Accounting 2420 / 7420
Fall 2022   SYLLABUS – Preliminary

Note: The syllabus will be updated as the semester goes along

Professor Richard Lambert   Office: 1307 SH-DH
lambertr@wharton.upenn.edu   Phone: 215-898-7782

Course Delivery

The plan is to teach this class in live and in person, just like in the old days. If circumstances change, we'll adapt as necessary.

Masks are not required. However, people are encouraged to wear masks if they desire.
No eating in the classroom is allowed! If circumstances change, we'll adapt as necessary.

Course Overview

Financial statements are a primary means for firms to communicate information about their performance and strategy to investors and other groups. Financial data is employed in a multitude of analytical research and decision-making contexts such as equity valuation, bankruptcy prediction, acquisition decisions, and managerial performance assessments. In order for the data to be used effectively, however, the nature of the data itself must be understood.

In this course, students learn how to analyze firm's financial statements and related disclosures to strengthen students' ability to assess the firm's strategy and valuation. We emphasize (i) the links between financial statement data and the underlying economics of the firms (economic activities and their financial consequences), (ii) what financial statements do and do not contain, and (iii) the types of discretion managers have in presenting transactions they have undertaken. This course is designed to help you become a more informed user of accounting numbers by increasing your ability to extract, interpret, and analyze information in financial statements.

While this is not a course in equity valuation *per se*, equity valuation is one of the most common uses of financial statement data. Accordingly, we will focus on two of the most important issues in valuation: information related to profitability (or cash flow) and information related to risk. In the former case, we will talk about the properties of alternative performance measures (like accounting net income, free cash flow, EBITDA, EVA), and we'll also talk about empirical evidence on how these measures relate to values and forecasting future financial statement data (like future cash flows). In the latter case, we look at assessing the capital structure, especially hard

to measure aspects of a firm's liabilities or debt. We will also study the use of financial ratios in assessing performance and in models of distress prediction.

To meet the course objectives, we will rely extensively on case studies involving the financial disclosures of actual companies. We will also make use of spreadsheet models and larger data sets to conduct larger-scale analysis.

The course assumes a solid understanding of basic financial accounting (at the level of Accounting 101). A course in finance (discounted cash flow models, weighted average cost of capital, option pricing models), will also be helpful, but not required. Some exposure to probability and statistics will also be helpful.

Course Materials

Text: Wahlen, Baginski, and Bradshaw, *Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective*, 10th Edition, Cengage, 2023. The text is highly recommended.

Canvas: Additional material (slides, solutions, spreadsheets, outside readings) are available on the Canvas site associated with the course.

More about Canvas

The course has a site on Canvas. The ASSIGNMENTS folder provides links to the notes, readings, cases, etc. for each class session. Within the FILES folder is all the Course Material. There is a sub-folder for each class session, as well as one for the syllabus and the exams. Inside the folder for a given class session, you will see three or four subfolders:

Notes and Readings: This includes notes, problems, cases, and readings that were included in the bulk pack.

Pre Class Material: New readings, problems, and cases (ones not included in the course pack) are contained here. This folder will also have any spreadsheets available to help work the problems and cases. Finally, this folder will contain power point slides that will be constitute the outline of what we'll cover in class that day. Many students find that printing out the slides before class helps them follow along better. Two to three slides per page is a good compromise between not using up too much paper and having room to jot down notes.

Solutions and Post Class Material: This is where I'll post solutions, corrections, etc

Old Quizzes and Solutions

Teaching Assistant

Minji Yoo   Email: minjiyoo@wharton.upenn.edu

Office Hours

Office hour are TBA

E-mail is the easiest and quickest way to get your questions answered.

Grading and Course Requirements

Your grade for the course will be determined on the basis of:

Class Participation	10 %
Quiz Assignments (4)	90 %
Total	100 %

Class Participation

The amount of learning that takes place in the course goes up when there is more participation. Good participation can be through asking good questions, answering questions, and adding helpful "anecdotes" or "experiences" related to the topics we're talking about in class. Class participation grades are based on what you add to the learning experience of the entire class. Simply talking a lot, or asking "too many" questions does not add to others' learning experience, and will not be rewarded.

Quizzes

There will be 4 Quizzes spaced throughout the semester. Quizzes are to be done individually. They are "take home," and are, of course, therefore open-book and open-notes. Each one will be similar in spirit to the practice problems and cases we do each day. Each quiz focuses on a small number of the topics we will have covered. While they are not computationally intensive, there will be some computations!

