

ACCT 743 (243)
Accounting for Mergers, Acquisitions, and Complex Financial Structures
Fall Semester 2016

Aut disce aut discede (either learn or depart)

Instructor

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General Course Information

ACCT 743 (243) serves as the Wharton School's "advanced accounting" course. Advanced accounting is a standard topic found at most schools that have an accounting concentration. For example, approximately 20% of the material on the CPA exam concerns topics in advanced accounting; some advanced accounting material can also be found on the CFA exam. While the course material in advanced accounting is standard, nonetheless it is very technical, and thus students who register for the course will be challenged. ACCT 243 registrants, in particular, are required to have *completed successfully* one of either ACCT 201 or 202 *before* registering for ACCT 243 (transcripts will be screened).

The focus in ACCT 743 (243) is on *preparing* financial statements for business combinations at the time of an acquisition, and *preparing* financial statements for consolidated entities subsequent to an acquisition. As such, the course is recommended for students who, in their careers, anticipate that they will be required either to *prepare* pro forma consolidated statements for prospective acquisitions, or *analyze* the consolidated statements of existing complex financial structures. Nonetheless, I cannot overemphasize the extent to which the course adopts a **PREPARER'S** perspective – not a **USER'S** perspective. Students interested in a **USER'S** perspective on financial statements along with a case-oriented approach (as well as broader coverage of financial accounting topics in general) should register for ACCT 742 (242) "Financial Statements: Analysis & Reporting Incentives" (ACCT 742 is offered in both semesters and ACCT 242 in the Spring) and/or ACCT 747 "Financial Statement and Disclosure Analysis" (offered in the Spring Semester).

It is also important to emphasize that ACCT 743 (243), as is standard for an advanced accounting course, ignores taxes: in effect, the topic presumes that there are no corporate taxes of any variety. Students interested in tax considerations in conjunction with mergers and acquisitions should register for ACCT 897 (297) "Taxes and Business Strategy" (offered in the Spring Semester).

Course Materials

Course material consists of the following: 1) A textbook, *Advanced Accounting*, 12th Edition, by Floyd A. Beams, Joseph H. Anthony, Bruce Bettinghaus, and Kevin A. Smith (Pearson); and 2) slides, notes and exercises posted on <https://canvas.upenn.edu/courses> in the Canvas website for ACCT 743 (243). In the case of the latter, all the course material for class **XX** is in a file titled "Course material: Class #**XX**" in the "Files" section of the website.

Office Hours

I am available to meet with students in my office between 9-10:15 am on *any* Tuesday or Thursday before a regularly scheduled class that starts at 10:30 am; this means that I am *unavailable* on days where we have a scheduled quiz. I am also available other times by arrangement. *There is no course TA!*

Requirements to Receive Course Credit

There are 2 requirements to receive course credit. **First**, students must demonstrate competency with the course material, where competency is measured based on performance over the scheduled quizzes. Each quiz is closed-book, closed-notes, and individual product; “cheat-sheets” or other summaries of class material are not allowed. The entire 80-minute class period will be set aside to complete a quiz. Each quiz will be graded based on 50 points. There is no final exam or quiz in the regularly scheduled final exam period. Students are required to attend scheduled quizzes in the sections for which they are registered: *there are no “make-up” quizzes.*¹

Conflicts that result in missing a quiz will be categorized as follows. A “Class A” conflict is something tantamount to a medical emergency. In the event of a medical emergency that incapacitates a student at the time of a scheduled quiz (and for which the student has documentation), the student will not be required to take the quiz and, instead, will be graded based on his or her performance on the other four quizzes. In effect, a student’s cumulative performance on the other four quizzes will be grossed up by 25%. A “Class B” conflict is something tantamount to an unforeseen conflict with another academic obligation. In the event that a student has a conflict of this nature, in place of the missing quiz the *lowest* score among the four other quizzes a student takes will be substituted. A “Class C” conflict is anything deemed avoidable or frivolous. In this event a student will be assigned a score of zero for that quiz.

I am the sole arbiter of the appropriate categorization of a conflict.

Second, upon occasion students will be assigned the task of presenting and explaining in class the solutions to the exercises. There is no additional credit for this; rather, a severe penalty will be assessed for shirking and/or poor performance. A student will be notified either in person or through e-mail when he or she has been assigned exercises to present.

Paths to Receive Course Credit

There are 2 paths to receive course credit. **First**, take all 5 scheduled quizzes and demonstrate competency with the quiz material. **Second**, register for ACCT 743 (243) under the auspices of “pass/fail,” take *any* 3 of the first 4 quizzes, and demonstrate competency with the quiz material. Showing competency will result in a grade of “D”; this, in turn, will manifest as a “pass” on a student’s transcript. Note that competency is defined as maintaining an average that is within two standard deviations of the (pooled) mean for *all* students who register for ACCT 743 (243).

