Professor: Brian White
Office: CBA 4M.232 (mailbox in CBA 4M.202)
Office Hours: Mon, Tues, Wed, Thurs 1:30 – 3:00pm
Other times by appointment
Phone: 512-471-5619 (office), 217-778-7906 (cell)
Email: Brian.White@mccombs.utexas.edu
Course Web Page: via Canvas (http://canvas.utexas.edu/)
Teaching Assistants: Shannon Garavaglia (Shannon.Garavaglia@phd.mccombs.utexas.edu)
Ankit Baid (Ankit.Baid@mba18.mccombs.utexas.edu)

COURSE MEETING TIMES AND LOCATION

<table>
<thead>
<tr>
<th>Cohort</th>
<th>Unique No.</th>
<th>Days</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>02260</td>
<td>Tues, Thurs</td>
<td>10:00–11:45am</td>
<td>GSB 3.130</td>
</tr>
<tr>
<td>II</td>
<td>02275</td>
<td>Tues, Thurs</td>
<td>8:00–9:45am</td>
<td>GSB 3.130</td>
</tr>
<tr>
<td>III</td>
<td>02290</td>
<td>Mon, Wed</td>
<td>8:00–9:45am</td>
<td>GSB 3.130</td>
</tr>
<tr>
<td>IV</td>
<td>02295</td>
<td>Mon, Wed</td>
<td>10:00–11:45am</td>
<td>GSB 3.130</td>
</tr>
</tbody>
</table>

COURSE 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 material 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, you should be able to come to a reasoned conclusion about a company’s financial health, and you should be able to make comparisons across firms and periods of time.

LEADERSHIP AND THIS COURSE

The Texas MBA program is designed to develop influential business leaders. The MBA program has identified four fundamental and broad pillars of leadership: knowledge and understanding, communication and collaboration, responsibility and integrity, and a worldview of business and society.

In this course, you will enhance your knowledge and understanding of financial reporting (the language of business). You will enhance your communication and collaboration skills through class discussion, informal study groups and projects. You will learn how high-quality, credible financial reporting helps managers to lead their organizations effectively and with integrity. Finally, many of the cases and examples involve international companies and reporting practices, affording you a global perspective on financial reporting.
MATERIALS

The Canvas website (http://canvas.utexas.edu/) has everything you need for this course, including class notes, practice exams, instructional videos, and more. An inventory of resources available on Canvas with additional explanation is provided below.

I am not a big fan of calculators (I tend to use Excel for calculations because it allows me to see, save and change my work). However, a financial calculator may be useful for this course, so I recommend that you acquire one and learn how to use it. I have both the HP 10bII+ and the Texas Instruments BAII Plus.

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

HOW THIS COURSE WORKS

The objective of this course is to help you become comfortable reading the financial statements of any commercial business, from large publicly-traded companies to small privately-held companies. 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 and 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 cannot 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. Practice by reviewing all the problems we do in class, completing all the old exam problems that I provide, applying these old problems to other financial statements and solving those, all the while discussing what you are doing with your study groups. Study groups are great and I encourage you to 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 discover, I like class to be very interactive. I hope you will come prepared, that you will ask questions when you don’t understand something, and that you will bring up examples from your work experience when they are relevant. This greatly enriches the class discussion. The more you engage, the more interesting the course will be, the more you will get out of each class session, and the easier the course will be.

HOMEWORK

For each class session (after the first intensive week), you will have homework problems due before class. These problems are all from the pre-class notes for each session and are clearly indicated in the notes. The homework will be graded mostly for completeness, and there is no reason that all students cannot receive full credit for homework (indeed, that is my expectation). The homework is to be submitted on Canvas. Instructions for submitting homework on Canvas are provided below (and on the course Canvas site).
MIDTERM AND FINAL EXAM

During the semester we will have a midterm and a final exam. The midterm and final exams are closed book and closed notes. You may bring a calculator, including a financial calculator, but you may not use your smartphone or other communication device as a calculator. The midterm and final exams will be based on actual financial statements and notes of real companies, which will be provided to you in advance.

