

## Session 2 Slides

[Bernstein, L.A. and Siegel, J.G. \(1979\). The Concept of Earnings Quality. Financial Analysts Journal. 35 \(4\): 72 - 75.](#)

### Questions

1. What is liberal accounting? What is conservative accounting? How can both of these accounting philosophies lead to degraded earnings quality?
2. How can business and operational decisions affect earnings quality?
3. What factors affect earnings quality?

[Dichev, I., Graham, J., Harvey, C., and Rajgopal, S. \(2016\). The misrepresentation of earnings. Financial Analysts Journal. 72 \(1\): 22-35.](#)

### Questions

1. What is high (good) earnings quality?
2. Is earnings quality controllable?
3. How can the quality of earnings be identified? Are there red flags to watch for?
4. What factors create pressure to manage earnings?
5. What differentiates between "good" earnings management and "bad" earnings management?
6. What are the consequences of poor earnings quality?

[Levitt, A. \(1998\). The "Numbers Game." SEC Speech.](#)

### Questions

1. What is earnings management?
2. What are some examples of common earnings management techniques?
3. This was a landmark speech in 1998. What has changed in the financial reporting environment since then?

[Eaglesham, J. \(2023\). SEC is focusing on earnings manipulation by companies. Wall Street Journal. March 10.](#)

### Questions

1. Is earnings management legal?
2. Why was Gentex Corp. fined by the SEC?

### Session 3 Slides

[Boyle, D.M. and D.J. Gaydon. \(2019\). SEC Whistleblower Program Expands. Strategic Finance. November.](#)

[Sun, M. \(2023\). Record \\$279 Million Whistleblower Award Went to a Tipster on Ericsson. Wall Street Journal. May 26.](#)

#### Questions

1. Why did the SEC create a whistleblower program?
2. How much money can whistleblowers receive? Do you think whistleblowers should be paid?
3. What rights and protections do whistleblowers have?
4. What are the new proposed changes to the whistleblower program?

[Zumbrun, J. \(2023\). Accounting-Fraud Indicator Signals Coming Economic Trouble. Wall Street Journal. March 24.](#)

#### Questions

1. What is the M-Score and how is it calculated?
2. What might be legitimate, healthy business reasons for a higher M-Score?

[Foldy, B. \(2023\). Business is Slowing. So Companies Are Juicing Profits. Wall Street Journal. June 01.](#)

#### Questions

1. What are the key estimates related to depreciation expense? Can these be changed often?
2. Why are companies allowed to report adjustments to GAAP numbers (aka non-GAAP)?

[Armental, M. \(2019\). Former Iconix Top Executives Charged in Accounting Fraud Scheme. Wall Street Journal. December 06.](#)

#### Questions

1. Why did these managers engage in a fraud?
2. How was the fraud committed?

[Michaels, D. \(2019\). Former Brixmor Property Executives Charged with Accounting Fraud. Wall Street Journal. August 01.](#)

[2021 Bloomberg Dolmetsch Ex-Brixmor Executives Win Rare Dismissal of U.S. Fraud Case-2.pdf](#)

#### Questions (applies to two articles above)

1. Why did these managers engage in a fraud?
2. How was the fraud committed?
3. Why was this case dropped?

[Morgenson, G., Walker, J., and Grant, C. \(2018\). Highflying Medical Firm, a Help to Wounded Veterans, Falls to Earth. Wall Street Journal. July 23.](#)

[Morgenson, G. \(2019\). MiMidex Ex-Senior Executives Indicted on Fraud Charges. Wall Street Journal. Nov 26.](#)

Questions (*applies to two articles above*)

1. How did this fraud occur?
2. What consequences came from this fraud?

## Session 4 Slides

[Jones, S. \(2001\). Why Cash Flow Matters in Evaluating a Company. Wall Street Journal. Aug. 11.](#)

### Questions

1. What does the amount of cash a company has tell you about its historical performance and future expectations?
2. How is cash flow different from profit?
3. Where do you get information to evaluate a firm's cash?

[Colter, G. \(2004\). Accrual Accounting Can Be Costly. Wall Street Journal. July 2.](#)

### Questions

1. What is accrual accounting?
2. What role do assumptions play in accrual accounting?
3. What risks are faced by firms with high amounts of accruals?

[Entwistle, G. and Bastiaansen, I. \(2015\). Variations in P/E. Strategic Finance. Oct.](#)

### Questions

1. How is the P/E ratio interpreted?
2. How is the numerator in the P/E ratio calculated?
3. How is the denominator in the P/E ratio calculated?

