

Earnings Quality and Fundamental Analysis, B8008, Spring 2016

Course Syllabus (Tentative)

I. CONTACT DETAILS

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Office hours (605B Uris): by appointment

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 analyzing and discussing real-world cases (including group presentations, discussions with the entire class, and small group in-class work sessions). I will also give a short lecture on each topic. The course outline below lists the specific topics we will cover.

III. ADMINISTRATION

Class Material

The course material consists of class notes, cases, and optional readings. These items cover all the course content. Reviewing the class notes carefully after class and solving the problems in the “detailed” cases will help reinforce the material. This is important because we will not have sufficient class time to discuss all the points and examples contained in the class notes. 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 optional 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 laptop 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**). One objective of the class is that you will each obtain a detailed, familiar, and customized (through your additions) set of notes that you will be able to use in your careers.

Class Meetings

<u>Section</u>	<u>Days</u>	<u>Time</u>	<u>Room</u>
B8008-01	T, R	2:15-3:45	URI 326
B8008-02	T, R	4:00-5:30	URI 326

Class Preparation

It is important you read the assigned cases and think about the key issues before coming to class.

Performance Evaluation

Group Case Presentation	20 points
Participation: Class and Teamwork	10 points
Individual Case Write-ups	20 points
Open-Book/Notes Final Exam	<u>50 points</u>
Total	<u>100 points</u>

Group Case Presentation

Please send me an email proposing a group of 3-5 classmates who will work together on a group presentation of one of the cases. In the email you send me with your group members' names, please list your group's three or so most preferred cases with a ranking over those if you have one. I will post suggested questions for the cases on Canvas you can (but are not required to) use to guide your analysis. The presentations should be approximately 30 minutes. Please email me a copy of your slides no later than the night before your class presentation.

Participation: Class and Teamwork

Class participation is an important part of the course. I will evaluate both the quantity and the quality of your class participation. You will also be asked to submit a peer evaluation of your group (excluding yourself). I will combine my assessment of your class participation with the peer assessments of your contribution to the group presentation into a single score.

Individual Case Write-ups

You are required to turn in 5 individual "big-picture" case write-ups, each worth 1 point. Choose these from the cases listed on the final syllabus, excluding the case your group will present. These write-ups should be no longer than one page (one-sided, 12 point or larger font, and double-spaced). Answer two questions: 1) What is the key issue, and 2) How would you address it? Since the cases will sometimes be used to introduce ideas that have not been covered in class beforehand, I will be looking for a good effort rather than a detailed analysis or correct answer. Please turn in a hardcopy of your write-up at the start of class. No late write-ups will be accepted. To receive credit for your write-ups, you must attend the entire class in which the case is covered and participate in the case discussion when called upon. You are also required to turn in 5 individual "detailed" case write-ups, each worth 3 points. These detailed write-ups will ask you specific questions about cases we will discuss in class and will help you prepare for the final exam. You may discuss the write-ups with classmates, but turn in your own analysis rather than one done by a group.

Open-Book/Notes Final Exam

There is an individual open-book/notes final exam.

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. RECOMMENDED TEXT (not required)

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

VI. TENTATIVE COURSE OUTLINE

Class	Topic	Reference Material	Cases
1-3	Review	Chapters 1, 2, 4, &17	TBA
4-7	Essentials of Financial Statement Analysis Earnings Management Earnings Quality	Chapter 5 Chapter 6 Chapter 7	TBA
7-10	Revenue Receivables	Chapter 3 Chapter 8	TBA
10-13	Operating capacity: Inventory PP&E Intangible Assets Other Assets	Chapter 9 Chapter 10	TBA
13-17	Fixed claims: Investments in Debt Securities Debt (including Bonds) Leases Derivatives	Chapter 11 Chapter 12	TBA
17-21	Estimated claims: Income Taxes Pensions Contingencies Other Accrued Liabilities	Chapter 13 Chapter 14	TBA
21-24	Equity claims: Investments in Equity Securities Business Combinations Consolidation Shareholders' Equity Share-based Payments EPS	Chapter 15 Chapter 16	TBA