

Accounting 742: Financial Reporting & Business Analysis

Course Overview

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. For example, effectively using a firm's quantitative history of reported sales revenue in forming forecasts of future cash flows requires an understanding of how the firm defines (i.e., measures) sales revenue. Accounting 742 is designed to increase your ability to understand and utilize the financial data provided in financial statements.

The primary focus will be on developing your ability to engage in accounting analysis, which is the process of assessing how the financial metrics reflect the underlying economic constructs of interest, as well as your ability to utilize or transform the financial data to gain insight into a firm's underlying business strategy, economic performance, and future outlook. For example, after taking this course, you should be able to use the disclosures in a firm's financial report to determine its accounting practices for a particular type of transaction and be able to determine how that policy choice affects its primary financial statements. Given your understanding of the drivers of the statements, you should be able to assess what, if anything, those statements communicate about the effectiveness of the firm's strategy, the firm's underlying economic performance, and the firm's future outlook. Furthermore, you should be able to recast the firm's financial statements to reflect accounting practices that you believe are intrinsically superior or that facilitate more meaningful comparisons with peer firms.

To meet the course objectives, we will rely extensively on case studies involving the financial disclosures of actual companies. Hence, this course is a case-based, as opposed to textbook-based course. Many of the cases are selected to illustrate that significant accounting analysis issues can arise from new organizational and technological innovations. For example, new derivative instruments, securitization vehicles, organizational forms, and intellectual property have all created challenging accounting issues.

Note: If you found your introductory accounting course extremely challenging and/or stressful, you might consider taking ACCT 742 as a pass/fail course. If you do, keep in mind that pass/fail does not mean guaranteed pass. You still have to do the work.

Preparation and Performance, Midterm, Exam, and Project

Class Preparation and Participation

Prior to almost all classes, you will be expected to read through a case, perhaps watch a video, and complete some class preparation questions. The goal of the class preparation questions is simple – to induce you to read and think about the material to be discussed in class. Note that the class discussion will build off of the class preparation questions. To obtain credit, you must complete the preparation materials when they are due. No exceptions.

In most instances, the case studies will rely heavily on verbatim excerpts from the actual financial filings (e.g., 10-K reports and 8-K press releases). For those of you who are more comfortable dealing with textbook like problems or highly polished and sanitized cases, dealing with the source material directly will prove frustrating and maddening at times. Unfortunately, that is the way it is when you leave the cloistered halls of academe. By actively engaging in the learning-by-dong (or, in some instances, learning-by-suffering) exercises provided by the cases, however, you will become more comfortable working with real financial statement data.

Midterm and Final

There will be one midterm during the semester and a final exam during the exam period. Exams will be delivered online during a time-constrained examination window. You can use any written reference resources including your notes, GAAP guides, textbooks, websites, etc. during the exams, but you must work alone on the exams.

Required Project

All students will prepare a brief accounting analysis for a particular company with a group of 2 to 4 fellow students (each group can have no less than 2 and no more than 4 students – no exceptions). All groups will analyze the same company, which will be selected by the instructor. Your analysis will take the form of a business press opinion piece. Hence, you will be expected to adopt a point of view regarding the company's accounting practices and the analysis implications of those practices. More information regarding the project assignment will be made available on Canvas.

Optional Project

If you wish to obtain a B or better grade, or if you are simply interested in applying yourself a bit more, you will prepare an accounting analysis project with a group of 2 to 4 fellow students (each group can have no less than 2 and no more than 4 students – no exceptions). The group you work with on the optional project can differ from that for the required project. You have two project options. Under Option 1, your group will complete a thorough analysis of the financial statements of a company selected by you. Your group, however, should select a company with at least one interesting/contentious accounting issue that has significant consequences for the “look and feel” of the financial statements. Your second option is to identify a current accounting issue being or recently considered by FASB/IASB and to evaluate the issue(s), approaches for resolving those issue(s), and to critique or defend FASB's/IASB's resolution to the issue (if applicable). More information regarding the project assignment will be made available on Canvas.

Grading

A two-tiered grading system is employed in this course. The first tier is for students who wish to focus solely on learning some technical accounting, but who do not want to complete the optional accounting analysis project. The maximum grade attainable for students who do not complete the optional accounting analysis project is a B. The second tier is for students who decide to extend themselves a bit more and, as a consequence, prepare the optional accounting analysis project, which requires the application of technical accounting skills, critical reasoning, and, dare we say, a bit of creativity. The maximum possible grade attainable for students who complete the project is an A. If a student completes the project and does not do well enough to exceed a B or better in the course, that student's final grade will be determined by the maximum of their Tier 1 and Tier 2 grades.

