

# THE UNIVERSITY OF TEXAS AT AUSTIN McCOMBS SCHOOL OF BUSINESS



## TEXAS MBA PROGRAM FINANCIAL ACCOUNTING (BA 284T) FALL 2013

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### *Overview*

This course provides an overview of financial accounting information and the role of that information in the economy. The first portion of the course presents an overview of the accrual accounting model, how financial information is presented and the mechanics of keeping track of financial accounting information. Without a solid understanding of this material, the remainder of the course will be very difficult. I urge you to do the course pre-work and to keep up with the course from the start.

The remainder of the course focuses on how corporate financial statements report particular economic events. By the end of the course you should feel comfortable reading the financial statements in published annual reports, and you should be able to come to a reasoned conclusion about a company's financial health and be able to make comparisons across firms and periods of time.

### *Course Materials*

The textbook for the course is *Financial Accounting*, 4<sup>th</sup> edition, by Dyckman, Magee, and Pfeiffer, published by Cambridge Business Publishing. This textbook also has a companion website that will be important in completing your homework assignments.

There is also a packet for the course that contains both "pre-class notes" and "in-class notes" aligned with the chapters in the textbook and the course schedule (below). As explained below, you are to carefully study the pre-class notes before coming to class to understand the topic for that session, and during each class session we will together work our way through the in-class notes to help you apply the material you have learned.

I recommend that you acquire a financial calculator and learn how to use it. You will need it for this class and for many of your other classes in the program, and the sooner you get comfortable with one calculator the better. The calculator I am most familiar with is the HP 10B-II(+), made by Hewlett Packard. The Texas Instruments BAII Plus is equivalent.

The "Blackboard" website is <https://courses.utexas.edu/webapps/portal/frameset.jsp>. I will use this website to post all course-related documents, including those in the packet you have been given. Most importantly, I will post six prior exams at the website along with an index of the prior exams that assigns each question to the appropriate textbook chapter. These prior exams will be very important in your preparation for exams.

### *How This Course Works*

The objective of this course is to help you to become comfortable reading the financial statements of any commercial business, from a large publicly traded company to a small privately held company. We will achieve this in three steps. The first step is to understand the accounting concepts in general (early part of course) and as they apply to specific situations (later part of course). You will accomplish this step largely on your own by reading the pre-class notes, using the textbook as a resource to understand those notes where needed, and by completing your assigned homework. The second step is to apply these accounting concepts to actual financial statements. This step can be a little tricky because there is some variation across companies and how and where

they present the data you will need for any particular task. This step will be the focus of our in-class work, and you will only get the most out of it if you have done a good job of understanding the relevant accounting concepts before you come to class. The third step is practice. I can't emphasize this enough. Learning accounting requires practice. The more you practice the more comfortable you will become with financial statements and the better you will do in the course. I hear this over and over from students and I have seen it in class year after year. Likely you are no different. The way to practice is to review all of the problems we do in class, do all of the old exam problems that I provide to you, apply these old problems to other sets of financial statements and solve those, all the while discussing all of this in your groups. Groups are great, use them. My only word of caution is that in the end you will take the exams by yourself, so make sure before each exam that you can succeed independent of the group.

### ***Class Sessions***

As you will quickly see, I like class to be very interactive. I hope you will come prepared and that you will ask questions when you don't understand something and that you will bring up examples from your work when they are relevant, this greatly enriches the class discussion. The more you engage the more interesting class will be, the more you will get out of each class session, and the easier the course will be.

### ***Grades***

Grades for the course will be assigned to conform to the following general guidelines that apply to all courses in the program: about 25% A, about 20% A-, about 15% B+, about 35% B, and about 5% B- and below. Grades of C and below will be given to those who have earned them. These are guidelines, not fixed rules. Final grades will be determined on the basis of the following assignments and weights.

#### **Grading Summary**

	<u>Points</u>	<u>Percent</u>
Homework	100	20%
Midterm Exam	150	30%
Final Project	50	10%
Final Exam	<u>200</u>	<u>40%</u>
Total	500	100%

To determine final grades I rank all of the students in the class from highest to lowest on the basis of total points. I then draw lines between A and A- and between A- and B+, etc., based on the guidelines described above.