[Benoit, D. \(2022\). How a New Accounting Rule is Making Bank Earnings Go Wild. Wall Street Journal. June 3.](#)

### Questions

1. What is a loan loss reserve?
2. How did the new accounting rule for loan loss reserves affect earnings figures?
3. How do the banking executives view the CECL accounting rule?

## Session 5 Slides

[Barenbaum, L., B. O'Rourke, and W. Schubert. \(2017\). The Impact of Share-Based Compensation. Strategic Finance. December.](#)

### Questions

1. What are the current GAAP for stock-based compensation?
2. How does stock-based compensation affect the income statement?
3. How does stock-based compensation affect the statement of cash flows?

[Gelfond, S. and Katzman, A.L. 2016. A Guide to Rule 10b5-1 Plans. Harvard Law School Forum on Corporate Governance. March 24.](#)

[Morrison and Foerster. 2017. Frequently Asked Questions About Rule 10B5-1 Plans.](#)

### Questions (applies to two articles above)

1. What is a 10b5-1 plan?
2. What is the purpose of 10b5-1 plans?
3. What rules are there for 10b5-1 plans?

[Jakab, S. \(2021\). Dimons Aren't Forever, but Boards Act That Way. Wall Street Journal. July 23.](#)

### Questions

1. Why did the Board at JPMorgan grant more stock options to CEO Jamie Dimon?
2. Was this compensation in the best interest of the shareholders?

[Foldy, B. 2021. CEO's Dad Gets a \\$3.6 Billion Stock Windfall at Carvana. Wall Street Journal. Sept. 16](#)

### Questions

1. Does Carvana operate with the best interests of the shareholder in mind?
2. How did Mr. Garcia use 10b5-1 plans to sell stock? Was it legal?

[Henderson, M.T. 2021. Every CEO Should Follow Mark Zuckerberg's Stock-Trading Example. Wall Street Journal. Dec 27.](#)

### Questions

1. How does Mark Zuckerberg trade shares of his company? Why does he do it this way?
2. Should CEOs have diversified portfolios? Or should they have more exposure to the company they are leading?
3. How soon can a CEO trade stock after entering into a 10b5-1 plan?

[McGinty, T. and Maremont, M. 2022. CEO Stock Sales Raise Questions about Insider Trading. Wall Street Journal. June 29.](#)

### Questions

1. Do CEOs and other executives engage in insider trading? How would you know?
2. What is insider trading?

[Weil, J. \(2023\). New SEC rules target corporate insider trading. Wall Street Journal. Feb. 13.](#)

Questions

1. What are the new disclosure requirements related to 10b5-1 plans?

[Kiernan, P. 2023. SEC Demands More Information about Companies' Stock Buybacks. Wall Street Journal. May 3.](#)

Questions

1. What is the frequency of the tallies companies must keep of their stock buybacks?
2. What are the other requirements of the new stock buyback disclosure?

[Maurer, M. and Williams-Alvarez, J. 2023. SEC Buyback-Disclosure Rule Stirs Worry Over Costs and Compliance. Wall Street Journal. May 5.](#)

Questions

1. How did companies respond to the new stock buyback disclosure rule?

[Skinner, D.J. \(1995\). Do the SEC's Safe Harbor Provisions Encourage Forward-Looking Disclosures? Financial Analysts Journal. 51 \(4\): 38 - 44.](#)

Questions

1. Why are CEOs hesitant to provide forward-looking information?
2. What role do analysts play in obtaining and providing information to the market participants?
3. How is the disclosure of good news different than the disclosure of bad news? Do managers treat them differently? Does the stock market react differently?
4. How has the SEC updated disclosure related provisions / mandates / safe harbors since the writing of this article (1995)?

[CFA Institute. 2014. Forward-Looking Information.](#)

Questions

1. What is forward-looking information?
2. Why is forward-looking information useful to investors?
3. Does GAAP allow forward-looking information?

