

Financial Accounting: Analysis and Reporting Incentives
ACCT 242
Prof. Stephanie Sikes – Spring 2016
Syllabus

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

Office: SHDH 1320
Office hours: By appointment

Prerequisite:

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, Mittelstaedt, and Soffer, 6th edition.

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

Canvas: This site includes 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 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 Canvas 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%
Test #1 (Individual)	35%
<u>Test #2 (Individual)</u>	<u>35%</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. *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 at least 3 students but no more than 4 students. A group’s members can be from different sections. Email me the list of group members by 10:00 am of the third day of class (January 25). 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 or B cases (See below). However, if there is uneven demand for the two types of cases, then I will randomly assign the A and B cases to the different groups.

Cases: Grading of cases is based on effort and completeness, not accuracy. 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 or B). Each group will have eleven cases assigned to it. I will drop each group’s lowest three case grades. Thus, a group can submit a written assignment for all eleven cases assigned to the group and drop the lowest three grades. Alternatively, a group can submit a written assignment for ten cases and

drop the two lowest grades of the ten. Or, the group can submit a written assignment for nine of the cases and drop the lowest grade of the nine. Finally, a group can choose to only submit a written assignment for eight cases and have the grades for all eight of these cases count.

Groups must submit cases to the Assignments page on Canvas 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 242 or 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.***

Tests: The tests will be administered during regular scheduled class time. ***You have to take the tests in the section for which you are registered. If a student misses a test, he or she will have to make it up on the University-wide scheduled make-up day in September 2016.***

Grading Disputes: All grading disputes must be appealed within one week following the return of the assignment or test. To have a case re-graded, 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 a test re-graded, submit the original test (with no modifications) and a written description of your disagreement with the initial grade. I reserve the right to review the entire assignment or test; thus, your grade could go up *or* down.

Office Hours:

I will hold office hours by appointment. If you would like to meet with me, please email me to schedule an appointment.

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>
1	January 13	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 18	Martin Luther King, Jr. Day	
2	January 20	The Economic and Institutional Setting for Financial Reporting and the Role of Financial Information in Contracting	Readings: RCJMS 1 and 7 (I encourage students who want a refresher on income determination and the structure of the balance sheet to read RCJMS 2 and 4 (pgs. 187-202). 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.)
3	January 25	Essentials of Financial Statement Analysis	Readings: RCJMS 5 Prepare for in-class discussion (no written deliverable) : Target vs. Costco GROUP FORMATION DUE Practice Problem: Higgins Corporation
4	January 27	Ratio Analysis	Case: Blue Earth Technology (A, B)
5	February 1	Earnings Quality: Nonrecurring Items	Case: FenceAlign (A)
6	February 3	Earnings Quality: EPS, Pro Forma	Case: Intuit Incorporated (B) Practice Problem: Evanston Precision Systems
7	February 8	Cash Flow Quality	Readings: RCJMS 4 (pgs. 202-217) and RCJMS 17 Case: Upsilon Capital Partners (A) Practice Problem: Psilos Corp.
8	February 10	Revenue Recognition: Gross vs. Net	Readings: RCJMS 3 Case: Merck (B)
9	February 15	GUEST SPEAKER	Marc Siegel of the FASB will be a guest speaker. He will speak at 9:00 am and 10:30 am. Attendance is mandatory unless you have a course conflict. Location: JMHH G60

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>
10	February 17	Expense Recognition: Matching	Case: Pre-paid Legal (A) Practice Problem: Zeeland
11	February 22	Intangibles and Goodwill	Case: The Shaw Group (B) Practice Problem: Wieland Group
12	February 24	Income Tax Reporting: Deferred Taxes	Readings: RCJMS 13 (745-778, 783-792) Case: General Motors Corporation (A) Practice Problems: Caterpillar, Sarah Lee Corporation
13	February 29	Income Tax Reporting: Contingent Tax Liabilities and FIN 48	Readings: RCJMS 13 (778-782) Practice Problem: Cisco Prepare for in-class discussion (no written deliverable) : Wyeth
14	March 2	TEST 1	Location: SHDH 109 (NOTE: THIS IS NOT OUR NORMAL CLASSROOM)
NO CLASS	March 7	SPRING BREAK	
NO CLASS	March 9	SPREAK BREAK	
15	March 14	Stock-Based Compensation	Readings: RCJMS 15 (911-924) Case: Cisco Systems, Inc. (B) Practice Problems: Fairfax, Gibbon, Longhorn Corp, Jay-Jack Inc., Google
16	March 16	Long-Lived Assets: International Differences	Readings: RCJMS 10 Case: Land Securities Group (A) Practice Problem: Riedl Realty
17	March 21	Fair Value	Case: Morgan Stanley (B)
18	March 23	Long-term Debt: Market vs. Book	Case: Royal Bank of Scotland (A) Practice Problem: Metro-Golden-Mayer
19	March 28	Repos and Leverage	Case: Lehman Brothers (B) Practice Problem: Three Banks

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>
NO CLASS	March 30		
20	April 4	Contingent Liabilities	Case: Intel Corporation (A) Practice Problem: V.G. Miller Corp.
21	April 6	Leases: Lessee and Lessor Accounting	Readings: RCJMS 12 Case: IBM (B) Practice Problems: Wal-Mart, Xerxes, Walgreens
22	April 11	Pensions and OPEB	Readings: RCJMS 14 Case: CBS (A) Practice Problem: Smith Inc., Bostonian Co., Cummings Inc.
23	April 13	Intercompany Investments	Readings: RCJMS 16 Case: Coca-Cola (B) Practice Problems: P&S, General Electric, Delta/Sigma
24	April 18	Derivatives	Readings: RCJMS 11 (633-651) Case: American Airlines (A) Practice Problem: Global Candy Company
25	April 20	TEST 2	Location: SHDH 351 (NOTE: THIS IS NOT OUR NORMAL CLASSROOM)
26	April 25	Multinationals and Foreign Currency Adjustments	Readings: RCJMS 16 (987-995) Case: Eye Pass Worldwide (B) Practice Problem: Hyperana Co.
27	April 27	Interim Reporting/Course wrap-up	Case: Fairmont Global (A, B)