

Accounting 516
Financial Statement Analysis
Fall Semester 2009
Syllabus

Meeting Time: M,W 4:40 - 5:55 p.m. (B215)

Instructor: Paul Bahnson

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office hours: M,T,W, TH 2:00 - 3:30 pm and by appointment.

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Required Text: Lundholm and Sloan, *Equity Valuation and Analysis* (2nd Edition), McGraw-Hill.

Course Objective: This course provides an introduction to financial analysis and business valuation. Valuation is an art form and to be skilled at it one must have a strong foundation in financial reporting and business analysis. Knowledge of Generally Accepted Accounting Principles (GAAP) is crucial, particularly when it comes to identifying GAAP's numerous limitations. These limitations distort the financial statements that analysts and other statement user rely on for measuring financial position and performance. Unless the reporting distortions are first corrected, any analysis based on the financial statements, including making a business valuation, will be distorted.

This course adopts a user's perspective in reviewing accounting procedures for purposes of performing valuations. Accordingly, we will not discuss the mechanics that companies go through in preparing the information included in their annual reports. Instead, we will examine where to find the critical information and what it indicates about the structure, strategy and performance of the related company. At times this will require making adjustments to the data before performing any analysis including valuation.

COBE Core Objectives Met In This Course:

- written communication
- oral communication
- problem solving
- teamwork and collaboration

Examinations and Grading: Your grade in the course will be determined by your performance on two exams, a financial statement analysis exercise and class participation. The weight given to each component is as follows:

	<u>points</u>
Exams (2 @ 100 points each)	200
Class Preparation	50
Financial Statement Analysis Project:	
Written Report	100
Presentation	<u>70</u>
Total	<u>420</u>

Your grade will be determined based on your performance relative to the other students in the class (i.e., curved). Each exam will contain problems and short answer/essay questions. The exam dates are listed on the schedule.

Makeup Exams: Makeup exams will be given when special circumstances make them necessary. It is up to you to get permission to take a makeup exam prior to the scheduled time. Missing an exam without prior approval will result in a score of zero.

Financial Statement Analysis Project: This is a group project where each group (consisting of 2 or 3 students) selects a publicly traded company and prepares a comprehensive financial analysis including a business valuation. The project includes performing quantitative analysis of past financial statement data, constructing a financial forecast and estimating company value. The analysis will require consideration of economic and industry effects and the strategies each company is pursuing.

Each group will prepare a written report (not to exceed 20 pages) of their findings and make a 20 minute presentation to the class. Evaluation criteria for the written report and the presentation will focus primarily on the quality of the analysis but will also consider mechanics (organization/structure, spelling, punctuation, etc.) and delivery (polish, professionalism). The paper should conform to the COBE Writing Styles Guide <http://cobe.boisestate.edu/COBEwritingguide>

You are allowed to self-select into groups. Ten of the 100 points assigned to the paper will be awarded to each group that turns in its roster by (September 29th). Each group is free to choose the companies to be analyzed subject to the following constraints: 1) SuperValu and Hewlett Packard are not available because they will be the focus of in-class analysis; 2) banks and other financial sector companies have unique financial structures making them too challenging for this first project; 3) Once a group selects a particular company for analysis all other groups are precluded from using it.

Additional details about the project will be provided later on.

Access to Course Materials: Class notes are available in the form of *PowerPoint* slides. These slides are arranged by chapter and are available on BlackBoard. In addition to the course notes, solutions to the homework assignments will also be posted on the day we complete our coverage of the related chapter.

Preparation: You are to prepare for class in accordance with the attached schedule. Preparation includes (1) reading the material (2) working the assigned cases, and (3) identifying questions that you need answered. You will be asked to demonstrate

your preparation during class time by answering questions that are posed about these assignments. Missing a class when you are called on for a response or being unprepared will result in deductions when the preparation scores are determined at semester end. *Being prepared but having incorrect answers will not result in deductions.* Each of you is allowed one free day, when you can opt out of participating. However, you must notify me prior to the start of class that you are using your free day.

Drop Policy: In accordance with the policy of the University, you will not be able to drop this course after **October 2, 2009** without petitioning the Dean.

Course Schedule				
Date		Chapter	Assignments	
Aug	24	M	Intro/1	Identify the Company, Problem 1 (handout)
	26	W	1	Identify the Company, Problem 2*
	31	M	2	Chapter 2 case (using Supervalu's 2009 10-K)
Sep	2	W	2	Chapter 2 case (using HP 2009 10-K)
	7	M	Labor Day--No class	
	9	W	3	Case 4: Boston Chicken Case (q. 1-3)
	14	M	3	Case 16: Can Salton Swing? (q. 1)
	16	W	4	Case 4: Boston Chicken (q. 4-6)
	21	M	4	
	23	W	4	Case 7: GAAP vs. The Street
	28	M	Exam 1	
	30	W	5	
Oct	5	M	5	Case 10: Interpreting Margin and Turnover Ratios
	7	W	5	Case 15: Forecasting for the Love Boat (part a)
	12	M	5	Case 16: Can Salton Swing? (q. 2-5)
	14	W	6	Cash Flow Reconciliation Exercise*
	19	M	6	Turnaround at Bally Total Fitness
	21	W	7	
	26	M	8	Case 15: Forecasting for the Love Boat (part b)
	28	W	8	
Nov	2	M	9	
	4	W	10#	Stock Option Valuation Exercise*
	9	M	10#	(demonstration valuation of SuperValu)
	11	W	10#	Case 9: Evaluating Intel's Earnings Torpedo
	16	M	11	Case 14: Determinants of Valuation Ratios
	18	W	12	
	23	M	Thanksgiving--No class	
	25	W	Thanksgiving--No class	
	30	M	Group Work Session (EXAM 2 DUE)	
	2	W	Group Work Session	
	7	M	Group Presentations	
	9	W	Group Presentations	
	14	M	Project Debriefing	

*available on BlackBoard

#skip section 10.3