

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

**Professor Brian Bushee**

**Spring 2016**

## **Course Overview**

This course is designed to increase your ability to extract, analyze, 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 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 collect and analyze data on 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. There is no textbook for this course. Instead, I will provide a set of notes and readings that include either research articles or summaries of their main findings.

You will also need to retrieve data from WRDS (<https://wrds-web.wharton.upenn.edu/wrds/>) and use Excel for statistical analysis. You are highly encouraged to bring a laptop or device to class as we will often work on spreadsheets during class time.

### **Guest Speaker**

On February 15, 2016, we will have a guest speaker, Marc A. Siegel, who is one of the seven members of the Financial Accounting Standards Board. Prior to joining the FASB, he led the Accounting Research and Analysis team at the RiskMetrics Group in Rockville, Maryland. Prior to its acquisition by RiskMetrics, he was the Director of Research at the Center for Financial Research & Analysis (CFRA). In this capacity, he was responsible for CFRA's proprietary research methodology for identifying hidden risks of business deterioration through forensic financial statement analysis. He started his career with ten years at Arthur Andersen LLP as both an auditor and a financial consultant focusing on litigation support.

To accommodate Marc's schedule, we will only hold class at 9:00 am and 10:30 am that day. Those in the 1:30 pm section are highly encourage to attend one of these other two sections.

### **Grading**

Your course grade will be determined as follows:

Class Participation	10%
Project #1	30%
Take-home exam	30%
<u>Project #2</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 one project and to complete the take-home exam. A passing grade will be given based on satisfactory completion of these two assignments. 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 will 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.

We will often do in-class exercises in which you will work on small groups. You will receive class participation credit for participating in these exercises as long as you write your name on the exercise sheet when it is handed in.

### **Take-Home Exam: Due Wednesday, March 30 at 11:59 pm**

This exam will only cover the module on tools for analyzing voluntary disclosures (the class sessions from 2/29 to 3/23). The exam will be administered on Canvas and will be multiple choice, with no time limit for completion. Students must work on the exam individually. More details will be given as the time gets closer.

**Overview of projects:** There are two projects required for the course. You can work on the projects individually or in groups of up to five students. The groups can be changed for each project. The project 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 Wednesday, February 24 at 11:59 pm**

This project will cover the tools for analyzing financial statements. Students will choose a company to analyze and apply the tools from this module to identify any red flags that indicate aggressive reporting. Then, students will examine the financial statements to identify the source of the aggressive reporting.

**Project #2: Due Wednesday, April 27 at 11:59 pm**

This project will cover the tools for analyzing companies' interactions with outsiders. Students will be asked to focus on one of the interactions between companies and outsiders covered in the module (e.g., comment letters, auditor resignations) 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 2016

<b>Date</b>	<b>Topic</b>
W 01/13	Course Introduction
M 01/18	<b>No Class: MLK Day</b>
W 01/20	Earnings Management Incentives
M 01/25	Ratio Analysis
W 01/27	Earnings Measures: Pro Forma vs. GAAP
M 02/01	Revenue Recognition Red Flags
W 02/03	Expense Recognition Red Flags
M 02/08	Discretionary Accruals Models
W 02/10	Discretionary Expenditure Models
M 02/15	Guest Speaker: Marc Siegel, FASB (9:00 and 10:30 only)
W 02/17	Fraud Prediction Models
M 02/22	<b>No class: Work on Project #1</b>
W 02/24	<b>No class: Project #1 Due</b>
M 02/29	Voluntary Disclosure Incentives
W 03/02	Management Forecasts
M 03/07	<b>No Class: Spring Break</b>
W 03/09	<b>No Class: Spring Break</b>
M 03/14	Textual Analysis of Written Disclosures
W 03/16	Conference calls and Voice Analysis
M 03/21	Social Media
W 03/23	Managerial Red Flags
M 03/28	<b>No class: Work on Take-Home Exam</b>
W 03/30	<b>No class: Take-Home Exam Due</b>
M 04/04	Investor Relations
W 04/06	Interactions with Analysts
M 04/11	Interactions with Auditors
W 04/13	Interactions with the SEC: Comment Letters
M 04/18	Interactions with the Media and Shorts
W 04/20	Interactions with the FASB: Lobbying
M 04/25	<b>No class: Work on Project #3</b>
W 04/27	<b>No class: Project #3 Due</b>