

## **ACCT 4202, FALL 2019, FINANCIAL STATEMENT ANALYSIS AND VALUATION**

*ADAMSON 117, MONDAY AND WEDNESDAY FROM 11:00 TO 12:15 PM*

### **Instructor Information**

**Name:**

Dr. Michael Yu

**Office Location:**

Adamson Hall 215

**Office Hours:**

Monday and Wednesday from 12:15 to 2:00 pm or by appointment.

**Contact Information:**

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Communication Preference: I prefer you to contact me using your UWG email.

### **Course Information**

**Description**

A study of financial statements and financial reporting, and how financial information is used in business valuation. Contemporary issues in financial reporting are also discussed.

The primary objective of the course is to advance your understanding of how financial statements are analyzed and used in various decision-making and investment settings, and to help you become a skillful and skeptical user of financial statements and supplementary information. The course also provides a framework and the tools necessary to analyze financial statements.

The course's distinguishing feature is that it provides students with an opportunity to develop a wide range of skills such as extracting relevant information from financial statements to discern the underlying business activities and strategies, assessing firm performance and risks and managerial strategic motives in reporting financial information, forecasting firm performance, and conducting business valuation.

## **Prerequisites**

ACCT 2102 with C or better. Basic knowledge of accounting and structures of financial statements is required.

## **Delivery Methods**

This is a 100 percent face-to-face class during the regular semester, and attendance is heavily weighted in the final grade. Access to a laptop computer and Microsoft Excel are required.

Several learning methods will be used to meet the course objectives. These include your intensive study of the reading material and assigned problems, lectures, in-class exercises, and out-of-class projects. Students are expected to come to each class period and be prepared to discuss the material assigned for that day. At a minimum, this means completing the assigned reading and attempting the examples assigned for that day. We will cover most of the assigned examples in class, but you should be prepared to discuss them.

My role is that of a discussion leader and facilitator rather than a lecturer. You have a responsibility to your classmates to come to class prepared to actively discuss the assigned cases for the day. The classroom is a collective “shared experience” in which the quality of the experience depends entirely on your participation.

## **Learning Goals**

We will build on the following learning goals throughout the term:

### **First Goal**

Understand the impact of alternative accounting principles and other data issues on financial statements (LG4).

### **Second Goal**

Understand and apply financial ratios to draw inferences about business risk and profitability (LG2 and LG4).

### **Third Goal**

Understand and develop forecasted financial statements, and apply valuation models and techniques to assess firm value (LG2 and LG4).

## **Textbooks and Materials**

### **Textbook 1**

Krishna G. Palepu and Paul M. Healy, Business Analysis and Valuation: Using Financial Statements, Text and Cases, 4th Edition, South-Western Publishing, 2008, ISBN 032430286X.

## **Textbook 2**

Michael Rees, Financial Modeling in Practice: A Concise Guide for Intermediate and Advanced Level, John Wiley & Sons, 2008, ISBN 978-0470997444.

## **Course Materials**

Excel templates, additional readings, and other recommended materials are available in the course database on CourseDen.

## **Evaluation and Grading**

Because you are senior students in a selective program, the expectation is that you will earn either an A or a B in this course, assuming that all assignments and homework are completed in a timely and competent manner. Specifically, evaluation and grades are based on performance on the following activities:

Class Attendance	10 percent
Case Summaries	10 percent
Two Quizzes	20 percent
Individual Project	30 percent
Team Project	30 percent
Total	100

### **Case Summaries (5 points each)**

Case summaries must be typed and double spaced in a professional format. Each case is due at the end of the class on the day the case is discussed. Hard copy only. Please see the Course Calendar section for additional instructions.

### **Quizzes (25 points each)**

We will have two quizzes over the semester. Quizzes are closed-book and closed-notes, and will consist primarily of short problems and essay questions. Further details will be provided in class.

### **Projects (20 points each)**

We will have two projects during the semester. You will complete the individual project with me in class, and I will provide step-by-step instructions. As long as you do not miss any classes during that period, you should receive 100 percent on this individual project.

