



**Financial Statement Analysis  
Research Seminar  
BUS 416 Course Outline  
Fall 2011  
M 2-3:50 pm, W 2-2:50 pm**

**Professor Paula A. Wilson, PhD, CPA**

**Office:** McIntyre 111B

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**Office Hours:**

Monday	8:15-8:45 am	10:15-10:45 am	4:00-4:30 pm
Wednesday	8:15-8:45 am	10:15-10:45 am	3:00-3:30 pm
Friday		10:15-10:45 am	

If either your schedule for work or school conflicts with my office hours, please contact me to make arrangements for an alternative time to meet.

**Email:** [pwilson@pugetsound.edu](mailto:pwilson@pugetsound.edu) I use email frequently and it is the best way to reach me. I strongly suggest that you check your Puget Sound email daily. If I send something to you by email, I consider it to be part of the course.

### **Required Materials**

- *Financial Statement Analysis & Valuation* by Peter D. Easton, Mary Lea McAnally, Patricia M. Fairfield, and Xiao-Jun Zhang, First Edition, © 2009, Cambridge Business Publishers
- *Financial Accounting* by Joe Hoyle and C.J. Skender, free online
- Selected cases from *Cases in Financial Reporting, 7<sup>th</sup> edition* © 2012, available for purchase online at [www.Study.Net](http://www.Study.Net) under University of Puget Sound, BUS 416.
- Calculator (not iPhone, smartphone, or other phone), bring to all classes.
- Additional readings and cases available on Moodle.

### **Course Description**

Financial Statement Analysis is a financial reporting research seminar course. While financial statements reflect certain economic realities, they do not perfectly measure economic income or wealth. They are the result of managements' judgments, estimates, and choices among alternative accounting standards, which are the result of political processes over time.

The course is designed to expand your knowledge and understanding of financial reporting and analysis by examining key questions of economic significance within the context of real companies and their reported financial information. The underlying objective of financial analysis is to measure and compare risk and return characteristics of alternative investments when making investment and credit decisions.

There is no right answer to what the financial statements, related disclosures, and other information reveal about a company's financial health and investment potential. But that does not mean that all answers are equal. There may be no right answers, but some answers are better than others, and figuring out what that means and how it can be so is one of the goals and challenges of this class.

**Course Prerequisites in order for BUS 416 to satisfy the Senior Research Seminar requirement for the SBL major:** BUS 205, BUS 315, BUS 305 or 320, BUS 290/340, BUS 305 or 335, and one advanced business elective, or permission by professor.

**Course Prerequisites to satisfy the Advanced Business elective requirement for the SBL major:** BUS 205 and BUS 315.

### **Course Objectives**

- Enhance understanding of the financial reporting system in the U.S. in order to improve decision making.
- Develop enduring understandings of the latitude managers have in determining reported numbers, the incentives managers face, the decisions managers make, the economic consequences of the decisions, and the role that ethics plays.
- Examine the impact of the application of different accounting methods and estimates on the key financial statements with a focus on the effect of accounting choices on reported earnings, stockholders' equity, cash flow, and various measures of corporate performance.
- Consider the importance in the context of a global economy of emerging International Financial Reporting Standards (IFRS) for U.S. publicly traded companies and discuss how they differ from U.S. Generally Accepted Accounting Principles (GAAP).
- Develop enduring understandings that, sometimes reporting under U.S. GAAP reflects economic reality and sometimes it does not, and when it does not, recognize the need for in-depth accounting analysis.
- Cultivate accounting and financial analytical and research skills that reveal indicators of financial performance and financial health through the completion of a major semester research project.

## Course Topics

This seminar examines three essential questions:

- *To what degree does a firm's reporting reflect its underlying business economics?*
- *Why are some items of importance reflected in the financial statements and others are not?*
- *How does financial statement analysis get us closer to the economic truth? Ultimately, knowing the economic truth is important for effective decision making.*

## Course Expectations and Policies

If you need to miss a class, notify me by email **prior to** the beginning of that class and provide the reason for your anticipated absence. If I determine that your absence is excused – which is at my discretion – I will permit you to make up any in-class writing or case analysis. It is your responsibility to ask me for the assignment and when it is due, usually two days following the class missed. If your absence is not excused, no make-up assignment will be accepted for credit. If you do not email me **prior to** the beginning of the class that you intend to miss, no make-up assignment will be accepted for credit. Participation points cannot be made up.

