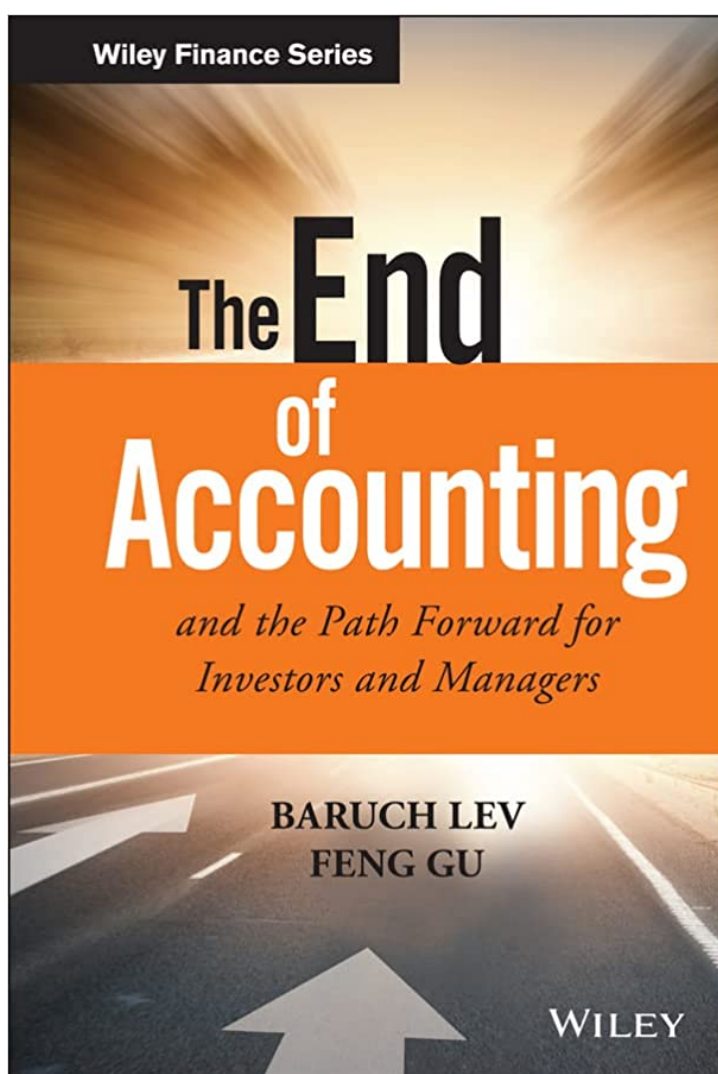


The End of Accounting and the Path Forward for Investors and Managers (Wiley Finance)

by
Laura Wexler



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Synopsis

An innovative new valuation framework with truly useful economic indicators
The End of Accounting and the Path Forward for Investors and Managers shows how the ubiquitous financial reports have become useless in capital market decisions and lays out an actionable alternative. Based on a comprehensive, large-sample empirical analysis, this book reports financial documents' continuous deterioration in relevance to investors' decisions. An enlightening discussion details the reasons why accounting is losing relevance in today's market, backed by numerous examples with real-world impact. Beyond simply identifying the problem, this report offers a solution—the Value Creation Report—and demonstrates its utility in key industries. New indicators focus on strategy and execution to identify and evaluate a company's true value-creating resources for a more up-to-date approach to critical investment decision-making. While entire industries have come to rely on financial reports for vital information, these documents are flawed and insufficient when it comes to the way investors and lenders work in the current economic climate. This book demonstrates an alternative, giving you a new framework for more informed decision making. Discover a new, comprehensive system of economic indicators
Focus on strategic, value-creating resources in company valuation
Learn how traditional financial documents are quickly losing their utility
Find a path forward with actionable, up-to-date information
Major corporate decisions, such as restructuring and M&A, are predicated on financial indicators of profitability and asset/liabilities values. These documents move mountains, so what happens if they're based on faulty indicators that fail to show the true value of the company? The End of Accounting and the Path Forward for Investors and Managers shows you the reality and offers a new blueprint for more accurate valuation.