The team project is a replication of the individual project. Teams of five or six students will be formed, and each team will choose a real-world company from a list to be provided for their project. After finishing the analysis, each team will make a 15-minute PowerPoint presentation to

the class, and the class will have 10 minutes for questions and discussions at the end of the presentation. The project will be completed primarily outside of class, and the presentation dates will be assigned in class after the teams have been formed. To facilitate my grading and enhance your learning experience, you are required to evaluate the contribution of yourself and your teammates to the project. This evaluation form should be turned in separately by individual team members in a sealed envelope before the presentation.

A Word document of the summary of your analysis, an Excel file of your analysis, and a PPT file of your presentation should be emailed to the instructor after your presentation. The summary of your analysis should probably be eight pages in length in double-spaced 12-point font Times New Roman. For the final presentation, business attire is required and all team members are expected to participate.

As part of our continuing commitment to help our majors gain relevant experience with the increasing use of data analytics in accounting and accounting-related fields, each student in this class is required to sign up for Capital IQ. We will use data from this database to complete the team project. Further instructions will be provided in class later in the semester.

From a UWG computer or the UWG network – and using your UWG email address – please go to [www.capitaliq.com](http://www.capitaliq.com), click on “New User”, and follow the instructions.

## **Course Policies**

### **Extra Credits**

There is no extra credit in this course beyond those explicitly stated in the course syllabus. Work submitted for credit in other courses will not be counted for credit in this course.

### **Make-up Quizzes**

Make-up quizzes will be given only under a small set of circumstances, e.g. illness, or participation in University activities at the request of University authorities. Make-up quizzes will not be given for any other reason, including work-related conflicts. To qualify for an illness-related make-up quiz, you must (1) notify me within 24 hours of the quiz, and (2) provide appropriate written documentation (e.g. hospital discharge slip) upon your return. Failure to meet either of these two requirements will result in a score of zero for that quiz. For all other acceptable reasons, you must notify me far in advance of the quiz. Should you miss a quiz for an unacceptable reason, you will receive a score of zero for that quiz.

### **Accessibility Accommodations**

If you need accommodations because of a disability, if you have emergency medical information to share with me, or if you need special arrangements in case the building must be evacuated, please inform me immediately. Please see me privately after class or at my office.

To request academic accommodations (for example, a note-taker), students must also register with the Accessibility Services (Telephone: 678-839-6428) which is in Row Hall, Room 123. It is the campus office responsible for reviewing documentation provided by students requesting academic accommodations, and for accommodations planning in cooperation with students and instructors, as needed and consistent with course requirements. For other resources for students with disabilities, click on Counseling & Career Development Home on the UWG homepage.

## Wolf Pact

Protecting the integrity of a degree from the Richards College of Business at the University of West Georgia is the responsibility of the administration, faculty, staff, and students of the college. Our mission is “To become a globally recognized college of business preparing forward-thinking, responsible leaders.” Responsible leaders are ethical leaders, and this behavior begins in the classroom. One of our Strategic Goals is to demonstrate “...commitment to the principles of honesty and integrity in interactions and undertakings, [and] accountability for personal behavior...”. As such, we have developed the Wolf Pact in an effort to promote and maintain the highest standards of integrity, professional behavior, ethical actions, and personal conduct.

The purpose of this pact is to maintain that a degree from the Richards College of Business at the University of West Georgia is held in high regard by all internal and external constituents, and that a degree from the University of West Georgia is as meaningful in the future as it is today.

## University-Wide Syllabus Information:

Please review the “[Common Language for Course Syllabi](#)” for university-wide updates. Even if you have read it before, the most current information is maintained at this site.

## Course Calendar

Below are the tentative schedule and assignments. During the course of the semester, it may become necessary to modify portions of the syllabus. All such changes will be announced in class and all students are responsible for keeping up with any changes.

