ACCTG 663: Financial Statement Analysis

COURSE INFORMATION

Instructor: Jeff J. Wang, Ph.D. CFA
Office Hour: T 3pm – 3:50pm and by appointment
Classroom: SSW-2514

E-mail: jwang@mail.sdsu.edu
Phone: 619-594-2033 (office)

Course Overview

Financial statement analysis relies on the application and interpretation of accounting and economic concepts. In this course, we will develop skills and abilities in analyzing a company's financial position and performance as shown in published information, primarily focusing on financial statements to facilitate such decisions as: credit, investment, employment, merger, performance evaluation, financial budgeting, etc. To do so, this course will focus on alternative accounting treatments and the "range of ordinary" interpretations. Further, each student (through individual assignments as well as a group project) will analyze financial statements in detail throughout the semester as we seek to understand the operating and financial objectives of the company through an analysis of published accounting and other reports.

STUDENT LEARNING OUTCOMES (SLOs)

MSA students will graduate being able to:

- Compare, contrast, interpret, or criticize accounting and business decisions and information using professional business communication
- Actively participate in team decision making.
- Apply ethical judgment and professional standards in analyzing situations and formulating accounting and business decisions
- Use relevant research tools and academic/professional literature to analyze or take a position in accounting and business situations
- Address unstructured problems in the areas of accounting information systems, financial reporting, or taxation
- Identify and discuss the significance of diversity and cultural differences in the global business environment

After finishing this course successfully, students should be able to

1. evaluate the quality of financial statements by
   a. investigating management's strategic accounting choices and
   b. adjusting accounting numbers to improve the quality,
2. analyze financial statements by
   a. preparing analytical financial statements and
   b. computing and interpreting financial ratios.
3. write an analysis report for business decisions (e.g., loan, merger, strategic planning).
**Enrollment Information**

**PREREQUISITE**
This course is designed for students that have a working knowledge of financial accounting. The minimum pre-requisites for this course are the core course in financial accounting (Acctg 620, BA650 or Acctg 201).

**WHO SHOULD TAKE THIS COURSE?**
This course should be of interest to students pursuing the following careers:
- Financial accounting and reporting (from staff accountants to analysts, controllers, CFOs)
- External and internal auditing
- Equity research (sell-side, buy-side)
- Merger/acquisition
- Credit evaluation
- Investment banking
- Management consulting

**Course Materials**

- Beacon Business Simulation ($20 per student).
- Cases and other materials available at Blackboard or distributed in class.
- Mergent® and Lexis/Nexis® databases.
- Bloomberg Terminal at The Wells Fargo Lab in Love Library.

**Course Structure and Conduct**

**Assignments**
- Readings, cases and/or problems are assigned for each class. You should come to class prepared to discuss your analysis of the cases and problems. Regular class participation is important to the learning process for you and your classmates.

- Ten percent of your grade will be based on “class preparation.” You can receive these points either from actively discussing the cases and problems in class or handing in the assignment at the beginning of the class. No late assignments will be accepted nor will I accept e-mailed or faxed assignments.

- All assignments should be prepared using word processing software with font size no smaller than 12 point with Office 2003 default margins (1” at top and bottom sides and 1.25” at right and left sides) and double-spacing. You can include tables or spreadsheets as well, as long as they are carefully labeled and defined.

- You may work in groups to discuss homework assignments. However, each person should prepare his/her own individual homework solutions to be submitted. Ideally, you should work through each day’s assignment on your own before discussion it with anyone. You can then make changes to your solution based on your learning in any
discussion. Interpretations of the analysis should be in your own words.

- Additional assignments either will be discussed in class or are extra problems for your benefit. I will tell you the assignments that will be discussed in class prior to that class.

**Group Project**

You will self-select yourselves into groups of 4 in class on February 7. On March 7, each group will choose a company to analyze, for example, Callaway Golf. On the presentation dates, each group will present orally a **10 minute** investment analysis using the firm of your choice, followed by a 5 minutes Q &A session. You will be on the clock and cut-off after the 10 minutes strictly.

The analysis should cover the relevant topics discussed up to the presentation date. You are to summarize the economics and current conditions in the industry. Describe the accounting and business strategies the firm pursues, perform a profitability and risk analysis, a cash flow statement analysis, and talk about any other relevant items at least. The report is to be coherent, consistent, and logical. The oral presentation will be accompanied by your power point slides and a 5-10 page report. Please also attach the firm’s most recent annual report. All these documents (i.e., group paper, power point slides, and other necessary documents) must be turned in on April 25.

More details of the project will be given as the semester progresses.

