

Syllabus: Financial Disclosure Analytics

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Summer 2019

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 this 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.

While the focus of the course is on outsiders who are trying to understand a company’s performance through its financial disclosures, the course is also useful to students who aspire to be CEO of their own company someday. CEOs have to evaluate other companies as part of strategic decisions such as customer/supplier relationships and acquisitions. This course will help you assess whether the other company’s performance may be too good to be true. Moreover, this class will help future CEOs understand how outsiders will evaluate their financial disclosures, and hence their performance. In addition to providing guidance on pitfalls that CEOs should avoid in their disclosures, the tools of the course would also be helpful for spotting fraud within a company; e.g., at the division level.

Course Materials

All course materials are located on the course Canvas site. This site includes all cases, solutions, PowerPoint slides, and spreadsheets for 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/>), which you should be able to access with your Wharton username.

You are encouraged to bring a laptop or tablet to class, as we will often work on spreadsheets during class time. We will also occasionally do polling on Poll Everywhere in class.

Class Preparation

This course will involve no advance preparation. During each class, we will first discuss all of the analysis tools and red flags that have been developed in academic research. Then, you will work in small groups on in-class exercises or we will do in-class polling. We will debrief the exercises to cement the learning for the class. Then, you will get another chance to apply the tools in the quiz, project, and exam.

While you are encouraged to ask questions during class, I will not grade class participation.

Grading

Your course grade will be determined as follows:

Take-home quiz	20%
Project	40%
Take-home exam	40%
Total	<u>100%</u>

Take-Home Quiz: Due Tuesday, July 9 at 11:59 pm

This quiz will only cover the material in Classes 1-2. The exam will be administered on Canvas and will be multiple choice, with no time limit for completion. You must work on the exam individually. More details will be provided as the time gets closer.

Project: Due Sunday, August 4 at 11:59 pm

This project will cover the tools for analyzing financial statements covered in Classes 1-3. You will choose a company to analyze and apply the tools from these classes to identify any red flags that indicate aggressive reporting. Then, you will examine the financial statements to identify the source of the aggressive reporting. You can work on the project individually or in groups of up to four students. More specifics will be provided in the Project Instructions on Canvas.

Take-Home Exam: Due Sunday, August 18 at 11:59 pm

This exam will only cover the material in Classes 3-6. The exam will be administered on Canvas and will be multiple choice, with no time limit for completion. You must work on the exam individually. More details will be provided as the time gets closer.

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 Summer 2019

Class	Date / Time	Topic	In-class Material
1	June 28 2:00 – 5:00	Course Intro and Ratio Analysis	Plainview Technology F-score example
		Earnings Management and Fraud Prediction	Blind Résumés M-score example Benford's Law example
2	June 29 9:00 – 12:00	Revenue Recognition Red Flags	Name that Revenue Sunbeam, Microsoft
		Expense Recognition Red Flags	Find the Hat DNA, Scholastic, Cisco
	July 9	Take-home quiz due	
3	July 11 9:30 – 12:30	Discretionary Accruals	CSI: SEC 3M example I Microsoft (again)
		Discretionary Expenditures	Where's Waldo 3M example II
4	July 12 1:00 – 4:00	Voluntary Disclosure and Management Forecasts	Guess the Number
		Textual Analysis	Disguised Compendia
	August 4	Group project due	
5	August 9 5:15 – 7:15	Conference calls and Voice Analysis	JP Morgan
		Managerial Red Flags	-
6	August 10 9:00 – 12:00	Investor Relations	Pack Your Bags
		Analyst Relations	Stop in the Name of Love?
		SEC Comment Letters and Course Wrap-up	-
	August 18	Take-home exam due	