FINAL PROJECT

For the final project, you will get the chance to use your new knowledge of financial reporting by completing a brief financial statement analysis for a company of your choosing. Details on the final project are provided in this document, immediately following the course schedule.

COLLABORATION

Collaboration is strongly encouraged outside of class. However, homework must be written up independently. Further, the sharing of electronic files for homework and the final project is not permitted. Collaboration on exams is also not permitted. Please also read carefully the policy on academic integrity on the following page.

GRADES

The MBA Programs Committee approved the following target grade distribution for all Core and Flex Core courses: A (4.0) 25%, A- (3.67) 20%, B+ (3.33) 15%, B (3.0) 35%, B- or below (2.67) 5%. I hope that I will not have to assign grades of C+ or below, but I will do so if warranted. Your grade in the course will be based on the following components:

<table>
<thead>
<tr>
<th>Points</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework</td>
<td>110</td>
</tr>
<tr>
<td>Midterm exam</td>
<td>140</td>
</tr>
<tr>
<td>Final exam</td>
<td>200</td>
</tr>
<tr>
<td>Final project</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
</tr>
</tbody>
</table>

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

GRADING DISPUTES

My Teaching Assistants and I will do our best to grade your work fairly, but grading errors can occur. If you believe we have made an error, you may request a re-grading of the assignment. Be aware, however, that grading errors can occur in both directions—errors can make grades too high as well as too low. Therefore, if you request a re-grading, your entire assignment will be re-graded, and all grading errors will be corrected. By requesting a re-grade, you accept the possibility that your grade may go either up or down.

To request a re-grade, you must submit a written request within one week from the date on which the assignment was first returned. The request must state (1) the specific area of dispute, (2) your recommendation for change in grade, and (3) an explanation or justification for your recommendation.
ACADEMIC INTEGRITY

I am committed to maintaining the highest ethical standards in my research and teaching, and I expect the same from my students. Here is the school’s policy statement on scholastic dishonesty:

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program’s Statement on Scholastic Dishonesty at http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. 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. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

The number one way you could get into trouble in this course is by copying or plagiarizing work – either from a fellow student or from another source. I am well aware that there are many resources (online and elsewhere) that make cheating tempting and easy. I ask you to make the most of your education by resisting that temptation. Also be aware that my TAs and I have access to the same resources as you, and we will be vigilant in detecting cheating. Further, I will report all violations to the Dean of Students.
PRIVACY IN CANVAS

Information in Canvas is protected by your UTEID login. Please be aware that I will use a merged Canvas site for all sections of the course that I am teaching this semester. This will allow students in both sections to see that you are enrolled in the course and send you email from within Canvas. However, they will not actually learn your email address and no other personal data will be revealed through Canvas. If you have any concerns, please contact the ITS Help Desk at 475-9400 for help removing your name from view of other students.

STUDENTS WITH DISABILITIES

If you require accommodation for a disability, please let me know. You may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, http://diversity.utexas.edu/disability/.

RELIGIOUS HOLY DAYS

In accordance with University policy, please notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class or project/homework due date in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable period.

CAMPUS SAFETY

Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, http://www.utexas.edu/safety/:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform their instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: www.utexas.edu/emergency.
COURSE MATERIALS ON CANVAS

The Canvas website (http://canvas.utexas.edu/) has everything you need for this course. The resources available on Canvas are summarized below. You can access just about everything directly from the “Welcome” page.

Syllabus – A link to the syllabus is placed on the “Syllabus” page of the Canvas website for this course. I will also use this page to post new information and announcements throughout the semester.

Class Notes – Class notes are posted in the “Modules” section, with two files for each topic. The “pre-class” file contains both “pre-class notes” and “in-class notes” for each topic. You are to carefully study the “pre-class notes” before coming to class in order to understand the topic for that session. Your homework assignment for each topic, generally based on Starbucks’ financial statements, is included in the pre-class notes. During each class session, we will work our way through the problems in the “in-class notes” together to help you apply the material you have learned. These problems are generally based on the financial statements of Apple and Samsung. The notes in the pre-class module do not include answers to the homework problems or the in-class problems. The “post-class” file for each topic is the same as the pre-class file, except that the answers to the homework problems and the in-class problems are included. These notes are self-contained and include everything that we will cover in the class.

