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, 8th edition, by Libby, Libby, Short, published by McGraw Hill (includes access to Connect Accounting)

The “Canvas” website http://canvas.utexas.edu/ for the course also has a substantial amount of course related material. When you first access the website read the “Announcements” posted there to better understand the website and the course.

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.

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. 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.

<table>
<thead>
<tr>
<th></th>
<th>Points</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework</td>
<td>1,000</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>1,500</td>
<td>30%</td>
</tr>
<tr>
<td>Final Project</td>
<td>500</td>
<td>10%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>2,000</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,000</td>
<td>100%</td>
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</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 you will have homework due before class. The homework assignments for each chapter have been assigned in Connect and are accessible in Canvas. To access, go to the Modules link and Open MH Campus. You should complete and submit the assignments in Connect.

**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.

**Final Project**
The final project consists of computing a 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.

**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.
## Course Schedule – MSF Program

<table>
<thead>
<tr>
<th>Date</th>
<th>Chapter</th>
<th>Topic (Underlined homework assignments are due before class, remaining assignments for each chapter will be due by 11 pm on Friday of each week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 17 M</td>
<td>1</td>
<td>Financial Statements and Business Decisions E1-9, P1-1, P1-3 \</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Communicating and Interpreting Accounting Information E5-1, E5-10</td>
</tr>
<tr>
<td>Aug 19 W</td>
<td>2</td>
<td>Investing and Financing Decisions and the accounting System E2-4, E2-6, E2-13, P2-3</td>
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<tr>
<td>Aug 24 M</td>
<td>3</td>
<td>Operating Decisions and the Accounting System E3-3, E3-4, P3-2, P3-4</td>
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<tr>
<td>Aug 26 W</td>
<td>4</td>
<td>Adjusting Financial Statements and the Quality of Earnings E4-6, E4-11, P4-6</td>
</tr>
<tr>
<td>Aug 31 M</td>
<td></td>
<td>Group Project</td>
</tr>
<tr>
<td>Sep 02 W</td>
<td>6</td>
<td>Reporting and Analyzing Revenues, Receivables and Cash E6-3, E6-6, E6-11, P6-2</td>
</tr>
<tr>
<td>Sep 09 W</td>
<td>7</td>
<td>Reporting and Interpreting Inventory and Cost of Goods Sold E7-3, E7-5, E7-9, E7-18, P7-3</td>
</tr>
<tr>
<td>Sep 10 Th</td>
<td></td>
<td>Voluntary Review Session—10 AM—Location to be announced No Homework due</td>
</tr>
<tr>
<td>Sep 11 F</td>
<td></td>
<td>MIDTERM EXAM 8:00 10 AM—GSB 5.142A</td>
</tr>
<tr>
<td>Sep 14 M</td>
<td>Appendix E</td>
<td>Reporting and Interpreting Investments in Other Corporations EE-1, EE-2, EE-3, EE-4</td>
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<tr>
<td></td>
<td>8</td>
<td>Reporting and Interpreting Property, Plant and Equipment E8-4, E8-7, E8-13, E8-17</td>
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<tr>
<td>Sep 16 W</td>
<td>9</td>
<td>Reporting and Interpreting Liabilities E9-1, E9-2, E9-14, E9-15, P9-2</td>
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<tr>
<td>Sep 21 M</td>
<td>10</td>
<td>Reporting and Interpreting Bonds E10-3, E10-7, E10-8, E10-15, P10-12</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>E11-2, E11-5, E11-11, E11-15, E11-23</td>
</tr>
<tr>
<td>Sep 28 M</td>
<td>13</td>
<td>Analyzing Financial Investments E13-1, E13-5, E13-7, P13-6</td>
</tr>
</tbody>
</table>
Set 30 W  
Oct 5  M  

Review

**FINAL EXAM (10am – 1pm) Location to be announced**
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 (See Exhibit 13-3 on page 654 of the textbook).
- 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: (See Exhibit 13-3 on page 654) .

**Profitability**

ROE
ROA
Financial Leverage Percentage
Quality of Income
Profit Margin
Fixed asset Turnover

**Liquidity**

Cash Ratio
Current Ratio
Quick Ratio
Receivables Turnover Ratio
Inventory Turnover ratio

**Solvency**

Times Interest Earned ratio
Cash coverage Ratio
Debt to Equity Ratio
Section I.1 — 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. At the beginning of class on Wednesday September 9th, you should submit the name of the company you have selected to analyze.

Each member of the class must select a different company. 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, October 4th. 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. 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 and complete the ratios for two years.
## FINANCIAL STATEMENT ANALYSIS -- YOUR COMPANY

### Ratios and Other Analysis Measures

<table>
<thead>
<tr>
<th>Ratios and Other Analysis Measures</th>
<th>Year End (2 years)</th>
</tr>
</thead>
</table>

### Profitability

- **ROE** (Net Income / Average Stockholders' Equity)
- **ROA** \[ (Net Income + Interest Expense) / Average Total Assets \]
- **Financial Leverage Percentage** (Return on Equity - Return on Assets)
- **Quality of Income** (Cash Flows from Operating Activities / Net Income)
- **Profit Margin** (Net Income / Net Sales Revenue)
- **Fixed Asset Turnover** (Net Sales Revenue / Average Net Fixed Assets)

### Liquidity

- **Cash Ratio** \[ (Cash + Cash Equivalents) / Current Liabilities \]
- **Current Ratio** (Current Assets / Current Liabilities)
- **Quick Ratio** (Quick Assets / Current Liabilities)
- **Receivable Turnover Ratio** (Net Credit Sales / Average Net Receivables)
- **Inventory Turnover Ratio** (Cost of Goods Sold / Average Inventory)

### Solvency

- **Times Interest Earned Ratio** \[ (Net Income + Interest Expense + Income Tax Expense) / Interest Expense \]
- **Cash Coverage Ratio** (Cash Flows from Operating Activities / Interest Paid)
- **Debt-to-equity Ratio** (Total Liabilities / Stockholders' Equity)