Sort review

"..goes far beyond a mere provocation and could be considered one of the most effective reviews on the current status of accounting." (European Accounting Association, June 2017)
Review Praise for The End of Accounting and the Path Forward for Investors and Managers
"Utilizing and valuing intangible assets is essential for companies' investment and capital allocation decisions. This book proposes a thoughtful approach for managers and investors to appraise intangibles and thereby more accurately assess a company's value and performance. It's an important book for business leaders to read."—Samuel J. Palmisano, Former Chairman, CEO, and President, IBM
"Reading this amazing book, I was reminded of Bill James' revolution in the analysis of baseball (Sabermetrics), celebrated in the book and movie Moneyball. Baruch Lev and Feng Gu argue for similar revolution in securities' analysis, where the financial stakes are orders-of-magnitude higher and the economic implications infinitely greater. The authors take us gently by the hand and escort us through every key aspect of their stunning case with a rare combination of clarity, humor, and scholarly authority—to be acted upon by

investors and managers."—Gene Epstein, Economics and Book Editor, Barron's

"The authors have identified an important area for investors—the accounting and reporting distortions of the actualities of businesses. They do an excellent job proposing ways to overcome these distortions. All investors should be cognizant of the issues presented in this book."—Win Murray, Director of Research, Harris Associates L.P.

"This is one of those rare accounting and finance books that is both thought-provoking and visionary. The authors propose and demonstrate an exciting and highly practical new direction for corporate reporting and investment analysis, focusing on the value-creating resources of the enterprise. An essential reading for investors, accountants, and standard-setters."—Allister Wilson, Global Audit Partner, Ernst & Young LLP

"A thought-provoking book on how to make accounting and financial reporting more relevant to investors, where intangible assets play a key role."—Josef Lakonishok, CEO, LSV Asset Management

From the Inside Flap

Despite the efforts of regulators around the world who strive to improve accounting and corporate transparency, the financial information they require to be disclosed no longer truly reflects the performance and value of business enterprises. *The End of Accounting and the Path Forward for Investors and Managers* empirically proves this statement and offers a new way of reporting that provides a truly transparent look at a business's vitality. Today's financial reports provide a very small component of the relevant information investors and lenders need to wisely put their money with high-potential organizations. Inside, the authors share their radical findings from examining quarterly earnings conference calls and investor meetings in four major economic sectors, revealing that a company's worth lies in the strategic, value-enhancing resources it holds rather than the traditional assets in corporate financial reports. This groundbreaking process is more than a way to avoid investing in companies with misleading financial reports; it's also proven to uncover the companies poised to capture major market share, but currently burdened by red ink on their books. The conclusions inside fly in the face of conventional investment wisdom and practice, but they were reached by extensive examination of real-world facts and, as you will see, proven in numerous case studies. This thorough resource gives you what you need to gain meaningful insight into a company, including:

- A comprehensive system of economic indicators that evaluates the performance and long-term competitive position of business enterprises
- A detailed proposal for how current accounting and reporting systems can be restructured to efficiently serve twenty-first century companies, investors, and lenders
- Concrete steps to conduct your investment routine to align with the real drivers of business success

Make your investing and lending decisions based on information that matters with *The End of Accounting and the Path Forward for Investors and Managers*.

From the Back Cover

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About the Author
BARUCH LEV is the Philip Bardes Professor of Accounting and Finance at the NYU Stern School of Business. He has authored more than 100 research studies and five books, including *Winning Investors Over*.
FENG GU is an Associate Professor and Chair of the Department of Accounting and Law at the University at Buffalo. He has written numerous articles for top research journals.

