

Coursera – IESE Foundations of Management Specialization
Accounting: Making Sound Decisions
Prof. Marc Badia

Accounting Peer to Peer Assessment (Part II of Final Quiz)

Now that you have completed your own work, it's time to review and grade three peers' assessments.

The passing threshold for the peer assessment will be 75%.

Remember, each prompt is worth up to 4 points each. You may award one point per idea that they address. You may also award 0,5 points when your peer partially addresses one of the ideas.

Please award points as follows:

0 – insufficient

0,5 – ok (partial credit)

1,0 – excellent (they addressed the entire item completely)

Below is a sample score sheet for the two prompts:

Sample Score Sheet		
Prompt 1	<i>Briefly discuss Fibertech's financial statements.</i>	
	<i>Please comment on its financial position, profitability, liquidity and whatever relevant information you need from the financial statements. (4 points)</i>	
	Example	
	How many of the ideas listed in the solution key did the learner address? Assign 1 full point when the idea was thoroughly expressed (statement plus some reasoning). You can assign half a point if your peer expresses part of the idea.	Points (0,5 or 1)
	Idea 1	0
	Idea 2	1
Prompt 2	Idea 3	1
	Idea 4	0,5
	Total:	3,5
	<i>If you were a shareholder sitting on the Board of Directors of Fibertech, based on the information you read in the financial statements, what questions would you ask in order to get a more complete picture of the company's performance? Whenever possible, please link the question to an observation you have made after looking at the financial reports. (4 points)</i>	

Example

How many of the questions in the solution key did the learner come up with? Assign 1 full point when the question is thoroughly expressed. You can assign half a point if your peer gets part of the question.

Points (0,5 or 1)

Idea 1	1
Idea 2	1
Idea 3	1
Idea 4	1
Total:	4

Points awarded prompt 2: 4 total

Total Score $3,5 + 4 = 7,5$ points out of 8 (pass! 93,75%)

Passing threshold: 75%

For each question, Prof. Badia has provided an example of the type of criteria you should look for in order to award the corresponding points. To award a full point, you should look not just for assertions, but also arguments that offer supporting evidence. For example, if the learner states, "Fibertech is very profitable," the statement may be correct, but it's not enough to earn a point. *Why is it profitable? What categories on the financial statements allow you to arrive at this conclusion?*

To earn a point per idea, you should check that the statement has supporting evidence like in the example below:

Fibertech is very profitable. The net profit is XYZ. The return on sales is X% (i.e. $\text{Net profit} / \text{Sales} = \text{XYZ} / \text{ABC}$). The return on equity is XX% (i.e. $\text{Net profit} / \text{Average owner's equity for the year} = \text{XYZ} / [(\text{XXX} + \text{YYY})/2] = \text{XX\%}$).

Below please find examples of the types of responses/comments you should look for in your peers' answer to the two questions in this part of the assessment. You can award one point when the learner expresses any one of the ideas for a maximum of four points. For example, if the learner only address one of the ideas, they get one point, if they address two of these ideas, two points, etc. **If they address all of the ideas (there are more than four), the learner will still earn the maximum four points for the response.**

Please note: Learner responses need not be as complete as the examples below, but **they should reflect the underlying idea** of each. Either the basic answer or answer with further explanation would **both** merit an **entire point**.

1. Review Criteria, Prompt 1:

Briefly discuss Fibertech's financial statements.

Please comment on its financial position, profitability, liquidity and whatever relevant information you need from the financial statements. (4 points)

Please read your peers' responses and check how many of the following 8 underlying ideas they cover. For full credit for this question, they should answer 4 or more of these.

1. **Underlying idea:** "Current assets are much higher than current liabilities, but the cash account and accounts receivable are enough to cover current liabilities."

Underlying idea with further explanation: "Current assets are much higher than current liabilities. Current assets are either cash or they are turning into cash in the short-run (e.g. accounts receivable). Current liabilities have to be repaid also in the short-run. We observe that the cash account and accounts receivable balances are enough to cover the current liabilities. So it seems there is a good financial balance."

2. **Underlying idea:** Another way to conclude a healthy financial balance is to observe that Owners' Equity and Long-term Debt are much higher than noncurrent assets (1,046 vs. 396). In other words, the company is using long-term resources that do not need to be repaid in the short-run to finance non-current assets.