Extra credit will not be available in this class. Grades of incomplete will not be available except under extraordinary circumstances.

## Cell phone and other electronic devices classroom policy

Before entering the classroom, turn your phone off (not just to vibration mode, which is distracting to you, your classmates, and to your professor). If there is a legitimate need for you to be available via phone, please talk to me before class starts.

I encourage you to take notes in whatever form is most useful to you. However, due to the distraction potential of electronic devices (laptops, iPads, smartphones, etc.) to you, to your classmates, and to your professor, I generally do not allow the use of electronic devices in class. Thus, turn your electronic devices off before class begins and put them in your backpacks.

<b>Grade Components</b>	<b>Percentage Of Final Grade</b>
Class preparation, case analysis, and participation	38.0%
News article annotation and presentation	2.0%
Financial Statement Analysis Senior Research project	50.0%
Capstone Research presentation	<u>10.0%</u>
<b>Total</b>	<b>100.0%</b>

## Preparation, Case Analysis, and Class Participation

Think of this course as a professional work commitment rather than a class. BUS 416 is not a lecture-based class; it is a seminar. Come to class with the same level of preparation for which you would prepare for a professional meeting with your supervisor and colleagues. I expect you to complete the assigned readings and cases and be ready to actively contribute to the class discussion. If you do not like to participate and actively engage in class, then you should find

another class. Your class involvement is worth 38% of the course grade. Two percent of the total will be earned by your attendance at two business professional events outside of class, such as a business professional meeting off campus or a business speaker on or off campus. For each event you attend, you will need to submit a write up (a one-page summary of your experience and how it relates to financial reporting and analysis).

### News Article Annotation

Students will complete a short paper and presentation on a current news article that relates to the financial accounting topic of the prior or current week. It is worth 2% of the course grade. During the first week of the course, each student will sign up for a date to present. The paper should include a brief summary of the article and an application of accounting theory, concepts, and or analysis tools. The annotations are typically one typed page in length double-spaced and should include a copy of the article annotated. In addition to the short paper, students will make a two-minute presentation of their news article annotation to the class. I hope that the annotations will provide you with direct evidence that your knowledge of financial statement analysis deepens during the semester and that financial accounting analysis is useful for understanding real world events.

### Senior Research Project and Presentation

Your financial statement analysis senior research project will be a comprehensive analysis of a U.S. publicly traded company. It is worth 50% of the course grade. Details about the project are included in a separate document. Each student will also make a twelve to fourteen minute formal business presentation of his/her research project (nine to ten minute presentation followed by three to four minutes Q and A) and it is worth an additional 10% of the course grade. We will discuss formal business style and presentation attire before presentations.

### Grading Criteria

Your work will be assessed based on your performance level or points earned as shown in the table below. Remember that I do not “give” grades; rather, you earn your grade.

Grading Criteria		
Grade	Percent Earned	Performance Level
A	94-100	Student demonstrates <b>excellent</b> performance in written work and oral presentations. Content, organization, analysis, demonstration of understanding, and application of course material significantly exceed the minimum requirements.
A-	90-93	
B+	87-89	
B	84-86	Student demonstrates <b>above average performance</b> in written work and oral presentations. Student exceeds the minimum requirements in some, but not all, of the above mentioned areas.
B-	80-83	
C+	77-79	

C	74-76	Student demonstrates <b>average performance</b> in written work and oral presentations. Student has satisfactorily completed the content and structure of the assignment.
C-	70-73	Lowest grade to earn credit for the course
D+	67-69	
D	64-66	Student demonstrates <b>below average performance</b> in the quality of the written and oral presentations.
D-	60-63	
F	0-59	The quality of work is <b>not acceptable</b> for a college student.

### Links to Established Educational Goals of Puget Sound

I have designed this course to fulfill several of the education goals of our university and of the School of Business and Leadership. These priorities include:

1. Developing the “ability to think analytically” and “engage in active inquiry.” In the study of accounting, you will actively develop your abilities to think analytically by analyzing accounting information and assessing the extent to which it reflects the underlying business economics.
2. Mastering “the ability to communicate clearly and effectively, both orally and in writing.” This course provides you with ample and varied opportunities to develop these skills. You will be expected to articulate your ideas orally and in writing to your classmates, and me.
3. Developing “an informed appreciation of self and others as part of a broader humanity in the world environment.” The study of accounting involves an element of self reflection- you will be called upon to answer for yourselves “what story do the numbers tell” and does this story reflect the underlying economic reality of the business? You will learn to ask important questions and to provide evidence to support their evaluation.
4. Providing for “breadth of learning” across a variety of fields, while providing for a “depth of understanding” in a single field. This course gives you the opportunity to develop a depth of understanding of important business problems from an accounting perspective within an institutional context that considers the economic, political, and legal environment. We will also consider the complexities of human behavior and ethics in business.

