

3/29/22 syllabus day

- Went to Law school – really liked it
- Didn't like the lifestyle
- Gotta get past first year of big 8 — average is barely over a year
- Team project: comments / team peer review matters
 - Follow directions well
- Honors section — come if you want to — can get add code
 - Thursdays (next week) // girvetz 2128
- Analyzing financial statements:
 - Putting it all together
 - Not an accounting class It is an Analysis class

3/31/22 public corporation basics

- Tons of shareholders
- Public companies have to grow (increase stock price)
 - Private companies don't necessarily have to (or not as worried)
- All of public companies financials are known by the private sector
 - Advantage?
- 10k's
 - Annual financial report under 1934 act Sec
 - For creditors and investors
 - external
- 10q's
 - Quarterly
- Private companies do get audited when looking to loan money
 - Audit to figure out if they can pay off debt
 - Or audit for franchises
- Raise capital → debt securities
 - Shares
 - Bonds
 - Etc
 - Organic – cash — ideally
- Stock compensation plan – management cares about fluctuations of company stock price
 - Employees also likely get stock options → loyalty, perhaps better performance, etc
- Financial reporting
 - Earnings Forecast — did they hit their target?
 - Raise of sales / revenue / net income
 - Profit margin
 - Eps
 - Cash flows (not typically in earning releases)
 - User growth?
 - le netflix

- Recording revenue before completing material obligation under the contract
 - Funds going back and forth with customers is a red flag re legitimacy
 - Suspicious timing of press release re new sales should raise questions if whether rev is being recognized too early
 - Changed rule to hide slowing growth
 - Causes u to short the next year — not a long term solution (robbing from the future) – not sustainable
 - When does recognition of revenue begin
- Related party transactions
 - Not independent /// lack of arm's length
 - Lack of arm's length can be beneficial
 - Typically not done correctly
 - Boomerang transactions — not ideal – dangerous —
- Record revenue too soon
 - Revenue recognition policy to hide collapsing business
 - POC method
 - Book revenue earlier
 - Up front recognition of a long term license contract term licensing contracts; cash collect later
 - Bulging long term and total rec should be a red flag
 - High Day sales outstanding may indicate aggressive rev recogn or poor cash management
- Records revenue before shipment
 - Under bill and hold arrangement
 - Channel stuffing
- Before buyers final acceptance of the product
 - Shipping products to intermediary rather than actual customer
 - Consignment arrangements
 - Cant record sale until it is sold by the consignee
 - Sell in vs sell through approach:
 - Sell through is conservative
 - Book sales when distributed to the customer
 - Sell in is aggressive (trying to rec. Revenue early)
 - Sales booked when given to the distributor
 - Deliberately shipping incorrect or incomplete products
 - Shipping before the agreed upon shipping date
 - Recording revenue before the lapse of the right of return
- Buyers payment remains uncertain or unnecessary
 - Alarm when new extended payment terms are disclosed and dso jumps
 - Seller provided financing
 - Watch for companies that offer extended or flexible payment terms
- Transfer of risk is required for insurance policies