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 “Canvas” website http://canvas.utexas.edu/ for the course has everything you need for this course, including class notes (see below) practice exams, instructional videos, and more. When you first access the website read the “Announcements” posted there to better understand the website and its contents.

There are “pre-class notes” and “in-class notes” posted on-line at the Canvas website. These notes are aligned with 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 work our way through the in-class notes together to help you apply the material you have learned. These notes are self-contained and include everything that we will cover in the class.

There are also prior-semester exams at the Canvas website that will be useful in preparing for exams. There are also three ungraded practice quizzes for chapters 2, 3, and 4 that will help you to make sure you understand the basics of this material.

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. The calculator I am most familiar with is the HP 10B-II(+), made by Hewlett Packard. The Texas Instruments BAII Plus is equivalent.

The class notes are very comprehensive, so there is no textbook assigned for this course. However, if you feel the need for a textbook to provide an alternative explanation of material we are covering, just about any recent introductory financial accounting textbook will serve this purpose. One good one is a recent edition of Financial Accounting by Dyckman, Magee, and Pfeiffer, published by Cambridge Business Publishing.

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 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 will be the focus of our in-class work. You will get the most out of our time in class if you have studied 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. 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.

<table>
<thead>
<tr>
<th>Grading Summary</th>
<th>Points</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework</td>
<td>100</td>
<td>20%</td>
</tr>
<tr>
<td>First Quiz</td>
<td>50</td>
<td>10%</td>
</tr>
<tr>
<td>Second Quiz</td>
<td>100</td>
<td>20%</td>
</tr>
<tr>
<td>Final Project</td>
<td>50</td>
<td>10%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>200</td>
<td>40%</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100%</td>
</tr>
</tbody>
</table>

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 (after the first intensive week) you will have homework due before class. These problems are all from the pre-class notes for that session and are clearly indicated in the notes. The homework will be graded mostly for completeness, and I expect that all students will receive full credit for the homework. The homework will be turned in at the Canvas website, and instructions for how to do so are posted at Canvas.

Exams
During the semester we will have two quizzes and a final exam. All tests are closed book and closed notes. You may bring a calculator, but it should not have emailing or text features. Each test will be based on the actual financial statements and notes of a real company that will be provided to you in advance.

Final Project
The final project consists of computing a small number of ratios for a company of your choice and writing a short narrative that describes what you found. Details are provided after the course schedule below. At Canvas there is a module devoted to the Final Project that includes (a) the assignment itself, (b) the table you will need to copy and complete, (c) an example of a final project, and (d) videos that explain how to do the project.

Honor Code
Collaboration is strongly encouraged outside of class. However, homework must be completed independently, and the sharing of electronic files for homework or 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.
Advice for Success

Many of you are new to accounting, have been out of school for a while, will find the course materials confusing, and will find the pace of the course to be fast. You are all busy and each of you needs to find a rhythm to your studies for this course that is most efficient for you. That rhythm may not be the same for everyone, but here are some recommendations to get you started. You can modify from here to suit your own needs.

Most Important

- **Topics 1-4 are the most important in the course and the foundation for all that follows.** As a result it is especially important that you follow the advice below for these four chapters. In addition, at Canvas you will find three (ungraded) multiple choice quizzes that are focused on the material in topics 2, 3, and 4. These quizzes can be very useful in helping you to master this material.

Weekly

- **Before each class session you should study the pre-class notes for that session and complete the homework.** The homework will be graded on a completion basis, so it is possible to just skim the material, guess at something for the homework and get full credit. This is a really bad idea. You should read through the notes slowly and thoughtfully, doing each of the example exercises and thinking about why the answer is the right answer. Then slowly do the homework and think about what you are doing.

- **Review the in-class notes and financial statements before you come to class.** This is not required, but highly recommended. The more prepared you are for each class session the more you will get out of that class session. If you come to class knowing where your weaknesses or questions are, there is a better chance they will be asked and answered in class.

- **Come to class and engage—don’t multi-task.** Class time is an important time to fill in the gaps in your knowledge that you identified in your pre-class preparation. This is best done by paying attention and asking questions about whatever is not clear.

- **Review the in-class notes after class.** Sometimes when you watch me in class you think you understand something, but once out of class you can’t remember exactly what you thought you knew. A quick review the next day, using the annotated notes with solutions provided at Canvas, will help you to identify something you might not completely understand so that you can go back over the notes, or consult with a classmate, or send me an e-mail.

Prior to Quizzes and Exams

- **Review the in-class notes one more time.** By now you have been through these notes three previous times, so you should be quite sure of what you understand well and what you are not so sure about. For remaining questions, consult with a classmate or send me an e-mail.

- **Review prior exams.** Spend fifteen or twenty minutes familiarizing yourself with the financial statements attached to the prior exam first, and then begin to attempt the problems. Give the problems a good try before looking at the solution, but do not spend too much time trying to figure out an answer that you are unsure of. If, after you look at the solution, you are still not sure why that is the correct answer, consult with a classmate or send me an e-mail. Note that there are videos posted at Canvas that walk you through the solutions for several of the prior semester quizzes and exams.