Tier 1 Grade. To obtain a grade up to a maximum of a B, you must obtain at least that grade based upon the following weighting scheme:

Class Preparation and Performance	20%
Midterm	25%
Final Exam	35%
Required Project	20%

Tier 2 Grade. To obtain a B+ or better, you must obtain that grade based upon the following weighting scheme:

Class Preparation and Performance	15%
Midterm	20%
Final Exam	30%
Required Project	10%
Optional Project	25%

Note: To pass the course you must pass the final exam.

Class Materials

Canvas

Class Preparation Materials

In advance of each class you should work through the material required for the pre class quiz associated with that class. The quiz can be found in the assignments tab of the Canvas site. The files associated with each class can be found in the files tab, and there will be a folder for each class. Within each folder will be three subfolders. The subfolder labeled Pre Class Materials will include cases, problems, or teaching notes that should be read prior to class. These items can be linked from the quiz page as well. The subfolder labeled In Class Materials will contain class slides as well as any other material we will cover in class that is not included in the Pre Class Materials. The class slides will be available at 6:00 PM the evening before class. The Post Class Material Subfolder contains material distributed during class, brief technical notes for the cases or problems discussed, and optional readings related to what was covered in class. This material will be made available at the end of the day that the class session is held.

Your Introductory Text or a GAAP Guide

There is no text for the class. Your introductory text can provide a useful reference for some of the material we will cover. You also might find a GAAP guide useful for reference purposes. More than one publisher offers a GAAP Guide (e.g., CCH and Wiley). In general, a GAAP Guide provides a good overview of technical accounting by topic area as well as references to the Accounting Standards Codification (ASC). Note that most students, however, will survive just fine on the class materials and the occasional web search.

FASB Accounting Standards Codification (ASC)

You will also have access to the Financial Accounting Standards Board's (FASB's) searchable accounting standards codification (ASC). The ASC is a great reference for technical accounting, although it is not particularly user-friendly. (It becomes friendlier with use.)

Instructor Availability

You can reach me at my email address, which is pef@upenn.edu. Virtual office hours are by appointment. If you reach out to me and want to meet ASAP, I will endeavor to accommodate you. If I cannot meet immediately, I will try to arrange to speak with you sometime that same day. Virtual office hours will generally be conducted on Zoom unless you request otherwise. I will also be on campus a number of days each week and am happy to meet in person as opposed to virtually.

Accounting 742: Accounting and Business Analysis
Spring 2022
Summary Class Schedule (Tentative)

Session	Day	Date	Topics	Case(s)
1	Tuesday	01/18	An Innovation Principal Financial Statements: Statement of Cash Flows	TACTEC
2	Thursday	01/20	Understanding Financial Reporting for Taxes	MDC
3	Tuesday	01/25	Tax Planning Innovations: The Case of Intellectual Property	Ebix
4	Thursday	01/27	Revenue Recognition Fundamentals	
5	Tuesday	02/01	Revenue Timing: Online Marketplace	eHealth
6	Thursday	02/03	Sales or Subscriptions: Revenue Recognition for Software Services	IT Associates
7	Tuesday	02/08	Consumer Financing and Securitization	Cavco
8	Thursday	02/10	Innovating Beyond GAAP: Non-GAAP Reporting Metrics	Tesla
9	Tuesday	02/15	Expense Recognition Fundamentals	
10	Thursday	02/17	Customer Acquisition Costs	Prepaid Legal
11	Tuesday	02/22	Program Accounting	Boeing
12	Thursday	02/24	Midterm Break	
13	Tuesday	03/15	Debt vs Equity Fundamentals	
14	Thursday	03/17	Long-Term Debt and Fair Value Accounting	MGM
15	Tuesday	03/22	Breaking Old Promises: Pensions and Other Post-Employment Benefits	Musselman Steel
16	Thursday	03/24	Contracts, Commitments, and Contingencies/Leases	Par Pharma/Netflix
17	Tuesday	03/29	Financial Innovations: Derivatives and Hedging	Southwest Airlines
18	Thursday	03/31	Financial Innovations: Crypto Currency	TBA
19	Tuesday	04/05	Organizational Boundaries: Control and Significant Influence	Coca-Cola
20	Thursday	04/07	Organizational Boundaries: Acquired Intangibles	Shaw Group
21	Tuesday	04/12	Organizational Boundaries: Revenue Generation	Mediterranean Express
22	Thursday	04/14	Organizational Boundaries: Coping with R&D Expensing	Alza
23	Tuesday	04/19	Organization Boundaries	Grand Canyon Education
24	Thursday	04/21	Summary and Conclusion	
			Final Exam: TBA	