**Timetable**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Date</th>
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<tbody>
<tr>
<td>Select group of 4 in class (one group can have 5)</td>
<td>February 7</td>
</tr>
<tr>
<td>Select industry and firm</td>
<td>March 7</td>
</tr>
<tr>
<td>Submit group paper and Presentation</td>
<td>April 25</td>
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**Group Beacon Business Simulation**

We will play a real life, interactive business simulation game through Beacon Business Simulation. This simulation has been in industry training in more than 35 different countries. For each group (same group for the Group Project), please assign a CEO, a CFO, and 2 product managers. Each week, you will make business decisions regarding your 4 product lines and compete against other 3 teams. (There will be a total of 2 simulation and every 4 teams compete against each other). You and your competitor’s decision will have a direct impact on the market through an algorithm. You will send your business decision through email to Beacon Simulation and the results will be emailed back to you within 24 hours. This game will be repeated every week for 5 weeks (each week is basically one fiscal year). At the end of the semester, you will write an individual report regarding your role in the company, your decision process, and your expected future performance to the Board of Director (which is me). This will serve as your final exam. The Beacon Business Simulation costs $20 per student and can be paid through PayPal.

**Exams.** There will be a **Midterm Exam** during the course. This exam is individual work and are to be completed without any assistance and within limited time period. The Group Simulation report will serve as your Final Exam.
**Students with Disabilities**

If you are a student with a disability and believe you will need accommodations for this class, it is your responsibility to contact Student Disability Services at (619) 594-6473. To avoid any delay in the receipt of your accommodations, you should contact Student Disability Services as soon as possible. Please note that accommodations are not retroactive, and that accommodations based upon disability cannot be provided until you have presented your instructor with an accommodation letter from Student Disability Services. Your cooperation is appreciated.

**Academic Honesty**

**ACADEMIC HONESTY**

The *SDSU Standards for Student Conduct* ([http://www.sa.sdsu.edu/srr/conduct1.html](http://www.sa.sdsu.edu/srr/conduct1.html)) states that unacceptable student behavior includes *cheating, plagiarism, or other forms of academic dishonesty that are intended to gain unfair academic advantage*. Unprofessional conduct adversely impacts your fellow students, the accounting faculty, the Charles W. Lamden School of Accountancy, SDSU, and the accounting profession. The Charles W. Lamden School of Accountancy takes academic honesty very seriously and vigorously enforces university policy related to any such infractions. Any student suspected of academic dishonesty will be reported to the SDSU Center for Student Rights and Responsibilities; if found responsible, the student will receive an F in ACCTG 663.

The following examples illustrate how the *SDSU Standards for Student Conduct* applies to this course:

- **Exams are individual work only.** No collaboration of any kind is allowed.
- **Collaboration is permissible and encouraged on any group assignments.** However, the *final write-up* of cases or other assignments should be exclusively your own (as required).
  
  For example, after discussing a case with your in-class group, you should *form your own opinion and submit your own analysis*.
- **All course materials are for your use only.** It is a violation of the student conduct policy to share these materials with other class members or others outside the class, especially future ACCTG 663 students.
- **If at any time you are unclear about the any aspect of your responsibilities pertaining to the student conduct policy, please contact me rather than make assumptions.**

**Turnitin**

Students agree that by taking this course all required papers may be subject to submission for textual similarity review to Turnitin.com for the detection of plagiarism. All submitted papers will be included as source documents in the Turnitin.com reference database solely for the purpose of detecting plagiarism of such papers. You may submit your papers in such a way that no identifying information about you is included. Another option is that you may request, in writing, that your papers not be submitted to Turnitin.com. However, if you choose this option you will be required to provide documentation to substantiate that the papers are your original work and do not include any plagiarized material.
Grading

Grading will be based on the following weights:

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<th>Component</th>
<th>Weight</th>
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<tr>
<td>Midterm</td>
<td>20%</td>
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<tr>
<td>Oral Presentation/Industry Report</td>
<td>25%</td>
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<td>Final Exam (Simulation Report)</td>
<td>20%</td>
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<td>Discussion Participation</td>
<td>5%</td>
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<td>Homework Assignments</td>
<td>10%</td>
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<tr>
<td>2 Group Case Analyses</td>
<td>20%</td>
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In addition, I will take attendance on group presentation dates.

Final grades: Final grades will be determined from a distribution of total points earned by each student in the whole course. Once a distribution of scores is determined, I will assign cut-off scores for each grade (A, A-, B+, etc.), determine the number of students for each grade, and then compute a grade point average for the class. Grades for all assignments will be posted on Blackboard. If you believe there was an error in recording your grade, you must contact me within one week of the grade being posted. Consideration will not be given to disputed grades after this time period.

