Accounting 510
Intro to Financial Statement Analysis
Winter 2018, PACCAR Hall 393, 6:00-9:30pm Wednesdays

Course Description

This is a rigorous financial statement analysis course that develops and integrates an understanding of accounting and finance. We will learn how to gather and interpret information contained in financial statements, and use that information to forecast performance and estimate value. It is a practical course in which existing theory from multiple disciplines is applied to demonstrate use of financial reporting information to prepare an analyst report and, ultimately, value a business. Class assignments and your in-depth analyst report will be based on the financial statements of Alaska Air Group, Inc. In class, we will also illustrate financial statement analysis using the financial reports of Starbucks, Inc.

We will discuss the context of financial reporting to understand how generally-accepted accounting principles and managerial incentives affect the quality and interpretation of financial statements.

The following diagram is used as a framework for this course.

![Diagram]

Objectives

Principal Objectives

To provide you with:

- Financial statement analysis tools and techniques for reading, understanding, and deriving inferences from financial statements and related disclosures;
- An appreciation for the usefulness and limitations of financial reporting information;
- An understanding of accounting’s role in practical application of finance theory in general, and valuation theory in particular;
- A greater understanding of how incentives facing the producers and users of financial statement disclosures affect the content of these disclosures and the inferences they convey; and
- An understanding of the roles of valuation theory and market efficiency in motivating and guiding financial statement analysis.

Ancillary Objectives

Students completing this course will also:

- Learn to apply financial statement analysis tools in the contexts of credit analysis, predicting financial distress, and evaluating managerial performance;
- Refine report-writing abilities; and
- Enhance financial modelling skills.
Teaching Faculty

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Office hours: 3:30 – 5:30pm, Wednesday, or by arrangement.

Assessment

Your final grade is based 100% on course work completed during the quarter, as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Assignments (8% each)</td>
<td>40%</td>
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<tr>
<td>Professional Participation</td>
<td>10%</td>
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<tr>
<td>Analyst Report</td>
<td>40%</td>
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<tr>
<td>Analyst Presentation</td>
<td>10%</td>
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<td>100%</td>
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Assignments

All assignments this quarter relate to a single company – Alaska Air Group, Inc. (ALK). There are six assignments, of which the best five grades (8% each) will determine the assignment score out of 40%. The objective of these assignments is to develop skills required to interpret financial statement information in a valuation context. In fact, the six assignments lead a student through completing components of the final in-depth analyst report (see below). The assignments are set throughout the quarter to guide completion of the analyst report in a timely and consistent manner, hopefully alleviating pressure associated with preparing your analyst report by the end of the course.

All assignment requirements will be distributed in class on the days indicated on the class schedule below. Assignment requirements will also be available on Canvas. The completed assignments will be collected in class. I will present material in class regarding the assignments, and will clarify requirements as needed at that time.

Late assignments will not be accepted. This policy has two motivations. First, it mimics a work environment that rewards results rather than excuses. Second, the logistics of dealing with late assignments are simply too complex. Taking the best five assignment grades is a policy designed to handle difficult personal circumstances, since a person can miss one assignment without penalty.

I recognize that evening MBA students are likely to have travel commitments as part of their employment obligations. Please discuss these commitments with me ahead of your travel so we can determine the best way to handle any conflicting work and educational commitments.

Professional Participation

This is a practical course, where essentially all grades relate to aspects of building an insightful analyst report. Experience indicates that a student who elects to participate in this type of course does not need to have quizzes or exams to keep them engaged with the course material. However, I reserve the right to use the participation component as needed to incentivize active class participation. Alaska Airlines’ Controller and Investor Relations Director will be visiting our class. Part of professional participation is engaging confidently and intelligently with these executives.
Analyst Report

A significant part of this course is the preparation of an in-depth professional analyst report. In this class, we will attempt to replicate the information environment of a financial analyst faced with the task of valuing Alaska Airlines, Inc. This material will be provided to you in printed form, as well as in the form of web addresses where operational information relating to the airline industry can be obtained. Alaska Air Group, Inc.'s investor relations website address is: http://phx.corporate-ir.net/phoenix.zhtml?c=109361&p=irol-IRHome

Examples of professional analyst reports will be provided to you, which you may wish to use to model your report. The objective of the analyst report requirement is to provide you with a practical opportunity to illustrate financial statement analysis and its integration with prior accounting and finance learning. Further details will be provided during lectures.

You are welcome to collaborate, as long as you are individually building your own forecast model and analyst report document. Work product should look and feel like it is the result of individual effort (non-identical text and tables), even if you have collaborated with others on aspects of your underlying analysis.

Analyst Presentation

During the final class meeting (March 7), you will present to the class on some aspect of your analysis that would inform a real-world business decision. The most obvious decision is whether to buy or sell shares in Alaska Air Group, Inc. However, you may be surprised to find that your analysis informs other decisions.

