Earnings Quality and Fundamental Analysis, B7008, 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 (B5000) 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 B5000 and B5300.

V. TEXT


VI. COURSE OUTLINE

<table>
<thead>
<tr>
<th>Class</th>
<th>Topic</th>
<th>Chapter</th>
<th>Cases and Problem Sets (turn in 4 of 8 Problem Sets)</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction Review</td>
<td></td>
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<tr>
<td>2</td>
<td>Basic Financial Statement Analysis</td>
<td>5</td>
<td>Dollar General Bids for Family Dollar Financial Statement Analysis Problem Set</td>
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<tr>
<td>3</td>
<td>Earnings Management</td>
<td>Lecture</td>
<td>Trouble Brewing for Green Mountain Management Earnings Disclosure &amp; Pro Forma Reporting</td>
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<tr>
<td>4</td>
<td>Revenue Receivables</td>
<td>3, 8</td>
<td>Accounting for the iPhone New Century Financial</td>
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<tr>
<td>5</td>
<td>Inventories Property, Plant, and Equipment</td>
<td>9, 10</td>
<td>First Solar Revenue and Receivables Problem Set</td>
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<tr>
<td>6</td>
<td>Intangible and Other Assets</td>
<td>10</td>
<td>AOL Time Warner Inventory and PP&amp;E Problem Set</td>
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<td>7</td>
<td>Bonds and Derivatives Fair Value Measurements</td>
<td>11</td>
<td>Delta’s Derivatives</td>
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<tr>
<td>8</td>
<td>Leases</td>
<td>12</td>
<td>Tesla Bonds, Derivatives, &amp; Leases Problem Set</td>
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<tr>
<td>9</td>
<td>Income Taxes</td>
<td>13</td>
<td>Mike Mayo Takes on Citigroup</td>
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<td>10</td>
<td>Pensions</td>
<td>14</td>
<td>Ford Income Taxes and Pensions Problem Set</td>
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<tr>
<td>11</td>
<td>Inter-corporate Equity Investments</td>
<td>16</td>
<td>The Coca-Cola Company: Accounting for Investments in Bottlers Valeant</td>
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<tr>
<td>12</td>
<td>Owners’ Equity Review</td>
<td>15</td>
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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.*