There will be typically be a multi-day window of time when you can choose to take each quiz. Once you start it, you'll have time limit (say 24 to 48 hours, depending on the Quiz) to turn in your answers.

The assignments will be done via the Gradescope feature of Canvas. This allows us to give exams comparable to "on paper" exams. Calculations and work can be show and partial credit can be awarded. You'll turn in your answers electronically; no hard copies are accepted.

Questions and solutions from prior quizzes and exams (some of which were much longer quizzes) will be available on Canvas. Please be aware that the sequence of topics is not always the same from semester to semester. Therefore, it is possible that there are topics we are covering on, say, Quiz #1 this year, that were on a different quiz number in prior years, or may not have been on either one.

Re-Grading Requests

All re-grading requests must be made within *two calendar weeks* following the return of the assignment or exam (unless otherwise noted). *A request for a regrade will not be considered if it is submitted more than two weeks after the return of the assignment or exam (or after the specified deadline).* **The Gradescope feature of Canvas we will be using has an explicit re-grade feature built into it. Please use this.**

Calendar

This is a combined undergraduate / MBA class. Unfortunately, the academic calendars for the two groups are not the same. We will be following the MBA calendar.

For undergraduates: note the following changes

- The first day of class is Monday August 28th (earlier than the undergraduate semester starts)

- There are no classes the week of Thanksgiving (the undergraduate calendar has classes scheduled for Monday)

- There are no classes on October 12th, 17th, or 19th. This is an MBA Core Exam / Opportunity week. Undergraduates have classes scheduled on those days. I will post recorded videos of additional topics for those class sessions. These topics will not be tested on any of the quizzes.

Preliminary Course Outline

Session	Date	Topic	Problem/Case
1	Mon Aug 29	Introduction	Allergan, Barrick Gold
2	Wed Aug 31	Earnings Quality – Non-recurring Items	Corbomax
3	Wed Sept 7	Shifting Emphasis From Equity to Enterprise	Oracle, Vulcan Part 1
4	Mon Sept 12	Cash Flow Statement	Alpha and Beta Epsilon and Omega
5	Wed Sept 14	Free Cash Flow	Oracle, Which Measure of FCF Works, FCF With a Terminal Value
6	Mon Sept 19	Forecasting and Dynamic Relationships	Walmart
		OPERATING ACTIVITIES	
7	Wed Sept 21	Revenue Recognition **Quiz # 1 Due**	Tenet Healthcare Workday Inc
8	Mon Sept 26	Margins and Segments	Vulcan, Procter and Gamble
9	Wed Sept 28	Stock Based Compensation	Intuitive Surgical
10	Mon Oct 3	Income Taxes	Alphabet
11	Wed Oct 5	Earnings Per Share and Dilution	Ciber
		INVESTING ACTIVITIES	
12	Mon Oct 10	CAPEX and Depreciation	Land Securities
	Wed Oct 12	**UNDERGRADS ONLY – Option Valuation**	Intuitive Surgical
	Mon Oct 17	**UNDERGRADS ONLY – Governance and Compensation**	Abercrombie and Fitch
	Wed Oct 19	**UNDERGRADS ONLY – Detecting Earnings Management**	
13	Mon Oct 24	Investments in Intangibles	Pfizer
14	Wed Oct 26	Acquisitions and Noncontrolling Interests **Quiz # 2 Due**	Coke, Alza
15	Mon Oct 31	Complex Organizational Structures – SPE's and VIE's	TBA
16	Wed Nov 2	EVA and Accounting Based Valuation	TBA
		FINANCIAL ASSETS AND CLAIMS	
17	Mon Nov 7	Investments in Financial Assets	Berkshire Hathaway
18	Wed Nov 9	Long Term Debt – Book Value & Mkt Value **Quiz # 3 Due**	Royal Bank of Scotland Delta Energy
19	Mon Nov 14	EBITDA and Multiples Based Valuation	Toys R Us, Vega Valuation
20	Wed Nov 16	Leases	Intel, CVS

	Mon Nov 21	**NO CLASS – Thanksgiving Break**	
	Wed Nov 23	**NO CLASS – Thanksgiving Break**	
21	Mon Nov 28	Pensions	Walt Disney
22	Wed Nov 30	Derivatives	Southwest Airlines
23	Mon Dec 5	Bankruptcy Prediction Models	TBA
24	Wed Dec 7	Summary	
		Finals Week – Quiz 4 Due	