

## **Syllabus: Financial Disclosure Analytics**

**Professor Brian Bushee**

**Spring 2024**

### **Course Overview**

This course is designed to increase your ability to analyze 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. We will draw on research findings that develop a number of techniques or “red flags” that outsiders can use to identify situations when corporate managers are being “aggressive” or deceptive in their financial disclosure. While the focus of the course is on outsiders who are trying to understand a company’s performance, this class will also help future CEOs understand how outsiders evaluate their financial disclosures, and hence their performance.

This course complements ACCT 7420 and FNCE 7070 in the following ways. In ACCT 7420, students learn how to use the detailed footnote disclosures to determine how an accounting policy for a particular type of transaction affects its primary financial statements and reflects the underlying economics of the firm. In ACCT 7470, we collect and analyze data on financial disclosures to identify situations in which managers may be biasing their communications. Once such companies are identified, students could draw on the detailed knowledge from ACCT 7420 to make more informed judgments about how financial statements would need to be adjusted to get a truer picture of the company’s performance and financial position. In FNCE 7070, students learn how to use financial information in debt and equity valuation. In ACCT 7470, our analyses of financial communications will highlight situations where students may need to use caution in using the reported financial information as inputs into valuation models.

### **Course Materials**

All course materials are located on the course Canvas site. This site includes all required cases, solutions, PowerPoint slides, and spreadsheets on each topic.

You may need to retrieve data from WRDS (<https://wrds-web.wharton.upenn.edu/wrds/>), depending on your project choice. Please request an account here: <https://wrds-www.wharton.upenn.edu/register/wharton/>. You will need to use Excel for statistical analysis.

We will also do polling on Poll Everywhere in every class ([www.polleverywhere.com](http://www.polleverywhere.com)). Please create an account with your Wharton email if you haven’t done so already. I will use these polls to track attendance, so it is very important that you answer the polls using your real name.

Finally, electronic devices are allowed in class. You will need them to access Canvas, Poll Everywhere, and Google Forms during class.

## **Grading**

Your course grade will be determined as follows:

Class Attendance	10%
Post-class Quizzes	15%
Project	25%
Take-home exam #1	25%
<u>Take-home exam #2</u>	<u>25%</u>
Total	100%

**Class Attendance:** Although you are encouraged to participate in the class discussion, I will not be awarding any grading credit for class participation. However, I will give you points for attendance as long as you answer the in-class poll question during class.

### **Post-class Quizzes**

After each class, I will post a short (one-question!) quiz on Canvas that reviews a key point from that day's class. You will have until the subsequent Sunday night to complete the quiz. You will also have multiple attempts; I will keep the highest score across the two attempts. I will drop the lowest two quiz scores when computing this grade.

### **Take-Home Exam #1: Due Tuesday, February 27 at 10:00 pm EST**

This exam will cover the module on tools for analyzing financial statements and voluntary disclosure incentives (the class sessions from 1/19 to 2/23). The exam will be administered on Canvas, with no time limit for completion. Students must work on the exam individually.

### **Project: Due Thursday, March 28 at 10:00 pm EDT**

The project allows you to choose your own adventure. You can choose both the type of project that you do and the number of people that you work with. However, there will be different point allocations for your choices to reflect the differences in the amount of work you would need to do personally to complete the project. See the Project Instructions doc for more details.

### **Take-Home Exam #2: Due Thursday, April 25 at 10:00 pm EDT**

This exam will cover the module on tools for analyzing voluntary disclosures and interactions with information intermediaries (the class sessions from 3/14 to 4/20). The exam will be administered on Canvas, with no time limit. Students must work on the exam individually.

**Grading Disputes:** All grading disputes must be appealed within one week following the return of the assignment or exam. To have a project re-graded, please submit a written description of your disagreement with the initial grade. I reserve the right to review the entire project; thus your grade could go up *or* down. For group work, every member of the group must agree to the request for regrade.

**Academic Integrity:** All relevant University policies regarding Academic Integrity must be followed. Please consult the [Code of Academic Integrity](#) for descriptions of prohibited actions. Any violation of the Code could lead to an F grade, and violation of the [MBA Code of Ethics](#) may lead to additional sanctions. When in doubt about what's allowed, please ask!

## ACCT 7470: Topic Schedule Spring 2024

<b>Date</b>			<b>Topic</b>
T	01/16	01	Course Introduction
TH	01/18	02	Earnings Management Incentives
T	01/23	03	Ratio Analysis
TH	01/25	04	Earnings Measures: Pro Forma vs. GAAP
T	01/30	05	Revenue Recognition Red Flags
TH	02/01	06	Expense Recognition Red Flags
T	02/06	07	Discretionary Accruals Models
TH	02/08	08	Discretionary Expenditure Models
T	02/13	09	Fraud Prediction Models
TH	02/15	10	Voluntary Disclosure Incentives
T	02/20	11	Management Forecasts
TH	02/22	12	Optional: Forecasting, Valuation, and Retrieving Data from WRDS
T	02/27		<b>Take-Home Exam #1 Due at 10:00 pm EST</b>
			Spring Break/Opportunity Week
T	03/12	13	Textual Analysis of Written Disclosures
TH	03/14	14	Conference calls and Voice Analysis
T	03/19	15	Social Media and Alternative Data
TH	03/21	16	Managerial Red Flags
T	03/26		<i>No class: Work on Group Project</i>
TH	03/28		<i>No class: Work on Group Project</i>
TH	03/28		<b>Project Due at 10:00 pm EDT</b>
T	04/02	17	Investor Relations
TH	04/04	18	Interactions with Analysts
T	04/09	19	Interactions with Auditors
TH	04/11	20	Interactions with the SEC: Comment Letters and Insider Trading
T	04/16	21	Interactions with the Media and Shorts
TH	04/18	22	Interactions with the FASB: Lobbying
TH	04/25		<b>Take-Home Exam #2 Due at 10:00 pm EDT</b>