Financial Statements – We will be using the actual financial statements of three companies—Starbucks, Apple and Samsung—throughout the semester. These financial statements are located on the “Annual Reports” page in Canvas. For each company, there are two versions of their financial statements. The “full version” is the entire annual report, of which the financial statements and the notes to the financial statements are a part. The “reduced version” includes only the financial statements themselves and the notes that you will need during the semester.

Uploading Homework – Your homework consists of clearly marked problems in the pre-class notes for each topic. To see the assignment due for a specific class session, either click on assignments in the left margin of Canvas, or review your Canvas calendar. Homework should be submitted as a Word document, an Excel file, or a PDF document. To submit your homework:

- Click on “Assignments” in the left margin of Canvas
- Click on the assignment you wish to upload
- When the assignment is opened, click on Submit Assignment in the right margin
- Browse for the file you wish to upload
- Click Submit Assignment, and you’re done

Practice Quizzes – There are three ungraded practice quizzes on Canvas, for topics 2, 3, and 4, respectively. These quizzes are relatively straightforward multiple choice questions and are not part of your course grade. However, they can be useful in helping you to make sure you understand the material in these three topics.

Prior Semester Exams – There are also prior-semester exams at the Canvas website that will be useful in preparing for exams. Each of these files includes the exam questions, the financial statements on which the exam is based, and (on the final pages of the file) the exam solution. These exams are located on Canvas in a clearly marked “page” in the “pages” section of Canvas. The first file on this page, the “Prior Semester Exam Matrix” details which exam questions on the various exams correspond to which topics.

The Final Project – In the “pages” section of Canvas there is a collection of resources related to your final project that includes: (a) the assignment, (b) Word and Excel versions of the table of ratios you are to complete, (c) a sample final project, and (d) videos that lead you through all aspects of completion of the final project.

Videos – Canvas includes number of videos (some of which feature my colleague Ross Jennings, who previously taught this course): (a) recommended videos on preparing a Statement of Cash Flows, located in the pre-class module for topic 4, (b) required videos on the Time Value of Money, located on the Self-Study: Time Value of Money page, and (c) videos that lead you through the completion of the final project, located on the Final Project Resources page.

Grades – In the left margin on Canvas there is a link for “Grades” at which you can see all of your posted grades. You should monitor your grades to make sure they are posted correctly. Errors are rare, but they do happen. Note, you should ignore any totals and subtotals generated by Canvas. I do not use that function of Canvas.
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/or 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**, so it is especially important that you follow the advice below for these four chapters. In addition, there are three ungraded quizzes for topics 2, 3, and 4 on Canvas that can help 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.

