

UNIVERSITY OF WATERLOO
School of Accountancy

Accounting 609
Financial Statement Analysis

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Course Syllabus and Outline

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If you send me a message by e-mail, please be sure that your identity is clear. Please use only the course website, and not e-mail, to send files. I generally delete anonymous e-mails without opening them, and I do not open e-mail attachments.

Course Objectives:

My goal is to develop your understanding of the relation between accounting numbers and underlying economic activity, and to develop your ability to use accounting numbers in several decision contexts. These contexts include corporate performance evaluation, financial reporting strategy, and valuation. We will generally take the perspective of the user, not the preparer or auditor of the financial statements, though understanding those other perspectives will be helpful in assessing financial statement information.

Through a mixture of lecture/discussion and case discussion sessions, we will develop the following essential financial analysis skills:

- 1) Understanding the business environment in which a firm operates and the firm's financial, accounting and operating strategies;
- 2) Understanding how the accounting process that generates financial numbers affects the quality of those numbers used in decisions;
- 3) Assessing a firm's performance, including ratio and cash flow analysis;
- 4) Using accounting numbers to forecast future earnings and cash flows and to estimate firm value.

Text and materials:

- 1) Business Analysis & Valuation (3rd ed.), by Palepu, Healy and Bernard
- 2) Course website: <http://uwone.uwaterloo.ca>.

The course website has discussion questions, case spreadsheets, readings and other resources. It also includes a “drop box” where you will submit your assignments electronically. The UWone system unfortunately works properly only under MS Internet Explorer v. 5.5 and higher, and only on a MS Windows-based machine. I will distribute instructions about how to access UWone in our first class meeting.

Evaluation:

I will calculate your course grade as follows:

6 case write-ups	40%
Class participation	30%
Final examination	30%

I do not grade individual assignments or class participation on a “curve.” After the end of the course, I may curve the final course grades to bring them into line with a reasonable range. Please understand that I will do this only at the end of the course. I will give you feedback on your performance throughout the course that can help you assess your learning and help you improve your performance, but I strongly discourage attempts to compute “grades” prior to the end of the course.

Case write-ups:

You may hand in up to 8 case write-ups during the term. The cases for which you may submit write-ups appear as **bolded** entries in the class session outline later in this syllabus. I will count your highest 6 scores in computing your final mark. I will not accept late assignments under any circumstances. My policy of counting only the highest 6 scores gives you a buffer against unforeseen circumstances, so please use this feature wisely.

You must submit your case write-ups electronically, using the course website. You will find instructions for electronic submission in the Frequently Asked Questions (FAQ) folder under Course Information on the course website. Your write-up is due no later than noon on the case due date. I do not accept late assignments.

I will mark your papers for both form (30%) and content (70%). The content of your paper should be technically correct, persuasive and logically argued. You should rigorously document both your reasoning and your sources.

I emphasize form as well as content because I want to help you prepare for life in the real world, where your employer, co-workers and employees all will find your ideas easier to understand and implement if

you can communicate them clearly. Spelling, grammar, and organization (including staying within the page limit) all contribute to this 30% of your mark.

Your write-up must be typed, and must not exceed 1 page of text, which may be single-spaced. Do not use a font size smaller than 11 point except for subscripts, superscripts and the like. Your margins should be at least 2.5 cm. (1 inch) all around. You may attach up to two additional pages of supporting tables, computations or charts. These additions should satisfy the above formatting requirements and in addition must be essential to your analysis, clearly and informatively labeled, easy to read, and referenced in your write-up. You will find some hints on creating good write-ups and exhibits in the FAQ folder on the course website.

I allow only very limited collaboration on written assignments. Please read the section below entitled "Note on avoiding academic offenses," including my rules on collaboration, very carefully.

Class participation:

I will mark class participation in every class session, whether case, lecture or discussion. The best way to earn a good class participation score is to be well prepared for every session, and to try to contribute in a positive way to further learning in the class. This does not mean always having the "correct" answer – if one exists – because many issues we will discuss are debatable. Good class participation means being prepared for and actively involved in the class. Most important are thorough familiarity with the assigned readings or case materials, and willing engagement in discussion. Even if you do not hand in a write-up for a particular case, you should nevertheless prepare answers to the case questions. In class, remember that it is impossible to demonstrate thorough preparation with silence; similarly, it is quite easy to demonstrate poor preparation with abundant uninformed comments. Both of these are poor class participation strategies.

Final examination:

The final examination will be a written exam, scheduled in the regular final exam period. The likely format of the exam is a case. I will offer a make-up or alternative only for students with documented medical excuses or similar unanticipated emergencies.

Note on avoiding academic offenses:

When you submit written work, unless you explicitly acknowledge someone else as the source, you implicitly claim it to be your own. If you borrow someone else's ideas, methods, phrasing or other intellectual property without attribution, you are committing plagiarism, a serious academic offense. Here are my policies regarding collaboration.

- 1) You may not collaborate in any way on the final exam.