Professionalism and Conduct

Each student is expected to attend all classes and to participate in class discussions. However, class attendance is not required. I will note who attends class and adds to the class interaction. If a student’s grade is on the cut-off score border at the end of the semester, then class attendance and participation may be factored into the overall grade.

If you are absent on a day that an in-class assignment, quiz or exam is collected, you will receive zero points for that assignment. **NO MAKE-UP WORK WILL BE COLLECTED.** An excused absence is possible only if relevant documentation acceptable to the instructor is provided. **THERE ARE NO EXCEPTIONS.**

Late arrivals or early departures are disruptive. Students are expected to arrive on time for class and to stay for the duration of the class session.

Grade of Incomplete. A grade of Incomplete (I) indicates that a portion of required coursework has not been completed and evaluated in the prescribed time period due to unforeseen, but fully justified, reasons and that there is still a possibility of earning credit. It is your responsibility to bring pertinent information to the instructor and to reach agreement on the means by which the remaining course requirements will be satisfied. The conditions for removal of the Incomplete shall be reduced to writing by the instructor and given to you with a copy placed on file with the department chair until the Incomplete is removed or the time limit for removal has passed. A final grade is assigned when the work agreed upon has been completed and evaluated. An Incomplete shall not be assigned when the only way you could make up the work would be to attend a major portion of the class when it is next offered. Contract forms for Incomplete grades are available at the [Office of the Registrar website](http://www.registrarwebsite.com)
Media and Technology

Class materials (e.g., lecture notes) will be posted on the Blackboard course site (http://blackboard.sdsu.edu). Some of the work for this class requires the use of word processing (e.g., MS Word), spreadsheet (e.g., MS Excel), Adobe reader, and Internet (e.g., Firefox) software applications. Also, you must have your own email account and check it on a regular basis. Make sure that you have the correct email address listed in Blackboard. All emails will be sent to the address listed in Blackboard.

Please remit $20 fee to Beacon Business Simulation in order to participate in the simulation game. More detail on how to remit the fee will follow.

Changes

You are expected to check your email and the Blackboard site for any changes. If you are not in class when changes to the course or schedule are made, you are still responsible for new/updated material. Changes can be made any time at the discretion of the instructor.
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<th>NO.</th>
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<th>Ch</th>
<th>Topic</th>
<th>Assignments</th>
<th>to discuss</th>
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<td>1</td>
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<td>24</td>
<td>Introduction to the course</td>
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<td>2</td>
<td>1</td>
<td>31</td>
<td>1 2 Overview of FSA Common size Statements and percentage changes (p.2-10, p.2-13) Statement of Cash Flows -indirect method (pp.2-15~2-22)</td>
<td>P1-36; P1-37; P1-41; E2-34; P2-44; P2-45</td>
<td>Survey: The link is available through Blackboard announcement</td>
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<td>3</td>
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<td>7</td>
<td>5 6 Revenue Recognition &amp; Operating Income</td>
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<td>4</td>
<td>2</td>
<td>14</td>
<td>3 4 ROA, ROE, and RONA (DuPont Analysis) Risk Analysis</td>
<td>M3-15; M3-16; M3-18; M3-19; P3-42; P3-44; M4-18; M4-20; M4-21 E4-28; P4-32;</td>
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<td>5</td>
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<td>21</td>
<td>8 9 Stock Based Compensation and AOCI Investment</td>
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<td>6</td>
<td>2</td>
<td>28</td>
<td>10 OffB/S item, quality of earnings Lease and Pension</td>
<td>M10-11, M10-13; E10-19 Beacon Introduction</td>
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<td>7</td>
<td>3</td>
<td>7</td>
<td>11 Forecasting Financial Statements</td>
<td>M11-12; E11-19; P11-3</td>
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<td>8</td>
<td>3</td>
<td>14</td>
<td>12 Valuation Basics</td>
<td>M12-15 to M12-26; P12-42</td>
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<td>9</td>
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<td>21</td>
<td>Midterm Examination (Case Analysis/Simulation)</td>
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<td>10</td>
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<td>4</td>
<td>13 14 Cash-flow based forecasting and Income Based Forecasting</td>
<td>E14-13; E14-14; P14-20;</td>
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<td>No Class</td>
<td>Work on the project</td>
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<td>12</td>
<td>4</td>
<td>18</td>
<td>15 Forecasting based on market</td>
<td>M15-16; M15-17; M15-18</td>
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<td>13</td>
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<td>25</td>
<td>Group Presentations</td>
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<td>14</td>
<td>5</td>
<td>9</td>
<td>Final Examination (Simulation Report)</td>
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**Spring Recess, No Class.**