- **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

<table>
<thead>
<tr>
<th>Date</th>
<th>Chapter</th>
<th>Topic</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tu</td>
<td>Aug 15</td>
<td>1</td>
<td>Introducing Financial Statements</td>
</tr>
<tr>
<td>W</td>
<td>Aug 16</td>
<td>2</td>
<td>Constructing Financial Statements</td>
</tr>
<tr>
<td>M/Tu</td>
<td>Aug 21/22</td>
<td>3</td>
<td>Adjusting Entries</td>
</tr>
<tr>
<td>W/Th</td>
<td>Aug 23/24</td>
<td>4</td>
<td>The Statement of Cash Flows</td>
</tr>
<tr>
<td>M/Tu</td>
<td>Aug 28/29</td>
<td>5</td>
<td>Revenue Recognition</td>
</tr>
<tr>
<td>W/Th</td>
<td>Aug 30/31</td>
<td>6</td>
<td>Accounts Receivable and Bad Debts</td>
</tr>
<tr>
<td>Tu/W</td>
<td>Sep 5/6</td>
<td>7</td>
<td>Inventories</td>
</tr>
<tr>
<td>Th/F</td>
<td>Sep 7/8</td>
<td>7</td>
<td>Inventories</td>
</tr>
<tr>
<td>M/Tu</td>
<td>Sep 11/12</td>
<td></td>
<td>Review</td>
</tr>
<tr>
<td>F</td>
<td>Sep 15</td>
<td></td>
<td>MIDTERM EXAM (10am – Noon)</td>
</tr>
<tr>
<td>M/Tu</td>
<td>Sep 18/19</td>
<td>8</td>
<td>Intercorporate investments</td>
</tr>
<tr>
<td>W/Th</td>
<td>Sep 20/21</td>
<td>9</td>
<td>Long-term Assets and Time Value of Money</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M/Tu</td>
<td>Sep 25/26</td>
<td>9</td>
<td>Long-term Assets</td>
</tr>
<tr>
<td>M/Tu</td>
<td>Oct 2/3</td>
<td>10</td>
<td>Liabilities</td>
</tr>
<tr>
<td>W/Th</td>
<td>Oct 4/5</td>
<td>10</td>
<td>Liabilities</td>
</tr>
<tr>
<td>M/Tu</td>
<td>Oct 9/10</td>
<td></td>
<td>Review</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Due by Oct 10</td>
</tr>
<tr>
<td>M</td>
<td>Oct 16</td>
<td></td>
<td>FINAL EXAM (9am – Noon)</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 written document (1-2 page single spaced) OR a brief video (3-5 minutes) evaluating 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.

  For written documents, each section should have an appropriate heading and the writing should be in the form of sentences and paragraphs, not bullet points. Videos should use appropriate techniques to deliver an equivalent level of organization and clarity.

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

You will probably be able to find all of the financial statement information you need on the company’s website (likely in a section titled “Investor Relations”). 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 should select another company

COMPANY SELECTION

By midnight on Wednesday, September 13th, 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-served 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).
FINAL PROJECT DEADLINE

Your company analysis is due by midnight on Tuesday, October 10\textsuperscript{th}. I strongly encourage you to chip away at the assignment during the semester. You are welcome 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. Please do not turn in copies of the company's financial statements or the spreadsheet you used to compute your ratios.

Copy the table below into your report (available as a Word document on the “Final Project” page at Canvas) and complete the ratios for all three years.

FINANCIAL STATEMENT ANALYSIS—YOUR COMPANY

Company name:
Company ticker:
Your name and cohort:

<table>
<thead>
<tr>
<th>Ratios and Other Analysis Measures</th>
<th>Year End (3 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE and DuPont Ratios</td>
<td></td>
</tr>
<tr>
<td>ROE (NI / OE\textsubscript{avg})</td>
<td></td>
</tr>
<tr>
<td>Profitability (NI / Sales)</td>
<td></td>
</tr>
<tr>
<td>Efficiency (Turnover = Sales / Assets\textsubscript{avg})</td>
<td></td>
</tr>
<tr>
<td>Leverage (Leverage = Assets\textsubscript{avg} / OE\textsubscript{avg})</td>
<td></td>
</tr>
</tbody>
</table>

Additional Efficiency Ratios

AR Turnover (Sales / AR\textsubscript{avg})

Days Receivables Outstanding (DRO) (365 / AR Turnover)

Inventory Turnover (COGS / Inventory\textsubscript{avg})

Days Inventory (DI) (365 / Inventory Turnover)

AP Turnover (Purchases / AP\textsubscript{avg})

Days Payables Outstanding (DPO) (365 / AP Turnover)

CASH CONVERSION CYCLE (DI – DPO + DRO)

Additional Leverage Ratio

LT Debt-to-Assets (LT Debt, incl current portion / Total Assets)

Cash Liquidity, Cash Sources & Uses

Working capital (CA – CL)

Current ratio (CA / CL)

Quick Ratio [(Cash + ST Securities + AR) / CL]