**Academic Honesty:** Academic honesty is highly valued at the University of Puget Sound. Academic dishonesty can take a variety of forms and includes, but is not limited to the following: plagiarism, which is taking someone else’s ideas, words, research, images, computer analyses and misrepresenting it as one’s own; submitting the same paper or work for credit in more than one course without the prior permission of the professor; copying homework or analyses completed by someone else; cheating on tests. I will not tolerate academic dishonesty and will seek the harshest penalties possible. Please read and understand the University’s

policy on academic honesty, which can be found at <http://www.ups.edu/dean/handbook/honesty.shtml>.

### **Additional Resources for Independent Learning Beyond This Course**

- **Basic Financial Statement Analysis**
  - Berman, K. and Knight, J. (2006). *Financial Intelligence: A Manager's Guide to Knowing What the Numbers Really Mean* Boston, MA: Harvard Business School Publishing.
  - Fridson, M. and Alvarez, F. (2002). *Financial Statement Analysis: A Practitioner's Guide*. Third Edition. New York: John Wiley & Sons.
- **Earnings Quality**
  - Mulford, C. and Comiskey, E. (2005). *Creative Cash Flow Reporting: Uncovering Sustainable Financial Performance*. New York: John Wiley and Sons.
  - Mulford, C. and Comiskey, E. (2002). *The Financial Numbers Game: Detecting Creative Accounting Practices*. New York: John Wiley & Sons.
- **Investment Analysis**
  - Graham, B. (2005). *The Intelligent Investor*. Revised Edition. New York: Harper Row Publishers.
  - Hagstrom, R., Miller, B. and Fisher, K. (2005). *The Warren Buffett Way*. Second Edition. Paperback. Hoboken, NJ: John Wiley & Sons.
  - Lowe, Janet. (2000). *Damn Right: Behind the Scenes With Berkshire Hathaway Billionaire Charlie Munger*. New York: John Wiley & Sons.
- **New York Times Best Sellers List**
  - Lewis, Michael. (2010). *The Big Short: Inside the Doomsday Machine*. New York: Norton & Company.
  - Levitt, Steven and Dubner, Stephen. (2005). *Freakonomics*. New York: HarperCollins.
  - Sorkin, Andrew Ross. (2009). *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System- and Themselves*. New York: Penguin Group.

### **Classroom Emergency Response Guidance**

Please review university emergency preparedness and response procedures posted at [www.pugetsound.edu/emergency/](http://www.pugetsound.edu/emergency/). There is a link on the university home page. Familiarize yourself with hall exit doors and the designated gathering area for your class and laboratory buildings.

If building evacuation becomes necessary (e.g. earthquake), meet your instructor at the designated gathering area so she/he can account for your presence. Then wait for further instructions. Do not return to the building or classroom until advised by a university emergency response representative.

If confronted by an act of violence, be prepared to make quick decisions to protect your safety. Flee the area by running away from the source of danger if you can safely do so. If this is not possible, shelter in place by securing classroom or lab doors and windows, closing blinds, and turning off room lights. Stay low, away from doors and windows, and as close to the interior hallway walls as possible. Wait for further instructions.

## Course Schedule

This schedule represents our expected weekly class plan. However, as the term progresses we may need to make changes if we spend more or less time than planned on any particular topic.

**Note:** All Module readings are from the course text *Financial Statement Analysis & Valuation* by Peter D. Easton, Mary Lea McAnally, Patricia M. Fairfield, and Xiao-Jun Zhan, First Edition © 2009. All cases from *Cases in Financial Reporting* by Ellen Engel, D. Eric Hirst, and Mary Lea McAnally, 7<sup>th</sup> Edition © 2012.

