

Earnings Quality and Fundamental Analysis, B8008, Fall 2018 Course Syllabus (Tentative: for Bidding)

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. Much 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).

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 your laptop for those purposes only**).

Class Preparation

We will use the case method 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

Class Attendance and Participation	40%
Problem Sets	20%
Individual or Group Project (Type B or A)	40%

Class Attendance and Participation

I will take attendance and evaluate your class participation, emphasizing the quality of your contributions to case and problem set discussions. I will use cold calling. In addition to any specific questions in the cases and problem sets, please come to class prepared discuss: the general business setting, including the firm's competitive environment; an overall earnings quality analysis, key accounting policies, and a more specific red flag analysis; and how the accounting issues you identified affect your assessment of the firm's financial performance.

Problem Sets

There are 5 problem sets. You are to turn in 4 of the 5 for credit. The problem sets you turn in will be graded for effort, not the correctness of your answers.

Individual or Group Project

Select a public company that prepares financial statements under U.S. GAAP. Avoid financial institutions, since their accounting is specialized. Provide:

- an assessment of the firm's current competitive environment and how you expect it to change over a 10-year forecasting horizon;
- reformulated financial statements, separating operating from financing activities (on the income statement and balance sheet) and core/recurring operating earnings components from non-core/transitory components;
- an analysis of past sales, return on sales, and net operating asset turnover;
- overall financial statement quality ratios;
- a list of the firm's material accounting estimates (e.g., bad debt expense);
- a list of the firm's material accounting method choices (e.g., FIFO vs. LIFO);
- a list of transactions that were likely structured, in significant part, to achieve accounting objectives (e.g., off-balance-sheet financing);
- a more detailed "red flag analysis" tailored to your firm;
- an overall assessment of the firm's income statement, balance sheet, and cash flow statement quality (a narrative that builds on your analysis above);
- an assessment of the quality of the firm's non-GAAP reporting (if the company provides non-GAAP measures to its investors); and
- forecasts of future (GAAP) sales, return on sales, and operating asset turnover over a 10-year horizon, explaining how you incorporated your expectations about the firm's future competitive environment and your earnings quality analysis (be specific).

I would like to have at least one meeting with your group about your project as you are working on it. The maximum group size is 4.

IV. CONNECTION WITH THE CORE

This course builds on knowledge from the Financial Accounting (B6000) and Corporate Finance (B6300) fixed core courses. These core courses introduce students to basic financial reporting and analysis concepts. In B8008, 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 B6000 and B6300.

V. TEXT

Financial Reporting and Analysis, Revsine, Collins, Johnson, Mittelstaedt, and Soffer, 2017, 7th Edition, Mc-Graw Hill.

VI. COURSE OUTLINE

Class	Topic	Chapter	Cases and Problem Sets (turn in 4 of 8 Problem Sets)
1 2	Introduction Review	Skim: 1, 2, 4, 17	
3 4	Basic Financial Statement Analysis	5 Skim: 6, 7	Dollar General Bids for Family Dollar Financial Statement Analysis Problem Set
5 6	Earnings Management Earnings Quality & Red Flags Analysis Pro-forma (non-GAAP) Reporting	Lecture	Trouble Brewing for Green Mountain Management Earnings Disclosure & Pro Forma Reporting
7 8	Revenue Receivables	3 8	Accounting for the iPhone New Century Financial
9 10	Inventories Property, Plant, and Equipment	9 10	First Solar Revenue and Receivables Problem Set
11 12	Intangible and Other Assets	10	AOL Time Warner Inventory and PP&E Problem Set
13 14	Bonds and Derivatives Fair Value Measurements	11	Delta's Derivatives
15 16	Leases	12	Tesla Bonds, Derivatives, & Leases Problem Set
17 18	Income Taxes	13	Mike Mayo Takes on Citigroup
19 20	Pensions	14	Ford Income Taxes and Pensions Problem Set
21 22	Inter-corporate Equity Investments	16	The Coca-Cola Company: Accounting for Investments in Bottlers Valeant
23 24	Owners' Equity Review	15	

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 am one of the editors of *The Accounting Review*.