

# Problems in Financial Reporting

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## Course Objectives

Accounting 742 is designed to increase your ability to extract and interpret information in financial statements. We will focus on developing your accounting analysis skills, as well as your ability to utilize those skills in assessing a firm's underlying business strategy and underlying economic performance. For example, after taking this course, you should be able to use the disclosures in a firm's financial report to determine its accounting policy for a particular type of transaction and be able to determine how that policy choice affects its primary financial statements. Given your understanding of the drivers of the statements, you should be able to assess what, if anything, those statements communicate about the firm's strategy and economic performance.

In an effort to satisfy the course objective, you will often be asked to struggle with real financial statement disclosures. Such activities are hard because accountants are not inherently gifted at communication, which is why they are accountants as opposed to journalists, speechwriters, novelists, or screenwriters. Furthermore, accountants must write with legal concerns in mind, which generally does not favor compelling, concise, and explicit narratives. By engaging in these difficult accounting analysis "workouts," however, you will develop valuable accounting research and reasoning capabilities.

## Class Materials

### *GAAP Guide (Optional Reference Book)*

Note that a GAAP Guide is a reference and should be used accordingly. In general, the GAAP Guide provides a good overview of technical accounting by topic area as well as references to the Accounting Standards Codification (ASC). For each topic area/class session I have referenced some relevant pages of the GAAP 2012 CCH GAAP Guide in the summary course schedule later in this document.

### *FASB Accounting Standards Codification (ASC)*

You will also have access to the Financial Accounting Standards Board's (FASB's) searchable accounting standards codification. To access the FASB site go to: <http://acct.wharton.upenn.edu/aaa>. The user name is student and the password is M0nks@Pumpk1ns#. Using this resource is much more challenging than using the GAAP Guide.

### *Canvas*

A detailed listing of the relevant course materials will be on the Canvas by class session. You should prepare/review/read/complete any material labeled **Class Preparation** prior to class. The **In Class** label is for class slides as well as any other material we will cover in class that is not included with the Class Preparation material. The class slides will be available at 6:00 AM the day of class if not earlier. The **Post Class** label pertains to any material distributed during class, brief technical notes for the cases or problems discussed, optional readings related to what was covered in class, and optional practice problems. This material will be made available at the end of the day that the class session is held.

## **Grading**

A two-tiered grading system is employed in this course. The first tier is for students who wish to focus solely on learning some technical accounting, but who do not want to complete an accounting analysis project. The maximum grade attainable for students who do not complete the accounting analysis project is a B+. The second tier is for students who decide to extend themselves a bit more and prepare an accounting analysis project, which requires the application of technical accounting skills, critical reasoning, and, dare we say, a bit of creativity. The maximum possible grade attainable for students who complete the project is an A. If a student completes the project and does not do well enough to exceed an A- or better in the course, that student's final grade will be determined by the maximum of their Tier 1 and Tier 2 grades. ***Finally, a minimum grade of 60% on the Tier 1 grade is required to pass the course.***

Tier 1 Grade. To obtain between a grade up to a maximum of a B+, you must obtain at least that grade based upon the following weighting scheme:

Class Preparation and Performance	20%
Exam 1	18%
Exam 2	22%
Exam 3	40%

Tier 2 Grade. To obtain an A- or better, you must obtain that grade based upon the following weighting scheme:

Class Preparation and Performance	15%
Exam 1	14%
Exam 2	16%
Exam 3	35%
Accounting Analysis Project	20%

## **Preparation and Performance, Exams, and Optional Project**

### *Class Preparation and Performance*

Prior to each class, you will complete some class preparation materials on Canvas, which will require you to answer some questions via a web interface. The goal of the class preparation materials is simple – to prepare you for class. Note that the class discussion in most cases will build off of the class preparation materials, as opposed to just going over the answers to the class preparation questions. To obtain credit for engaging in class preparation, you must complete the preparation materials when they are due regardless of whether you will be attending class.

Students are allowed to have 4 unexcused absences from class during the term. If you exceed 4 unexcused absences, your final grade for the course will be reduced by at least a full grade (e.g., your grade would drop from a B to a C), and potentially more if you are excessively absent. If you do not complete the preparation materials, I will presume you will be taking an unexcused absence. If you complete the class preparation materials, you will be asked whether you will be attending the associated class. If you are taking one of your four unexcused absences, you will still receive credit for completing the preparation materials and will receive the same score for your classroom performance.

During class I will randomly call on students who are not taking an unexcused absence for that class. If you are not present when I call on you, you will receive a 0 for the class period, a 50% reduction in your overall classroom preparation and performance grade component, and an inquiry from me. If I call on you and you are clearly not prepared, your classroom preparation and performance mark for the day will be 0. If I do not call on you and you do not otherwise participate during the class period, your classroom performance mark will be equivalent to your classroom preparation mark. If I do call on you or you otherwise participate

during class, your classroom performance mark will be a multiple of your classroom preparation mark (0% to 200%).

If you have a legitimate reason for missing class, you must contact me before the class to receive an excused absence. If you receive an excused absence, you will still receive credit for completing the preparation materials and will receive the same score for your classroom performance. Excused absences will be granted for illnesses, important family matters, and, in some cases, job search activities.