### ***Homework***

For each class session you will have homework due before class that is detailed in the course schedule below. These problems are all from the textbook and you are to complete the problems at the textbook web site at [mybusinesscourse.com](http://mybusinesscourse.com). The homework will be computer grade for both accuracy and completeness. The problems are not intended to be difficult for those who prepare before completing them. I am hopeful that all students will receive full credit for the homework. Please keep in mind that the objective of the course is to become comfortable reading actual financial statements, so that textbook homework problems are only an intermediary step, not the goal itself. What we cover in class and old exams are your best guides to what will be asked on exams. You will not be responsible for material discussed in the text that was not discussed in class.

### ***Exams***

During the semester we will have a midterm exam and a final exam. Both exams are closed book and closed notes. You may bring a calculator to the exams, but it should not have emailing or text features. Each exam will be based on the actual financial statements of a real company. You will be told in advance which company and which fiscal year will be used so that you may specifically study these financial statements before the exam.

### ***Honor Code***

Collaboration is strongly encouraged outside of class. However, homework must be completed independently, and the sharing of electronic files for the final project and collaboration on exams is not permitted.

### ***Disabilities***

The University provides upon request appropriate academic accommodations for qualified students with disabilities. For information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

## Course Schedule – Texas MBA Program

Date	Chapter	Topic
Aug 12	1	Introducing Financial Statements <b>No homework due</b>
Aug 13	2	Constructing Financial Statements <b>HW: E2-43; and P2-51 (will not be graded)</b>
Aug 14	3	Adjusting Accounts for Financial Statements <b>HW: E3-31; E3-32; E3-33; E3-34 (will not be graded)</b>
Aug 19	4	Reporting and Analyzing Cash Flows <b>HW: P3-54; E4-35; E4-39; and E4-42 (will be graded)</b>
Aug 21	App	Time-value of Money <b>No homework due</b>
Aug 26	6a	Reporting and Analyzing Revenues and Receivables <b>No homework due</b>
Aug 28	6b	Reporting and Analyzing Revenues and Receivables <b>HW: M6-34 parts a and b and E6-35</b>
Sep 4	6b	Reporting and Analyzing Revenues and Receivables <b>No homework due</b>
Sep 6	7	Reporting and Analyzing Inventory <b>HW: M7-19 and M7-23 parts a-c</b>
Sep 9		Review
Sep 11		<b>MIDTERM EXAM (6pm – 9pm)</b>
Sept 16	8a	Reporting and Analyzing Long-Term (Tangible) Operating Assets <b>HW: M8-11; E8-35 parts a-c; and P8-36</b>
Sep 18	8b	Reporting & Analyzing Long-Term (Intangible) Operating Assets <b>HW: E8-31</b>
Sep 23	9	Reporting and Analyzing Liabilities <b>HW: E9-38 part a; M9-36 parts a-b; and P9-57 parts a-b</b>
Sep 25	10	Reporting and Analyzing Leases <b>HW: M10-16</b>
Sep 30	12	Reporting and Analyzing Intercompany Investments <b>HW: E12-25 part a(i)(ii) – b(i)(ii) and E12-30 parts a-b</b>
Oct 02		Review
Oct 10		<b>FINAL EXAM (9am – 12 Noon)</b>

**TEXAS MBA PROGRAM**  
**FINAL PROJECT**  
**FINANCIAL ACCOUNTING (BA 284T)**  
**FALL 2013**

Your “final project” is a financial statement analysis of a company you select. The ratios you are asked to compute are discussed in the class notes and the textbook.

Your completed project should include:

- A completed table of ratios and other financial statement measures for the company you select. This table is shown at the bottom of the next page.
- A brief (1-2 page single spaced) evaluation of your company’s financial ratios, comprising the following four sections:

Section I—A brief (1-3 sentences) summary of your company’s business and the economic environment in which it operates.

