



THE UNIVERSITY OF TEXAS AT AUSTIN
McCOMBS SCHOOL OF BUSINESS

Accounting 327 - Financial Statement Analysis – Spring 2019

02380 TTh 12:30-2pm CBA 4.348

02385 TTh 2-3:30pm UTC 4.348

Professor: Bill Spiller

E-mail: bill.spiller@mcombs.utexas.edu

Office: CBA 6.304H **Phone:** (512) 475-9597

Office Hours: MW 9-11am and by appointment

TAs: TBA

Office Hours: TBA

Course Objectives:

The focus of this course is on the analysis, interpretation, reformulation, and prediction of financial statements. This includes profitability and returns analysis, operating versus nonoperating performance evaluation, credit analysis (liquidity and solvency), reformulation of financial statements, forecasting of financial statements, analysis of off-balance-sheet financing, analysis of intercorporate investments, cash flow analysis, accounting-based equity valuation, cash-based equity valuation, market-based valuation, assessing earnings quality and earnings management, assessment of intangible assets, and credit ratings of debt securities.

The course's overriding emphasis is on the analysis and application of financial statement information for investment, credit, and management decisions; this includes advisory, audit, and consulting services. Considerable importance is placed on evaluation, interpretation, and use of accounting data for decision making, yet explicit focus is on the analysis of accounting measurements and disclosures. This entails a focus on current reporting requirements, with consideration of their strengths and weaknesses. Such knowledge will enable one to participate in and manage important business decisions drawing on (reformulated) financial statements and footnote disclosures.

Key objectives of this course are (1) to provide an understanding (including limitations) of accounting measurement and reporting for analysis purposes, (2) to instill an appreciation for the crucial separation of operating and nonoperating activities and their implications, (3) to reformulate GAAP-based financial statements for more effective financial statement analysis and valuation, (4) to adjust financial statement numbers for measurement limitations of GAAP, (5) to forecast financial statements over multiple years, and (6) to value equity securities using both cash-based, earnings-based, and market-based valuation models. Both individual and team projects are required to develop the necessary skills to achieve each of these objectives.

Required Text:

Easton, P.D., M.L. McAnally, G.A. Sommers, and X.J. Zhang, **Financial Statement Analysis and Valuation**, Fifth Edition, Cambridge Business Publishers, 2018 [ISBN: 978-1-61853-233-6]

We will use the MyBusinessCourse access

Prerequisites: ACC 326, FIN 357(H)

Grades:

Grades are determined based on your relative class performance over a cumulative point total of approximately 500 (depending on the number of graded assignments and quizzes). The point total consists of the following components:

Examination #1	100 points
Examination #2	90
Case Write-Up / Analysis / Interpretation	70

Case Panel Defense / Peer Analysis	10
Panel assessment of Peer-Teams	10
Class participation	20
Assignments and any Quizzes	<u>200</u>
Total	500 points

Examinations Examinations are administered during class (with no notes, books, or programmable calculators). Each student is required to sit for an examination on the day and time it is scheduled. In general, there are no make-up examinations—if you are unable to resolve conflicts with scheduled examinations, you should withdraw from the course. Examinations are demanding of both one's efficiency and effectiveness in addressing accounting measurement, reporting, and analysis issues. There are two examinations during the term. Examinations typically consist of cases, problems, essay questions, and various analysis and interpretation requirements. The examination dates are:

Examination #1: Wednesday, March 7 Modules 1– 8

Examination #2: Wednesday, May 9 Modules 9–15

Participation Each student is expected to express opinions on analysis of financial statements in a manner to contribute to a penetrating and insightful classroom discussion. Performance on this dimension is based on the quality of your input to class discussion, not on its quantity.

Assignments Successful completion of assignments is integral to this course (which makes up ~40% of this course's grading structure). Assignments are of two types:

(1) **Web-based Work.** Web-based assignments must be completed in myBusinessCourse. Web-based assignments must be completed by 10 a.m. CT on the due date (after this time, the assignments are not accessible and no additional work can be entered). Most assignments are 'random,' meaning that one receives different numbers than another, and one receives different numbers if an assignment is redone. Specific details are available at the website.

