

# Reflections

## Session 1: Introduction

**What do you bring to the class (e.g. personal background, skills and interests) that you think will help the overall value of the instruction?**

- Technical Background
- Financial Management

**How do you expect the content of this course to impact your current or future professional pursuits?**

- Have a deeper understanding of Financial statements
- Understand the process of financial analysis from an Accounting perspective

**List three publicly-traded companies that you may be interested in researching for your class project and explain why those companies are of interest to you.**

- Reddit
- Microsoft
- Netflix

## Session 2: Earnings Quality

**What advice (including a brief supporting argument) would you give the management of a company that, in your opinion, leans excessively liberal or conservative in terms of accounting policies or practices?**

An over-reliance on liberal or conservative can cause a loss of trust in stockholders. This will result in a distortion of earnings and can cause people to question whether it's repeatable or a one-time situation.

**What factor of improved earnings quality would you focus on with your company (in your current role or hypothetical decision-maker role)? Why is this the most important to you?**

I would think the most controllable factor is the multiple. I think trust in the company is important to shareholders. Being able to show growth potential and repeatable earnings shows that the company is in a strong financial position.

## Session 3: Earnings Management

**What would you do if you became aware of financial fraud at your company, and why? How might this be different if your company were not publicly traded?**

1. Conduct more financial research
2. Bring it up with the accounting or auditing team
3. Monitor the situation
4. If there isn't improvement, report to the SEC

## **How can you use your knowledge of earnings quality and earnings management in your current or future business management roles?**

Earnings quality and management can help me monitor fraud and understand what the books are actually reporting (one-offs or repeatable)

## **Session 4: Accruals and Cash Flows**

### **What is a metaphor for the cash vs accrual debate? Explain how the metaphor relates?**

Cash Accounting is like a Checkbook Register, and Accrual Accounting is like a Financial Calendar.

#### **1. Cash Accounting is a Checkbook Register**

- What it tracks: A checkbook register only records income when you physically deposit the money (cash comes in) and expenses when you physically pay the bill (cash goes out).
- The Relation: Cash basis accounting works the same way. It records revenue only when the cash is received and expenses only when the cash is paid.
- Key Insight: Like a checkbook, it gives you a real-time, simple view of the actual cash you have in the bank at any given moment. However, it might not show sales you've made but haven't been paid for, or bills you owe but haven't sent a check for yet, making it a limited picture of your true financial performance.

#### **2. Accrual Accounting is a Financial Calendar**

- What it tracks: A financial calendar or planner tracks transactions based on when the event occurs, regardless of the payment date. You note a service being performed or a bill being incurred on the day it happens, even if the money doesn't move until next month.
- The Relation: Accrual basis accounting works by recording revenue when it is earned (e.g., when a service is completed or product is delivered) and expenses when they are incurred (e.g., when you receive a bill), regardless of when the cash changes hands. This follows the matching principle by pairing related revenues and expenses in the same period.
- Key Insight: Like a calendar that tracks future obligations, accrual accounting provides a more complete, accurate picture of profitability for a specific period (like a month or quarter), since it matches the effort (expenses) with the results (revenue). However, it can show a profit even if you're temporarily short on cash because customers haven't paid their invoices yet.

### **If you were queen/king of the world, would you mandate cash accounting instead of accrual accounting? Describe two possible outcomes of mandating cash accounting (one intentional and one unintentional).**

If I were to issue a global decree, I would mandate accrual accounting. This method is the industry standard precisely because it offers the most accurate and stable picture of a company's true profitability and financial health. By adhering to the matching principle—recording revenue when earned and expenses when incurred—accrual accounting ensures investors and stakeholders understand performance over the long term. Conversely, mandating cash accounting globally would severely hinder financial transparency and obstruct sound economic planning. Although accrual accounting does not track cash flow minute-by-minute, a business must simultaneously monitor its cash flow—the lifeblood of any company—while relying on the accrual method for the comprehensive view of its overall financial standing.

#### **Outcomes of Cash Accounting**

- Intentional Outcome: Simpler Tax Management for Small Businesses
- Unintentional Outcome: Severe Financial Misrepresentation and Market Instability

## Session 5/6: Stock-based Compensation/Disclosure Choice

Reflect on the pros and cons of stock-based compensation as an alternative to cash performance bonuses.

In summary, stock-based compensation is a long-term, high-risk/high-reward strategy focused on retention and owner-mindset, while a cash bonus is a short-term, stable strategy focused on immediate reward and financial security.