Section II — A brief evaluation over time of your company’s:

- Return on equity (ROE),
- DuPont ratio components (profitability, efficiency and leverage), and
- LT Debt-to-Assets ratio

Section III —A brief evaluation over time of your company’s:

- Cash conversion cycle
- Cash liquidity and Cash Sources & Uses

Section IV — A brief (e.g., 1-2 sentence) description of the overall ratio trend and what it implies for current and future financial performance.

Each section should have an appropriate heading and the writing should be in the form of sentences and paragraphs, not bullet points.

You may confer with colleagues and any other resources, including me or the TAs, in thinking about your company financial statement analysis. However, you must individually draft your response to this assignment. The emphasis is on *effort*, not results—full credit is awarded for a good faith effort to complete this assignments.

You will probably be able to find all of the financial statement information you need at the company’s website. Note, that you will have to look at more than one annual report to get enough years of data to do all of the computations. If you have trouble finding the information you can pick another company

***Company selection.*** By midnight on Monday, September 9<sup>th</sup>, you should submit via Blackboard the name of the company you have selected to analyze. To do this use the “Discussion Board” link at Blackboard entitled “**DISCUSSION BOARD, Select Your Company**” and follow the directions.

Each member of the class must select a different company. Company selection is on a first-come first-serve basis as established by your posting to your cohort’s discussion board link. Please review the discussion board link to confirm that the company you wish to select has not already

been selected. The company you select may be almost any publicly-traded company of your choosing. However, please do not select a company in financial services due to this industry's unique nature.

**Company analysis deadline.** Your company analysis is due by midnight on Friday, October 11<sup>th</sup>. I strongly encourage you to chip away at the assignment during the semester, and you will find that completing it at the end of the semester prior to the final exam is not difficult. I welcome you to submit the assignment before the deadline if you have completed it early.

You should submit the assignment to me as an attachment to an e-mail. Please follow these instructions: (a) combine the text for your report and the table with your financial ratios into one pdf file, (b) name the file using the following convention: **Smith\_Jack\_Starbucks\_2013.pdf** for a report covering the Starbucks Corporation (don't use Starbucks) completed by Jack Smith in the Fall 2013 semester, and (c) the subject line for your e-mail should say **"MBA Final Project."** It is not necessary to turn in copies of the company's financial statements or the spreadsheet you used to compute your ratios.

FINANCIAL STATEMENT ANALYSIS -- YOUR COMPANY			
<b>Company name:</b>			
<b>Company ticker:</b>			
<b>Your name (cohort):</b>			
Ratios and Other Analysis Measures	Year End (3 years)		
<b>ROE and DuPont Ratios</b>			
<b>ROE</b> ( $NI / OE_{avg}$ )			
<b>Profitability</b> ( $NI / Sales$ )			
<b>Efficiency</b> ( $Turnover = Sales / Assets_{avg}$ )			
<b>Leverage</b> ( $Leverage = Assets_{avg} / OE_{avg}$ )			
<b>Additional Efficiency Ratios</b>			
AR Turnover ( $Sales / AR_{avg}$ )			
<b>Days Receivables Outstanding (DRO)</b> [ $AR_{avg} / (Sales/365)$ ]			
Inventory Turnover ( $COGS / Inventory_{avg}$ )			
<b>Days Inventory (DI)</b> [ $Inventory_{avg} / (COGS/365)$ ]			
AP Turnover ( $Purchases / AP_{avg}$ )			
<b>Days Payables Outstanding (DPO)</b> [ $365 / (Purchases / Accts Payable_{avg})$ ]			
<b>CASH CONVERSION CYCLE</b> ( $DI - DPO + DRO$ )			
<b>Additional Leverage Ratio</b>			
<b>LT Debt-to-Assets</b> (LT Debt, including current portion / total Assets)			
<b>Cash Liquidity and Cash Sources &amp; Uses</b>			
<b>Working Capital</b> ( $CA - CL$ )			
<b>Current Ratio</b> ( $CA / CL$ )			
<b>Quick Ratio</b> [ $(Cash + ST Securities + AR) / CL$ ]			