

# Accounting 742

## Problems in Financial Reporting

### 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 2014 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/index.php>

#### *Canvas*

A detailed listing of the relevant course materials will be on the Canvas by class session in the Assignments tab. 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 PM the evening before class. 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 a B 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, LT grade designations will be determined solely by the Tier 1 grades. Hence, do not blow off the course with the expectation that you can survive by executing a good project (or finding a good group to work with on the project).***

**Tier 1 Grade.** To obtain 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	30%
Exam 1	30%
Exam 2	40%

**Tier 2 Grade.** To obtain a B+ or better, you must obtain that grade based upon the following weighting scheme:

Class Preparation and Performance	15%
Exam 1	25%
Exam 2	35%
Accounting Analysis Project	25%

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

### *Class Preparation*

Prior to each class, you will complete some class preparation questions on Canvas, which will require you to answer some questions via a web interface. With the exception of Session 1, these materials are due by 8:00 AM the day of class. The goal of the class preparation questions is simple – to induce you to prepare for class. Note that the class discussion in most cases will build off of the class preparation questions (many of which are very simple), 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. No exceptions.

### *Exams*

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

Exam 1: Friday, October 25 from 2:00 PM to 5:00 PM

Exam 2: Will be delivered during the final exam period on the scheduled exam date

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, even if we did not directly cover that material. You may not discuss (very broadly defined) the exam with any other individuals except for me during an entire 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 a group of 2 to 4 fellow students (each group can have no less than 2 and no more than 4 students – 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 happy 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 their introductory accounting course quite challenging and are still uncomfortable dealing with financial accounting mechanics. 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.

The first review session is scheduled for Thursday September 11 4:30 PM to 6:00 PM. Thereafter, review sessions will be held on Tuesdays from 4:30 PM to 6:00 PM for the remainder of the semester with the exception of Tuesday, November 25. I am aware that these times may conflict with another course obligation for a particular student. If that is the case for you and you would otherwise attend the review session, please contact me so that we can arrange an appropriate alternative meeting time.

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

Session	Day	Date	Topics
1	Wednesday	8/27	Earnings Quality Audit Report Income Statement Format
2	Wednesday	9/3	Cash Flows and Earnings
3	Monday	9/8	Revenue Recognition
4	Wednesday	9/10	Reverse Engineering Revenues (And Brief Review: Deferred Income Taxes Timing Differences)
5	Monday	9/15	Revenue Recognition: Accounting Changes
6	Wednesday	9/17	Revenue Recognition: Change in Business Model
7	Monday	9/22	Revenue Recognition: Sources and Segments
8	Wednesday	9/24	Revenue Recognition: Franchises
9	Monday	9/29	Revenue Recognition: Securitization
10	Wednesday	10/1	Expense Recognition
11	Monday	10/6	Expense Recognition: Inventory and Cost of Goods Sold
	Wednesday	10/8	Expense Recognition: Capitalization vs. Expensing
12	Monday	10/13	Expense Recognition: Capitalization and Amortization
13	Wednesday	10/15	Accounting for Taxes I
14	Monday	10/20	Accounting for Taxes II
15	Wednesday	10/22	Commitments and Contingencies
16	Thursday	10/23	Exam 1: 7:00 PM to 9:00 PM
17	Monday	10/27	Long-Term Debt and Fair Value Accounting
18	Wednesday	10/29	Leases
19	Monday	11/3	Pensions and Other Post Employment Benefits
20	Wednesday	11/5	Earnings per Share Contingent Compensation
21	Monday	11/10	Contingent Compensation Introduction to Derivatives
22	Wednesday	11/12	Derivatives and Hedging Introduction to (Review of) Active Corporate Investments
23	Monday	11/17	Active Investments: Control and Significant Influence
24	Wednesday	11/19	Accounting and Organizational Form
25	Monday	11/24	No Class
	Monday	12/1	Projects Due
26	Monday	12/1	Intangibles
27	Wednesday	12/3	Multinationals
28	Monday	12/8	Summary and Conclusion
	TBA	TBA	Exam 2: To Be Held During Final Exam Period