

ACTG 3220
Understanding Financial Statements
Summer 2008

Course Info:

Professor: Laura Sakry
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Section 1

Class Time: W 6 – 9:30pm
Classroom:

Required Materials:

Financial Accounting: A Valuation Emphasis, Hughes, Ayres, & Hoskin, Wiley, 2005

Course Objectives:

At the conclusion of this course the student should understand: (1) management decisions that impact published financial statements, (2) the fundamentals of interpretation and analysis of financial statements, (3) economic and ethical issues related to financial reporting, and (4) management attempts to enhance reported operating results. The course is designed for the manager or analyst, hence does not cover promulgated financial reporting rules in depth. The financial reporting topics expand on material presented in introductory accounting and finance courses, and focus on the substance of the reported information.

Note: *This course is a “step up” from the traditional lecture course.* I expect that students will do the assigned readings before each class and will be prepared to participate in class discussion of the material.

Grades (posted on Blackboard):

Financial Reporting Project – Part 1 – Due 7/16	15 points
Financial Reporting Project – Part 2 – Due 8/20	15 points
MiniScribe Case – Due 8/13	15 points
Exam 1 – 7/30	20 points
Final Exam – 6/3	<u>35 points</u>
Total	100 points

Final Grades:

93 and above	A	73-76	C
90-92	A-	70-72	C-
87-89	B+	67-69	D+
83-86	B	63-66	D
80-82	B-	60-62	D-
77-79	C+	59 and below	F

Policies:

Class attendance is mandatory. Students must conduct themselves so as not to disrupt the class, including but not limited to arriving on time, not leaving the room until the break or the end of class, not conducting side-conversations with other students, not doing work for other classes. *Students must silence cell phones and pagers during class.*

Exams:

Exams are due at the beginning of class, unless otherwise noted on the syllabus.

Readings and Review Problems:

Readings and review problems will be discussed in class. Students will be evaluated based on participation in classroom discussions. Therefore, it is imperative that students read and prepare all assigned material prior to class.

Reports and Cases:

All students will work in groups of two for the projects and cases. If necessary, there will be one group of three, and I that will be the only group of three allowed. Reports must be prepared on *Excel*, *Word*, or similar software.

Handwritten projects will not be accepted. Late assignments will not be accepted, for any reason.

E-mail:

Every student is required to check his/her DU e-mail as communication from professor will occur through Blackboard.

Public computers:

Students should not use public computers (e.g. university computers) to store course materials (i.e. projects, homework, etc). If a student uses a public computer, the student is responsible for removing any course material from the public computer at the end of each computer session.

Honesty:

Cheating will result in failure of the assignment and automatic reduction of the students' overall course grade by one letter grade. Additionally, cheating could result in expulsion from the University. The provisions of both the University of Denver Honor Code and the Daniels College of Business Code of Academic Integrity apply to this course. Please familiarize yourself with these, and refer to them for guidance with any ethical issues involving this course.

Daniels Code of Academic Integrity

http://www.daniels.du.edu/pdf/code_of_academic_integrity.pdf

University of Denver Honor Code

<http://www.du.edu/ccs/honorcode.html>

Class Schedule

Session	Date	Read	Topic	Suggested Problems
1	6/25	Ch 1, 2 Ch 3	Course Introduction; Annual Report Discussion Understanding the Accounting Process	2 – 18, 19 3 – 22, 35
2	7/2	Ch 4	Income Statement; S&P Core Earnings; Balance Sheet	5 – 16, 18
3	7/9	Ch 5	Statement of Cash Flows	
4	7/16	Project Due Ch 7	Financial Reporting Project – Part 1 Due Discuss project results Actg for Accounts Receivable	7 – 9 8 – 10, 22
5	7/30	Exam 1 Due Ch 8 Ch 9	Exam 1 due at the beginning of class Inventory Valuation Methods; LIFO to FIFO Conversion Actg for Long-Lived Assets & Asset Impairment	9 – 26, 28
6	8/6	Ch 13 Ch 10	Actg for Intercorporate Investments Actg for Liabilities & Taxes	13 – 22, 23 10 – 23
7	8/13	Project Due Ch 11 Ch 11	MiniScribe Case Due Actg for Leases Shareholder's Equity	11 – 15, 16
8	8/20	Final Due	Financial Reporting Project – Part 2 Due Final due at the end of class	

Financial Reporting Project

For this project, you will compare the Anheuser-Busch Corporation (AB) to the Molson Coors Company (Coors). Your report should be concise but thorough. Do not let your data speak for itself; use your numbers and analysis to support your conclusions.

Part 1 – Due July 16

1. Summarize the status, recent developments and future prospects for the beer industry, including any recent published information on both companies.
2. Summarize the major points of the Management Discussion and Analysis (MDA) section of the annual report. How does AB's MDA compare to or differ from that of Coors?
3. Provide a summary of each company's major accounting method choices
4. Convert GAAP Net Income to S&P Core Earnings (this is also known as cleansing the income statement). Provide a comparative summary.
5. Summarize each company's Statement of Cash Flow performance for the past three years.

Part 2 – Due August 20

1. Perform a ratio analysis of both companies using the following ratios:
 - a. Activity: AR turnover, total asset turnover
 - b. Liquidity: Current ratio, cash ratio (cash/current liab.)
 - c. Long-term debt solvency: Debt/total capital ratio, debt/equity ratio
 - d. Profitability: Profit margin, ROE, ROA
 - e. Cash flow ratios: OCF/Current Liab., OCF/Interest Expense
 - f. Business valuation: Price to BV, PE ratio, price to revenue ratio
 - g. Fraud/Earnings Mgmt: Quality of revenue, quality of earnings,
 - h. Altman Z Score probability of default
 - i. Per Barrel Calculations: Revenue, CGS, SGA, NI, OCF
2. Make the following financial statement adjustments, and use the adjusted numbers to recalculate all ratios above.
 - a. Start with the cleansed income statement from Part 1, Step 4, and consider missing accounting expense estimates (see the "Fuzzy Numbers" article posted in Blackboard) by estimating additional operating expenses as 1% (net of tax) of sales. Deduct this estimate from net income. Convert both companies' inventory and net income to a FIFO basis.
 - b. Calculate the present value of each companies' off-balance-sheet financing (OBS) and add to total debt listed on the balance sheet.
 - c. Summarize the types of pension plans and OPEB (Other Post Employment Benefit) plans that each company has. If any of the plans are under-funded, add the under-funded amount to total debt listed on the balance sheet.
3. Compare the change from basic to diluted EPS for each company. Why would diluted EPS be different from basic EPS? If necessary, discuss any concerns you have about this difference.
4. Compare the executive compensation of each company's top executives (found in the Proxy Statements). **Be sure to include exercised stock options.** Are the CEO's overpaid?
5. Compare the statutory, effective, and cash tax rates for both companies and list reasons for differences. Are there any red flags?
6. Compare each company's market capitalization to its book value. List possibly reasons for the difference.
7. Write a one-page summary memo, comparing AB's and Coors' financial reporting and investment prospects. Be sure to summarize your ratio analysis.

MiniScribe Case Preview

1. Construct a 1988 Statement of Cash Flows for Miniscribe using the direct and indirect methods. Assume that 1988 depreciation expense is \$6 (in millions).
2. Perform a ratio analysis using the case Appendix to identify red flags for potential fraud at MiniScribe.
3. Which of the “Dodgy Accounting’s Greatest Hits” did MiniScribe do? Provide examples.
4. Using the SOX handout on Key Control Questions, critique MiniScribe’s management control techniques. Discuss its flawed controls, and recommend new or improved management control techniques.