

Earnings Quality and Fundamental Analysis, B7008, Spring 2017

Course Syllabus (Tentative)

I. CONTACT DETAILS

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II. COURSE DESCRIPTION

Financial reporting provides a window into the operational and financial workings of a company. However, translating this information into actionable insights is anything but straightforward. It requires an understanding of Generally Accepted Accounting Principles (GAAP), the quality of financial information, and the adjustments and analyses required to accurately measure and evaluate profitability, exposures, growth prospects, and value. This course is devoted to a systematic study of GAAP and earnings quality, utilizing many actual financial disclosures and cases of accounting abuses. The class also covers standard and not-so-standard financial analysis techniques, and incorporates insights from practitioner and academic research. The primary objective is to acquire a deep understanding of accounting information and how to intelligently use it in making investment, credit, and similar resource allocation decisions. Such knowledge is required of executives, consultants, bankers, analysts, investment managers, and other users of financial information. **This is a case-based class.** Most of our time will be spent discussing real-world cases rather than in a lecture format. The course outline below lists the specific topics we will cover.

III. ADMINISTRATION

Class Material

The course material consists of a textbook, cases, my notes on the cases and background material, and optional readings. These items cover all the course content. The optional readings elaborate on some of the analyses and are provided for those interested in research (both practitioner and academic); this material will not be required for the exam.

All items, except the textbook, will be made available electronically before class, saved in an Acrobat version that allows for the addition of comments to the electronic documents. You may use laptops during class to help you follow the discussion, to take notes, or to add comments to the electronic documents as needed (**please use the laptop for those purposes only**).

Class Preparation

We will use the case method almost exclusively in the course. It is important that you read the assigned cases and think about the key issues before coming to class, so that you are prepared to contribute to the class discussion.

Performance Evaluation

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|--|-----|
| Class Participation | 35% |
| Individual or Group Case Write-ups (Type B or A) | 15% |
| Individual or Group Project (Type B or A) | 50% |

Class Participation

I will evaluate your class participation, including the quality of your contributions to case discussions. In addition to any specific questions in the cases, please come to class prepared discuss the general business setting, the accounting issues, and how the accounting issues affect your assessment of the business.

Individual or Group Case Write-Ups

We will cover approximately 20 cases during the course. I will designate 6 of these cases as eligible for write-ups, selecting cases that require extra preparation. I will assign questions for these cases that involve some calculations. You are to turn in 3 of the 6 for credit.

Individual or Group Project

The project should focus on financial statement quality. The focus can be broad or narrow.

A broad project might provide:

- an initial assessment of the firm and its management (including a brief analysis of the firm's strategy),
- an initial assessment of the firm's financial position and performance (e.g., ratio analysis, common-sized financial statements, and/or a "simple valuation"),
- a broad (big-picture) earnings quality analysis,
- a discussion of the firm's critical accounting policies,
- a "red flag analysis" to identify areas of particular concern,
- any accounting adjustments you see as important to make the firm more consistent in its accounting across periods or, if you are studying two firms in the same industry, to make one of the firm's accounting more comparable to the other firm's accounting, and
- a revised assessment of the firm, its management, and its financial position and performance.

A narrow project might provide:

- an assessment of the quality of a firm's pro-forma (non-GAAP) financial reporting,
- an assessment of the quality of a firm's fair value measurements,
- a detailed analysis of a firm's accounting for a specific type of transaction and any adjustments you find useful in assessing the underlying economics of those transactions (e.g., adjusting deferred tax assets and liabilities for the time value of money),
- supplemental information to estimate a firm's balance sheet line items under an alternative measurement basis (e.g., replacement cost to assess firm value absent competitive advantage),
- projected M&A accounting, **or**
- anything else that you propose and I approve.

IV. CONNECTION WITH THE CORE

This course builds on knowledge from the Financial Accounting (B5001) and Corporate Finance (B5300) fixed core courses. These core courses introduce students to basic financial reporting and analysis concepts. In B7008, students acquire a deep understanding of accounting information and how to intelligently use it in making investment, credit, and similar resource allocation decisions. Students should review the concepts studied in B5001 and B5300.

V. TEXT

Financial Reporting and Analysis, Revsine, Collins, Johnson, Mittelstaedt, and Soffer, 2015, 6th Edition, Mc-Graw Hill.

VI. TENTATIVE COURSE OUTLINE

| Class | Topic | Chapter | Required Cases & Optional Readings (TBA) |
|-------|--|----------------------|--|
| 1 | Introduction & Review | Skim: 1, 2, 4, 17 | |
| 2 | Basic Financial Statement Analysis | 5 Skim: 6, 7 | |
| 3 | Earnings Management Earnings Quality & Red Flags Analysis Pro-forma (non-GAAP) Reporting | TBA | |
| 4 | Revenue & Receivables | 3, 8 | |
| 5 | Inventories | 9 | |
| 6 | PP&E, Intangible Assets, and Other Assets | 10 | |
| 7 | Bonds and Derivatives Fair Value Measurements | 11 | |
| 8 | Leases | 12 | |
| 9 | Income Taxes | 13 | |
| 10 | Pensions | 14 | |
| 11 | Owners' Equity | 15 | |
| 12 | Inter-corporate Equity Investments | 16 | |

A short bio: I joined Columbia Business School in 2015. Before that, I was on the faculty of the Tepper School of Business at Carnegie Mellon University from 1992-2015, most recently as the Richard M. Cyert Professor of Economics and Management and Professor of Accounting. I worked as an academic fellow in the Chief Accountant's Office at the SEC from 2004-2005. My research interests include: earnings management, financial reporting regulation and standard setting, and incentive issues related to accounting. I have published more than 50 papers, serve on six editorial boards, and will begin a 3-year term as one of the editors of *The Accounting Review* in 2017.