Underlying idea with further explanation: Another way to explain the prior point is to observe that permanent sources of capital (i.e. Owners' Equity and Long-Term Debt) are much higher than noncurrent assets (1,046 vs. 396). The company holds noncurrent assets for the long-term, so they are illiquid investments that are not turning into cash. For this reason, it is important to finance them with long-term resources that do not need to be repaid in the short-run. These long-term resources have no maturity or very long-term maturity.

3. **Underlying idea:** Fibertech is very profitable. The net profit is 336. The return on sales is 15.3% (i.e. $\text{Net profit} / \text{Sales} = 336 / 2,200$). The return on equity is 76% (i.e. $\text{Net profit} / \text{Average owner's equity for the year} = 336 / [(290 + 596)/2] = 76\%$).

Underlying idea with further explanation: Fibertech is very profitable. The net profit is 336. The return on sales is 15.3% (i.e. $\text{Net profit} / \text{Sales} = 336 / 2,200$). The return on equity is 76% (i.e. $\text{Net profit} / \text{Average owner's equity for the year} = 336 / [(290 + 596)/2] = 76\%$). For every dollar invested in the business, the shareholders earn 0.76 additional dollars every year. It is fine if people estimate this ratio using the initial owners' equity as the denominator. In such a case, the return on equity would be 115%. Other additional analysis of margins and ratios based on the income statement are welcome and can help to make the point that the company is very profitable.

4. **Underlying idea:** Despite the high profitability, cash has decreased by x4. The company has generated a positive cash flow from operations (194), but it has not been enough to cover the investments in building and equipment and brands

Underlying idea with further explanation: Despite the high profitability, cash has decreased by x4. The company has generated a positive cash flow from operations (194), but it has not been enough to cover the investments in building and equipment and brands (Cash flow from investing = -115), and the repayment of debt and payment of dividends (Cash flow from financing = -180).

5. **Underlying idea:** Despite the net profit of 336, the cash flow from operations has only been 194. It appears that Fibertech has not collected from all the sales and made more purchases than cost of goods sold.

Further explanation

Despite the net profit of 336, the cash flow from operations has only been 194. Given the growth of accounts receivable and inventories on the balance sheet, it looks like Fibertech has not collected all the sales and has made more purchases than cost of goods sold. These additional purchases have been only partially financed by suppliers. (See the increase of 100 in inventory, and the increase of only 50 in accounts payable.)

Other ideas and concepts worth 1 point:

Idea/Concept 6 Buildings and equipment are highly depreciated. In x4, the accumulated depreciation of buildings and equipment represent 82% of the total original cost.

Idea/Concept 7 The increase in the brand means that the company has purchased a brand. Brands generated internally cannot be capitalized.

Idea/Concept 8 The company is repaying the long-term debt at a rate of 150 every year. These repayments may generate some tensions with regards to cash if it also needs to invest in noncurrent assets.

1. Review Criteria, Prompt 2

If you were a shareholder sitting on the Board of Directors of Fibertech, based on the information you read in the financial statements, what questions would you ask in order to get a more complete picture of the company's performance? Whenever possible, please link the question to an observation you have made after looking at the financial reports. (4 points)

Possible questions to better understand Fibertech's business performance:

Please review your peers' answers. Did they cover at least four of the following? Award one point per response.

1. Buildings and equipment are highly depreciated. Will we have to invest in new buildings and equipment very soon?
2. Are we generating enough cash to cover these investments in building and equipment, while at the same time continuing to repay the long-term loan? It would be nice to see a forecast of the cash flow statement.
3. If we need new financing, where does management expect to get it from (e.g. new loan or raising capital)?
4. We want the income statement for last year to see the evolution of sales and profitability (margins). We want to understand the underlying reasons in the change of sales and margins. For example, the underlying reason for an increase in sales could be higher prices, higher quantities or a different product mix. The higher quantities could be due to an expanding market or due to an increase in market share because we have been more competitive.
5. Prior sales will also be helpful to see the evolution of the investment in working capital over sales (i.e. inventory, A/R and A/P). Inventory and accounts receivable have increased substantially and we need to understand why. The increase in inventory could be due to an increase in sales, but also to problems in selling our products. If we can't sell our products, what is the reason? High prices, obsolescence, decreasing market, etc.? Maybe the company is not managing inventories efficiently?
6. In the case of accounts receivable, why are they increasing? Is it because we are selling more or because customers are not paying?

7. We want to have measures of profitability from competitors in order to have a benchmark. How does our gross margin as a percentage of sales compare to that of other firms in the industry? What is the evolution of these profitability ratios over time in Fibertech? Are we improving margins?