

DISCIPLINE SPECIFIC ELECTIVE -FINANCE (DSE-6)

DSE 6: EARNINGS MANAGEMENT

Credit distribution, Eligibility and Pre-requisites of the Course

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Earnings Management (DSE 6)	4	3	1	0	Class XII	Basic knowledge Accounting

Learning Objectives

To equip the learners with the analytical skills, and competencies to address earnings management issues in organisations.

To acquaint the learners with the core concepts of accounting analytics and via hands-on exercises, build skills and competencies around the management, analysis and representation of data.

Learning Outcomes

On successful completion of the course the learner will be able to:

- Remember the analysis of a company to identify the sources of its competitive advantage (or red flags of potential trouble), and then use that information to forecast its future financial statements.
- Understand the process of earnings management and get a more accurate picture of earnings, so that they can catch the culprits of manipulated financial reporting.
- Apply the knowledge of a very strong tool that will help to red flag the financial statements that may have been manipulated by the managers.
- Understand and Analyze Non-Financial Metrics to set performance targets for optimal financial performance.

SYLLABUS OF DSE 6

Unit 1: Ratios and Forecasting

(11 Hours)

Review financial statements and sources of financial statement information. The company's strategy and business model. Ratio analysis – short term solvency ratios, long term solvency ratios, turnover ratios and profitability ratios (Historical ratio analysis of real companies using Excel). Du-Pont analysis. How to use all the ratios, to forecast future financial statements? Accounting based valuation.

Unit 2: Earnings Management

(12 Hours)

Overview of earnings management: Means, motive, opportunity, how managers actually make their earnings look better, their incentives for manipulating earnings, and how they get away with it. Revenue recognition red flags: revenue before cash collection. Revenue recognition red flags: revenue

after cash collection. Expense recognition red flags: capitalizing vs. expensing. Expense recognition red flags: Reserve Accounts and write-offs.

Unit 3: Big Data and Prediction Models (11 Hours)

Overview: Big Data and Prediction Models. Discretionary Accruals Models: Model the Non-Cash portion of Earnings or Accruals. Discretionary expenditure Models: Model the Cash Portion of Earnings. Fraud Prediction Models and Benford's Law.

Unit 4: Non-Financial Metrics and Financial Performance (11 Hours)

Introduction: Connecting numbers to non-financial performance measures. Linking non-financial metrics to financial performance: Overview and steps. Targets setting, incorporation of analysis results in financial models and how to use analytics to choose action plans.

Essential/recommended Readings (latest edition of readings to be used)

1. Diri, M.E. (2017). *Introduction to Earnings Management*. Springer.
2. Richardson, V.J., Teeter, R.A., Terrel, K.L. and Mohapatra, P.S. (2020). *Data Analytics for Accounting*. 2nd Edition, McGraw Hill..
3. Prince, J.T. and Bose, A. (2020). *Predictive Analytics for Business Strategy – Reasoning from Data to Actionable Knowledge*. 1st Ed., McGraw Hill

Note: Examination scheme and mode shall be as prescribed by the Examination Branch, University of Delhi, from time to time