



**ACCT 242 /742
Financial Reporting
and Business Analysis**

**Accounting 242 / 742
Fall 2021 SYLLABUS – Preliminary**

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

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Course Delivery

The plan is to teach this class in 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 (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*, 9th 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

This semester, my office hours will be held "virtually." I'll announce office hours later. In the meantime, if you want to discuss things, we can set up a time via Zoom.

We'll use the discussion boards on Canvas to ask and answer questions as well.

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	5 %
Quiz Assignments (4)	60%
Project	<u>35%</u>
Total	100 %

Class Participation

Given the uncertainty surrounding how class will be conducted and how many people will be participating remotely, class participation will not count very much. It's not zero, though, because 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 4 Quizzes spaced throughout the semester. Quizzes are to be done individually. They are "take home," and are, of course, therefore open-book and open-notes. Each one will be similar in spirit to the practice problems and cases we do each day. Each quiz focuses on a small number of the topics we will have covered. While they are not computationally intensive, there will be some computations!

There will be typically be a multi-day window of time when you can choose to take each quiz. One you start it, you'll have time limit (say 90 minutes to 2 hours) to turn in your answers. The assignments will be done via the Canvas "Quiz" feature. You'll turn in your answers electronically; no hard copies are accepted.

Think of the quizzes collectively as being equivalent to two exams, with the problems being done at separate dates instead of all packed into bigger, longer exams.

Questions and solutions from prior quizzes and exams (some of which were much longer quizzes) 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 #1 this year, that were on a different quiz number in prior years, or may not have been on either one.

Project

There will be a Project due at the end of the semester. IT IS TO BE DONE INDIVIDUALLY – NOT IN GROUPS. An electronic copy of your project is to be sent to me by the due date.

The Project will involve more extensive analysis than Quiz problems. Calculations will probably be done using spreadsheets rather than “by hand.” You’ll be given financial statement data from MULTIPLE companies, and you’ll be asked to analyze and/or compare them. Some of the data will be from the financial statements of the companies and some will be from WRDS. You will not have to collect any data yourself (other than extract it from the financial statements provided).

A description of the Project is on Canvas.

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.**

Preliminary Course Outline

<u>Session</u>	<u>Date</u>	<u>Topic</u>	<u>Problem/Case</u>
1	Mon Aug 30	Introduction	Allergan, Barrick Gold
2	Wed Sept 1	Earnings Quality – Non-recurring Items	Corbomax
3	Wed Sept 8	Financial Statement Decompositions and Re-packaging	Oracle, Vulcan Part 1
4	Mon Sept 13	Earnings Per Share and Dilution	Ciber
5	Wed Sept 15	Stock Based Compensation	Intuitive Surgical
6	Mon Sept 20	Cash Flow Statement	Alpha and Beta Epsilon and Omega
7	Wed Sept 22	Free Cash Flow Quiz # 1 Due	Oracle, Which Measure of FCF Works, FCF With a Terminal Value
8	Mon Sept 27	Forecasting and Dynamic Relationships	Walmart
OPERATING ACTIVITIES			
9	Wed Sept 29	Revenue Recognition	Tenet Healthcare Workday Inc
10	Mon Oct 4	Margins and Segments	Vulcan, Procter and Gamble
11	Wed Oct 6	Income Taxes Quiz # 2 Due	Alphabet
INVESTING ACTIVITIES			
12	Mon Oct 11	CAPEX and Depreciation	Land Securities
	Wed Oct 13	UNDERGRADS ONLY – Option Valuation	Intuitive Surgical
	Mon Oct 18	UNDERGRADS ONLY – Governance and Compensation	Abercrombie and Fitch
	Wed Oct 20	UNDERGRADS ONLY – Detecting Earnings Management	
13	Mon Oct 25	Investments in Intangibles	Pfizer
14	Wed Oct 27	Acquisitions and Noncontrolling Interests	Coke, Alza
15	Mon Nov 1	Complex Organizational Structures – SPE's and VIE's	TBA
16	Wed Nov 3	EVA and Accounting Based Valuation Quiz # 3 Due	TBA
FINANCIAL ASSETS AND CLAIMS			
17	Mon Nov 8	Investments in Financial Assets	Berkshire Hathaway
18	Wed Nov 10	Long Term Debt – Book Value & Mkt Value	Royal Bank of Scotland Delta Energy
19	Mon Nov 15	EBITDA and Multiples Based Valuation	Toys R Us, Vega Valuation
20	Wed Nov 17	Leases	Intel, CVS
	Mon Nov 22	NO CLASS – Thanksgiving Break	
	Wed Nov 24	NO CLASS – Thanksgiving Break	

21	Mon Nov 29	Pensions	Walt Disney
22	Wed Dec 1	Derivatives Quiz #4 Due	Southwest Airlines
23	Mon Dec 6	Bankruptcy Prediction Models	TBA
24	Wed Dec 8	Summary	
	Fri Dec 17	Project Due	