

Accounting 242

Accounting and Business Analysis

(Tentative Syllabus)

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 242 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 financial metrics reflect the underlying economic constructs of interest, as well as your ability to utilize or transform 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.

The course is roughly divided into three topical areas: revenue recognition, expense recognition, financial transactions, and organizational form. In the revenue recognition section we will consider questions such as: How do software providers record revenues for software contracts and how does that practice influence the analysis of revenues? How should a technology firm that bundles search and cloud services into a single contract record revenues for the various elements of that contract and how does that practice influence perceptions of value? How might a firm's innovative organizational structure interact with its value chain to distort perceptions of its revenue generating capacity? Why might a start-up firm emphasize non-GAAP measures of revenue instead of traditional GAAP measures of revenue recognition, and why might those measures be more useful for analysis purposes? In the expense recognition section, we will consider questions such as: How should a firm account for costs incurred to attract subscribers and how does that influence assessments of firm performance? How do firms in high R&D industries (e.g., biotechnology and pharmaceutical industries), alter their organization structures in response to R&D expense recognition rules? Why are multinational firms with a great deal of intellectual property (e.g., Apple) able to reduce their effective tax rates to levels substantially lower than statutory rates? If the financial transactions section, we will consider questions such as: How are derivative contracts reflected in financial statements, and is it possible to distinguish hedging from speculative activities? How are new digital currency holdings reflected in the financial statements and how do those holdings influence reported performance? Finally, in the organizational form section, we will consider how firms' organization structure decisions affect their reported performance.

Curriculum Requirements

For students who are not completing an Accounting concentration, ACCT 242 can be used to satisfy the 1 CU Technology, Innovation, and Analytics curriculum requirement. Students who are completing an Accounting concentration can use ACCT 242 to satisfy 1 of 3 CUs from a set of electives (ACCT 242, 243, 297, 390 and FIN 207). Note that ACCT 242 cannot be counted towards both requirements.

Preparation and Performance, Homework, Exams, 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. You are welcome to work with others on class preparation materials. 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 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.

Homework

You will be required to complete three homework sets during the course. The first two homework sets are designed to encourage you to be prepared for the first two exams. The third is to reinforce all of the material covered during the course. *You may work on the homework with other students (and are even encouraged to do so). All students, however, must submit their own homework answers.*

Exams

There will be two in-class exams during the semester. The second exam will be somewhat cumulative in the sense that you are responsible for all topic areas covered up to and including that exam, although the topics covered in that exam will be very heavily skewed towards the topics covered after the first exam. To assist you in preparing for the exams, there will be a practice exam posted on Canvas.

Project

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). You have two project options. Under the first option, 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 is available on Canvas.

Grading

Grades will be based upon the following allocation scheme:

Class Preparation and Performance	9%
Homework 1	5%
Homework 2	5%
Homework 3	12%
Exam 1	23%
Exam 2	23%
Project	23%

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 as a Starting Point

There is no text for the class. Your introductory accounting text can provide a useful reference/starting point for some of the material we will cover. Teaching notes will supplement the introductory material for particular cases.

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 most days each week and am happy to meet in person as opposed to virtually.

Accounting 242: Accounting and Business Analysis
Spring 2023
Summary Class Schedule (Tentative)

Session	Day	Date	Topics	Case(s)
1	Thursday	01/12	Introduction	
2	Tuesday	01/17	An Innovation in Financial Statements: Statement of Cash Flows	Wired Wanda's
3	Thursday	01/19	Understanding Financial Reporting for Taxes	MDC
4	Tuesday	01/24	Tax Planning Innovations: The Case of Intellectual Property	Ebix II
5	Thursday	01/26	Revenue Recognition Fundamentals	
6	Tuesday	01/31	Revenue Timing: Online Marketplace	eHealth
7	Thursday	02/02	Reporting Innovations and Comparability: Accounting Policy Changes	Homex
8	Tuesday	02/07	Sales or Subscriptions: Revenue Recognition for Software Services	IT Associates
9	Thursday	02/09	Driving Sales With Consumer Financing	Cavco
10	Tuesday	02/14	Innovating Beyond GAAP: Non GAAP Reporting Metrics	Tesla
11	Thursday	02/16	Expense Recognition Fundamentals	
12	Tuesday	02/21	Customer Acquisition Costs	Prepaid Legal
13	Thursday	02/23	Program Accounting (Hopes and Dreams?)	Boeing
	Friday	02/24	Homework 1 Due (Session 1 to Session 13)	
14	Tuesday	02/28	Exam 1 (Session 1 to Session 13)	
15	Thursday	03/02	Debt vs. Equity Fundamentals	
			Spring Break	
16	Tuesday	03/14	Long-Term Debt and Fair Value Accounting	MGM
17	Thursday	03/16	Breaking Old Promises: Pensions and Other Post-Employment Benefits	Musselman Steel
18	Tuesday	03/21	Contingent Compensation/Earnings Per Share	
19	Thursday	03/23	Contracts, Commitments, and Contingencies/Leases	TBD
20	Tuesday	03/28	Financial Innovations: Derivatives and Hedging	Southwest Airlines
21	Thursday	03/30	Financial Innovations: Crypto Currency	Microstrategy
22	Tuesday	04/04	Organizational Boundaries: Control and Significant Influence	Coca-Cola
23	Thursday	04/06	Organizational Boundaries: Acquired Intangibles	Shaw Group
	Friday	04/07	Homework 2 Due (Emphasis on Session 15 to Session 23)	
24	Tuesday	04/11	Exam 2 (Emphasis on Session 15 to Session 23)	
25	Thursday	04/13	Organizational Boundaries: Revenue Generation	Mediterranean Express
26	Tuesday	04/18	Organizational Boundaries: Coping with R&D Expensing	Alza
27	Thursday	04/20	Organization Boundaries	Grand Canyon Education
28	Tuesday	04/25	Summary and Conclusion	Nobel Instruments
	Wednesday	04/26	Homework 3 Due (Cumulative Homework Exercise)	