### Cons

Company	Employee
Shareholder Dilution	Market Risk and Volatility
Reduced Motivational Impact in a Down Market	Lack of Immediate Liquidity
Complex Administration and Accounting	Tax Complexity

### Pros

Company	Employee
Aligns Interests	Potential for Exponential Growth
Retention Tool	Tax Efficiency
Conserves Cash	Sense of Ownership

### Cash

- **Pros:** They provide immediate value, stability, and liquidity (money the employee can use right away). They are simple to understand and administer.
- **Cons:** They are a one-time reward with limited long-term retention power. They are taxed immediately as ordinary income. They do not align the employee with the company's long-term stock performance.

What are some questions you would ask yourself when deciding which additional information to disclose (e.g. forecasts, guidance, segments, non-GAAP measures, etc)?

- What details do we not give investors?
- What changes to the company do we want to disclose?
- Does our report have any information that needs additional explanation?

## Session 7: Management Forecasts / Non-GAAP Earnings

What is one question you would ask management about their non-GAAP measures? What would be a good answer and what would be a bad answer to your question? Why?

- How are those numbers achieved?
  - Good: Assumptions are created based on past trends
  - Bad: Assumptions are just guesses not based on trends
- Why did the company disclose that information?

What are some questions you would ask yourself when deciding which non-GAAP measures you would present?

- Would this measure entice investors? Is that information useful?
- Does disclosing the information add to what is already disclosed?

## Session 8: Firm Performance Analysis

List 2-3 “go-to” financial ratios you would want to know about any company you invest in? What type of data do those give (Descriptive, Diagnostic, Predictive, Prescriptive)

Financial Ratio	Description	Type(s) of Data
P/E	Valuation ratio that compares a company's current share price to its earnings per share (EPS). It indicates how much investors are willing to pay for every dollar of a company's earnings.	Descriptive and Predictive
ROA	Profitability ratio that indicates how efficiently a company is using its assets to generate profits.	Descriptive and Diagnostic
ROE	Profitability ratio that measures the return generated on the shareholders' investment.	Descriptive and Diagnostic

How can data sometimes be misleading, and what are some things you can do with your data analysis to minimize this?

### Why Data Can Be Misleading

Reason	Explanation
Selection Bias	The data sample is not representative of the larger population. For example, a survey about spending habits given only to high-income individuals will suggest higher overall spending than is true.
Confounding Variables	An unseen or unmeasured third factor is actually causing the correlation between two other variables. The data shows A is linked to B, but C is actually causing both A and B. For example, ice cream sales are correlated with crime rates, but the confounding variable is the hot summer weather, which drives both.
Cherry-Picking	Only selecting the data points that support a pre-existing conclusion while ignoring contradictory evidence.
Misleading Visualizations	Graphs are improperly scaled or cropped, distorting the magnitude of differences. For example, a y-axis that doesn't start at zero can make small changes look like massive shifts.
Over-Generalization	Applying results from a specific context to a broad, unrelated population. For example, concluding that a product that was successful in one small, unique market will be successful everywhere.
Faulty Metrics	Using a measure that doesn't actually capture the concept you're trying to study. For instance, using "website visits" as the sole measure of "customer engagement" when many visits are bots.

### Minimizing Misleading Data in Analysis

To increase the integrity and accuracy of your data analysis, you should implement the following best practices:

#### 1. Focus on Data Quality and Collection

- **Establish a Representative Sample:** Use random sampling techniques (like simple random, stratified, or cluster sampling) to ensure your data is free from selection bias and accurately reflects the target population.
- **Define Metrics Clearly:** Before collecting any data, ensure you have a clear, operational definition for every metric. If you are measuring “success,” clearly define whether that means profit, customer retention, or market share.
- **Validate Data Sources:** Confirm the reliability and trustworthiness of the source. Look for documentation on how the data was gathered and processed.

## 2. Practice Rigorous Analysis

- **Look for Confounding Variables:** Always consider alternative explanations for correlations. Use diagnostic analytics and techniques like regression analysis to control for or factor in potential confounding variables.
- **Incorporate Context:** Never present a number in isolation. Compare your findings to industry benchmarks, historical performance, or peer groups. A 10% growth rate may sound great, but it is misleading if the industry average is 50%.
- **Perform Sensitivity Analysis:** Test how your conclusions change when you use slightly different assumptions, metrics, or methods. If your conclusion is only true under a narrow set of conditions, it's less reliable.

