Houston MBA ACC 381N Spring 2014

Financial Statement Analysis

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Our objectives include:

- Increase our understanding of external financial filings (including financial statements, manager's commentaries, footnotes and other sources of financial information) in order to:
 - o Broaden our understanding how firms operate and create value
 - o Increase our understanding and ability to use tools to analyze information presented in financial statements
 - o Concisely articulate the firm's financial past—tell the story of the firm
 - Use our understanding of the firm and its financials to make informed predictions about future performance
 - o Motivate, understand, construct and implement the main inputs to and outputs from valuation models

We will review (and learn) accounting concepts as this knowledge is critical to making decisions with financial information. However, the primary objective of the course is *not to improve our ability to apply Generally Accepted Accounting Principles (GAAP)*; the goal is to improve our ability to interpret and use financial statements that follow GAAP.

Materials

- Required text: The textbook for the course is Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective by Wahlen, Baginski and Bradshaw, seventh edition
- Throughout the course we will be examining publicly available material including corporate press releases, corporate filings (10K's, etc.) and articles from the business press. When appropriate, these and other supplemental information (or links to these documents) will be provided via Blackboard. You will be responsible for downloading or printing these articles. Blackboard and internet access are essential to this class.

Course Structure

• During the semester we will learn a framework for fundamental analysis and valuation. The steps in the framework include:

- (1) Business Strategy Analysis: The purpose of business strategy analysis is to assess the profit potential of the firm at a qualitative level. This involves an understanding of the firm's strategy and its industry and considering how these affect and are affected by the firm's financial performance. Given the knowledge of the class, the coverage of this topic will be brief. However, throughout the class we will discuss the financial implications and expectations given a firm's strategy, economic setting, competitive environment and other factors.
- (2) Accounting Analysis: The purpose of accounting analysis is to develop an understanding of whether and how accounting choices capture the underlying economic conditions of a firm. This involves understanding accounting transactions, identifying accounting flexibility, evaluating the appropriateness of accounting policies and estimates, and, at times, altering financial statements to enhance decision making.
- (3) Financial Analysis: The purpose of financial analysis is to assess the firm's historical financial performance in the context of its stated goals and strategy. The steps and tools used for financial analysis include ratio analysis, cash flow analysis, and the use of common size financial statements and other metrics. This process may also involve altering financial statements and developing thoughtful financial comparables ("comps").
- (4) Forecasting and Valuation: The purpose of forecasting is to use our knowledge of the firm to develop well-founded motivations of the firm's expected financial performance. These forecasts can be used for a variety of business decisions, including budgeting and valuation. To do this we will learn the mechanics and intricacies of forecasting financial statements and we will (very briefly) cover the components and usage of valuation models. This is not a valuation class, but we will discuss how the rest of these steps are critical before engaging in valuation.
- The course will be taught using a combination of examples, discussion questions, cases and homework problems. We will explore these concepts using various firms' historical and current financial data.
- A tentative schedule for each class is attached to the end of this document.

Course Requirements and Grading

This course is administratively one-half of a full course of record. Your grade in the course will be an equally-weighted combination of your grades in the two halves.

Your grade in the FSA portion of the course will be determined as follows:

Exam (last FSA class)	60%
Cases*	32%
Class Participation	8%
Total	100%

Description of Requirements Exams

There will be one exam worth 60% of your grade. It will be held on the last FSA class. This is an FSA cumulative exam covering all <u>FSA</u> classes. The exam will involve the lessons from class applied to a set of financial information from one or a small number of publicly traded firms. Please notify me *immediately* if you have a conflict with the exam date. All notifications of exam conflicts **must** be received within 7 days of the start of the FSA portion of the class.

Cases

The primary objective of the Cases is to help you review the lecture material *before* attending class. The fancy term for this is the "flipped classroom" but this is simply old-fashioned education that helps ensure you can master the material by taking ownership of learning before class. All Cases are due before the start of each class and must be submitted on Blackboard. These Cases will be posted on Blackboard at least two week before they are due.

*There are 4 Cases required by all students. In addition, Case #0 is optional. Students who choose to complete Case #0 will have their Case grades allocated over 5 Cases (if Case #0 is higher than their average). Students who do not choose to complete this Case, or those whose Case #0 is lower than their average on Cases #1 through #4, will have their homework grades allocated over 4 Cases. Completing Case #0 may not improve your grade, but it cannot bring it down.

