

Accounting 242.742

Accounting and Business Analysis

(Subject to Updates)

Course Overview

Financial data is employed in a multitude of 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 242.742 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 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 four topical areas, which often overlap: revenue recognition, expense recognition, organizational form, and financial transactions. With respect to revenue recognition, 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 consideration of expense recognition topics, 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? In the organizational form area, we will consider how firms' organization structure decisions affect their reported performance. Finally, financial transactions questions include: 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?

Prerequisite

A *prerequisite* for ACCT 242.742 is ACCT 101, ACCT 611 or 613, or their equivalent. These courses are the required introductory courses for the UG and MBA programs respectively. If you do not satisfy the prerequisite, you will be highly likely to struggle in the course and, more importantly, you will probably learn little.

UG 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.

Attendance & Preparation, Homework, Exams, and Accounting Analysis

Class Attendance and Preparation

Students are expected to attend and participate in class. Prior to some classes, you might 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 be prepared for class (e.g., know some case facts). ***To obtain credit, you must complete any 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.

Homework

You will be required to complete some homework during the course, which will be delivered via Canvas quizzes. *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. ***To obtain credit, you must complete any homework when it is due.*** No exceptions.

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.

Technology has proven to be a doubled-edged sword for examination purposes, with one edge proving to be sharper than the other. As a consequence, exams will be old school pencil and paper affairs. Exams are open book and open note. No computers/tablets/phones etc. will be permitted so write out or print-out whatever you want in advance. Grading is structured so you will not lose credit for simple arithmetic errors.

Accounting Analysis

To obtain a grade in excess of a B+ (see the grading section below), you must prepare an accounting analysis with up to one other student (i.e., you can complete the project alone or with one other student – no exceptions). The project defines accounting very broadly. In the project you will assess and critique how some entity measures and communicates some economic construct of interest. The entity could be a firm, an educational institution, a sports team, a government organization, etc., and the measure need not be a traditional financial statement metric.

Grading

A two-tiered grading system is employed in this course. The first tier is for students who do not want to complete an accounting analysis exercise. The maximum grade attainable for such students is a B+. The second tier is for students who decide to extend themselves a bit more and prepare an accounting analysis, which requires some critical reasoning, and, dare we say, a bit of creativity. The maximum possible grade attainable for students who complete the accounting analysis is an A. If a student completes the accounting analysis and does not do well enough to exceed a B+ (*an accounting analysis does not guarantee an A- or A!*), that student's final grade will be determined by the maximum of their first and second tier grades with one exception: ***To pass the course, all students must obtain a passing grade based upon the first-tier grade.***

First Tier 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 Attendance & Preparation	10%
Homework	20%
Exam 1	35%
Exam 2	35%

Second Tier Grade. To obtain an A- or A, you must obtain that grade based upon the following weighting scheme:

Class Attendance & Preparation	10%
Homework	20%
Exam 1	23%
Exam 2	24%
Accounting Analysis Exercise	23%

Class Materials

Canvas

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 Material will include cases, problems, or teaching notes that can/should be read prior to class. The subfolder labeled In Class Material will contain class slides as well as any other material we will cover in class that is not in the Pre Class Material subfolder. The class slides will be available at 6:00 PM the evening before class. The Post Class Material Subfolder contains material distributed during class, and brief technical notes for the cases or problems discussed. This material will be made available at the end of the class day.

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 material. Teaching notes will supplement particular cases.

Instructor Availability

You can reach me at my email address, which is pef@upenn.edu. 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. Office hours can be in person (I am generally in the office every week day) or via Zoom.

Accounting 242.742: Accounting and Business Analysis
Spring 2024
Class Schedule

Session	Day	Date	Topics	Case(s)
1	Tuesday	01/16	Introduction	
2	Thursday	01/18	Ratio Analysis/Cash Flows	Wired Wanda's
3	Tuesday	01/23	Understanding Financial Reporting for Taxes	MDC
4	Thursday	01/25	Tax Planning Innovations: The Case of Intellectual Property	Ebix II
5	Tuesday	01/30	Revenue and Expense Recognition Fundamentals	
6	Thursday	02/01	Revenue Timing: Online Marketplace	eHealth
7	Tuesday	02/06	Revenue Timing: Software Services	IT Associates
8	Thursday	02/08	Organizational Boundaries: Revenue Recognition	Mediterranean Express
9	Tuesday	02/13	Expense Timing: Customer Acquisition Costs	Prepaid Legal
10	Thursday	02/15	Expense Timing: Program Accounting	Boeing
11	Tuesday	02/20	Organizational Boundaries: Expense Recognition	Alza
12	Thursday	02/22	Exam 1 MBA Core Exam Period: Tuesday 02/27 through Thursday 02/29 Spring Break: Monday 03/04 to Friday 03/08	
13	Tuesday	03/12	Innovating Beyond GAAP: Non-GAAP Reporting Metrics	Tesla
14	Thursday	03/14	Debt vs. Equity Fundamentals	
15	Tuesday	03/19	Long-Term Debt and Fair Value Accounting	MGM
16	Thursday	03/21	Breaking Old Promises: Pensions and Other Post-Employment Benefits	Musselman Steel
17	Tuesday	03/26	Consumer Financing and Securitization	TBA
18	Thursday	03/28	Contracts, Commitments, & Contingencies/Contingent Compensation	
19	Tuesday	04/02	Financial Innovations: Derivatives and Hedging	Southwest Airlines
20	Thursday	04/04	Financial Innovations: Crypto Currency	Microstrategy
21	Tuesday	04/09	Organizational Boundaries: Control and Significant Influence	Coca-Cola
22	Thursday	04/11	Organizational Boundaries: Acquired Intangibles	Shaw Group
23	Tuesday	04/16	Organization Boundaries: Dominate Customers	Grand Canyon Education
24	Thursday	04/18	Exam 2	