members, you can specify whether your group has a preference for the A, B, or C cases (See below). However, if there is uneven demand for the three types of cases, then I will randomly assign the A, B, or C cases to the different groups.

*Cases:* All groups have to turn in the assignment for the first case (Blue Earth Technology). For the remaining cases, each group only has to turn in a write-up for the cases designated with the group’s assigned letter (A, B, or C). Each group will have seven cases assigned to it. I will drop each group’s lowest two case grades. Thus, a group can choose to only submit a written assignment for five cases and have the grades for all five of these cases count. Alternatively, a group can submit a written assignment for six cases and drop the lowest grade of the six. Or, a group can submit all seven and drop the two lowest case grades.

*Groups must submit cases to the Assignments Submissions subfolder in the group's Team Folder on the WebCafe prior to 12:00 pm on the day the case is due. I will not accept any late assignments. Case assignments turned in after 12:00 pm on the day the case is due will receive a grade of zero. Submit only one write-up per group, and include the names of all group members. Making use of suggested case solutions from prior semesters of Accounting 742 or copying the case write-up of anyone outside of your group will constitute cheating and could result in all group members receiving a grade of F for the course.*

Mid-Term Group Project: I will provide more details regarding the group project at the beginning of the spring semester. *Groups must submit the mid-term project to the Assignments Submissions subfolder in the group's Team Folder on the WebCafe prior to 12:00 pm on Wednesday, March 2.* You will complete the mid-term group project with the same group members with whom you complete the cases.

Final Exam: The final exam will be scheduled during the final exam period.

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

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>
1	January 12	Course Introduction	Read and prepare answer to one question for in-class discussion (no written deliverable): “Enron, intelligence, and the perils of too much information,” by M. Gladwell
NO CLASS	January 17		
2	January 19	The Economic and Institutional Setting for Financial Reporting and the Role of Financial Information in Contracting	Readings: RCJM 1 and 7 (I encourage students who want a refresher on income determination and the structure of the balance sheet to read RCJM 2 and 4 (pgs. 181-196). I expect that all students are familiar with this material since it was covered in Accounting 101; however, some students might want to refresh their memory.)  Prepare for in-class discussion (no written deliverable): Identify the Industries
3	January 24	Essentials of Financial Statement Analysis	Readings: RCJM 5 Prepare for in-class discussion (no written deliverable) : Target vs. Costco GROUP FORMATION DUE
4	January 26	Ratio Analysis	Case: Blue Earth Technology (A, B, C)
5	January 31	Cash Flow Quality I	Readings: RCJM 4 (pgs. 196-207) and RCJM 17 Practice Problem: Psilos Corp.
6	February 2	Cash Flow Quality II	Case: Upsilon Capital Partners (A)
7	February 7	The Role of Financial Information in Valuation	Readings: RCJM 6 Practice Problem: TBD
8	February 9	Earnings Quality: Nonrecurring Items	Case: FenceAlign (B)
9	February 14	Earnings Quality: EPS, Pro Forma	Case: Intuit (C) Practice Problem: Evanston Precision Systems
10	February 16	Revenue Recognition: Gross vs. Net	Readings: RCJM 3 Case: Merck (A)
11	February 21	Expense Recognition: Matching	Case: Pre-paid Legal (B) Practice Problem: Zeeland

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>
12	February 23	Income Tax Reporting: Deferred Taxes	Readings: RCJM 13 (739-762, 768-783) Case: General Motors (C) Practice Problems: Caterpillar, NOL
13	February 28	Income Tax Reporting: Contingent Tax Liabilities and FIN 48	Readings: RCJM 13 (762-768) Practice Problem: TBD
NO CLASS	March 2	MID-TERM PROJECT DUE	
NO CLASS	March 7	SPRING BREAK	
NO CLASS	March 9	SPRING BREAK	
14	March 14	Intangibles and Goodwill	Case: The Shaw Group (A) Practice Problem: Wieland Group
15	March 16	Long-Lived Assets: International Differences	Readings: RCJM 10 Case: Land Securities Group (B) Practice Problem: Riedl Realty
16	March 21	Fair Value	Case: Morgan Stanley (C) Practice Problem: Essig Bancorp
17	March 23	Long-term Debt: Market vs. Book	Case: Royal Bank of Scotland (A) Practice Problem: Metro-Golden-Mayer
18	March 28	Repos and Leverage	Case: Lehman Brothers (B) Practice Problem: Three Banks
19	March 30	Contingent Liabilities	Case: Intel (C) Practice Problem: V.G. Miller Corp.
20	April 4	Leases: Lessee and Lessor Accounting	Readings: RCJM 12 Case: IBM (A) Practice Problems: Wal-Mart, Xerxes
21	April 6	Pensions and OPEB	Readings: RCJM 14 Case: CBS (B) Practice Problem: Smith Inc.
22	April 11	Stock-Based Compensation	Readings: RCJM 15 (895-908) Case: Cisco (C) Practice Problems: Fairfax, Gibbon
23	April 13	Intercompany Investments	Readings: RCJM 16 Case: Coca-Cola (A) Practice Problems: P&S, General Electric

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>
24	April 18	Foreign Currency Translation	Case: Eye Pass Worldwide (B) Practice Problem: Hyperana Co.
25	April 20	Interim Reporting/Course wrap-up	Case: Fairmont Global (C)
NO CLASS	April 25		