### *Exams*

There will be three exams during the semester. Each exam will be taken online during an exam window. The windows are as follows:

Exam 1: Wednesday, October 3 from 5:00 PM to 11:59 PM

Exam 2: Monday, November 5 from 5:00 PM to 11:59 PM

Exam 3: Wednesday, December 5 from 5:00 PM to 11:59 PM

Each exam will be cumulative in the sense that you are responsible for all topic areas covered up to and including the exam. In addition, you may be asked about material that relates conceptually to what we have covered. You may not discuss (very broadly defined) the exam with any other individuals except for me during an entire exam window plus the 3.5 hours right after the exam window – no exceptions. You can use any written reference resources including your notes, GAAP guides, textbooks, and material on the web.

### *Project*

If you decided to do an accounting analysis project, you will do the project with 2 to 4 fellow students (no less than 2 and no more than 4 – no exceptions). Details regarding the Accounting Analysis Project are provided in the Accounting Analysis Project assignment on Canvas.

### **Instructor Availability**

My office is in 1321 SHDH, my phone number is (215) 573-7533, and my email address is [pef@wharton.upenn.edu](mailto:pef@wharton.upenn.edu). Office hours are by appointment. Please contact me in advance to make an appointment. You are also welcome to stop by to see me at any time. If you stop by and I have other commitments, I will be happy to make an appointment with you for later in the day.

In addition, I would be delighted to host groups of 3 to 5 students for lunch on Tuesdays and Thursdays of each week. If you would like to sign up a group for a lunch, please let me know via email, telephone or just after class. We will work out a mutually agreeable date and you will select the location for the lunch.

### **Optional Review Sessions**

I will be hosting optional review sessions throughout the term. These sessions are targeted towards students who are struggling with the subject matter. Typically, such students found ACCT 620 quite challenging and are still uncomfortable dealing with financial accounting concepts. The sessions will have a question and answer format in which the students will ask the questions and I will attempt to provide coherent answers. In addition, we will work through practice problems.

These sessions are scheduled for Thursdays from 3:00 PM to 4:30 PM in 105 SHDH. The first session will be on Thursday, September 6. There will be no session on Thursday, October 18 and Thursday, November 15. I am aware that there is a possibility that this time may conflict with another course obligation for a particular student. If that happens in your case and you would otherwise attend the review session, please contact me so that we can arrange an appropriate alternative session for you.

Accounting 742: Problems in Financial Reporting  
Fall 2012  
Summary Class Schedule  
(Please see the Canvas site for more details regarding a class session.)

Session	Day	Date	Topics	GAAP Guide
1	Wednesday	9/5	Introduction The Audit Report Earnings Quality	None
2	Monday	9/10	Accounting for Income Taxes	15001 to 15027
3	Wednesday	9/12	Cash Flows and Ratio Analysis	6001 to 6015
4	Monday	9/17	Revenue Recognition	1003 to 1004, Chapter 2, and 18013 to 18016
5	Wednesday	9/19	Revenue Recognition Accounting Changes	9001 to 9006
6	Monday	9/24	Revenue Recognition Franchises	19016 to 19021
7	Wednesday	9/26	Transfers of Financial Assets	3010 to 3013, 12021 to 12022, 17018 to 17019, and 17022 to 17023
8	Monday	10/1	Expense Recognition	1004, 1027, 1031 to 1032, 4017 to 4020, and 18010
9	Wednesday	10/3	Exam 1	
10	Monday	10/8	R&D Arrangements	1007 to 1010 and 12019 to 12020
11	Wednesday	10/10	Inventory and Cost of Sales	None
12	Monday	10/15	Long-Lived Assets: International Differences	3028 to 3032 and Chapter 18 (esp. 18007 to 18009)
13	Wednesday	10/17	Long Term Debt and Fair Value Accounting	4001 to 4017, 4035 to 4044
14	Wednesday	10/24	Repos and Leverage	Chapter 17 (esp. 17025 to 17026)
15	Monday	10/29	Leases	Chapter 13 and 18012
16	Wednesday	10/31	Pensions and OPEB	Chapter 14 and 18010 to 18011
17	Monday	11/5	Earnings per Share Stock Based Compensation	1010 to 1025 and 1042 to 1050, 18016 and 18018
18	Wednesday	11/7	Derivatives and Hedging	Chapter 17 (esp. 17011 to 17018)

19	Monday	11/12	Exam 2	
20	Wednesday	11/14	Derivatives and Hedging	Chapter 17 (esp. 17011 to 17018)
21	Monday	11/19	Intercorporate Investments – Control and Significant Influence	11001 to 11019, 12003 to 12019, and 18007
22	Wednesday	11/21	Intercorporate Investments – Control and Significant Influence	11001 to 11019, 12003 to 12019, and 18007
23	Monday	11/26	Intangibles	Chapter 11 (esp. 11.09 to 11.12), 3057 to 3064, 2013 to 2016
24	Wednesday	11/28	Variable Interest Entities	12025 to 12031
25	Monday	12/3	Foreign Currency Translation	Chapter 16
26	Wednesday	12/5	Exam 3	