

THE UNIVERSITY OF WISCONSIN
Graduate School of Business

Financial Statement Analysis & Business Valuation

Accounting 603
Fall 2013

Instructor

Professor John J. Wild

E-mail: JWild@bus.wisc.edu
Office: 4295 Grainger Hall
Phone: 608-262-8122
Office Hours: Monday 12:15 p.m.- 1:00 p.m.,
Wednesday 12:15 p.m.- 1:00 p.m., and by appointment

Lecture Schedule

001 9:30 a.m. - 10:45 a.m. Monday and Wednesday (in 2170 Grainger Hall)
002 11:00 a.m. - 12:15 p.m. Monday and Wednesday (in 1175 Grainger Hall)

Prerequisite

Intermediate Accounting (one semester), Introductory Accounting, and Junior Standing or higher

Required Materials

Easton, P.D., M.L. McNally, G.A. Sommers, and X.J. Zhang, ***Financial Statement Analysis and Valuation, Third Edition***, Cambridge Business Publishers, 2013 [ISBN: 978-1-61853-009-7].

myBusinessCourse: Online Homework and Grading System.

Follow the four steps below using the following important information:

- Enter UW ID# in front of your first name in the "first name" field; for example "1234567890-Oprah"
- Course Registration Code: **ubsjsqb7**
- Course Name: FSAV 603 _ Fall 2013

For access: (1) Register a new account at www.mybusinesscourse.com; (2) Search for this course in the "First Time Here? Enter Your Code" section; (3) Complete the Registration Form and follow instructions; (4) Check your email for registration confirmation, and then click on the link provided to log into MyBusinessCourse.com and re-enter course registration code.

Suggested Additional Materials

Buffett, Warren E., ***The Essays of Warren Buffett: Lessons for Corporate America***, The Cunningham Group [ISBN: 0-9664461-1-9].

Graham, Benjamin. ***The Intelligent Investor***, Harper Business Essentials [ISBN: 0-06-055566-1].

Penman, Stephen. ***Accounting for Value***, Columbia Business School Publishing [ISBN: 978-0231151184].

* You are *strongly encouraged* to read ***The Wall Street Journal*** (and/or similar business publication)—see page 4 for details, and you should be acquainted with financial markets—for the latter, the following simple guide can help: Morris, K.M., and V.B. Morris, ***THE WALL STREET JOURNAL Guide to Understanding Money & Investing***, Third Edition, Fireside (division of Simon & Schuster), 160 pages, ©2004 [ISBN: 0-7432-6633-1].

A good Website for financial analysis information is: <http://pages.stern.nyu.edu/~adamodar/>

Course Content and Objectives

The focus of this course is on the analysis, interpretation and prediction of financial statements. This includes profitability and returns analysis, operating versus nonoperating performance evaluation, credit analysis (liquidity and solvency), reformulation of financial statements, forecasting of financial statements, analysis of off-balance-sheet financing, analysis of intercorporate investments, cash flow analysis, accounting-based equity valuation, cash-based equity valuation, market-based valuation, assessing earnings quality and earnings management, assessment of intangible assets, and credit ratings of debt securities.

The course's overriding emphasis is the analysis and application of financial statement information for investment, credit, and management decisions; this includes advisory, audit and consulting services. Considerable importance is placed on evaluation, interpretation, and use of accounting data for decision making, yet explicit focus is on the analysis of accounting measurements and disclosures. This entails a focus on current reporting requirements, including IFRS, with consideration of their strengths and weaknesses. Such knowledge will enable you to participate in and manage important business decisions drawing on (reformulated) financial statements and footnote disclosures.

Key objectives of this course are (1) to provide an understanding (including limitations) of accounting measurement and reporting for analysis purposes, (2) to instill an appreciation for the crucial separation of operating and nonoperating activities and their implications, (3) to reformulate GAAP-based financial statements for more effective financial statement analysis and valuation, (4) to adjust financial statement numbers for measurement limitations of GAAP, (5) to forecast financial statements over multiple years, and (6) to value equity securities using both cash-based, earnings-based, and market-based valuation models. Both individual and team projects are assigned to develop the necessary skills to achieve each of these objectives.

Class Attendance

Regular class attendance is important and required. You are expected to attend class and contribute to a quality discussion. Individual and team discussions of the materials (such as readings, assignments, and cases) are an important part of the learning process. If unforeseen circumstances prevent attendance at a class meeting, please recognize that each student is responsible for all materials discussed, handouts distributed, assignments covered, and announcements made.

