

Financial Warnings

Detecting Creative Accounting Practices

Avoiding Earnings Surprises

Course Notebook
2019

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Charles W. Mulford BioSketch

Charles W. Mulford is INVESCO Chair and professor of accounting in the College of Management at Georgia Tech. Since joining the faculty in 1983, he has been recognized ten times as the Core Professor of the Year and four times as the Professor of the Year by the Graduate Students in Business Administration. In 1999 the graduate students voted to rename the Core Professor of the Year Award the “Charles W. Mulford Core Professor of the Year Award”. An additional teaching award received in 2000 was the university-wide W. Roane Beard Outstanding Teacher Award.

Dr. Mulford’s scholarly pursuits include the publication of numerous papers in scholarly as well as professional accounting and finance journals. His research interests center on the effects of accounting standards on investment and credit decision-making, earnings forecasts, the relationship between accounting-based and market-based measures of risk and international accounting and reporting practices. More recently, his research interests have turned to the use of published financial reports in cash flow analysis. He has co-authored four books, *Financial Warnings*, published in 1996, *Guide to Financial Reporting and Analysis*, published in 2000, *The Financial Numbers Game: Identifying Creative Accounting Practices*, published in 2002 and *Creative Cash Flow Reporting: Uncovering Sustainable Financial Performance*, published in 2005. In 2002, Dr. Mulford founded the Georgia Tech Financial Analysis Lab, which is dedicated to conducting independent stock market research.

Dr. Mulford has appeared on numerous broadcast networks, including CNBC, ABC News, and Bloomberg TV. In addition, he has been quoted over 400 times in several business publications, including *The Wall Street Journal*, *The Financial Times*, *Business Week*, *Forbes*, and *Fortune*.

In addition to his work at Georgia Tech, Professor Mulford regularly consults with major domestic and international commercial banks and money-management firms on issues related to credit and investment decision-making. He also serves as Director of Research to Cash Flow Analytics, LLC.

Professor Mulford has a doctorate in accounting from the Florida State University and is professionally qualified as a Certified Public Accountant (CPA). Prior to joining the Georgia Tech faculty, he practiced public accounting with the firm of Coopers & Lybrand. He was an audit senior in the firm's Miami office.

Financial Warnings:

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Course Description:

“Declining profitability, “asset write-offs”, "unrecorded liabilities", "restructuring charges", "accounting irregularities", "inflated profits", "earnings restatements", off-balance-sheet liabilities . . . all are terms that are seen with frequent occurrence in describing modern-day financial performance. These terms describe circumstances that are often unanticipated and typically lead to unexpected reductions in corporate earnings, forecast cash flow, and debt-service capacity.

Financial Warnings: Detecting Creative Accounting Practices identifies the financial characteristics of firms that typically precede such circumstances, helping the informed financial statement reader anticipate their occurrence and their accompanying negative earnings surprise.

Generally accepted accounting principles provide wide latitude in the selection of accounting techniques. Their aggressive application can cause misleading results, even permitting the reporting of profits where losses may have been more realistic. Not satisfied, some managements move beyond even the aggressive application of generally accepted accounting principles and opt to report fraudulent results.

Whether earnings are overstated due to aggressive application of accepted standards or because of fraud, economic fundamentals will eventually expose the charade. The end result will be a negative earnings adjustment, a likely net loss for the period (and often several periods), and a requisite reduction in forecast cash flow. Early detection of earnings overstatements can lead to more timely corrective actions.

Objectives

At the conclusion of this two-day seminar participants will be able to:

- Use a Financial Warnings Checklist in identifying firms that are more likely to sustain an earnings surprise.
- Identify unduly aggressive behavior in the choice or application of accounting principles that is often used to alter perceptions of business performance.
- Use specific metrics as financial warnings indicators that are useful in anticipating negative earnings surprises
- Recognize the warning signs of financial fraud

Who Should Attend

- Bankers, analysts and credit specialists at all experience levels who have responsibility for making or reviewing credit decisions

**Financial Warnings:
Detecting Creative Accounting Practices
Avoiding Earnings Surprises**

Course Materials Outline

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