(2) **Paper/Spreadsheet Work:** Preparation for each class requires completion of various assignments, sometimes on paper or electronically such as with Excel. Both announced and unannounced collection and grading of assignments are likely to occur periodically during the course. An important part of the grading of assignments is evidence of a serious attempt at all requirements of the assignments—accordingly, show all work. Graded assignments may be collected at the start of class, and late assignments are not accepted. **Extra Credit** Extra credit assignments may periodically be made available to enhance analysis skills. **Quizzes** Intermittent quizzes are possible—they are usually unannounced, and can be either in-class or take- home quizzes. To emphasize their importance, quizzes are graded. There are no make-up quizzes.

Case Write-up/Analysis/Interpretation A team project is required. Your team will collect relevant financial data, conduct accounting and financial analyses, prepare financial forecasts, and render decisions regarding preferred investor-creditor actions. A separate handout on this requirement is forthcoming.

Grades will be assigned based on a curve, with the class average expected to be between approximately 3.2 and 3.4. Plus/minus grading will be used.

Class Attendance and Homework:

.) Regular class attendance is important and required. You are expected to attend class and contribute to a quality discussion. Individual and team discussions of the materials (such as readings, assignments, and cases) are an important part of the learning process. If unforeseen circumstances prevent attendance at a class meeting, please recognize that each student is responsible for all materials discussed, handouts distributed, assignments covered, and announcements made.

Method of Instruction

Class sessions entail a mixture of mini-lecture, breakout sessions, problem analysis, and class and team discussion and presentation. The content of each class presumes and expects that each student has carefully studied the assigned reading and completed all assignments. Mini-lectures emphasize major topics and readings, yet each student is responsible for all assigned materials. Students are encouraged to ask questions and to stimulate discussion on topics that are difficult to understand. It is important that each student be able to effectively articulate the interpretation and analysis of financial statements.

Assigned materials must be completed when due. Failing to complete assignments when they are due is a recipe for failure. One is expected to come prepared to discuss issues relevant to all assignments. Although we cannot cover all assigned materials in class, remember that they are an integral and important part of this course. Working together in teams of two or three, when permitted, can help in one's understanding of these materials.

Communication Channels: The class webpage is Canvas. I may send email containing announcements.

Class Conduct: Professional behavior is expected. I provide, as non-exhaustive guidelines:

- 1. Please arrive to class on time.** If you are running late, do not feel you should skip class. Please quietly take a seat at the side of the classroom. If you must leave class early, do so quietly.
- 2. Please put away all electronic devices, including laptops, once class begins.** I will allow the use of laptops or other electronic devices during class at the beginning. If they become disruptive then we will discontinue their use. If you have truly extraordinary circumstances, speak with me about it **before** class. Whether I say something in class regarding the use of your phone does not mean that I did not notice it – please know that use of a cell phone is one of the most obvious activities to observe from the front of the room, and it is even more obvious when you hold it in your lap. So, if you want to ensure I notice it and that you receive the largest grade penalty possible, please be sure to go out of your way to “hide” your usage.

Students with disabilities: The University of Texas at Austin provides, upon request, appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

