

Syllabus: Financial Disclosure Analytics

Professor Brian Bushee

Summer 2022

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 are encouraged to bring a laptop or tablet to class, as we will often work on spreadsheets during class time. You will also need a device to do in-class polls.

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. Finally, you will get more chances to apply the tools on the post-class quizzes and the exams.

Grading

Your course grade will be determined as follows:

Class attendance	14%
Post-class quizzes	20%
Take-home exam I	33%
Take-home exam II	33%
Total	<u>100%</u>

Class attendance:

This part of the grade is solely based on attending class. In every session, we will do breakout group exercises. The most effective way to learn the class content is to try to apply it yourself, followed by a debrief of what went wrong. Thus, I put a high value on simply coming to class to participate in these exercises.

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

Post-class Quizzes

After each class, I will post a short (two-question!) quiz on Canvas that reviews a key point from each of that classes' two topics. You will have until Monday night at 10:00 pm PDT to complete the quiz. You will also have multiple attempts; I will keep the highest score across the two attempts.

Take-Home Quiz: Due Saturday, June 11 at 10:00 pm PDT

This exam will cover the material in Classes 1-3. 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.

Take-Home Exam: Due Saturday, June 25 at 10:00 pm PDT

This exam will cover the material in Classes 4-6. 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 grading of the exam.

ACCT 7470: Topic Schedule Summer 2022

Class	Date / Time	Topic	In-class Material
1	May 19 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	May 20 9:00 – 12:00	Revenue Recognition Red Flags	Name that Revenue Sunbeam, Microsoft
		Expense Recognition Red Flags	Find the Hat DNA, Scholastic, Cisco
	May 23	Post-class quizzes due for classes 1-2	
3	June 3 2:00 – 5:00	Discretionary Accruals	CSI: SEC 3M example I Microsoft (again)
		Discretionary Expenditures	Where's Waldo 3M example II
4	June 4 9:00 – 12:00	Voluntary Disclosure and Textual Analysis	Survey Says Disguised Compendia
		Conference calls and Voice Analysis	JP Morgan
	June 6	Post-class quizzes due for classes 3-4	
	June 11	Take-home exam I due	
5	June 17 9:30 – 12:30	Social Media and Alternative Data	Live Case
		Managerial Red Flags	C.E.Uh-Oh
6	June 18 1:00 – 4:00	Investor Relations and Analysts Relations	Pack Your Bags Stop! In the Name of Love?
		SEC Comment Letters, Insider Trading, and Course Wrap-up	May the Form 4 be With You
	June 20	Post-class quizzes due for classes 5-6	
	June 25	Take-home exam II due	