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.

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.
<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
<th>Homework</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>March 9</td>
<td>Course Overview&lt;br&gt;Southwest Airlines questions&lt;br&gt;Accounting Review: Campus Products</td>
<td>Chapter 1&lt;br&gt;Chapter 2: pgs 121-131; Chapter 8: pgs 661-672</td>
<td>Assignment 1</td>
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<tr>
<td>2</td>
<td>March 22-23</td>
<td>Accounting Analysis: deferred taxes&lt;br&gt;Accounting Analysis: analytical framework/intro to ROE&lt;br&gt;Accounting Analysis: revenue and fixed assets</td>
<td>Chapter 2: pgs 132-138&lt;br&gt;Chapter 4: pgs 246-249, 295-304&lt;br&gt;Chapter 7: pgs 524-549, Chapter 8: 632-640</td>
<td>2.7, 2.15, 7.15, Case 8.1</td>
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<td>3</td>
<td>April 6</td>
<td>Financial Analysis: cash flow statement&lt;br&gt;Financial Analysis: profitability analysis</td>
<td>Chapter 3&lt;br&gt;Chapter 4: pgs 276-295</td>
<td>3.24, 4.11, 4.28</td>
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<td>4</td>
<td>April 13</td>
<td>Prospective Analysis: Valex&lt;br&gt;Prospective Analysis: DDM and Earnings-based models</td>
<td>Chapter 10&lt;br&gt;Chapters 11 and 13</td>
<td>11.12, 13.16</td>
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<td>5</td>
<td>April 26</td>
<td>Exam review&lt;br&gt;Exam</td>
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*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 Analysis
  - What is the competitive landscape?
  - How does the company make money?
  - What are the critical success factors?

- Accounting Analysis
  - Do earnings reflect economic reality?
  - Where are the major areas of accounting flexibility?
  - How are critical success factors measured in financial statements?

- Financial Analysis
  - What is company’s past financial performance?
  - Is performance sustainable?
  - How has company performed relative to critical success factors?

- Prospective Analysis
  - What is the company’s future?
  - What are predictions for critical success factors?
  - What is the company worth?