

Financial Statement Analysis (ACC 327) - Spring 2014

Professor: Judson Caskey

Office: CBA 3.216 (mailbox in CBA 4M.202)

Office hours: M/W 2p - 3:30p, F 10a-11:30a (other times by appointment)

Online office hours Sunday: Begin 8:30p and end at the earlier of 10p or no

more attendees and/or questions

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Course web page: On Canvas (<u>http://canvas.utexas.edu</u>)

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Course meeting times and location

Unique #	Days	Time	Location
02645	Tues, Thurs	2:00p - 3:30p	GSB 2.120
02650	Tues, Thurs	3:30p - 5:00p	GSB 2.120

Course overview

We will use firms' publicly available financial statements to (1) assess current performance, (2) forecast future performance, and (3) estimate the fundamental value of the firm. This course is intended to develop your ability to think critically about the information in financial statements, your proficiency with technical tools for analyzing and valuing companies, and communication of your analysis.

Although we will discuss key accounting issues related to financial reporting, including the relevant US and international standards, the primary focus of the class is on the use of accounting information, rather than on the accounting rules, themselves.

Course materials

- 1) **Required text (note edition):** *Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective,* 7th edition, by Wahlen, Baginski and Bradshaw (Cengage).
- 2) **Coursepack** available at UT Copy Center (McCombs location only GSB 3.136).
- 3) Readings, additional cases, and supplemental materials on Canvas.
- 4) **Supplemental reading:** For students seeking supplemental material on accounting-based valuation, I recommend *Accounting for Value* by Stephen Penman (Columbia University Press).

Students with disabilities

If you require accommodation for a disability, please let me know. Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, http://www.utexas.edu/diversity/ddce/ssd/.



Assessment

The following table summarizes the grading rubric I will use:

		Group/	
Element	Description	Individual	Points
Long case analysis	Either L1a or L1b (not both); submit via Canvas	Individual	50
	Either L2a or L2b (not both); submit via Canvas	Illuiviuuai	50
Short case analyses	Either S1a or S1b (not both); submit via Canvas		25
	Either S2a or S2b (not both); submit via Canvas	Individual	25
	Either S3a or S3b (not both); submit via Canvas	Illulviuuai	25
	Either S4a or S4b (not both); submit via Canvas		25
Accounting review	Campus products; submit via Canvas	Individual	25
Ratio assignment	Submit via Canvas	Individual	25
Forecasting case	Submit via Canvas	Individual	50
Valuation case	Submit via Canvas	Individual	100
Midterm exam		Individual	100
Final exam		Individual	100
Group project	Midterm written report		100
	Final written report	Group	100
	Final presentation		100
Participation*	My (Caskey) assessment of class participation		
	Peer evaluation by group members	Individual	100
	Peer nomination by overall class		
Total			1,000

^{*} Commingling the participation points preserves students' anonymity when rating each other. See the attached peer evaluation form at the end of the syllabus for an example of the evaluations.

Submitting assignments via Canvas

For assignments submitted via Canvas, you must upload them *before your class section begins*. Bring a copy for your use during class so that you can participate in that day's discussion. In exceptional cases, I will accept hard copies at the start of the class. There are no exceptions to the due dates/times. Take this into account when considering how much of a buffer you give yourself for computer issues.

Grading scale for final course grades

The final distribution of letter grades depends on total points *at the end of the semester*. This means that numerical scores on specific assignments do not necessarily correspond to a particular letter grade. Based on school guidelines and past courses, I expect the average to be between 3.2 and 3.4.

Grading disputes

My TA and I make every effort to grade all of your work fairly and accurately, but grading errors can occur. If you believe there is an error, you may request a re-grading of the assignment. If you request a re-grading, we will re-grade the entire assignment, and correct all grading errors. By requesting a re-grade, you accept the possibility that your grade may go either up or down.

To request a re-grade, submit a one-page written request to me within one week from the class period in which the assignment was first returned to students. The request must be accompanied by the graded original and must state the area of dispute, your recommendation for change in grade, and an explanation or justification for your recommendation.



