

Syllabus: Financial Statement and Disclosure Analysis

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Spring 2018

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.

Course Materials

All course materials are located on the course Canvas site. This site includes all cases, solutions, PowerPoint slides, spreadsheets, and articles on each topic. There is no textbook for this course. 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 tablet to class, as we will often work on spreadsheets during class time.

We will also do polling on Poll Everywhere in every class (www.polleverywhere.com), which you can do with any device. Please create an account with your Wharton email and sign up with my course group at <http://bit.ly/2018ACCT747> . I will use these polls to track attendance, so it is very important that you sign up with the course group.

Guest Speaker

On February 5, 2018, 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.

Grading

Your course grade will be determined as follows:

Class Participation	20%
Project #1	30%
Take-home exam	25%
<u>Project #2</u>	<u>25%</u>
Total	100%

Class participation: Woody Allen once said, “Showing up is 80% of life.” In my class, it is 20% of the grade. In each class, we will do in-class exercises in which you will work in small groups or we will do in-class polling in case discussions. You will receive class participation credit for participating in these exercises as long as you answer the in-class poll question during class (or sign in at the front of the room if you miss the poll). I will award additional points for raising any comment or question that positively contributes to the class discussion

Take-Home Exam: Due Wednesday, March 28 at 11:59 pm

This exam will only cover the module on tools for analyzing voluntary disclosures (the class sessions from 2/26 to 3/21). 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.

Overview of projects: There are two projects required for the course. You can work on the projects individually or in groups of up to six 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 21 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 25 at 11:59 pm

This project will cover the tools for analyzing companies’ interactions with outsiders. Students will focus on one of the interactions 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 2018

Date	Topic
W 01/10	Course Introduction
M 01/15	No Class: MLK Day
W 01/17	Earnings Management Incentives
M 01/22	Ratio Analysis
W 01/24	Earnings Measures: Pro Forma vs. GAAP
M 01/29	Revenue Recognition Red Flags
W 01/31	Expense Recognition Red Flags
M 02/05	Guest Speaker: Marc Siegel, FASB
W 02/07	Discretionary Accruals Models
M 02/12	Discretionary Expenditure Models
W 02/14	Fraud Prediction Models
M 02/19	No class: Work on Project #1
W 02/21	No class: Project #1 Due
M 02/26	Voluntary Disclosure Incentives
W 02/28	Management Forecasts
M 03/05	No class: Spring Break
W 03/07	No class: Spring Break
M 03/12	Textual Analysis of Written Disclosures
W 03/14	Conference calls and Voice Analysis
M 03/19	Social Media
W 03/21	Managerial Red Flags
M 03/26	No class: Work on Take-Home Exam
W 03/28	No class: Work on Take-Home Exam
M 04/02	Investor Relations
W 04/04	Interactions with Analysts
M 04/09	Interactions with Auditors
W 04/11	Interactions with the SEC: Comment Letters and Insider Trading
M 04/16	Interactions with the Media and Shorts
W 04/18	Interactions with the FASB: Lobbying
M 04/23	No class: Work on Project #2
W 04/25	No class: Project #2 Due