August 29 <b>Week 1, Days 1, 2</b>
Course Introduction, Review Syllabus, and Framework for Analysis Why is financial statement analysis important? <ul style="list-style-type: none"><li>• <b>Reading:</b> Hoyle &amp; Skender, Financial Accounting Chapters 1-5</li><li>• <b>Reading:</b> Module 1 pp. 1-30 Framework for Analysis and Valuation</li><li>• <b>Preparation:</b> Discussion questions provided for Days 1, 2</li></ul>
September 7 (no class Monday September 5 Labor Day) <b>Week 2, Day 3</b>
Why is it important to understand how to analyze economic transactions and assess financial statement effects? <ul style="list-style-type: none"><li>• <b>Reading:</b> Module 2 pp. 1-32 Overview of Business Activities and Financial Statements</li><li>• <b>Preparation:</b> Discussion questions provided for Day 3</li></ul>
September 12 <b>Week 3, Days 4, 5</b>
Profitability analysis and Interpretation <ul style="list-style-type: none"><li>• <b>Reading:</b> Module 3 pp. 1-19 Profitability Analysis and Interpretation</li><li>• <b>Preparation:</b> Molson Coors Brewing Company- Profitability and Earnings Persistence</li></ul>
September 19 <b>Week 4, Days 6, 7</b>
Credit risk analysis <ul style="list-style-type: none"><li>• <b>Reading:</b> Module 4 Credit Risk Analysis and Interpretation</li><li>• <b>Preparation:</b> Discussion questions provided for Days 6, 7</li></ul>
September 26 <b>Week 5, Days 8, 9</b>
Revenue recognition and operating income <ul style="list-style-type: none"><li>• <b>Reading:</b> Module 5 pp. 1-16, 23-28 Revenue Recognition and Operating Income</li><li>• <b>Preparation:</b> Discussion questions provided for Days 8, 9</li><li>• <b>Preparation:</b> Apple Inc. – Revenue Recognition Case</li></ul>
October 3 <b>Week 6, Days 10, 11</b>
Asset recognition and operating assets: Accounts receivable and inventories, property, plant and equipment, asset sales, and intangibles <ul style="list-style-type: none"><li>• <b>Reading:</b> Module 6 pp. 1-13 (receivables), pp. 14-26 (inventories), pp. 27-38</li><li>• <b>Preparation:</b> Discussion questions provided for Day 10</li><li>• <b>Reading:</b> Hoyle &amp; Skender, Financial Accounting Chapter 11</li><li>• <b>Preparation:</b> Borland Software Corporation- Goodwill, IFRS case</li></ul>
October 10 <b>Week 7, Days 12, 13</b>
Liability recognition and non-owner financing <ul style="list-style-type: none"><li>• <b>Reading:</b> Module 7 pp. 1-12, pp. 13-22, pp. 14-28</li></ul>

<ul style="list-style-type: none"> <li>• <b>Preparation:</b> Discussion questions provided for Days 12, 13</li> <li>• <b>Preparation:</b> Rite Aid Corp- Long-Term Debt case</li> </ul>
October 19 (no class Monday October 17 Fall Break) <b>Week 8, Day 14</b>
Equity recognition and owner financing <ul style="list-style-type: none"> <li>• <b>Reading:</b> Module 8 pp. 1-31</li> <li>• <b>Preparation:</b> Discussion questions provided for Day 14</li> </ul>
October 24 <b>Week 9, Days 15, 16</b>
Off-balance sheet financing <ul style="list-style-type: none"> <li>• <b>Reading:</b> Module 10 pp. 1-13 Leases</li> <li>• <b>Preparation:</b> Build-A-Bear Workshop Inc.- Leases, IFRS case</li> </ul>
October 31 <b>Week 10, Days 17, 18</b>
Off-balance sheet financing <ul style="list-style-type: none"> <li>• <b>Reading:</b> Module 10 pp. 14-23 Retirement benefit plans</li> <li>• <b>Preparation:</b> Johnson &amp; Johnson- Retirement Obligations case</li> </ul>
November 7 <b>Week 11, Days 19, 20</b>
Contingencies and Environmental Liabilities <ul style="list-style-type: none"> <li>• <b>Preparation:</b> BP p.l.c.- Contingencies, IFRS case</li> </ul>
November 14 <b>Week 12, Days 21, 22</b>
Measurement Concepts and Valuation <ul style="list-style-type: none"> <li>• <b>Reading:</b> Module 13</li> <li>• <b>Preparation:</b> Discussion questions provided for Days 21, 22</li> </ul>
November 21 (no class Wednesday Nov 23 or Friday, Nov 25) <b>Week 13, Day 23</b>
Individual meetings
November 28 <b>Week 14</b>
Research presentations
December 5 <b>Week 15</b>
Research presentations
Wed Dec 7 Senior research projects due electronically by midnight