



## ACCT 242 /742 Financial Reporting and Business Analysis

### Accounting 242 / 742 Fall 2019 SYLLABUS – Preliminary

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

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#### **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), 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 (often obtained from WRDS) to conduct larger-scale analysis.

The course assumes a solid understanding of basic financial accounting (at the level of Accounting 101). 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:** Wahlen, Baginski, and Bradshaw, *Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective*, 9<sup>th</sup> Edition, Cengage, 2018. The text is required.

**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

## **Office Hours**

E-mail is often the easiest and quickest way to get your questions answered. Office Hours are by appointment.

## **Grading and Course Requirements**

Your grade for the course will be determined on the basis of :

Class Participation	15 %
In Class Quizzes (2)	45 %
Group Projects (2)	40 %
Total	100 %

### **Class Participation**

The amount of learning that takes place in the course will depend on how active the class discussions are, which is dependent on the amount of preparation you do before class. Class participation will be based on your contribution to the class discussions and analyses, not simply on the amount of time you talk. If necessary, I will cold call students.

Please bring to each class a Name Card, with your name printed in **LARGE LETTERS**. This will facilitate my getting to know your names and my ability to reward you for class participation.

Do not do things in class that are disruptive to your fellow students.

Examples include:

- Entering or leaving the classroom, except in an emergency.
- Eating and drinking (if it's noisy)

I allow students to use electronic devices during class. However, do not distract other students with what you're doing. I reserve the right to rescind this privilege.

## **QUIZZES**

There will be 2 open-book, open-notes, in-class Quizzes during the semester. The quizzes will take the entire class period – they are “large” quizzes.

While the quizzes are officially “cumulative,” the material on each Quiz will be heavily weighted to the material covered since the prior Quiz.

More details on the Quizzes will be provided as we get closer.

Questions and solutions from prior exams (many of which were longer midterm and finals, not shorter quizzes like these) will be available on Canvas. Please be aware that the sequence of topics is not always the same from semester to semester. Therefore, it is possible that there are topics we are covering on, say, Quiz #2 this year that were on midterms in some prior years, finals on other prior years, or may not have been on either one.

## **Group Projects:**

The group projects require your group to analyze a financial reporting / valuation topic.

Groups can be composed of up to 4 students (no exceptions). Groups may contain a mixture of students from my different sections. The groups need not be the same across the two projects, though I suspect most will. Group composition must be finalized and submitted to me in advance. More details about the projects and logistics can be found on Canvas.

Project 1 will require you to analyze the income tax footnotes of a group of firms from two different industries to explain why the effective tax rates are different in two industries and also why they have changed over time. I will supply some of the data (tax footnote tables) and you'll have to acquire the rest (and put it into a spreadsheet format). I'll provide guidance for where to get the data.

Project 2 will require you to compare the performance of different measures (such as Earnings, EBITDA, Free Cash Flow, Sales) in a multiples-based valuation framework. In addition to assessing how the measures do, you'll also look at trying to explain the magnitude of the multiple(s).

## **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).* **To have an assignment or exam re-graded, you must submit the original (with no modifications) and a written description of your disagreement with the initial grade.** Do not just come up to me in class or at my office with your exam and verbally explain what you want regraded.

## Preliminary Course Outline

<u>Session</u>	<u>Date</u>	<u>Topic</u>	<u>Problem/Case</u>
1	Wed Aug 28	Introduction	Barrick Gold
2	Wed Sept 4	Profitability and Ratio Analysis	Vulcan
3	Mon Sept 9	Financial Statement Decompositions and Connections	Oracle, Starbucks
4	Wed Sept 11	Cash Flow Statement	Alpha and Beta Epsilon and Omega
5	Mon Sept 16	Free Cash Flow	Starbucks
6	Wed Sept 18	Detecting Unusual Accruals	Detection Problem
7	Mon Sept 23	Earnings Quality	Corbomax
8	Wed Sept 25	<b>Quiz 1 – In Class</b>	
9	Mon Sept 30	Revenue Recognition	Revenue Recognition Vignettes
10	Wed Oct 2	Revenue and Margins	Tenet Healthcare Workday Inc
11	Mon Oct 7	Stock Based Compensation	Intuitive Surgical- Part 1
12	Wed Oct 9	Income Taxes 1	IBM
		<b>Fall Break</b>	
13	Mon Oct 14	Income Taxes 2	TBA
14	Wed Oct 16	Forecasting Financial Statements	Walmart
15	Mon Oct 21	Capital Investments	Land Securities
16	Wed Oct 23	Intangible Assets	Pfizer
17	Mon Oct 28	<b>No Class – ETR Project Due</b>	
18	Wed Oct 30	Financial Assets	TBA
19	Mon Nov 4	Accounting Based Valuation	TBA
20	Wed Nov 6	Debt and Debt Securities	Royal Bank of Scotland
21	Mon Nov 11	Pensions	Walt Disney
22	Wed Nov 13	EBITDA and Multiples Based Valuation	Toys R Us
23	Mon Nov 18	Stock Based Compensation Valuation	Intuitive Surgical – Part 2 Lattice Valuation Model Netflix
24	Wed Nov 20	<b>Quiz 2 – In Class</b>	
25	Mon Nov 25	Hedging and Risk Disclosures	Southwest Airlines Walt Disney
	Wed Nov 27	NO Class – Thanksgiving Break	
26	Mon Dec 2	Debt Covenants and Distress Prediction	Mattel
27	Wed Dec 4	EPS and Dilution	Ciber
28	Mon Dec 9	Course Summary	None
	Mon Dec 16	Multiples Valuation Project Due	