

Syllabus: Financial Disclosure Analytics

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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 742 and FNCE 728 in the following ways. In ACCT 742, 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 747, 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 742 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 728, students learn how to use financial information in debt and equity valuation. In ACCT 747, 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.

Online Delivery Approach

This course will be delivered online using a “blended” approach. Prior to each class session, you will need to watch 20-30 minutes of pre-recorded videos that cover the basic lecture material. Our synchronous class sessions will then only be 50 minutes. During these sessions, I will answer questions about the videos; present some advanced material and/or show some examples; and have you work on in-class exercises that allow you to apply the material for the day. To ensure that I do not run over the 50 minutes, and to give you the opportunity to watch the videos during the class time, the synchronous sessions will start 30 minutes into the class periods as follows:

9:00 am section -> 9:30 am start to the synchronous session

10:30 am section -> 11:00 am start to the synchronous session

I will be online 15-20 minutes before the start of the session if you want to have an informal chat about whatever!

Course Materials

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

You will also need to retrieve data from WRDS (<https://wrds-web.wharton.upenn.edu/wrds/>), which you should be able to access with your Wharton username and password. You will need to use Excel for statistical analysis.

Guest Speaker

On February 9, we will have a guest speaker, Marc A. Siegel, who is a Partner at Ernst & Young in the Financial Accounting Advisory Services group and serves on the Sustainability Accounting Standards Board (SASB). Marc advises companies on comprehensive disclosure strategies related to all financial and non-financial information they provide both inside and outside of the regulatory filings. Prior to joining EY in 2018, he was one of the seven members of the Financial Accounting Standards Board (FASB). Prior to joining the FASB in 2008, he led the Accounting Research and Analysis team at the RiskMetrics Group in Rockville, Maryland. Prior to its acquisition by RiskMetrics, he was the Director of Research at the Center for Financial Research & Analysis (CFRA). In this capacity, he was responsible for CFRA's proprietary research methodology for identifying hidden risks of business deterioration through forensic financial statement analysis. He started his career with ten years at Arthur Andersen LLP as both an auditor and a financial consultant focusing on litigation support.

Grading

Your course grade will be determined as follows:

Class Attendance	10%
Post-class Quizzes	15%
Group 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 at any point, I will not be awarding any grading credit for class participation. However, I will give you points for attendance. In each class, we will do in-class exercises in which you will work in small groups or we will do in-class polling in case discussions. You will receive class attendance credit for participating in these exercises 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 Thursday, March 4 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 1/21 to 2/25). The exam will be administered on Canvas and will be multiple choice, with no time limit for completion. Students must work on the exam individually.

Group Project: Due Friday, April 2 at 10:00 pm EDT

You can work on this project individually or in groups of up to six students, which may be from the other section. The project will cover the tools for analyzing financial statements and voluntary disclosures (the class sessions from 1/21 to 3/25). Students will choose a company to analyze and apply the tools from these classes to identify any red flags that indicate aggressive reporting. Then, students will examine the financial statements to identify the source of the aggressive reporting.

Take-Home Exam #2: Due Tuesday, May 4 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 3/16 to 4/27). The exam will be administered on Canvas and will be multiple choice, with no time limit for completion. 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.

ACCT 747: Topic Schedule Spring 2020

Date			Topic
TH	01/21	01	Course Introduction
T	01/26	02	Earnings Management Incentives
TH	01/28	03	Ratio Analysis
T	02/02	04	Earnings Measures: Pro Forma vs. GAAP
TH	02/04	05	Revenue Recognition Red Flags
T	02/09	06	Guest Speaker: Marc Siegel
TH	02/11	07	Expense Recognition Red Flags
T	02/16	08	Discretionary Accruals Models
TH	02/18	09	Discretionary Expenditure Models
T	02/23	10	Fraud Prediction Models
TH	02/25	11	Voluntary Disclosure Incentives
T	03/02		<i>No class: Work on Take-Home Exam #1</i>
TH	03/04		No class: Take-Home Exam #1 Due
T	03/09	12	Optional Class: Forecasting and Retrieving Data from WRDS
TH	03/11		No class: Spring Break
T	03/16	13	Management Forecasts
TH	03/18	14	Textual Analysis of Written Disclosures
T	03/23	15	Conference calls and Voice Analysis
TH	03/25	16	Social Media
T	03/30		<i>No class: University student wellness day</i>
TH	04/01		<i>No class: Work on Group Project</i>
F	04/02		Group Project Due
T	04/06	17	Managerial Red Flags
TH	04/08	18	Investor Relations
T	04/13	19	Interactions with Analysts
TH	04/15	20	Interactions with Auditors
T	04/20	21	Interactions with the SEC: Comment Letters and Insider Trading
TH	04/22	22	Interactions with the Media and Shorts
T	04/27	23	Interactions with the FASB: Lobbying
TH	04/29		<i>No class: Work on Take-Home Exam #2</i>
T	05/04		No class: Take-Home Exam #2 Due