Tentative course schedule

		Date	Topic	Assignments due					
I.	Fra	Framework and financial analysis							
1		Jan 14	Course overview						
2	Th	Jan 16	Financial accounting review	Campus products					
3	Tu	Jan 21	Valuation basics and overview	Select group members (five or six)					
4	Th	Jan 23	Strategy and industry analysis	Facebook (S1a)					
5	Tu	Jan 28	Ratio analysis	Ratio assignment; select companies					
6	Th	Jan 30	Cash flows and accruals	Cisco (L1a)					
			No office hours Friday, January 31						
7	Tu	Feb 4	Analysis of risk	NOC and RTN (L1b)					
8	Th	Feb 6	Accounting quality	KC Zephyrs* (S1b)					
II.									
9	Tu	Feb 11	Inventory	Tiffany & Co. (S2a)					
10	Th	Feb 13	R&D: Asset or expense	Denedron (S2b)					
11	Tu	Feb 18	Revenue recognition	Groupon (S3a)					
12	Th	Feb 20	Income taxes	Citigroup* (S3b)					
13	Tu	Feb 25	EPS and employee compensation	Cisco (S4a)					
14	Th	Feb 27	Leases	Airline leasing (S4b)					
15	Tu	Mar 4	In-class review						
	Tu	Mar 4	MIDTERM EXAM: 7p-9p in UTC 3.110	(2p section) and 3.112 (3:30p section)					
16	Th	Mar 6	NO CLASS TO COMPENSATE FOR MARCH 4 EVENING EXAM						
17	Tu	Mar 18	Impairments	Hess (L2a)					
18	Th	Mar 20	Mergers and acquisitions	AOL Time Warner* (L2b)					
19		Mar 25	Segment reporting						
III.	Acc	ounting	-based valuation						
20	Th	Mar 27	Forecasting I	Midterm reports due					
21	Tu	Apr 1	Forecasting II	Forecasting case					
22	Th	Apr 3	Expected returns						
			No office hours Friday, April 4						
23		Apr 8	Valuation models I						
24	Th	Apr 10	Valuation models II	Valuation case* (Kohler)					
25		Apr 15	Adjusted present value						
26	Th	Apr 17	Market multiples						
			No office hours Friday, April 18 or on	line office hours Sunday, April 20					
27	Tu	Apr 22	Sensitivity analysis						
28	Th	Apr 24	Group presentations						
29	Tu	Apr 29	Group presentations						
30	Th	May 1	Group presentations						
			FINAL EXAM						
* Dc		c	m the coursened. The other case materia	als are on the course website or the toythook Th					

^{*} Denotes cases from the coursepack. The other case materials are on the course website or the textbook. The course website lists the questions for all of the case assignments.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.



Case analyses

General

The case analyses both develop and assess your critical thinking and communication skills. You can expect the cases to stretch your understanding and to provide inputs for class discussion. When gauging your progress, primarily focus on what you understand *after* discussing the case in class. You may discuss the cases with other people, but the analyses must be your own work and you submit them individually. You should work on cases that you do not submit for a grade because that will help you benefit from and contribute to the discussion in class.

Good write-ups typically do not follow the same sequence in which you performed the work. A typical write-up, or a general business memo, might appear as follows:

- 1) State the question or issue
- 2) State your conclusion or recommendation
- 3) State facts and analyses that support your conclusion (including ruling out alternatives) Note that this does not follow the 'mystery novel' approach where the process proceeds the conclusion. For students particularly interested in improving their business writing skills, I recommend the book *The Minto Pyramid Principle* by Barbara Minto.

Long case analyses

The long case analyses focus on practicing the course material. Typically, each long case analysis will consist of a memo conveying your responses to the case assignment questions, recommendation(s) for the case issues and/or an explanation or justification for the recommendation, if required. The following are format and length criteria:

- a) Memos must be written concisely and in a proper memo format. Write it as if it were a memo to professional colleagues (aside from "Memo to X" headings). The memo should be a standalone document that can be understood without having to refer back to the questions, and is NOT simply listing question numbers and responding.
- b) Memos must reference any attached exhibits that are used to resolve case issues. Exhibits can include analyses that are required in the case assignment or that support the position taken in the memo. Exhibits do not count toward the memo's maximum page length.
- c) Format: No more than five pages in length, typed, <u>double spaced</u>, with <u>12 point</u> font and a minimum of <u>1" margins</u> for the text of the memo, your name and section number at the top of each page (in a header), and page numbers at the bottom (in a footer).

Short Case Analyses

The purpose of brief analyses is to provide evidence that you read the case and thought about the case questions before coming to class. Each short case analysis will consist of your brief thoughts and/or notes in response to each case question. I expect your write-up will consist of no more than two typed pages and be comprised primarily of discussion points for class. You can use whatever format you like in responding to the questions (e.g., a few brief sentences in response to each question, bullet points). Computations are not required for brief analyses unless explicitly asked for. If you choose to include computations, please attach them as an exhibit.

Accounting, ratio, forecasting and valuation assignments

In addition to the case analyses, you will complete an accounting assignment for review, and three assignments designed to solidify your understanding of the key analysis tools we learn in class – ratios, forecasting and valuation. Specific due dates and times for the three assignments are listed on the course schedule at the end of this document.



Class participation and protocol

Much of the learning in the class will occur via class discussions, and your contributions will help both you and your fellow students. Specifically, your input helps both you and your classmates better understand the material and develop thinking and communication skills. Because so much of the learning in this class takes place through discussion and debate, attendance is necessary to your success – it is impossible either to contribute or to benefit from others if you are not in class. However, perfect but passive attendance is not sufficient for your success and will not contribute to your participation grade. In short, attendance is a necessary, but not sufficient, condition for getting credit for participation.

