Fall 2016

Course Number: ACCY 6106-10   Tue 7:10-9:40
Course Title: Financial Statement Analysis
Professor: Christopher Jones
Office: Funger 601Q
Phone: (202) 994-3529
e-mail address: jonesc@gwu.edu
Office Hours: Tue 11:00-12:00 and Wed 3:30-4:30 (I am generally available in my office at other times as well, drop by or call)

Course description

In your earlier accounting classes, you learned a lot of rules that go into producing firms’ reported accounting results. In this course, we will instead focus on understanding and using the financial statements. You will learn a six-step process to use financial and other information to make investing, lending and other business decisions. We will use real world examples and cases to help develop these skills and you will apply what you have learned in homework assignments and a four-part project. The skills should prove relevant in your careers.

Course Objectives:

To further develop your ability to use financial statements to make investment, lending, and other economic decisions. In particular you should:

- Integrate knowledge and skills from relevant fields of study and experiences to interpret and analyze information to make decisions.
- Understand a firm’s strategy and the interrelationship between it and the firm’s financial statements.
- Make sense of financial statements and other annual report information and use them to evaluate the profitability and creditworthiness of a firm.
- Recognize what accounting numbers can and cannot tell us about a firm. Adjust the reported numbers to produce more comparable or useful information and identify ways in which the economic value and balance sheet values may differ.
- Forecast future financial statements and use those forecasts to estimate the equity value of a firm.
- Reflect on the course and analyze how you are learning the course material.
Text:


Grading:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company project</td>
<td>15%</td>
</tr>
<tr>
<td>Class participation</td>
<td>10%</td>
</tr>
<tr>
<td>Homework</td>
<td>10%</td>
</tr>
<tr>
<td>Quiz</td>
<td>5%</td>
</tr>
<tr>
<td>Midterm</td>
<td>24%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>36%</td>
</tr>
</tbody>
</table>

Tests:

The exams are open-book, open-notes. I am less interested in you memorizing course content than in understanding the material deeply enough to answer more challenging questions and to do more sophisticated analyses. Most of the test questions will require you to apply what you have learned to real companies that we have not studied. This is an important skill because business professionals routinely have to use what they have learned to new situations. These questions require applying and integrating concepts in order to systematically address questions. *There are also questions on the cases, so bring copies of the cases to the exams.*

The quiz and midterm will be held during class. The final exam will be held during the final exam period. The final exam will be cumulative but will focus more on the later chapters.

Class Participation and Readings:

Participating in class is an important component of the course that benefits both you and your fellow classmates. Explaining things in your own words helps you understand a concept more fully, which improves learning and retention. It also may help other students understand the concept. It is a form of active learning that provides more variety in instructional approach and voice.

There are several different forms of class participation including 1) asking or answering questions during lectures, 2) analyzing example companies, and 3) participating in case discussions. In case discussions, I provide the case materials and questions in advance.

In addition, we do other forms of active learning that involve working in small groups. You will collaborate with other students to answer questions that I pose in class and on in-class problems that we will do for particularly challenging or important problems.

Your class participation grade is based on attendance and on providing thoughtful comments and asking insightful questions.

The syllabus lists the material in Wahlen, Baginski and Bradshaw that will be covered in this course. You will get more out of class if you have read the relevant readings before class.

The syllabus also lists cases that will be discussed in class. I will provide copies of the
cases that are not in the textbook. It is particularly important that you prepare for and participate during the cases. If it appears that students are not prepared for case discussions, I may be forced to use quizzes to motivate everyone to prepare.

Cell phone use is not allowed in class.

Problems and the reflection essay:

To reinforce concepts and practice applying them to solve problems, I assign nine homework assignments. Most questions involve applying course material to real companies, which will help you practice locating and using accounting and other annual report information and using it to understand and analyze the firm.

I suggest that you work in groups on the problems because you can learn from other group members and explaining material enhances your own understanding.

I will provide answers to the homework assignments so reading through my answers is an important part of the process that should contribute to your understanding of the topics covered.

The homework assignments will be collected and graded (check plus, check and check minus worth 10, 9 and 8 points, respectively). The grades may provide a sense of how well you understand the material but getting a check plus does not mean you got everything correct.

Each student should hand in his or her own copy of the problems. Show your steps. You must hand in hard copies of the problems and project parts. I accept late assignments but there is a penalty for lateness.

In addition to the nine homework assignments, the homework grade also includes a one to two page reflection essay. It is designed to get you to think about the course and what and/or how you are learning material in the course. I will provide more details on the reflection later.

Company project:

You will do a project that involves an in-depth analysis of a company. Students typically enjoy the project. You will find the project reinforces the course material and is useful practice for the exams and for doing financial statement analysis in future jobs. Students should develop a clearer sense of the wealth of information provided by firms and how much they can learn about the firms but also of the challenges in wading through all that information.

The project consists of four parts that relate to three important steps in the financial statement analysis process: profitability analysis, forecasting future financial statements (two parts), and estimating the value of the firm.

I broke the project into four parts with all four parts due before the end of the semester to 1) distribute the work more evenly through the semester and 2) provide feedback on each part prior to the final exam.