- 2) You may collaborate on the case write-ups, in a limited way, with others who are currently taking the course. You may brainstorm, discuss the case facts and questions, and discuss general approaches to answering the questions. After you finish talking, each of you must write up your answer independently. If you realize that a solution you discussed with others is incorrect, you may alert them to that fact and generally outline the error, but you may not give them your solution.
- 3) If you collaborate in this limited way, you must name your collaborators on your assignment. There is no penalty for doing so; there are potentially severe penalties for not doing so.
- 4) In solving the cases, you may consult public data and documents about the companies covered in the cases. As always, you must cite your sources.
- 5) You may not consult students who have taken this course in an earlier term, students who have used these cases at other universities, or on-line or other resources offering notes on, or solutions to, these cases.

Please be aware of the Faculty of Arts policy on academic offences, as quoted below. Copies of University policies, including Policy #71 mentioned below, are available through the UW website at http://www.adm.uwaterloo.ca/infosec/Policies/Policies_num.html.

“All students registered in courses in the Faculty of Arts are expected to know what constitutes an academic offense, to avoid committing academic offenses, and to take responsibility for their academic actions. When the commission of an offense is established, disciplinary penalties will be imposed in accord with Policy #71 (Student Academic Discipline). For information on categories of offenses and types of penalties, students are directed to consult the summary of Policy #71 (Student Academic Discipline) which is supplied in the Graduate Calendar. If you need help in learning how to avoid offenses such as plagiarism, cheating, and double submission, or if you need clarification of aspects of the discipline policy, ask your course instructor for guidance. Other resources regarding the discipline policy are your academic advisor and the Graduate Associate Dean.”

If you are in doubt about my policies or UW Policy #71, please ask me for assistance. Another helpful resource is: <http://watarts.uwaterloo.ca/~sager/plagiarism.html>.

Class Session Outline

The chapter readings listed in the assignments refer to the course textbook, by Palepu, Healy and Bernard. Cases are either in the textbook (PHB), or on the course website (W). Discussion questions, questions for case write-ups and other readings all are on the course website.

DATE	#	TOPIC	ASSIGNMENT
5-Jan	1.1	Introduction and Overview	Explore course website.
	1.2	Business & Accounting Analysis	Read Ch. 1 & 2; Skim Ch. 3-4.
12-Jan	2.1	Case: AOL (PHB)	Prepare answers to discussion questions for case, and case write-up.
	2.2	Financial Analysis - Cash Flow	Read Ch. 5, esp. pp. 5-22 - 5-28; read "Cash Flows versus Earnings"; prepare answers to discussion questions.
19-Jan	3.1	Case: Manufactured Homes (PHB)	Prepare answers to discussion questions for case, and case write-up.
	3.2	Financial Analysis - Ratios	Review Ch. 5, esp. pp. 5-1 - 5-22; prepare answers to discussion questions.
26-Jan	4.1	Case: Industry Operating Characteristics and Ratios (W)	Prepare answers to discussion questions for case.
	4.2	Financial Analysis	Review Ch. 5; prepare answers to discussion questions.
2-Feb	5.1	Case: The Home Depot, Inc. (PHB)	Prepare answers to discussion questions for case.
	5.2	Forecasting	Read Ch. 6; prepare answers to discussion questions.
9-Feb	6.1	Case: Krispy Kreme (PHB)	Prepare answers to discussion questions for case, and case write-up.
	6.2	Forecasting & Valuation	Read Ch. 7; prepare answers to discussion questions.
16-Feb		Winter break	Sleep in. Relax. Have fun!
23-Feb	7.1	Case: Inco, Ltd. - A (W)	Prepare answers to discussion questions for case, and case write-up.
	7.2	Forecasting & Valuation	Read Ch. 8; prepare answers to discussion questions.
1-Mar	8.1	Case: Maxwell Shoe Company, Inc. (PHB)	Prepare answers to discussion questions for case.
	8.2	Valuation	Review Ch. 7 & 8; prepare answers to discussion questions.

DATE	#	TOPIC	ASSIGNMENT
8-Mar	9.1	Case: Home Depot, Inc. in the New Millennium (PHB)	Prepare answers to discussion questions for case, and case write-up.
	9.2	Equity Security Analysis	Read Ch. 9; prepare answers to discussion questions.
15-Mar	10.1	Case: Inco, Ltd. - B (W)	Prepare answers to discussion questions for case, and case write-up.
	10.2	Equity Security Analysis	Review Ch. 9; skim Ch. 12; prepare answers to discussion questions.
22-Mar	11.1	Case: CUC International, Inc. (A) (PHB)	Prepare answers to discussion questions for case, and case write-up.
	11.2	Equity Security Analysis	Prepare answers to discussion questions.
29-Mar	12.1	Case: Thermo Electron Corp. (PHB)	Prepare answers to discussion questions for case, and case write-up.
	12.2	Wrap-up	
5-22 Apr		Exam period	