[Copeland, R. \(2020\). Google Parent Debuts YouTube, Cloud Results, Reports Weak Earnings. Wall Street Journal. February 03.](#)

[Haggin, P. \(2020\). What Investors Learned From the First Peek Inside YouTube's Financials. Wall Street Journal. February 04.](#)

Questions (*applies to two articles above*)

1. What did Google's segment reporting change?
2. What was the value of the new information being provided?

[\*Tocchini, F. and Cafagna, G. \(2022\). The ABCs of ESG Reporting: What are ESG and sustainability reports, why are they important, and what do CFOs need to know. Wolters Kluwer. March 09.\*](#)

Questions (applies to two articles above)

1. What is ESG reporting?
2. Who governs ESG reporting?
3. What value do corporations get from ESG reporting?

[\*Eaglesham, J. and Kiernan, P. \(2023\). SEC considers easing climate-disclosure rules after investor pushback. Wall Street Journal. Feb. 03.\*](#)

Questions

1. What are the proposed climate disclosures for firms?
2. What are the key complaints by firms?

[\*Maurer, M. \(2023\). Companies quiet diversity and sustainability talk amid culture boycotts. Wall Street Journal. June 12.\*](#)

Questions

1. Why are executives mentioning ESG initiatives and efforts less on earnings conference calls?
2. What is “green washing?” What is “green hushing”?
3. What effect do ESG programs have on financial performance? What are the metrics?

[\*Edmans, A. \(2023\). A progressive’s case for getting rid of ‘ESG’. Wall Street Journal. Aug. 19.\*](#)

Questions

1. What are the key points of this author’s argument?
2. How is putting ESG on a pedestal potentially damaging to firms?

[\*2024 PWC New SEC Climate Disclosure Rule-1.pdf\*](#)

1. What are the new disclosure rules?

## Sessions 7 Slides

[Fuller, R.J. and Metcalf, R.W. \(1978\). Management Disclosures: Analysts Prefer Facts to Management's Predictions. Financial Analysts Journal. 34 \(2\): 55 - 57.](#)

### Questions

1. What information do analysts most want from management?
2. What rules does the SEC have today related to management forecasts? What connection does this have to the 1995 forward-looking statement safe harbor rules?
3. Who do analysts work for? What are their incentives?

[Coller, M. and Yohn, T. \(1998\). Management Forecasts: What Do We Know? Financial Analysts Journal. 54 \(1\): 58 - 62.](#)

### Questions

1. What is the expectations-adjustment hypothesis?
2. What are the characteristics of firms that do issue management forecasts?
3. What is good-news bias? What is optimism? How are these measured?
4. How does the market react to management forecasts? To analysts' forecasts? Why does the market react at all?

[King, T.A. \(2017\). The Problem with Non-GAAP Earnings. Strategic Finance. April.](#)

### Questions

1. What are non-GAAP earnings? Why do firms use them? How are they disclosed?
2. What are the current SEC rules related to non-GAAP disclosures?
3. Is the use of non-GAAP numbers legal? ethical?

[Eaglesham, J. and Brown, E. \(2019\). WeWork Was Wrestling with SEC over Key Financial Metric Just before It Scrapped IPO. Wall Street Journal. Nov. 10.](#)

### Questions

1. Was the key metric being used by WeWork useful? Informative?
2. If 97% of firms in the S&P 500 are using non-GAAP numbers, does that indicate that investors, analysts, and the market want these numbers?
3. How should the SEC regulate non-GAAP numbers?

[Levy, A. \(2020\). Why Charlie Munger's 'bulls—t earnings' metric is used by so many tech companies. CNBC. Feb. 15.](#)

### Questions

1. What is adjusted EBITDA? What adjustments are being made?
2. Why does Charlie Munger not like this measure?

## Session 8 Slides

### Articles to be read prior to class

[Reding, K. and Newman, C. \(2017\). Improving Critical Thinking through Data Analysis. Strategic Finance. June.](#)

#### Questions

1. What is critical thinking and why is it important for accounting analysis?
2. What are the steps for data analysis?

[Rajgopal, S. \(2021\). What's In SGA? Forbes. Aug 02.](#)

#### Questions

1. Why is SG&A not broken down more in financial statements? Why does it matter?

[Sider, A. \(2021\). What Happened When United Stopped Trying to Predict the Pandemic. Wall Street Journal. Oct. 21.](#)

#### Questions

1. In an industry that relies on long-term forecasts of demand, how did United navigate demand uncertainties with Covid-19?
2. How did other airline carriers perform during the uncertainties with Covid-19?
3. What are future performance indicators in the airline industry?

### Useful ratios for financial statement analysis

### Articles to be reviewed during class

[2014 Cannon. Determinants of Sticky Costs. The Accounting Review.pdf](#)

## Intangible Assets

[\*King, A. and Newman, U. \(2015\). Brand Value: 'Hidden' Asset in Plain View. Strategic Finance. June.\*](#)

### Questions

1. What is brand value?
2. When can brand value be added to the balance sheet?
3. How is brand value measured?

[\*Eaglesham, J. \(2020\). Goodwill Sparks Deep Division, at Least on Balance Sheets. Wall Street Journal. Jan. 21.\*](#)

### Questions

1. What is Goodwill?
2. What is the current test for goodwill impairment?
3. What is the proposed alternative accounting treatment for goodwill?