Method of Instruction

Class sessions entail a mixture of lecture, breakout sessions, problem analysis, and class and team discussion. The content of each class presumes and expects that each student has *carefully studied* the assigned reading and *completed* all assignments. Lectures emphasize major topics and readings, yet each student is responsible for all assigned materials. Students are encouraged to ask questions and to stimulate discussion on topics that are difficult to understand. It is important that each student be able to effectively articulate thoughts and analyses of financial statements.

Assigned materials must be completed before class. Failing to complete assignments when they are due is a recipe for failure. One is expected to come prepared to discuss issues relevant to all assignments. Although we cannot cover all assigned materials in class, remember that they are an integral and important part of this course. Working together in teams of two or three, when permitted, can help in one's understanding of these materials. **Solutions to weekly assignments are usually placed on the UW Website** (via "My UW-Madison" portal) after we cover the materials in class (<http://my.wisc.edu/portal>).

Academic Integrity: Academic integrity is an important part of an education at the University of Wisconsin's School of Business, and this one is no exception. University conduct rules describe academic misconduct as "...an act in which a student: (a) Seeks to claim credit for the work or efforts of another without authorization or citation; (b) Uses unauthorized materials or fabricated data in any academic exercise; (c) Forges or falsifies academic documents or records; (d) Intentionally impedes or damages the academic work of others; (e) Engages in conduct aimed at making false representation of a student's academic performance; or (f) Assists other students in any of these acts." Charges of academic misconduct are taken seriously and actions that can be taken include failure of the course and a permanent record in the student's file. Anyone behaving in a dishonest manner (such as cheating or plagiarizing) will be prosecuted pursuant with UW policy (www.wisc.edu/students/saja/misconduct/UWS14.html). Please review the UW Academic Misconduct Policy and ask the instructor if you have any questions. No books, notes, phones, or communications with another person or system are acceptable for exams. The Department has endorsed a statement of values developed by students. Additional information on the statement is available at:

<https://intranet.bus.wisc.edu/Content/User/20121029140608-Fall%202012%20Statement%20of%20Values.pdf>

Coursework and Grading

Grades are determined based on your relative class performance over a cumulative point total of approximately 500 (depending on the number of graded assignments and quizzes). The point total consists of the following components:

Examination #1	100 points
Examination #2	100
Case Write-Up / Analysis / Interpretation	75
Case Presentation / Peer Analysis	10
Class participation	15
Assignments and any Quizzes	200
Total	<u>500</u> points
Extra Credit	~15

In prior terms, the approximate breakdown for letter grades has been: 20-25 percent of students earn As; 20-30 percent earn ABs; 30-40 percent earn Bs; 10-20 percent earn BCs, Cs and Ds. Periodic feedback on your relative class performance is provided during the term.

Examinations Examinations are administered during class (with no notes, books, or programmable calculators). Each student is required to sit for an examination on the day and time it is scheduled. In general, there are no make-up examinations—if you are unable to resolve conflicts with scheduled examinations, you should withdraw from the course. Examinations are demanding of both one's efficiency and effectiveness in addressing accounting measurement, reporting, and analysis issues. There are two examinations during the term. Examinations typically consist of cases, problems, essay questions, and various analysis and interpretation requirements. The examination dates are:

Examination #1:	Wednesday, October 16	Modules 1– 8
Examination #2:	Wednesday, December 11	Modules 9–15

Participation Each student is expected to express opinions on analysis of financial statements in a manner to contribute to a penetrating and insightful classroom discussion. Performance on this dimension is based on the quality of your input to class discussion, not on its quantity.

Assignments Successful completion of assignments is integral to this course (which comprises about one-half of this course's grading structure). Assignments are of two types:

(1) Online Work. Online assignments must be completed in **myBusinessCourse**, which is a Web-based system. Online assignments must be completed by **8:30 a.m. CST** on the due date (after this time, the assignment will not be accessible and no additional work can be entered). Most assignments are '*random*,' meaning that one receives different numbers than another, *and* one receives different numbers if an assignment is redone. Specific details are available at the site.

(2) Paper/Spreadsheet Work: Preparation for each class requires completion of various assignments, either on paper or electronically such as with Excel. Both announced and unannounced collection and grading of assignments are likely to occur periodically during the course. An important part of the grading of assignments is evidence of a serious attempt at all requirements of the assignments—accordingly, *show all work*. Graded assignments are typically collected at the start of class, and late assignments are not accepted. You may be given an opportunity to do extra credit work during the term.

Extra Credit Extra credit assignments are periodically made available to enhance analysis and valuation skills.

Quizzes Intermittent quizzes are possible—they are usually unannounced, and can be either in-class or take-home quizzes. To emphasize their importance, quizzes are graded. There are no make-up quizzes.