- **Save one prior exam to take under test-like conditions.** As you use the prior exams to study, it is easy to use the solution as a crutch and as a result overestimate what you understand. Taking one of the exams under test-like conditions and then grading it objectively will give you a better sense of what you understand and what you do not understand.

- **Study the financial statements for the quiz or exam.** It is essential that you understand the financial statements and notes that will be the basis for your exam or quiz prior to coming to the exam. If there is something you don’t understand consult with a classmate or send me an e-mail.

- **Make up exam problems using the financial statements for the quiz or exam and solve them.** This is a great way to both become familiar with the financial statements and anticipate what will be on the quiz or exam. This is also a great activity to do with a study group.
## Course Schedule – Executive MBA Program – Fall 2015

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>HW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 19</td>
<td>1 Introducing Financial Statements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 Constructing Financial Statements</td>
<td><strong>No homework due</strong></td>
</tr>
<tr>
<td>Aug 21</td>
<td>3 Adjusting Accounts for Financial Statements</td>
<td><strong>No homework due</strong></td>
</tr>
<tr>
<td>Sept 5</td>
<td>4 Reporting and Analyzing Cash Flows</td>
<td><strong>HW: See Pre-Class Notes</strong></td>
</tr>
<tr>
<td>Sept 18</td>
<td>Quiz on Topics 1-4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6a Reporting and Analyzing Revenues and Receivables</td>
<td><strong>HW: See Pre-Class Notes</strong></td>
</tr>
<tr>
<td>Oct 2</td>
<td>6b Reporting and Analyzing Revenues and Receivables</td>
<td><strong>HW: See Pre-Class Notes</strong></td>
</tr>
<tr>
<td>Oct 3</td>
<td>7 Reporting and Analyzing Inventory</td>
<td><strong>HW: See Pre-Class Notes</strong></td>
</tr>
<tr>
<td>Oct 17</td>
<td>Quiz on Topics 6 and 7 (maybe including some from 1-4)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8a Reporting and Analyzing Long-Term Tangible Assets</td>
<td><strong>HW: See Pre-Class Notes</strong></td>
</tr>
<tr>
<td>Oct 30</td>
<td>9 Reporting and Analyzing Liabilities</td>
<td><strong>HW: See Pre-Class Notes</strong></td>
</tr>
<tr>
<td>Nov 13</td>
<td>10 Reporting and Analyzing Leases</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12 Reporting and Analyzing Intercorporate Investments</td>
<td><strong>HW: See Pre-Class Notes for Topic 10, and for Topic 12, review pre-class notes through item 7, nothing to turn in</strong></td>
</tr>
<tr>
<td>Nov 14</td>
<td>12 Reporting and Analyzing Intercorporate Investments</td>
<td><strong>HW: See Pre-Class Notes, Do all Topic 12 homework</strong></td>
</tr>
<tr>
<td>Dec 5</td>
<td>FINAL EXAM - Cumulative</td>
<td></td>
</tr>
</tbody>
</table>
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.

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 Sunday, September 20th, you should submit via Canvas the name of the company you have selected to analyze. To do this use the “Discussion Board” link at Canvas 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 the discussion board. Please review the discussion board 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 ensure that the company has data for all of the ratios below. This especially means that the company has (a) accounts receivable, (b) inventory, and (c) accounts payable. This will eliminate companies in certain industries such as financial services.
Company analysis deadline. Your company analysis is due by midnight on Sunday, December 6th. 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 directly to Canvas, similar to the way in which you submit homework. It is not necessary to turn in copies of the company’s financial statements or the spreadsheet you used to compute your ratios.

Copy this table into your report (available in a Word document in the “Final Project” module at Canvas) and complete the ratios for all three years.

<table>
<thead>
<tr>
<th>FINANCIAL STATEMENT ANALYSIS -- YOUR COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company name:</td>
</tr>
<tr>
<td>Company ticker:</td>
</tr>
<tr>
<td>Your name (cohort):</td>
</tr>
<tr>
<td>Ratios and Other Analysis Measures</td>
</tr>
<tr>
<td>Year End (3 years)</td>
</tr>
</tbody>
</table>

**ROE and DuPont Ratios**

- **ROE (NI / OEavg)**
- **Profitability (NI / Sales)**
- **Efficiency (Turnover = Sales / Assetsavg)**
- **Leverage (Leverage = Assetsavg / OEavg)**

**Additional Efficiency Ratios**

- **AR Turnover (Sales / ARavg)**
- **Days Receivables Outstanding (DRO) [ARavg / (Sales/365)]**
- **Inventory Turnover (COGS / Inventoryavg)**
- **Days Inventory (DI) [Inventoryavg / (COGS/365)]**
- **AP Turnover (Purchases / APavg)**
- **Days Payables Outstanding (DPO) [365 / (Purchases / Accts Payableavg)]**
- **CASH CONVERSION CYCLE (DI - DPO + DRO)**

**Additional Leverage Ratio**

- **LT Debt-to-Assets (LT Debt, including current portion / total Assets)**

**Cash Liquidity and Cash Sources & Uses**

- **Working Capital (CA - CL)**
- **Current Ratio (CA / CL)**
- **Quick Ratio [(Cash + ST Securities + AR) / CL]**