

Identifying Accounting Distortions¹

The objective of this case is to use accounting analysis and financial analysis in conjunction with an equity-screening tool (we will use Factset's 'Universal Screening' tool) to identify an accounting distortion in real time. The key deliverable is a report describing the process that you followed and identifying and analyzing a significant accounting distortion.

STEPS

1. Select the type of accounting distortion that you hope to identify (e.g., overstated goodwill).
2. Build a screen in Factset to identify a short-list of companies that potentially have an accounting distortion of the type that you identified in step 1. I have provided some sample screens in the 'Client' directory on Factset, but I encourage you to develop your own screen or to customize my screens according to the type of distortion that you hope to identify.
3. Analyze the financial statements of the companies on your short list from step 2 and select the company that you think provides the best example of the type accounting distortion that you set out to identify. If you can't find a good example, you may need to revisit steps 1 and/or 2.
4. Try to quantify the accounting distortion that you selected in step 3, laying out the reasoning behind your computations.

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5. When do you think that the accounting distortion you identify in step 3 is most likely to reverse? What transactions or events are most likely to trigger the reversal?

DELIVERABLE

Write up a report summarizing what you did for each of the 5 steps. For step 1, describe the accounting distortion that you decided to identify. For step 2, list and explain the screening criteria that you used. For step 3, provide a table summarizing the reasons why you discarded other companies from your short-list in arriving at your selected company. For step 4, lay out your computations and the reasoning behind them. For step 5, summarize when and why you think the accounting distortion will reverse.

If your group signed up to present this case, then you should also prepare a presentation to accompany your report and be ready to make your presentation in the assigned session.