

ACCT 743 (243)
Accounting for Mergers, Acquisitions, and Complex Financial Structures
Fall Semester 2017

Aut disce aut discede (either learn or depart)

Instructor

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Office Hours: From August 29-October 10 by appointment only; starting October 12, any Tuesday or Thursday from 10am-12noon.

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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 shall 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*, 13th Edition, by Floyd A. Beams, Joseph H. Anthony, Bruce Bettinghaus, and Kenneth 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.

It is impossible for the course material posted on Canvas to be as comprehensive as a textbook, and so students are encouraged to secure a textbook as a reference. Two less expensive alternatives to purchasing a current (13th) edition of the textbook include: 1) purchase an earlier edition (e.g., the 11th and 12th editions of this textbook closely approximate the 13th edition); and 2) borrow the text from Lippincott Library (Lippincott typically has a few copies of the textbook available for loan).

Office Hours

From August 29-October 10 I am simultaneously teaching both ACCT 743 (243) and ACCT 612: this means that my schedule is complicated. That said, I am more-than-happy to arrange to meet with students at a time that is convenient: all I require is that you contact me in advance to work out a time. *Note that 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 shall 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 shall 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 shall 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 shall be substituted. A “Class C” conflict is anything deemed avoidable or frivolous. In this event a student shall be assigned a score of zero for that quiz.

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

Second, occasionally I will assign students the task of presenting and explaining in class the solutions to the exercises. There is no additional credit for this; rather, a severe penalty shall be assessed for shirking and/or poor performance. I will notify students of these assignments either in person or through e-mail.

Paths to Receive Course Credit

There are 3 paths to receive course credit. *First*, take all 5 scheduled quizzes and demonstrate competency with the quiz material. *Second*, take the first 4 scheduled quizzes, demonstrate competency with the course material, and do a project in lieu of the 5th quiz. *Third*, register for

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

ACCT 743 (243) under the auspices of “pass/fail,” take *any* 3 of the first 4 quizzes, and demonstrate competency with the quiz material. Under the third (“pass/fail”) option where a student only takes 3 quizzes, showing competency shall result in a grade of “D”; this, in turn, shall 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 at least 4 quizzes.

My current thoughts are to only allow ACCT 743 registrants the opportunity to do a project in lieu of the 5th quiz, and only in circumstances where they can make a compelling case that a project will benefit their career path (e.g., they plan to work in a specific industry whose accounting they would like to study in greater detail).

Grade distribution

The grade distribution shall be determined as follows. First, all ACCT 743 registrants shall 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 shall be put in second pool; the grade distribution for the pool shall 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 shall 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 xil@wharton.upenn.edu, and then drop off his or her quiz with the grader by putting it in the mailbox of **R.Zhang** in the Accounting Suite (1300 SH-DH). If it appears that a student is making persistent, and frivolous, re-grading requests, he or she shall be prohibited from making additional requests.

Prior years’ quizzes

Before each quiz I shall make available and review in class the corresponding quiz that I used in 2016. 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 shall 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*, 13th Edition, Floyd A. Beams, Joseph H. Anthony, Bruce Bettinghaus, and Kenneth 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 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 12;
 2. “Corporate Liquidations & Reorganizations,” scheduled for September 28;
 3. “Segmental and Interim Financial Reporting,” scheduled for December 5.

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 29 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
August 31 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 5 Class #3	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 7 Class #4	Introduction to Consolidated Investments 1) <i>Beams et al.</i> , Chapter 3 2) <i>Control Considerations in Consolidated Investments</i> , rev 3) <i>Class #4 Exercises</i> , rev	Exercises P 3-1, P 3-7, P 3-11
September 12 Class #5	Tax Considerations in Mergers 1) <i>Beams et al.</i> , Chapter 10, pp. 335-341 2) Quiz #1 (2016)	
September 14 Class #6	Quiz #1: Beams, et al. , Chapters 1-3	
September 19 Class #7	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
September 21 Class #8	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
September 26 Class #9	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 #9 Exercises</i> , rev	Exercises P 6-1, P 6-6, P 6-9

Schedule of Assignments

September 28 Class #10	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 #2 (2016)	
October 3 Class #11	Quiz #2: <i>Beams, et al.</i> , Chapters 1-6	
October 5	Official Fall Break – NO CLASS!	
October 10 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 12 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 17 Class #14	Changes in Stock Ownership 1) <i>Beams et al.</i> , Chapter 8 2) <i>Changes in Stock Ownership</i> , Katherine Daly (WG' 09), 2009 3) <i>Venezuela Devaluations</i>	Exercises P 8-2, P 8-3, P 8-4
October 19 Class #15	Derivatives and Foreign Currency 1) <i>Beams et al.</i> , Chapters 12 and 13 2) <i>How the Pound's Plunge 'Cost' AB InBev \$13 Billion</i>	Exercises P 13-5, P 13-6, P 13-8
October 24 Class #16	Foreign Currency Translation 1) <i>Beams et al.</i> , Chapter 14 2) <i>Foreign Currency Translations and Remeasurements</i> , rev 3) <i>Argentina's Much-Needed Devaluation...</i>	Exercises P 14-1, P 14-9
October 26 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

October 31 Class #18	Review for Quiz #3 1) Quiz #3 (2016)	
November 2 Class #19	Quiz #3: <i>Beams et al.</i> , Chapters 12-14 and Cross-Holdings (Class #13)	
November 7 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 9 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 14 Class #22	Review for Quiz #4 1) Quiz #4 (2016)	
November 16 Class #23	Quiz #4: <i>Beams et al.</i> , Chapters 5-7 and EPS (Class #12)	
November 21 Class #24	TBA	
November 23 No Class!	Thanksgiving Break	
November 28 Class #25	Capstone Cases 1) <i>Capstone Cases</i> , rev 2) <i>Financial Restatement Trends...</i>	
November 30 Class #26	Review for Quiz #5 1) Quiz #5 (2016)	
December 5 Class #27	Segmental and Interim Financial Reporting <i>Beams et al.</i> , Chapter 15	
December 7 Class #28	Quiz #5: <i>Beams et al.</i> , Chapters 5-7 and Changes in Stock Ownership (Class #14)	