



**ACCT 2420 /7420
Financial Reporting
and Business Analysis**

**Accounting 2420 / 7420
Fall 2024 SYLLABUS – Preliminary**

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

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Course Delivery

The course will be offered live and in person, just like in the old days. 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 1010 or 6110/6130). 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: Revsine, Collins, Johnson, Mittelstaedt and Soffer, *Financial Reporting and Analysis*, 8th Edition, McGraw Hill. This 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

Office Hours

Office hours 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	15 %
Quiz/HW (Best 5 of 6)	35 %
Midterm Exam	25 %
<u>Course Project</u>	<u>25 %</u>
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 6 Quizzes spaced throughout the semester. I’ll count your 5 highest scores (based on the percent of the points you got correct for that Quiz). Quizzes are to be done individually. They are “take home,” and are, of course, therefore open-book and open-notes.. Each quiz focuses on a small number of the topics we will have covered since the prior Quiz.

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 4 hours, depending on the Quiz) to turn in your answers.

The Quizzes will likely be done via Canvas. They will largely be computer-graded.

Midterm Exam

The midterm exam will be take home, open-book and open notes. It is to be done individually. Assignments. It will likely be conducted 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.

Project

The Project will involve both analysis of financial reports and valuation calculations. Details will be available prior to the midterm exam. The project will be due during Finals Week; the exact date TBA. Earlier submission is allowed and encouraged!

Chat GPT Policy

You may NOT use Chat GPT or other “AI techniques” on any of the Quizzes, Midterm, or Final Exam.

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).*

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 26th (earlier than the undergraduate semester starts)
- There are no classes on October 9th, 14th, or 16th. This is an MBA Core Exam / Opportunity week. Undergraduates have classes scheduled on those days, but we will not meet

Preliminary Course Outline

<u>Session</u>	<u>Date</u>	<u>Topic</u>	<u>Problem/Case</u>
INTRODUCTION AND REVIEW			
1	Mon Aug 26	Introduction	Allergan, Barrick Gold
2	Wed Aug 28	Valuation Basics (pre-recorded on Canvas)	FCF With a Terminal Value
3	Wed Sept 4	Decomposing Performance – Rates of Return, Income, and Balance Sheets	High G, Vulcan
4	Mon Sept 9	Earnings and Equity Components	Devon Energy, Proctor & Gamble
5	Wed Sept 11	Earnings Per Share and Dilution	Ciber
6	Mon Sept 16	Stock Based Compensation	Intuitive Surgical, Parts 1 and 2
7	Wed Sept 18	Cash Flow Statement	Alpha and Beta Epsilon and Omega
8	Mon Sept 23	Free Cash Flow	Oracle, Which Measure of FCF Works,
9	Wed Sept 25	Forecasting and Valuation	Three Statement Model, Starbucks
OPERATING ACTIVITIES			
10	Mon Sept 30	Earnings Quality – Non-recurring Items	Corbomax
11	Wed Oct 2	Revenue Recognition	Tenet Healthcare Workday Inc
12	Mon Oct 7	Income Taxes	Alphabet
	Wed Oct 9, Mon Oct 14 Wed Oct 16	No Class	
INVESTING ACTIVITIES			
13	Mon Oct 21	CAPEX and Depreciation	Land Securities
14	Wed Oct 23	Investments in Intangibles	Pfizer
15	Mon Oct 28	Acquisitions and VIE's	Coke, Alza
16	Wed Oct 30	Recasting Discounted Cash Flow Models in Terms of Accounting Numbers	TBA
17	Mon Nov 4	Investments in Financial Assets	Berkshire Hathaway
FINANCIAL CLAIMS			
18	Wed Nov 6	Long Term Debt – Book Value & Mkt Value	Royal Bank of Scotland Delta Energy
19	Mon Nov 11	Leases	Intel, CVS
20	Wed Nov 13	Pensions	Walt Disney
21	Mon Nov 18	Derivatives	Southwest Airlines

22	Wed Nov 20	EBITDA and Multiples Based Valuation	Toys R Us, Vega Valuation
23	Mon Nov 25	Segments and Foreign Operations	TBA
		NO CLASS – Thanksgiving Break	
24	Mon Dec 2	Sustainability	
25	Wed Dec 4	Distress Prediction Models	TBA
		Finals Week – Project Due (Date TBA)	