The following are some criteria that I will use to evaluate your participation, and I encourage you to consider when rating your peers:

- Insightful: Comments increase class's understanding, and do not merely regurgitate facts.
- Respectful: Comments and their manner of delivery show respect for the class. Many of the
 questions we will address have no definitive right or wrong answer one's view may
 depend on how much weight he or she assigns to different facts. The entire class benefits
 from an environment where students feel comfortable stating their views and the reasoning
 behind them. When debates emerge, pointing out weaknesses in an argument contributes to
 the class discussion, but criticizing the person making the argument detracts from the class.
 Relatedly, it is important not to take personal offense to a respectful critique of an
 argument.
- Concordant: Comments relate to the current flow of discussion rather than introduce tangents. The best contributions tend to be those that reflect not only excellent preparation but also good listening, interpretative and integrative skills. This includes gaining a sense of when the class is ready to move onto a thread of discussion.
- Well-reasoned: Comments show evidence of both a thorough reading and analysis of the required readings/cases, prior experience, and logical thinking. The comments distinguish between facts and speculation, and are clear about the line of thinking.

Even though this is an undergraduate course, I ask that you observe the MBA Program's "the classroom is a boardroom" protocol:

- 1) Arrive on time and post your name card (at least until I learn your names)
- 2) Be prepared (to discuss the case, summarize the readings, etc...)
- 3) Listen respectfully
- 4) Build on previous points
- 5) Direct comments to your classmates
- 6) State your assumptions
- 7) Speak concisely
- 8) Articulate your argument systematically
- 9) Give evidence to support your claims
- 10) Participate wholeheartedly
- 11) No cell phones or laptops unless otherwise stated

In recognition of the high value I place on professionalism, your participation and professionalism will make up 10% of your course grade. As noted in the section on Assessment, your points in this area depend on both your peers' and my assessment.



Group project

In this course, as in life, working effectively in a team is important. This is reflected by the fact that 30% of your final grade will be based on a two-part group project.

By January 21, you will self-select into groups of five or six. Please attempt to balance out your team's skill set. When submitting your company selections, please list each group member's degree program, work experience and other relevant qualifications.

As a group, you will choose two U.S. publicly traded firms who operate in the same industry. You have until January 28 to submit company selections. You may NOT choose to analyze a firm on which we spend a substantial amount of time in class (e.g., Facebook). In addition, I would NOT recommend that you choose to analyze a pair of financial services firms (e.g., banking, insurance) as these types of firms often operate in unique markets with unique accounting issues that we do not cover in detail in class.

A complete firm analysis has five parts:

- 1) A business analysis, which includes an analysis of the primary industry or industries in which the firm operates, and an analysis of the firm's competitive and corporate strategies;
- 2) An accounting analysis, which includes a complete analysis of the firm's accounting practices and procedures;
- 3) A financial analysis, which includes ratio analysis and cash flow analysis;
- 4) A prospective analysis, which includes forecasts of future performance and valuation;
- 5) Sensitivity analysis, which identifies how your valuation varies with differing assumptions, identifying which assumptions have the greatest impact on value, and what assumptions give a valuation consistent with the current price.

The midterm project assignment will cover parts (1) through (3) of the firm analysis described above for *both* of the firms that you choose to analyze. The final project assignment will cover parts (4) and (5) of the firm analysis described above for *one* of the two firms that you choose to analyze and will require you to make an investment recommendation (buy, sell, or neutral). The final project will include a written analysis and a presentation. These elements will be equally weighted (each making up 10% of total points), reflecting the importance of *communicating* your analyses in a concise and effective way.

Due dates and times are listed on the course schedule. I will post detailed requirements for the midterm and final projects to Canvas no later than four weeks prior to the due date for each project.



Quantitative Reasoning Flag

This course carries the Quantitative Reasoning flag. Quantitative Reasoning courses are designed to equip you with skills that are necessary for understanding the types of quantitative arguments you will regularly encounter in your adult and professional life. You should therefore expect a substantial portion of your grade to come from your use of quantitative skills to analyze real world problems.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. 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. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Campus Safety

Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, http://www.utexas.edu/safety:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: http://www.utexas.edu/emergency.



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Peer evaluation form

Name:				
Section or time:				
Peer evaluation of group members		4		
List the one group member, aside from yourself, who made the most substantial contribution to your group's project				
Rate the contributions of the remaining member(s) assign the same rating to multiple group members)		o, aside fron	ı yourself (you can
Name	4 (High)	3	2	1 (Low)
Peer nomination of best contributor to the class				
List the one student, aside from yourself or any of your group members, who made the most				
substantial contribution to the class discussions				