A student who does not elect the “pass/fail” option must take all 5 quizzes.

¹ Conflicts that arise from religious holidays and/or religious obligations on quiz dates will be accommodated by providing a student with the opportunity to take a quiz the day *before* the regularly scheduled quiz date.

Grade distribution

The grade distribution will be determined as follows. First, all ACCT 743 registrants will be put in a single pool; the pool is subject to a fixed and immutable grade distribution whose mean cannot exceed 3.33. The current electronic grading system employed by the MBA Office will not allow grades to be submitted electronically if they fail this criterion. Second, all ACCT 243 registrants will be put in second pool; the grade distribution for the pool will be determined based on performance relative to the ACCT 743 pool (whose mean cannot exceed 3.33). Consider the following illustration. In a class of 5 students, the 1st, 2nd, and 4th best students by rank are ACCT 743 registrants; the 3rd and 5th best students are ACCT 243 students. I assign the 1st, 2nd, and 4th best students grades of A, B+, and B-, respectively; these grades average to 3.33. Thus, the 3rd best ACCT 243 registrant must receive a grade of either B+ or B-, and the 5th best ACCT 243 registrant cannot receive a grade higher than B-.

No class credit will be given to any student whose performance on the 5 scheduled quizzes (or 3 quizzes if taking the class “pass/fail”) is more than two standard deviations below the pooled mean of *all* students. There are no exceptions to this policy.

Re-grades

Requests to re-grade quizzes are strongly discouraged! If a student has a valid inquiry about how a quiz was graded, he or she should contact the grader by e-mail at kevinsm@wharton.upenn.edu, and then drop off his or her quiz with the grader by putting it in the mailbox of **K.Smith** in the Accounting Suite (1300 SH-DH). If it appears that a student is making persistent, and frivolous, re-grading requests, he or she will be prohibited from making additional requests.

Prior years' quizzes

Before each quiz I will make available and review in class the corresponding quiz that I used in 2015. Because of the surfeit of changes in accounting pronouncements that govern business combinations every 2-3 years, ‘old’ quizzes become obsolete very quickly (i.e., the questions are still valid but the ‘suggested solutions’ are no longer correct).

This year's quizzes

Quiz answers and summary performance statistics will be posted on the course web site on Canvas as soon as the grading has been completed.

Schedule of Assignments

The schedule of assignments begins on the next page. The following is a guide to interpret the schedule of assignments.

- “*Beams et al.*” is a reference to the course textbook, *Advanced Accounting*, 12th Edition, Floyd A. Beams, Joseph H. Anthony, Bruce Bettinghaus, and Kenneth A. Smith (Pearson).
- All course material other than the textbook will be posted on the course web site in Canvas. Note that with regard to the course material, “rev” is a reference to documents authored by Robert E. Verrecchia.
- “**Exercises**” is a reference to exercises and problems in *Beams et al.* For example, “P 6-9” is a reference to Problem 9 at the end of chapter 6 of *Beams et al.* Suggested solutions to all exercises and problems in *Beams et al.* will be posted electronically on the course web site on Canvas. If there are no **Exercises** listed for a particular class, this means that none have been assigned.
- PowerPoint (ppt) slides will be used occasionally to supplement the lecture material (but not always). When I intend to use PowerPoint slides, I will be post them in advance on the course web site in Canvas. But remember that I may not always use them, and so the logical inference from the fact that none are posted for a particular class is that I do not intend to use them.
- Note that I will not test the material on three topics listed in the schedule of assignments:
 1. “Tax Considerations in Mergers,” scheduled for September 6;
 2. “Corporate Liquidations & Reorganizations,” scheduled for September 20;
 3. “Segmental and Interim Financial Reporting,” scheduled for December 6.

These topics are introduced primarily to edify and provide perspective. All other topics covered in the class will be tested at some point in the semester.

