

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. In the past decade, academic research has made tremendous contributions in identifying situations when corporate managers are being “aggressive” or deceptive in their communications with outsiders. In the course, we will draw on the findings of this research to discuss a number of techniques or “red flags” that outsiders can use to detect potential bias in financial communications.

While the focus of the course is on outsiders who are trying to understand a company’s performance through its financial disclosures, the course is also useful to students who aspire to be CEO of their own company someday. CEOs have to evaluate other companies as part of strategic decisions such as customer/supplier relationships and acquisitions. This course will help you assess whether the other company’s performance may be too good to be true. Moreover, this class will help future CEOs understand how outsiders will evaluate their financial disclosures, and hence their performance. In addition to providing guidance on pitfalls that CEOs should avoid in their disclosures, the tools of the course would also be helpful for spotting fraud within a company; e.g., at the division level.

This course complements ACCT 742 and FNCE 728 in the following ways. In ACCT 742, students learn how to use the detailed footnote disclosures in a company’s annual or quarterly report to determine its accounting policy for a particular type of transaction and how that policy choice both affects its primary financial statements and reflects the underlying economics of the firm. In ACCT 747, we collect and analyze data on financial communications 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, we will not discuss valuation approaches, but 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 cases, solutions, PowerPoint slides, spreadsheets, and articles on each topic. There is no textbook for this course. You will also need to retrieve data from WRDS (<https://wrds-web.wharton.upenn.edu/wrds/>) and use Excel for statistical analysis.

You are highly encouraged to bring a laptop or tablet to class, as we will often work on spreadsheets during class time.

We will also do polling on Poll Everywhere in every class (www.polleverywhere.com), which you can do with any device. 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.

Guest Speaker

On February 17, 2020, 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 Participation	15%
Post-class Quizzes	10%
Group Project	25%
Take-home exam #1	25%
<u>Take-home exam #2</u>	<u>25%</u>
Total	100%

Class participation: Someone once said, “Showing up is 80% of life.” In my class, it is 15% of the grade. 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 participation credit for participating in these exercises as long as you answer the in-class poll question during class (or sign in at the front of the room if you miss the poll). I will award additional points for raising any comment or question that positively contributes to the class discussion.

Post-class Quizzes

After each class, I will post a short quiz on Canvas (generally one question!) 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 three quiz scores when computing this grade.

Take-Home Exam #1: Due Wednesday, February 26 at 10:00 pm

This exam will cover the module on tools for analyzing financial statements (the class sessions from 1/17 to 2/19). 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 3 at 10:00 pm

You can work on this project individually or in groups of up to six students, which may be from other sections. The project will cover the tools for analyzing financial statements and voluntary disclosures (the class sessions from 1/17 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 Wednesday, April 29 at 10:00 pm

This exam will cover the module on tools for analyzing voluntary disclosures and interactions with information intermediaries (the class sessions from 3/2 to 4/24). 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
W 01/15	Course Introduction
W 01/22	Earnings Management Incentives
M 01/27	Ratio Analysis
W 01/29	Earnings Measures: Pro Forma vs. GAAP
M 02/03	Revenue Recognition Red Flags
W 02/05	Expense Recognition Red Flags
M 02/10	Discretionary Accruals Models
W 02/12	Discretionary Expenditure Models
M 02/17	Guest Speaker: Marc Siegel (9:00 and 10:30 only)
W 02/19	Fraud Prediction Models
M 02/24	<i>No class: Work on Take-Home Exam #1</i>
W 02/26	No class: Take-Home Exam #1 Due
M 03/02	Voluntary Disclosure Incentives
W 03/04	Management Forecasts
M 03/16	Textual Analysis of Written Disclosures
W 03/18	Conference calls and Voice Analysis
M 03/23	Social Media
W 03/25	Managerial Red Flags
M 03/30	<i>No class: Work on Group Project</i>
W 04/01	<i>No class: Work on Group Project</i>
F 04/03	Group Project Due
M 04/06	Investor Relations
W 04/08	Interactions with Analysts
M 04/13	Interactions with Auditors
W 04/15	Interactions with the SEC: Comment Letters and Insider Trading
M 04/20	Interactions with the Media and Shorts
W 04/22	Interactions with the FASB: Lobbying
M 04/27	<i>No class: Work on Take-Home Exam #2</i>
W 04/29	No class: Take-Home Exam #2 Due