Course Schedule

Accounting 327 Financial Statement Analysis

Spring 2019

Week No.	Date	Class No.	Topic	Pre-Class Work	Review Problems
1	T Jan 22	1	Framework for Financial Statement Analysis	Mod 1, pp 1-32, skim lectures LO1-LO5	No MyBusiness assignment. Work 42, 49, 46
	Th Jan 24	2	Review of Business Activities and F/S 54, 26	Mod 2 pp 1-37skim LO1-LO10	No MyBusiness assignment. Work
2	T Jan 29	4	Profitability Analysis, Part 1	Mod 3, pp 1-23, view LO1-LO5	For T work 18-21, 30, 45
	Th Jan 31	5	Profitability Analysis, Part 2	Mod 3, pp 24-42, view LO6-LO9	For Th work 46,50,52
3	T Feb 5	6	Credit Risk and Interpretation, Part 1	Mod 4, pp 1-24, LO1-LO3	For T work 17,19, 26, 29
	Th Feb 7	7	Credit Risk and Interpretation, Part 2	Mod 4 pp 25-37, LO4-LO5	For Th work 16, 21,22,32
4	T Feb 12	8	Revenue Recognition and Operating Income, Part 1	Mod 5, pp 1-17, LO1-LO4	For T work 32, 22, 25, 26, 27, 33, 52, 53
	Th Feb 14	9	Revenue Recognition and Operating Income, Part 2	Mod 5, pp 17-34, LO5-LO7	For Th 30, 37, 41, 54, 56
5	T Feb 19	10	Asset Recognition and Operating Assets, Part 1	Mod 6, pp 1-17, LO1-LO3	For T work 15, 16, 20, 25, 26, 28
	Th Feb 21	11	Asset Recognition and Operating Assets, Part 2	Mod 6 pp 17-32, LO4-LO6	For Th work 23, 33, 34, 36, 43, 44
6	T Feb 26	12	Liability Recognition and Non Owner Financing	Mod 7, pp 1-27, LO1-LO6	Work 9,17, 29, 32, 39, 43
	Th Feb 28	13	Equity Recognition and Owner Financing	Mod 8, pp 1-31 LO1-LO8	Work 24, 26, 31, 34, 38, 56, 61
7	T Mar 5	14	Review/ Prepare for Exam		
	Th Mar 7	15	MIDTERM 1		
8	T Mar 12	16	Intercompany Entities – Part 1	Mod 9 pp 1-16 LO1-LO2	For T work 30, 31, 34, 36, 37, 49
	Th Mar 14	17	Intercompany Entities – Part 2	Mod 9 pp 17-30, skim 31-39, LO3-LO5	For Th work 16, 24, 38, 42, 44, 47

Week No.	Date	Class No.	Topic	Pre-Class Work	Review Problems Due at 8am date of class
	Mar 18-22		No Class – Spring Break		
9	T Mar 26	18	Off-Balance Sheet Financing – Part 1	Mod 10 pp 1-24, LO1-LO2	For T work 31, 34, 35, 41, 44, 45 For Th work 25, 37, 47, 48
	Th Mar 28	19	Off-Balance Sheet Financing – Part 2	Mod 10 pp 25-33, skim 31-39, LO3-LO6	
10	T Apr 2	20	Adjusting and Forecasting Financial Stmtts-Part 1	Mod 11 pp 1-13, LO1-LO4	For T work 23, 25, 27, 28 For Th work 18, 19, 31, 33, 35
	Th Apr 4	21	Adjusting and Forecasting Financial Stmtts-Part 2	Mod 11 pp 13-23, skim 24-44, LO5-LO8	
11	T Apr 9	22	Cost of Capital and Valuation Basics- Part 1	Mod 12 pp 1-17 LO1-LO4	For T work 13, 29, 39, 40, 46 For Th work 35, 41-43, 47
	Th Apr 11	23	Cost of Capital and Valuation Basics- Part 2	Mod 12 pp 18-23, skim 24-28, LO5-LO6	
12	T Apr 16	24	Cash Flow Based Valuation – Part 1	Mod 13 pp 1-15, LO1 and LO2	Work 9, 11, 13, 20
	T Apr 18	25	Cash Flow Based Valuation Part 2	Mod 13 pp 16-30, Work 14	
13	T Apr 23	26	Operating Income Based Valuation	Mod 14 All, LO1-LO4	For T Mod 14, work 18, 19, 25, 28 For Th Mod 15 work 28, 37, 38, 41
	Th Apr 25	27	Market Based Valuation	Mod 15 All, LO1-LO4	
14	T Apr 30	28	Team Project Due		
	Th May 2	29	Presentation and Defense of Projects		
15	T May 7	30	Presentation and Defense of Projects		
	Th May 9	31	Mid Term 2		