Schedule of Assignments

August 30 Class #1	Course Overview 1) <i>Beams et al.</i> , Chapter 1 2) <i>AOL Time Warner Case and Class #1 Exercises</i> , rev	Exercises E 1-3, E 1-4, E 1-5
September 1 Class #2	Business Combinations 1) <i>Beams et al.</i> , Chapter 1 2) <i>Class #2 Exercises</i> , rev	Exercises P 1-1, P 1-3, P-4
September 6 Class #3	Tax Considerations in Mergers 1) <i>Beams et al.</i> , Chapter 10, pp. 335-341	
September 8 Class #4	Stock Investments 1) <i>Beams et al.</i> , Chapter 2 2) <i>Plant, Sun, and Star Exercises #3-6</i> , rev	Exercises E 2-12, P 2-6, P 2-9, P 2-12
September 13 Class #5	Introduction to Consolidated Investments 1) <i>Beams et al.</i> , Chapter 3 2) <i>Control Considerations in Consolidated Investments</i> , rev 3) <i>Class #5 Exercises</i> , rev	Exercises P 3-1, P 3-7, P 3-11
September 15 Class #6	Changes in Stock Ownership 1) <i>Beams et al.</i> , Chapter 8 2) <i>Changes in Stock Ownership</i> , Katherine Daly (WG' 09), 2009	Exercises P 8-2, P 8-3, P 8-4
September 20 Class #7	Corporate Liquidations and Reorganizations 1) <i>Beams et al.</i> , Chapter 18 2) <i>Fresh-Start Accounting: What Is the Implication on Reported Earnings of Companies Emerging from Chapter 11?</i> , Soo Kim (WG '06), 2006 3) Quiz #1 (2015)	
September 22 Class #8	Quiz #1: Beams, et al. , Chapters 1-3	
September 27 Class #9	Consolidation Techniques and Procedures 1) <i>Beams et al.</i> , Chapter 4, pp. 99-111 2) <i>Working Paper Adjustments</i> , rev	Exercises P 4-6, P 4-9, P 4-11

Schedule of Assignments

September 29 Class #10	Intercompany Transactions – Inventories 1) <i>Beams et al.</i> , Chapter 5 2) <i>Intercompany Transactions-Inventories</i> , rev	Exercises P 5-1, P 5-4, P 5-9
October 4 Class #11	Intercompany Transactions – Depreciable and Non-depreciable Assets 1) <i>Beams et al.</i> , Chapter 6 2) <i>Intercompany Transactions-Depreciable and Nondepreciable Assets</i> , rev 3) <i>Class #11 Exercises</i> , rev	Exercises P 6-1, P 6-6, P 6-9
October 6 No Class!	Official Fall Break	
October 11 Class #12	Preferred Stock, EPS, Consolidated EPS 1) <i>Beams et al.</i> , Chapter 10, pp. 309-320 2) <i>Preferred Stock, Earnings Per Share (EPS), and EPS Considerations in Business Combinations</i> , rev	Exercises P 10-2, P 10-6, P 10-9
October 13 Class #13	Cross-Holdings 1) <i>Beams et al.</i> , Chapter 9 2) <i>Complex affiliations</i> , rev	Exercises P 9-1, P 9-3, P 9-6
October 18 Class #14	Derivatives and Foreign Currency 1) <i>Beams et al.</i> , Chapters 12 and 13 2) Quiz #2 (2015)	Exercises P 13-5, P 13-6, P 13-8
October 20 Class #15	Quiz #2: <i>Beams et al.</i> , Chapters 1-5	
October 25 Class #16	Foreign Currency Translation 1) <i>Beams et al.</i> , Chapter 14 2) <i>Foreign Currency Translations and Remeasurements</i> , rev	Exercises P 14-1, P 14-9
October 27 Class #17	Foreign Currency Remeasurement 1) <i>Beams et al.</i> , Chapter 14 2) <i>Foreign Currency Remeasurements</i> , rev	Exercises P 14-5, P 14-6

Schedule of Assignments

November 1 Class #18	Review for Quiz #3 1) Quiz #3 (2015)	
November 3 Class #19	Quiz #3: <i>Beams et al.</i> , Chapters 12-14 and Cross-Holdings (Class #13)	
November 8 Class #20	Intercompany Transactions – Debt 1) <i>Beams et al.</i> , Chapter 7 2) <i>Intercompany Transactions-Debt</i> , rev	Exercises P 7-1, P 7-3, P 7-6
November 10 Class #21	Interpreting Consolidated Data 1) <i>Beams et al.</i> , Chapter 7 2) <i>Interpreting Consolidated Data</i> , rev	Exercises P 7-4
November 15 Class #22	Review for Quiz #4 1) Quiz #4 (2015)	
November 17 Class #23	Quiz #4: <i>Beams et al.</i> , Chapters 5-7 and EPS (Class #12)	
November 22 Class #24	TBA	
November 24 No Class!	Thanksgiving Break	
November 29 Class #25	Capstone Cases 1) <i>Capstone Cases</i> , rev	
December 1 Class #26	Review for Quiz #5 1) Quiz #5 (2015)	
December 6 Class #27	Segmental and Interim Financial Reporting <i>Beams et al.</i> , Chapter 15	
December 8 Class #28	Quiz #5: <i>Beams et al.</i> , Chapters 5-7 and Changes in Stock Ownership (Class #6)	