Accounting 510; Spring 2016
Introduction to Financial Statement Analysis
10:30am-12:20pm Monday and Wednesday
PCAR 392

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Course Description
Over the next ten weeks we will discuss financial reporting from a user’s perspective, use a variety of tools to break apart financial reports into meaningful units for analysis, forecast financial statements, and value a firm. We will also cover the context of financial reporting to understand how GAAP rules and managerial incentives affect the quality and interpretation of financial statements.

The Course Diagram

The course is divided into 2 sections: (1) Collecting and Processing Information and (2) Forecasting, Valuation and Decision-Making.

Course Objective
The broad objective of this course is to provide you with the knowledge and skills necessary to analyze, interpret, understand, and use publicly available financial information to make informed decisions. Specifically, this course examines the role of corporate financial reporting in financial analysis. The focus is on the analysis of public companies performed by external parties, with a particular focus on equity valuation. Tools learned will also be useful for credit analysis, predicting financial distress, and evaluating managerial performance. The course is designed to achieve the following objectives:

- To develop skills in analyzing financial information found in annual (10-K) and quarterly (10-Q) SEC filings.
• To develop an appreciation for the usefulness and limitations of this financial information;
• To develop an understanding of, and appreciation for, fundamental financial statement analysis;
• To use the above knowledge to forecast a firm’s financials and generate an estimated value of the firm.

Course Materials

Required

Available at EZ Copy N Print: 4336 University Way NE, 206 632 2523.

Any cases or exercises not included in the course pack will be available in class or on our Canvas course web site.

⇒ If you wish to explore a topic more deeply please see me for additional information.

Communication

I will use canvas and UW e-mail to communicate. Please be sure you have access to Canvas (email me if not), and be sure to check your UW e-mail regularly.

Point Distribution

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* I consider all written work as professional writing assignments. Please proof your work.

Analyst Report: The purpose of the analyst report is to have you apply the various tools and techniques we cover to a publicly-traded firm of your choosing. You have the option to work with up to two others (for a total of three maximum per group). Please upload the “Firm Sheet” to Canvas by the end of the day April 5. I suggest that you avoid banks, firms that have recently been involved in large mergers, and firms with negative equity (these will be more challenging to forecast and value).

The analyst report consists of four deliverables.

- UNDERSTANDING YOUR FIRM: Overview of what your firm does, and the biggest challenges it faces; a discussion of vertical and horizontal statements; calculate the core ratios for your firm and discuss changes over time.
  - Due on **April 12 (Tuesday) by midnight**.
FINANCIAL STATEMENT ANALYSIS: Compare the core ratios for your firm to their industry and closest competitor, acknowledge and adjust for at least one GAAP-driven accounting distortion, analyze the quality of earnings.
   - Due on April 28 (Thursday) by midnight.

FINANCIAL STATEMENT FORECASTS: Forecast financial statements for your firm.
   - Due on May 12 (Thursday) by midnight.

FIRM VALUATION: Use the financial statement forecasts to form a valuation.
   - Due on May 19 (Thursday) by midnight.

A checklist for each deliverable is available on Canvas. Please note the page limits!

- **Quizzes:**
  - You will complete two short quizzes in class on April 27 (Wednesday) and May 23 (Monday). The quizzes will consist of several questions designed to assess your comprehension of the material we will cover in the first or second half of the quarter. You may bring one page of notes (front and back) to the in-class quizzes.

- **Cases:**
  - You must turn in five attempted cases during the quarter (there are nine total to select from). Grading will be a “check” (85%), “check-plus” (100%) or “check-minus” (70%). I will drop your lowest case score.

- **Final Project/Presentation:**
  - You will turn in a one-page summary of your analyst report, ending with a buy, sell or hold recommendation (this should look professional, as if you are trying to sell your research to investors). Your short presentation will highlight the key issues your company faces and the most uncertain components of your forecast and valuation (exact time allotment will be provided once we have our groups finalized). Presentations will occur Wednesday May 25th and Monday June 1st.

- **Professionalism and participation:** I expect you to treat this class as you would treat any professional responsibility. For example, I expect you to be on time and prepared to discuss all materials relevant to the topic of the day. Learning is an active process. Hence, your high-quality participation will be evaluated on a daily basis.
COURSE OUTLINE

Section 1: Collecting and Processing Information

1 March 28
Class 1: Introduction and framework for the course.
Reading: “Information Collection” (Coursepack -- Read after class)

March 30
Class 2: Earnings announcements.
Case: TBD

2 April 4
Class 3: Industry and strategy analysis.
Reading: “Understanding the Business” (Coursepack)
Case: “Are Diamonds Forever?” (Canvas)

Firm Sheet due on Canvas by midnight April 5

April 6
Class 4: Using ratio analysis to understand the business (a review)
Case: “Starbucks v. McDonalds” (Canvas)

3 April 11
Class 5: Understanding accounting disclosure versus recognition
Case: “To Buy or Lease?” (Canvas)

First deliverable of analyst report due on Canvas by midnight April 12

April 13
Class 6: Understanding accounting disclosure versus recognition
Case: “Assessing Apple’s Revenue” (Canvas)

4 April 18
Class 7: Understanding incentives– compensation disclosures
Reading: “Freakonomics - School Teachers” (Coursepack)
Case: “Al Dunlap at Sunbeam” (Coursepack)

April 20
Class 8: Understanding earnings management and overview of accounting for pensions and investments in other companies
Reading: Financial Shenanigans (Coursepack)

5 April 25
Class 9: Understanding accounting disclosures (non-GAAP earnings)
Case: “Compuware”

April 27
Class 10: In class quiz to assess your understanding of Section 1 (classes 1-9).

Second deliverable of analyst report due on Canvas by midnight April 28
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**Section 2: Forecasting, Valuation and Decision-Making**

*May 2*

*Class 11: Overview of forecasting and accounting-based valuation*
“Forecasting Financial Statements” (Coursepack; this is a long chapter, and can be done either before or after class)

*May 4*

*Class 12: Fine-tuning our forecast; incorporating management guidance*

*May 9*

*Class 13: Implementation of a detailed forecast*
Case: “Netflix: A Forecasting Case using Voluntary Disclosures” (Canvas)

*May 11*

*Class 14: Using forecasts to construct valuation estimates*
Third deliverable of analyst report due on Canvas by midnight May 12

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*May 16*

*Class 15: More accounting: Deferred taxes and derivatives*

*May 18*

*Class 16: Differences of opinion and short-sellers*
Case: “Herbalife: Battle of the Billionaires” (Canvas)
Fourth deliverable of analyst report due on Canvas by midnight May 19

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*May 23*

*Class 17: A summary using Apple*
In class quiz to assess your understanding of Section 2 (classes 10-16).

*May 25*

*Class 18: Final presentations (1 of 2)*

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*May 30*

*Class 19: Memorial Day Holiday (No class)*

*June 1*

*Class 20: Final Presentations (2 of 2)*