

Accounting 742: Financial Reporting & Business Analysis

(Tentative Syllabus)

Course Overview

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. For example, effectively using a firm's quantitative history of reported sales revenue in forming forecasts of future cash flows requires an understanding of how the firm defines (i.e., measures) sales revenue. Accounting 742 is designed to increase your ability to understand and utilize the financial data provided in financial statements.

The primary focus will be on developing your ability to engage in accounting analysis, which is the process of assessing how the financial metrics reflect the underlying economic constructs of interest, as well as your ability to utilize or transform the financial data to gain insight into a firm's underlying business strategy, economic performance, and future outlook. For example, after taking this course, you should be able to use the disclosures in a firm's financial report to determine its accounting practices for a particular type of transaction and be able to determine how that policy choice affects its primary financial statements. Given your understanding of the drivers of the statements, you should be able to assess what, if anything, those statements communicate about the effectiveness of the firm's strategy, the firm's underlying economic performance, and the firm's future outlook. Furthermore, you should be able to recast the firm's financial statements to reflect accounting practices that you believe are intrinsically superior or that facilitate more meaningful comparisons with peer firms.

To meet the course objectives, we will rely extensively on case studies. Hence, this course is a case-based, as opposed to textbook-based course. Many of the cases are selected to illustrate that significant accounting analysis issues can arise from new organizational and technological innovations. For example, new derivative instruments, securitization vehicles, organizational forms, and intellectual property have all created challenging accounting issues.

In most instances, the case studies will rely heavily on verbatim excerpts from the actual financial filings (e.g., 10-K reports and 8-K press releases). For those of you who are more comfortable dealing with textbook like problems or highly polished and sanitized cases, dealing with the source material directly will prove frustrating and maddening at times. Unfortunately, that is the way it is when you leave the cloistered halls of academe.

Note: If you found your introductory accounting course extremely challenging and/or stressful, and you care about your GPA, you might consider taking ACCT 742 as a pass/fail course. If you do take the course pass/fail, keep in mind that pass/fail does not mean guaranteed pass. You still have to do all the work. No work, no pass.

Deliverables

Class Preparation

Prior to almost all classes, you will be expected to read through a case, perhaps watch a video, and complete some class preparation questions. The goal of the class preparation questions is simple – to induce you to read/view some material to be discussed in class. Note that the class discussion will build off of the class preparation questions, which largely confirm that you have read the material and sometimes give me a bit of feedback as to your level of understanding. To obtain credit, you must complete the preparation materials when they are due. No exceptions. *You may work on the class preparation questions with your fellow students if you wish to do so, but everyone must submit their own answers via the Canvas interface.*

Class Participation

You will also be expected to attend and be engaged in the virtual classes. All students should have their cameras on throughout each class, with the exception of any short breaks.

Homework

There will be homework assigned throughout the course, all of which will be tied to actual financial statement excerpts. The assignments are designed to reinforce your understanding of the more technical and objective aspects of the course material, and doing them will strengthen your ability to digest financial statement disclosures. *You may work on the homework with your fellow students if you wish to do so, but everyone must submit their own homework solution via the Canvas interface.*

Required Accounting Analysis

All students will prepare an analysis and very brief write-up of an accounting practice employed by a particular company. Your deliverable will be in the form of an opinion piece. Hence, you will be expected to adopt a point of view regarding the company's practice and the analysis implications of that practice. This course deliverable is intended to allow you to demonstrate the accounting analysis and reasoning skills you have acquired through the case discussions. More information regarding the assignment will be made available on Canvas. *You may discuss the accounting analysis assignment with your fellow students if you wish to do so, but everyone must submit their own analysis (and hopefully have their own opinions).*

Final

There will be a take-home final exam that will be structured like the homework. The final exam will be based upon a single firm's financial statements and will be equivalent to a three-hour in-class final exam. ***Students must complete the final exam on their own. Hence, you should not discuss the final with anyone but the instructor during the final exam window.***

Grading

Grades will be based upon the following grading scheme:

Class Preparation	12%
Class Participation	12%
Homework	26%
Accounting Analysis Write-Up	25%
Final	25%

Class Materials

Canvas

In advance of each class session, you should work through the material required for the pre class quiz associated with that session. The quiz can be found in the assignments tab of the Canvas site. The files associated with each class can be found in the files tab, and there will be a folder for each class. Within each folder will be three subfolders. The subfolder labeled Pre Class Materials will include cases, problems, or teaching notes that should be read prior to class. These items can be linked from the quiz page as well. The subfolder labeled In Class Materials will contain class slides as well as any other material we will cover in class that is not included in the Pre Class Materials. The class slides will be available by 5:00 PM on the class session date. The Post Class Material Subfolder contains material distributed during class, brief technical notes for the cases or problems discussed, and optional readings related to what was covered in class. This material will be made available by the day after the class session is held.

Other Materials

There is no text for the class. Many cases will have a supplemental teaching note, although those will often be pretty terse and will presume a sound understanding of basic double entry bookkeeping and financial accounting concepts and vocabulary. In the event the case materials are not appropriately pitched, your introductory text can often be a very useful reference. In addition, simple internet searches can also be useful, particularly for looking up definitions of terms.

You will also have access to the Financial Accounting Standards Board's (FASB's) searchable accounting standards codification (ASC). The ASC is a great reference for technical accounting, although it is not particularly user-friendly. (It becomes friendlier with use.)

Instructor Availability

You can reach me at my email address, which is pef@upenn.edu. Virtual office hours are by appointment, and I am quite content to have group office hours and to have office hours in the evening.

Accounting 742: Accounting and Business Analysis
Spring 2023
Summary Class Schedule (Very Tentative)

Session	Day	Date	Topics	Case(s)
1	Tuesday	01/17	Introduction Statement of Cash Flows Ratio Analysis Introduction to Accounting for Income Taxes	Wired Wanda's
2	Tuesday	01/24	Accounting for Income Taxes	EBIX
3	Tuesday	01/31	Revenue Recognition	Rev. Rec. Illustrations
4		02/07	Revenue Recognition Accounting Changes: Estimates and Policies Non-GAAP Metrics	IT Associates Tesla
5		02/14	Expense Recognition	Exp. Rec. Illustrations Boeing
		02/20	Homework 1 Due (Sessions 1 to 5)	
6		02/21	Long-Term Debt Debt vs Equity Commitments Leases	Netflix
		03/16	Accounting Analysis Project Due	
7		03/14	Pensions Long-Term Debt and Fair Value Accounting	Musselman Steel MGM
8		03/21	Risk Management: Securitization Risk Management: Derivatives and Hedging	Cavco Southwest Airlines
9		03/28	Contingencies Intercorporate Investments	Par Pharma Coca-Cola
10		04/04	Intangibles: Acquired via Acquisition Intangibles (?) Homework 2 Due (Sessions 7 to 10)	Shaw MicroStrategy
11		04/11	Organizational Boundaries: Revenue Implications Organizational Boundaries: Expense Implications	Mediterranean Express Alza
12		04/18	Organizational Boundaries	Grand Canyon Education Nobel Instruments
		04/22	Take Home Final Exam Due (Exam will be distributed on 04/20 at 7:00 PM EST and will be due on 4/21 by 11:59 PM EST)	