

Accounting 381N – Spring 2013 Financial Statement Analysis

Professor Michael Clement

E-Mail Michael.Clement@mccombs.utexas.edu

Phone (512) 471-0332
Office CBA 4M.234
Office Hours by appointment
Course Web Page via Blackboard

Teaching Assistant Brent Lao (Brent.Lao@phd.mccombs.utexas.edu)

Course Objectives

- To learn a framework for making business decisions using financial statement information
- To practice applying the framework, primarily from the perspective of an equity investor
- To practice communicating our decisions using written and oral communication skills

We will review some accounting concepts, but the primary objective of the course is **NOT** to improve your understanding of Generally Accepted Accounting Principles (GAAP). Instead the goal is to improve your ability to interpret and manipulate financial statements.

Materials

Required text:

- Financial Reporting, Financial Statement Analysis, and Valuation 7e by Wahlen, Baginski and Bradshaw (Thomson-Southwestern)
- Course reader: supplemental readings packet.

Optional texts:

- Business Analysis & Valuation: Using Financial Statements, 4e by Palepu and Healy (Thomson-Southwestern)
- Regular readings of The Wall Street Journal, Forbes, Business Week, Fortune, etc.

Course Requirements and Grading

Your grade in the course will be determined based on your performance in the Managerial and FSA parts of the course (i.e., a 50% weight on your performance in each half of the course). Your grade for the FSA part of the course will be determined as follows:

- Exam 75%
- Homework 25%

Exam

There will be one comprehensive exam on the weekend of April 26. The topics on the exam will be roughly weighted by the amount of time we spent on the topic in class. I will post a practice exam and other guidance on Blackboard.

Homework

The primary objective of homework assignments is to help you review the lecture material before attending class. Written assignments will be posted on Blackboard at least one week prior to their due dates. The assignments will be a combination of computational problems and cases. Assignments will be graded based on an **effort** basis. You will receive 0 if you did not hand in the assignment, 1 if your effort appears to be unreasonably low and 2 if you made a reasonable attempt to answer **all** of the questions. All assignments should be submitted electronically through Blackboard. There are four homework assignments. You are responsible for submitting three of them. **I do not accept late assignments.**

Course Structure

During the semester we will learn a framework for business analysis and valuation. The steps in the framework include: (1) business strategy analysis (2) accounting analysis (3) financial analysis and (4) valuation, or prospective analysis. The purpose of business strategy analysis is to assess the profit potential of the firm at a qualitative level. This involves industry and competitive analysis. The purpose of accounting analysis is to develop an understanding of whether a firm's accounting captures its true underlying economic condition. This involves identifying accounting flexibility and determining whether the accounting policies and estimates are appropriate. The purpose of financial analysis is to assess the firm's historical financial performance in the context of its stated goals and strategy. Tools used for financial analysis include ratio analysis, cash flow analysis, and common size financial statements. The purpose of prospective analysis is to forecast the firm's future. Tools used for prospective analysis include forecasts of financial statements and valuation models. Due to time constraints we will not cover business strategy analysis and we will only cover the highlights of the other three parts of the framework.

The course will be taught using a combination of examples, discussion questions and homework problems. We will learn new concepts using Southwest Airlines (LUV) as our example company and we will gain greater insights to the concepts by using discussion questions and homework problems.

I have attached a tentative schedule of class meetings to the end of this document. Should significant revisions be required, I will post a revised schedule on Blackboard. I will also post a "plan for the week" to Blackboard each week that will outline what we plan to cover that week.

Laptop policy

You are permitted to use your laptop to take notes in class. If laptops prove to be a distraction, however, we will institute a "no laptop" policy. Under this policy you will be required to turn off your laptops when the class begins.

Academic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Because dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at http://deanofstudents.utexas.edu/ssd/index.php. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Class Web Sites and Student Privacy

Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information by notifying the Office of the Registrar in the Main Building, Room 1. For information on restricting directory information see:

http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html.

Tentative Schedule of Classes (as of 1/4/13)*

Session	Date	Торіс	Readings	Homework
1	March 9	Course Overview	Chapter 1	Assignment 1
		Southwest Airlines questions	Chapter 2: pgs 121-131; Chapter 8: pgs 661-672	
		Accounting Review: Campus Products		
2	March 22-23	Accounting Analysis: deferred taxes	Chapter 2: pgs 132-138	2.7, 2.15
		Accounting Analysis: analytical framework/intro to ROE	Chapter 4: pgs 246-249, 295-304	7.15, Case 8.1
		Accounting Analysis: revenue and fixed assets	Chapter 7: pgs 524-549, Chapter 8: 632-640	
3	April 6	Financial Analysis: cash flow statement	Chapter 3	3.24
		Financial Analysis: profitability analysis	Chapter 4: pgs 276-295	4.11, 4.28
4	April 13	Prospective Analysis: Valex	Chapter 10	11.12, 13.16
		Prospective Analysis: DDM and Earnings-based models	Chapters 11 and 13	
5	April 26	Exam review		
		Exam		

^{*}Schedule may be amended by "plan for the week" e-mails

FSA Course Overview

Skills developed in class

- Shorter term Skills
 - Knowledge of GAAP (i.e., how does the accounting for stock options work?)
- Longer term Skills
 - A framework for analyzing financial statements
 - Judgment (e.g., how do I decide where to allocate effort?)
 - Analytical skills (e.g., how do I determine the source of recent performance?)
 - Manipulation skills (e.g., how do I adjust the financial statements to reflect different accounting choices?)

The PHB Framework

Industry/Strategy **Financial** Prospective Accounting **Analysis Analysis Analysis Analysis** •What is the •What is •What is the Do earnings competitive company's past company's reflect landscape? financial future? economic performance? •How does the •What are reality? •Is performance predictions company •Where are the sustainable? make money? for critical major areas of success •What are the •How has accounting factors? critical company flexibility? performed •What is the success •How are factors? relative to company critical critical success worth? success factors? factors measured in financial statements?