

# **Syllabus: Financial Statement and Disclosure Analysis**

**(Preliminary and Tentative)**

**Professor Brian Bushee**

**Spring 2015**

## **Course Overview**

This course is designed to increase your ability to extract and interpret information from three sources of financial communication between corporate managers and outsiders: (1) required financial statements, (2) voluntary disclosures, and (3) interactions with information intermediaries. In the past decade, academic research has made tremendous contributions in identifying situations when corporate managers are being “aggressive” or deceptive in their communications with outsiders. In the course, we will draw on the findings of this research to discuss a number of techniques or “red flags” that outsiders can use to detect potential bias in financial communications. This course will be project-based. Each of the three modules will be followed by a project that will give you the opportunity to apply what you have learned in the module to companies that you select and analyze.

This course complements existing courses in the following ways. In ACCT 742, students learn how to use the detailed footnote disclosures in a company's annual or quarterly report to determine its accounting policy for a particular type of transaction and how that policy choice both affects its primary financial statements and reflects the underlying economics of the firm. In ACCT 747, we take a higher-level approach to studying financial communications to identify situations in which managers may be biasing their communications. Once such companies are identified, students could draw on the detailed knowledge from ACCT 742 to make more informed judgments about how, if at all, financial statements would need to be adjusted to get a truer picture of the company's performance and financial position. In FNCE 728, students learn how to use financial information in debt and equity valuation. In ACCT 747, we will not discuss valuation approaches, but our analyses of financial communications will highlight situations where students may need to use caution in using the reported financial information as inputs into valuation models.

## **Course Materials**

All course materials are located on the course Canvas site. This site includes all cases, lecture slides, notes, and articles on each topic. All datasets required for the projects will also be posted here. There is no textbook for this course. Instead, for each topic, I will provide a set of notes and readings that include either research articles or summaries of their main findings.

**Grading**

Your course grade will be determined as follows:

Class Participation	10%
Project #1	30%
Project #2	30%
<u>Project #3</u>	<u>30%</u>
Total	100%

**Pass/Fail option:** Students electing to take the course for a pass/fail grade are only required to submit two of the three projects. A passing grade will be given based on satisfactory completion of the two projects. Students can choose which of the two projects they submit under this option.

**Class participation:** I expect you to come to class prepared to discuss the material 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) or a pertinent question. There is no bonus for quantity of comments in a class.

**Overview of projects:** There are three projects required for the course. Students can work on the projects individually or in groups of up to four students. The number of companies examined in the project should equal the number of students submitting the project (i.e., an individual student would study one company; a group of four would study four companies). Note that this number represents the minimum number of companies that should be analyzed in depth; other companies may be referenced in the project as comparisons. The groups can be changed for each project.

For each project, the analysis will include (in general): (1) a discussion of why the companies were chosen, (2) a discussion of any potential incentives that the company has to bias their financial statements or disclosures, (3) an application of the tools and research findings covered in the module to analyze the companies’ financial reporting, (4) an overall conclusion about what you learn from the analysis. More specifics will be provided for each project as the time gets closer. Below are brief descriptions of each project with their due dates.

**Project #1: Due Monday, February 23 at 11:00 pm**

This project will cover the tools for analyzing financial statements. Students will be provided with a dataset that will allow them to use statistical models to identify companies will potentially aggressive financial reporting. Then, students will examine the financial statements in more detail to try to identify the source of the aggressive reporting.

**Project #2: Due Monday, March 30 at 11:00 pm**

This project will cover the tools for analyzing voluntary disclosures. Students will be asked to focus on one or two aspects of voluntary disclosure covered in the module (e.g. conference calls, textual analysis) to try to identify any indicators of aggressive reporting.

**Project #3: Due Monday, April 27 at 11:00 pm**

This project will cover the tools for analyzing companies' interactions with outsiders. Students will be asked to focus on one or two aspects of the interaction between companies and outsiders covered in the module (e.g., lobbying letters, analyst reports) to try to identify any indicators of aggressive reporting.

**Grading disputes:** All grading disputes must be appealed within one week following the return of the assignment or exam. To have a project re-graded, please submit a written description of your disagreement with the initial grade. I reserve the right to review the entire project; thus your grade could go up *or* down. For group work, every member of the group must agree to the request for regrade.

## ACCT 747: Topic Schedule Spring 2015

<b>Date</b>	<b>Topic</b>
W 01/14	Course Introduction
M 01/19	<b>No Class: MLK Day</b>
W 01/21	Earnings Management Incentives
M 01/26	Ratio Analysis & Fundamental Analysis
W 01/28	Earnings Measures: Pro Forma vs. GAAP
M 02/02	Cash Flow vs. Earnings
W 02/04	Revenue and Expense Red Flags
M 02/09	Discretionary Accruals
W 02/11	Discretionary Expenditures
M 02/16	Fraud Prediction Models
W 02/18	<b>No class: Work on Project #1</b>
M 02/23	<b>No class: Project #1 Due</b>
W 02/25	Voluntary Disclosure Incentives
M 03/02	Disclosure Regulations: Reg FD and Rule 10b-5
W 03/04	Textual Analysis of Written Disclosures
M 03/09	<b>No Class: Spring Break</b>
W 03/11	<b>No Class: Spring Break</b>
M 03/16	Conference calls and Voice Analysis
W 03/18	New Modes of Communication
M 03/23	Managerial Red Flags
W 03/25	<b>No class: Work on Project #2</b>
M 03/30	<b>No class: Project #2 Due</b>
W 04/01	Investor Relations
M 04/06	Interactions with Auditors
W 04/08	Interactions with Analysts
M 04/13	Interactions with the Media
W 04/15	Interactions with the SEC: Comment Letters
M 04/20	Interactions with the FASB: Lobbying
W 04/22	<b>No class: Work on Project #3</b>
M 04/27	<b>No class: Project #3 Due</b>