The projects are individual projects so you are not allowed to collaborate on them.

Additional information on the assignments will be provided later in the course.

Honor Code:

You should read and follow the George Washington Honor Code. Violations will not be tolerated.
Tentative Schedule:

<table>
<thead>
<tr>
<th>Date</th>
<th>Question to be Explored</th>
<th>Topic</th>
<th>Required Readings</th>
<th>Homework Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 30</td>
<td>What is the course about?</td>
<td>Financial Statement Analysis: Firms with recent stock price declines</td>
<td>Information on five recent IPO firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What can we learn from financial statements?</td>
<td>Review of Financial Accounting</td>
<td>Syllabus</td>
<td></td>
</tr>
<tr>
<td>Sept 6</td>
<td>What does the firm do and how is that related to its accounting results?</td>
<td>Review of Financial Accounting, (cont’d)</td>
<td>Same as Aug 30</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chapter 1: Strategy</td>
<td>Chapter 1 pp.1-17, 42-57 Chapter 3 pp.151-154</td>
<td></td>
</tr>
<tr>
<td>Sept 13</td>
<td></td>
<td>Chapter 1: Strategy (cont’d)</td>
<td>Same as Sept 6</td>
<td>HW 1 Due</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Starbucks Case, Part 1</td>
<td>Starbucks WP Article and Questions</td>
<td></td>
</tr>
<tr>
<td>Sept. 20</td>
<td>Why are some firms more profitable?</td>
<td>Starbucks Case, Part 2</td>
<td>Starbucks Annual Report and Questions</td>
<td>HW 2 Due</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chapter 4: Profitability Analysis</td>
<td>Chapter 4 pp.241-265, 269-298</td>
<td></td>
</tr>
<tr>
<td>Sept. 27</td>
<td>Would you lend money to this firm?</td>
<td>Chapter 4: Profitability Analysis (cont’d)</td>
<td>Same as Sept 20</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chapter 5: Risk Analysis</td>
<td>Chapter 5 pp.335-342, 353-375, 379-381</td>
<td></td>
</tr>
<tr>
<td>Oct. 4</td>
<td>Quiz</td>
<td>Chapter 5: Risk Analysis (cont’d)</td>
<td>Same as Sept 27</td>
<td>HW 3 Due</td>
</tr>
<tr>
<td>Oct. 11</td>
<td>How profitable will the firm be in the future?</td>
<td>Chapter 5: Risk Analysis (cont’d)</td>
<td>Same as Sept 27</td>
<td>Project Part 1 Due</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chapter 10: Forecasting Pro-Forma Financial Statements</td>
<td>Chapter 10 pp.761-822</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Chapters/Assignments</td>
<td>Notes</td>
<td>Due Dates</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>-----------</td>
<td></td>
</tr>
</tbody>
</table>
| Oct. 18| Chapter 10: Forecasting (cont’d)  
Tesla Case  
Massachusetts Stove Company Case (Case 5.2)  
Tesla Annual Report and Questions  
Case 5.2 Massachusetts Stove Company Questions | Same as Oct 11                                                      | HW 4 Due  |
| Oct. 25| No class                                                                             |                                                                      |           |
| Nov. 1 | Massachusetts Stove Company Case (cont’d)                                           | Same as Oct. 18                                                     | HW 5 Due  |
| Nov. 8 | Midterm  
Is it possible to make profitable investments?  
What is the firm worth?  
Midterm Market Efficiency and Role of Financial Statement Analysis  
Chapter 11, 13, 14: Equity Valuation | Chapter 1, pp. 52-53  
Chapter 14, pp. 1042-1046 | Reflection essay due  
Nov. 8 |
| Nov. 15| Chapter 11, 13, 14: Equity Valuation, (cont’d)                                       | Same as Nov 8                                                       | Project Part 2 Due |
| Nov. 22| Antle and Garstka  
Why are book value and market value so different?  
Apple Case | Antle Chapter pp.131-135  
Chapter 2, pp.97-108  
Chapter 6, pp.439-443  
Chapter 9, pp.718-720, 728-28 | Project Part 3 Due |
| Nov. 29| Apple Case, (cont’d)  
What adjustments are appropriate?  
For inventories?  
Chapter 6: Accounting Quality  
Chapter 9: Operating Activities | Same as Nov 22  
Chapter 6, pp.415-425, 443-455, 469-471  
Chapter 9, pp.681-693, 700-711 | HW 6 Due  |
| Dec. 6 | Chapter 9: Operating Activities (cont’d)                                               | Same as Nov 29                                                      | HW 7 Due  |

HW 8 and
<table>
<thead>
<tr>
<th>For intangibles?</th>
<th>Chapter 8: Investing Activities, Chapter 7: Financing Activities</th>
<th>Starbucks Case III</th>
<th>Chapter 8, pp.591-614, Chapter 7, pp.520-525, 459-471, 544-452, Chapter 6, pp. 425-31</th>
<th>HW 9 don’t have to be handed in but should do them</th>
</tr>
</thead>
</table>