You have the option of presenting individually, or as a group of up to three people. If you present as a group, each individual will receive the group’s presentation grade.

Your focused presentation should not last more than 10 minutes. Each presentation will be evaluated on the basis of its insight, not its breadth.

Operational Aspects of The Course

Lectures

This course has one 3.5-hour session each week, held Wednesday at 6:00pm in Room 393, PACCAR Hall. Attendance at all lectures is voluntary, although attendance may affect the professional participation grade component. Out of respect for our learning environment, please refrain from placing or receiving telephone calls while in the lecture theatre.

Course Pack

ACCTG 510 Course Pack, Winter 2018, Available at UW Bookstore.

The course pack contains material from two textbooks. If you wish to explore a topic in this course more deeply, I can direct you to material in these (or other) textbooks. There is no need to purchase a financial statement analysis textbook unless you wish to keep it as a professional reference.


Other Resources

In class, I will provide information relating to the airline industry, and to Alaska Airlines in particular. I will also provide copies of analyst reports that will be useful in illustrating what an in-depth analyst report looks like.

Teaching notes and lecture slides will be provided on Canvas.

Other valuable sources of relevant information are provided at:
http://guides.lib.uw.edu/research/business/data-statistics
http://guides.lib.uw.edu/research/business/news-articles

The ability to write a good report is an extremely important business tool. The expectation is that all assignments and the final analyst report will be prepared to a professional standard. A useful resource when preparing any business work product is the Securities & Exchange Commission’s writing guide, A Plain English Handbook: How to create clear SEC disclosure documents.
Course Schedule

Jan 3 – Intro / Understanding the Business
- Introduction to Financial Statement Analysis
  Reading: Understanding the Business, Lundholm & Sloan (Coursepack – read after class)
- Industry Analysis / Business Analysis
  Reading: Item 1 – Our Business, pp 4-18, Alaska Air Group Inc 2017 10-K (Coursepack)
- Economics of the Airline Industry
- Alaska Airlines Assignments and Analyst Report Discussion
- Assignment 1 – Industry Analysis
  Due January 10

Jan 10 – FSA and the Role of Analysts
- Market Efficiency and the Role of Financial Statement Analysis
  Reading: Cecil Rhodes and the Shark
  Reading: Information Collection, Lundholm & Sloan (Coursepack)
- Investor Relations: Accounting and Financial Communication
- Earnings Announcements
  Reading: Alaska Air Group Inc. Q3 2017 Earnings Call Transcript, Oct 25, 2017 (Coursepack)
- Assignment 2 – Alaska Airlines Earnings Call
  Due January 17

Jan 15 – Martin Luther King Day – Monday, does not affect lecture schedule

Jan 17 – Cash / Ratios / Analytical Tools
- Basic Accounting Concepts in FSA
- The Economic Income Statement and Balance Sheet
- Calculating Cash Flows from the Income Statement and Balance Sheet
- Assignment 3 – Historical Free Cash Flow Derivation
  Due January 31
Jan 24 – Cash Flow, Income and Net Assets
   Cash Flow Calculations, Continued
   FSA Tools for Analyzing Risk and Return
   Adjusting Ratios for Accounting Distortion - Leases

Jan 31 – Forecasting Financial Statements
   Guests:  Matt Grady, Director, Investor Relations, Alaska Air Group
       Chris Berry, Controller, Alaska Air Group
   Restating Financial Data Through Time
   Accounting Adjustments
   Forecasted Financial Statements
       Reading:  Forecasting Financial Statements, Wahlen, Baginski & Bradshaw (Coursepack)
   Non-financial Information
   Assignment 4 – Forecast Financial Statements
       Due February 14

Feb 7 – Forecasting Financial Statements, Continued
   Forecasted Financial Statements, Continued
   Fine-tuning Our Forecast; Incorporating Management Guidance
   Intro to Accounting-based Valuation

Feb 14 – Valuation
   Practical Accounting-based Valuation
       Reading:  Analyst Reports
   Cost of Capital
   Assignment 5 – Accounting-based Valuation
       Due Feb 21
Feb 19 – President’s Day – Monday, does not affect lecture schedule

Feb 21 – Confirming Your Valuation Opinion
   Sensitivity Analysis
   Net Asset Valuation
   Assignment 6 – Sensitivity Analysis
      Due Feb 28

Feb 28 – Sensitivity Analysis / Analyst Report Workshop
   Sensitivity Analysis, continued
   Accounting Adjustments and Value Estimates
   Issues relating to Completion of Alaska Air Analyst Report
      We will work together in a workshop to resolve issues arising in the process of completing your analyst report.

Mar 7 – Analyst Presentations
   Student presentations based on analyst report and recommendations

Mar 7 – Alaska Airlines Analyst Report Due