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Narrative and Numbers: The Value of Stories in Business (Columbia Business School Publishing)
Information Rules: A Strategic Guide to the Network Economy

What people say about this book

Arun Garg, "Accounting needs to adapt as software eats the world. As a portfolio manager in an era where the economy is getting increasingly digital I have, over time, learned to ignore GAAP financials more and more as I realized they were not really capturing what was really going on in the businesses. Consider the absurd-sounding P/E ratios of Amazon (300+) and Netflix (190+) suggesting that these companies are not earning even as they monopolize their industries and sectors. I have learned to ignore the supercilious head-shaking of countless media articles suggesting that these stocks must be bubbles just about to crash - "just look at the P/Es!". So it was a pleasant surprise to encounter some support from an unexpected source - two *accounting* professors acknowledging that their profession is losing relevance by sticking to GAAP methods as more and more of the economy becomes intangible. In the first section of this highly readable book they document their painstaking efforts to establish and quantify this loss of relevance and explain where the problem lies. Here is an example from the book: If you spend on marketing to develop a brand, like Coke did, it's not an asset on the balance sheet according to GAAP, but if you *buy* the brand, it will be proudly displayed on your balance sheet. This is because the marketing is immediately expensed as part of SG&A. In fact, the *least* important assets to Coke - undistinguished commodities such as physical buildings - are what appear as assets on the balance sheet instead of its true strategic assets. As the professors note: As "software, biotech, and Internet services, came into being during the 1980s and 1990s ... the major value drivers shifted from property, plant, machinery, and inventories, to patents, brands, information technology, and human resources. The latter set, all missing from companies' balance sheets because accountants treat intangible investments like regular expenses (wages, or interest), thereby distorts both the balance sheet and income statement... Asset and equity values of intangibles-intensive businesses are seriously understated, but their profitability measures (ROE, ROA) often overstated, while the earnings of firms with increasing investment in intangibles are diminished, due to the full expensing of intangibles. Every aspect of the financial report is adversely affected by this dated, industrial-age treatment of intangible capital. The latter half of the book suggests the authors' solution: adding fact-based metrics to GAAP statements that attempt capture some of the fundamental drivers of actual value creation of a business. The problem, of course, is that these metrics vary depending upon the type of business. The authors provide four different industry-specific examples of such metrics in an integrated report form that is structured to capture the creation and maintenance of business value (for example churn and customer-acquisition metrics for consumer franchise type businesses). To be sure, under pressure from investors companies already provide some of these metrics in 8-K releases (non-GAAP) and during analyst conference calls, but due to lack of standardization, these are not consistent or comparable across companies and not subject to audits by independent CPA firms. I highly recommend this well-written and timely book to all investors and analysts, but it is essential reading if you are analyzing a company whose

fundamental drivers happen to be intangible (software, patents, drug pipeline, brand etc). In fact, the situation the authors are addressing is only going to get much worse as cloud-based software becomes prevalent, with its upfront costs being completely out of sync with revenues spread many years into the future. Last but not least, I found the book to be a fun and easy read, not something I expected from the notoriously dry subject of accounting!”

Jeppe Kleyngeld, “Excellent read.. Very well researched book and well written too (these authors really make accounting as interesting as it can be).This is a must read for anyone who works on the production of corporate financial reports (financial managers, controllers) and those who use this for decision making (analysts, investors). The main point: financial reports have lost most of their relevance for decision making; the authors first extensively prove this and explain why. Then they present their method to make these reports meaningful again. Excellent read.”

nikolas4, “The authors did a good job. Well done. Very interesting book! I wouldn't be surprised to read a review in a top accounting Journal in the following months. The authors did a good job. Well done.”

Mr Wayne Lewis, “Five Stars. Very good for all us bean counters out there”

Mamun, “Forward looking book for risk analysts. Really interesting and provocative book about how accounting should be modified to take into account elements like intangibles, corporate events and subjective assessments from managers. All the statements are leveraged in robust research produced by the authors. Both investment analysts and risk managers in banking should read the book if they want to be ahead of the curve. Risk analysts might be in risk of denying all the loan applications from performing companies just because they won't understand its balance sheet and P/L.”

The book by Laura Wexler has a rating of 5 out of 4.3. 114 people have provided feedback.

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