

Syllabus: Financial Disclosure Analytics

Professor Brian Bushee

Spring 2022

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.

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 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.

We will also do polling on Poll Everywhere in every class (www.polleverywhere.com). Please create an account with your Wharton email and sign up with my course group at <http://bit.ly/2020ACCT747>. I will use these polls to track attendance, so it is very important that you sign up with the course group.

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%
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 Tuesday, March 1 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 1/20 to 2/24). The exam will be administered on Canvas, with no time limit for completion. Students must work on the exam individually.

Group Project: Due Friday, April 1 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 1/20 to 3/24). 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, April 26 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 3/15 to 4/21). The exam will be administered on Canvas, 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 2022**

Date	Topic
T 01/18	01 Course Introduction
TH 01/20	02 Earnings Management Incentives
T 01/25	03 Ratio Analysis
TH 01/27	04 Earnings Measures: Pro Forma vs. GAAP
T 02/01	05 Revenue Recognition Red Flags
TH 02/03	06 Expense Recognition Red Flags
T 02/08	07 Discretionary Accruals Models
TH 02/10	08 Discretionary Expenditure Models
T 02/15	09 Fraud Prediction Models
TH 02/17	10 Voluntary Disclosure Incentives
T 02/22	11 Management Forecasts
TH 02/24	12 Optional Class: Forecasting and Retrieving Data from WRDS
T 03/01	Take-Home Exam #1 Due at 10:00 pm EST
	Spring Break
T 03/15	13 Textual Analysis of Written Disclosures
TH 03/17	14 Conference calls and Voice Analysis
T 03/22	15 Social Media
TH 03/24	16 Managerial Red Flags
T 03/29	<i>No class: Work on Group Project</i>
TH 03/31	<i>No class: Work on Group Project</i>
F 04/01	Group Project Due at 10:00 pm EDT
T 04/05	17 Investor Relations
TH 04/07	18 Interactions with Analysts
T 04/12	19 Interactions with Auditors
TH 04/14	20 Interactions with the SEC: Comment Letters and Insider Trading
T 04/19	21 Interactions with the Media and Shorts
TH 04/21	22 Interactions with the FASB: Lobbying
T 04/26	Take-Home Exam #2 Due at 10:00 pm EDT