### Session 1, August 14, 19, 21, 26, and 28

- Topic: Financial Modeling with Excel
- Required readings: Rees book, Chapters 1 – 8
- Other materials: Excel examples and lecture notes available in the course database
- In-class exercises: Basic Excel skills
- Homework: If you are not familiar with Excel, please read the textbook and go over my lecture notes at least twice after class.

### **Session 2, September 4 and 9**

- Topic: Introduction to Financial Analysis
- Required readings: Palepu and Healy book, Chapter 1
- In-class Case: The role of capital market intermediaries in the dot-com crash of 2000
- Homework: Please read the case at least three times, and prepare a one-page summary briefly describing the causes of the dot-com crash. Who should we blame? Can we prevent this type of crisis from happening again?

### **Session 3, September 11, 16, 18, 23, and 25**

- Topic: Accounting Analysis
- Required readings: Palepu and Healy book, Chapters 3 and 4
- In-class Cases: 1) Harnischfeger Corporation, 2) Revenue recognition problems in the communication equipment industry
- Homework: For the first case, please identify five changes in accounting policies or accounting estimates. Are these changes legitimate? Why did the company make these changes? For the second case, please identify the specific problems at Lucent. How would you make adjustments to correct these problems? The maximum length of each summary is 2 pages.

### **Quiz 1 on September 25 and covers chapters 3 and 4**

### **SESSION 4, SEPTEMBER 30 AND OCTOBER 2, 7, 9, AND 14**

- Topic: Individual Project
- Required readings: None

### **Session 5, October 16 and 21**

- Topic: Financial Analysis
- Required readings: Palepu and Healy book, Chapter 5
- In-class Case: United Parcel Service's IPO
- Homework: How would you rate UPS's performance? Does it make sense for UPS to carry out an IPO? How would compare UPS's performance with FedEx's performance? Maximum length is 2 pages plus any attached spreadsheets.

### **Session 6, October 23 and 28**

- Topic: Strategy Analysis
- Required readings: Palepu and Healy book, Chapter 2
- In-class Case: Inventec Corporation
- Homework: Please prepare a one-page summary. Briefly describe the challenges the company was facing at the time of the case. Does the company have a valid strategy to compete with its competitors? How would you predict the company's future?

## **Individual project due at 5:00 pm on October 28**

### **Session 7, October 30 and November 4**

- Topic: Forecasting
- Required readings: Palepu and Healy book, Chapter 6
- In-class Case: Krispy Kreme Doughnuts (KKD)
- Homework: Please prepare forecasted financial statements for KKD. What factors have you examined when you make your forecast? Does KKD have a valid strategy for growth? Please limit your summary to 2 pages.

### **Session 8, November 6, 11, 13, and 18**

- Topic: Valuation
- Required readings: Palepu and Healy book, Chapter 7 and 8
- In-class cases: 1) Valuation ratios in the restaurant industry, 2) Home Depot in the new millennium
- Homework: For the first case, explain the characteristics that are driving each firm's valuation multiples. How do you read the exhibits provided by the case? For the second case, evaluate Home Depot's financial performance and explain whether the company has a valid growth strategy. Please use the three methods, DCF, abnormal earnings, and abnormal ROE, that we have discussed in class to value Home Depot. You may want to copy and modify the template posted in the course database for this exercise. Maximum length is one page plus any attached spreadsheets.

## **Quiz 2 on November 20 and covers chapters 7 and 8**

### **Session 9, November 20**

- Topic: Credit Analysis and Distress Prediction
- Required readings: Palepu and Healy book, Chapter 10
- Additional readings: Wanda Wallace, 2004. Risk Assessment by Internal Auditors Using Past Research on Bankruptcy. The Institute of Internal Auditors Research Foundation, Florida.
- In-class case: Amazon
- Homework: List the credit analyst's key criticisms. Do you agree with these criticisms? What other concerns would you have about Amazon's performance? What is your assessment of the company's future? Maximum length is 2 pages.

## **Final Project presentation on December 2 and 4**