## 3. Ensure Transparent and Ethical Reporting

- **Visualize Data Ethically:** Always use charts and graphs with a y-axis that starts at zero when comparing absolute values. Label all axes and data points clearly to avoid distortion.
- **Report Limitations:** Explicitly state the boundaries, biases, and weaknesses of your data (e.g., “The survey was only conducted in North America and may not apply to European markets”). Transparency builds trust.
- **Seek Peer Review:** Have another analyst or expert review your methodology and conclusions. A fresh pair of eyes can spot confirmation bias or flawed assumptions you missed.

# Session 9: Intangible Assets & ESG Reporting

**What are the most important intangible assets at your current company or the company you are researching for your Term Project? Do you think they are being properly valued on the financial statements? Why or why not?**

The most important intangible assets for Reddit are its Community, Content Data, and Brand Equity.

Reddit's entire value proposition stems from its unique, decentralized community structure and the content it generates.

No, these most important intangible assets are not being properly valued on Reddit's financial statements under current accounting standards (U.S. GAAP).

**Is an ESG focus at a company a good investment? What would cause it to be a good investment or a bad investment in your view?**

The question of whether an Environmental, Social, and Governance (ESG) focus is a good investment is complex, as academic research and real-world performance provide mixed evidence. There is no universal consensus, but there is a strong case for its risk-mitigation and long-term value benefits.

Many studies suggest that companies with strong ESG performance tend to be more resilient during economic downturns and crises, such as the COVID-19 pandemic, and may offer better risk-adjusted returns over the long run.

# Session 10: Value Investing

**What would your investment preference be right now - value or growth? Why?**

Growth: Higher risk but chance for higher long term return

1. Foundational Principles: Value vs. Growth
2. Market Environment and Preference
3. The Case for Value (The Why - Step 1/3)

## Which combination of metrics would you like to see to enhance a Price to Book ratio for value investing decision?

1. Quality Combination: P/B Ratio + Return on Equity (ROE)
2. Risk Combination: P/B Ratio + Debt-to-Equity (D/E) Ratio

## Session 11: Textual Analysis

### With the ease and efficiency of generative AI, what type of textual analysis would be relevant in your current job, your term-project company materials, or other application?

#### Current Job (Fintech Lab)

- Sentiment and Tone Analysis: Uncovering “Tone at the Top”
- Disclosure Readability and Complexity Analysis
- Thematic and Keyword Frequency Analysis: Identifying Intangible Value and Financial Health

#### Term Project (Reddit)

- Real-Time Sentiment and Emotional Tone Analysis
- Topic Modeling and Narrative Detection
- Linguistic Marker Analysis for Financial Misconduct

### What documents would you choose to review, and what prompts could you use to get what you are looking for?

Document Type	Source & Purpose	Analysis Objective
Formal Financial Report	10-K / 10-Q Filing (Specifically the MD&A and Footnotes)	To establish the Baseline of Disclosure, quantifying formal risk, sentiment, and complexity. The MD&A section is a particularly valid proxy for management's "script" to minimize risk.
Formal Narratives	CEO Letter to Shareholders and Earnings Call Transcripts	To capture "Tone at the Top" and executive sentiment, which should align with the MD&A. Executives may use positive language to mask fraud.
Real-Time Context	Industry Benchmarks/Peer Filings (10-K/10-Q)	To identify Abnormal Disclosure—text that is unusual compared to competitors' strong counterfactuals.

## Session 12: Corporate Governance

### What are two main things you want to remember from this course?

I have developed a deeper understanding of how to assess Earnings Quality by identifying red flags associated with aggressive Earnings Management, and I have honed my ability to interpret the impact of Stock-Based Compensation on both GAAP earnings and operating cash flows.

**Which teaching strategy employed in this class did you enjoy the most, and what made it effective for you?**

- **Think, Pair, Share (reviewing a concept with neighbor, then sharing with the class - multiple sessions):** Allowed for a deep discussion on the topic learn from one another
- **Direct Instruction (lecture style - e.g Stock Compensation session):** Traditional learning method that I'm used to and know how to engage in
- **Graffiti (White-board exercise adding to the notes of others - e.g. ESG session)**
- **Jigsaw (Group study of one concept, then teaching others as the expert - e.g. Governance session)**
- **Socratic Seminar (Rotating debate - e.g. Insider Trading session)**
- **Other - please specify**