Cases cannot be submitted late. Cases must be submitted on Blackboard in the respective link.

You can work in a small group of students that you choose on all of the Cases. I do not dictate the size of the groups, but if you want to do well and get something out of these assignments, groups of 2-3 students are strongly recommended. If you are less concerned about learning, you could opt for a large group with lots of free-riding. In this case, please do not be surprised when these large groups result in low exam scores. Again, the choice is yours and you do not need my approval.

Whether you are flying solo, or working in a small group, ALL students' names must be clearly indicated on the final submission. If a name is missing, there is a 20% reduction. No exceptions.

Case Grading

Cases are not graded based on whether or not you put some random words on the page. The cases ask you to answer questions about concepts and ideas that may be new, but should not be exceedingly difficult. Therefore, high grades are given for submissions that are complete and have answers that are well-written, reasonable, logical and internally consistent, even if the answers do not perfectly match what is on the answer key or discussed in class. It is also important to be concise.

Policies of OUR University

McCombs Classroom Professionalism Policy

The University of Texas and the McCombs School of Business are incredible places to learn; let's not take this opportunity for granted. Students are expected to be professional in all respects. If the expectation and importance of professionalism is not abundantly clear, please let me know immediately.

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 12/20/13)* ACC 381N (Part 1: FSA) Class Schedule

Session	Date	Topic	Required Reading	Cases	Firm(s)
1	Jan 3, 4	This class introduces our class—Financial Statement Analysis (FSA). During this class we will discuss how companies' strategies and industry conditions are reflected in financial statements and discuss the information environment in which firms operate. We will begin analyzing firms by examining policies to recognize revenue and the resulting implications. We will expand our analysis by focusing on a few specific topics that are a part of our Accounting Analysis. These include examining expenses, operating assets and liabilities, investments, risk mitigation and other areas critical to understanding firm operations. • The Acme Packets Case is designed to review some of the main aspects from Financial Accounting. • The Intro to Analyzing Firms Case is designed to start our exposure to FSA.	Chapter 1: 1-5, 7-17 and 52-53. Chapter 8: 632-633 and 649-661. Consider the rest of these two chapters to be the supplemental reading for this class day.	Case #0: Acme Packets Case Case #1: Intro to Analyzing Firms: Due: Friday Jan 3 rd at 3:59 pm.	Starbucks and others. (Acme Packets is not a real firm, all others will be real firms.)
2	Jan 17, 18	During this class we will discuss and use various financial tools to examine Whole Foods Market between 2006 and 2013. The analysis of Whole Foods Markets will involve ratio and profitability analysis including the Dupont Analysis and the decomposition of these measures. We will carefully consider various ratios and tools and how they can help us understand the main drivers of firm performance.	Chapters 4 and 5: pages 259-273, 276-285, and 285-290. Consider the rest of these two chapters to be the supplemental reading for this class day.	Case #2 WFM: Profitability and Efficiency: Income Statements and Balance Sheets	Mostly Whole Foods with a few related examples
3	Jan 31, Feb 1	During this class we will expand our analysis by focusing on the construction and assessment of the Statement of Cash Flows. We will dig into the specific inflows and outflows of cash to fully assess firms' choices and the implications of these choices. To continue our analysis of profitability, we will focus on additional turnovers, working capital measures and	Chapter 3: 155-159, 164-166, and 168-172. Consider the rest of this chapter to be the supplemental reading for this class day.	Case #3 WFM: Statement of Cash Flows Assignment	Mostly Whole Foods with a few related examples

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		measures of liquidity.			
4	Feb 7,8	We will build upon our knowledge to date to discuss the process of forecasting financial statements. We will discuss the process of motivating inputs for forecasting in either an internal (budgeting) or external (pro forma) framework. After working through this forecasting process we will briefly discuss the valuation process, the inputs to this process, and use our forecasted financials to determine firm value.	Chapter 10: 784-791 and 793-835. Consider the rest of this chapter to be the supplemental reading for this class day.	Case #4 Forecasting Assignment	Amazon
5	Feb 22	Exam: Our exam will involve qualitative and quantitative questions based on the actual financial statements of a firm or a few firms.	All material to date that was covered in class.	Study and review materials	Not Disclosed

*Schedule may be amended.

Case and class details are provided on Blackboard, see the ASSIGNMENTS tab.
Unless otherwise noted, cases are due by Friday at 3:59 pm on the weekends for which they are assigned.