[\*FitzGerald, D. \(2024\). Verizon to Book \\$5.8 Billion Charge on Business Unit\*](#)

### Questions

1. Which business line was affected by Verizon's impairment charge, and why?

## **Session 10 Slides**

**[Lev, B. and Gu, F. \(2016\). The End of Accounting. Wall Street Journal. June 21.](#)**

### *Questions*

1. Are accounting rules producing financial measures that are irrelevant and/or misleading?
2. How do the authors propose to fix the corporate earnings problem?

**[Hulbert, M. \(2018\). Why the Traditional Way of Measuring 'Value' Stocks May Be History. Wall Street Journal. Sept. 09.](#)**

### *Questions*

1. Why has the price-to-book ratio potentially lost its relevance?
2. Are there arguments for still using price-to-book ratio to differentiate between underpriced and overpriced stocks?

**[Thune, K. \(2022\). Value Investing: What It is, How It Works & Strategy. Seeking Alpha. June 23.](#)**

### *Questions*

1. What is value investing?
2. What are the key measures used to indicate a "value" stock?
3. What are the risks to value investing?

**[Banerji, G. \(2022\). Facebook, Netflix and PayPal are Value Stocks Now. Wall Street Journal. June 23.](#)**

### *Questions*

1. What is the benchmark measure that the FTSE Russell uses to determine value stocks?
2. Tech stocks have historically been considered growth stocks. Why are so many tech stocks now being classified as value stocks?

**[Weinberg, A. \(2022\). Value Investing Is Back. But How Do You Choose the Right ETF? Wall Street Journal. April 02.](#)**

### *Questions*

1. In the past 10 years, which stocks have performed better, growth or value?
2. What metrics does the S&P Dow Jones use to rate a firm's value?
3. What is a large cap, mid-cap, and small cap firm?
4. Are all value ETFs the same? How are they different?

## Session 11 Slides

[Craig, R. and Amernic, J. \(2011\). \*Detecting Linguistic Traces of Destructive Narcissism At-a-Distance in a CEO's Letter to Shareholders\*. \*Journal of Business Ethics\*.](#)

### Questions

1. What is narcissism? Is this a common trait in CEO's? Is that good or bad?
2. How can words in a letter to shareholders reveal to you anything about the CEO's personality?
3. How does the "Tone at the Top" play a role in financial analysis?

[Kassel, M. \(2017\). \*CEOs Simple Trick on Earnings Calls: Saying 'I,' 'We' and 'Us'\*. \*Wall Street Journal\*. Aug. 6.](#)

### Questions

1. Can a CEO's language usage affect investors' reactions to information shared on an earnings call?
2. What does the use of less inclusive pronouns by the CEO in an earnings call tell us?

[Janvrin, D. and Fisher, I. \(2021\). \*Textual Analysis for Accountants\*. \*Strategic Finance\*. June.](#)

### Questions

1. Why is textual analysis even more important in today's digital information world?
2. How is textual analysis being applied in accounting and auditing settings?

[Maurer, M. \(2021\). \*SEC Digs Deeper Into Companies' EPS Manipulation\*. \*Wall Street Journal\*. Oct. 10.](#)

### Questions

1. How often does the SEC review the earnings per share for most US public companies?
2. Why does the SEC focus on the earnings per share number?
3. What did academic researchers discover about the number 4 that helps the SEC when analyzing earnings per share?

## Corporate Governance

[Subramanian, G. \(2015\). Corporate Governance 2.0. Harvard Business Review. March.](#)

### Questions

1. How can corporate governance support a long-term perspective to managing a firm?
2. How are directors appointed? Evaluated? Compensated?
3. Do directors represent shareholders? What conflicts exist?

[King, T. \(2019\). Evolving Investor Relations. Strategic Finance. Feb.](#)

### Questions

1. Do passive money managers have the same goals as other investors?
2. How do shareholders monitor managers? Does the principal-agent model still apply?
3. What are the key committees on a board of directors?
4. How has investor relations changed?

[Grind, K., Glazer, E., Elliott, R., and Jones, C. \(2024\). The money and drugs that tie Elon Musk to some Tesla directors. Wall Street Journal. Feb. 3.](#)

### Questions

1. SOX 2002 and stock-exchanges like NASDAQ require a majority independent directors on publicly listed companies' boards. What are the rules to be classified as an independent director?
2. What is the role of the board of directors in overseeing and governing a firm?