Case Write-up/Analysis/Interpretation A special team project is required. Your team will collect relevant financial data, conduct accounting and financial analyses, prepare financial forecasts, and render decisions regarding preferred investor-creditor actions. A separate handout on this requirement is forthcoming.

Student Support/Access for *myBusinessCourse*

To contact support for myBusinessCourse, visit: <http://cpb.freshdesk.com/home>

Following is the device/browser compatibility chart for myBusinessCourse homework system:

Device	Browser	Version
MAC/PC	Chrome	7 +
MAC/PC	Firefox	4.0 +
PC	Internet Explorer	9 +
MAC/PC	Safari	5 +
iPhone/iPad/iPod Touch	Safari	iOS 3.2 +
Android		2.2 +
Kindle Fire	Silk	1.0 +

Student Subscription to *The Wall Street Journal* (Fall 2013 ONLY)

To buy \$1/wk WSJ subscription?

1. Go to <http://wsj.com/studentoffer>
2. Choose subscription term such as \$1/wk for 15-wk (other terms available)
3. Complete required information.
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 Zip: 53706
 College: University of Wisconsin - Madison
 Professor: John Wild (if not listed, click "OTHER" and enter: Prof John Wild)
5. Complete remainder of form.

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***** Assignment numbers in boxes MUST be done in myBusinessCourse *****

Instructional Program

- 1 Sep. 4 W Topic: Framework for Financial Statement Analysis and Valuation
Due: Read Syllabus & Module 1; Begin work for next class; Complete in-class a 3x5 info card—leave whitespace for color photo mugshot **on card**
<http://www.youtube.com/watch?v=T2QJisJMETQ>
- 2 Sep. 9 M Topic: Overview of Business Activities and Financial Statements
Due: Read Appendices 1A and 1B; Mod #1 work 17/18, 21, 26, 56, 36, 35, 44, 47;
Access EDGAR database at www.sec.gov, then download & review a current Form 10-K; Read Module 2 (pp.1-34); Mod #2 work 33, 52, 53, 43, 41, 46, 51
*** Sign seating chart in class (arrive early if a specific seat is desired) & submit 3x5 info card that includes color photo mugshot taped on securely**
<http://www.youtube.com/watch?v=Zk7N93y4J4A>
<http://www.youtube.com/watch?v=i71Kmxv7smk>
- 3 Sep. 11 W Topic: Profitability Analysis and Interpretation—Part 1
Due: Read Module 3 (pp.1-16); Mod #3 work 15, 16, 26, 23, 35
<http://www.youtube.com/watch?v=G6vS1edTsV8>
- 4 Sep. 16 M Topic: Profitability Analysis and Interpretation—Part 2
Due: Read Module 3 (pp.16-29); Mod #3 work 36, 39, 41
Project progress check [Team project introduction and meeting]
- 5 Sep. 18 W Topic: Credit Risk Analysis and Interpretation—Part 1
Due: Read Module 4 (pp.1-22); Mod #4 work 36, 17, 19, 18, 31, 27
- 6 Sep. 23 M Topic: Credit Risk Analysis and Interpretation—Part 2
Due: Read Module 4 (pp.22-33); Mod #4 work 16, 22, 14, 15, 21, 28, 33
Project progress check [ROE Disaggregation for Team Co; Use Excel and: (i) soft-code #s in cell formulas, (ii) label each number, (iii) insert explanatory notes such that computations can be checked, not re-performed]
- 7 Sep. 25 W Topic: Revenue Recognition and Operating Income—Part 1
Due: Read Module 5 (pp.1-18); Mod #5 work 21, 22, 23, 28, 30, 41, 38
- 8 Sep. 30 M Topic: Revenue Recognition and Operating Income—Part 2
Due: Read Module 5 (pp.19-35); Mod #5 work 29, 36, 17, 35, 19
- 9 Oct. 2 W Topic: Asset Recognition and Operating Assets—Part 1
Due: Read Module 6 (pp. 1-25); Mod #6 work 22, 14, 39, 40, 24, 18, 28, 30, 41
- 10 Oct. 7 M Topic: Asset Recognition and Operating Assets—Part 2
Due: Read Module 6 (pp. 26-36); Mod #6 work 43, 21, 42, 38, 44
Project progress check [Analyze operating assets for Team Co]
- 11 Oct. 9 W Topic: Liability Recognition and Nonowner Financing
Due: Read Module 7 (pp. 1-16 & 20-28); Mod #7 work 7, 9, 17, 24, 25, 10, 12, 33, 39
- 12 Oct. 14 M Topic: Equity Recognition and Owner Financing
Due: Read Module 8 (pgs 1-29); Mod #8 work 52, 45, 36, 53, 30, 32
http://www.youtube.com/watch?v=-2Co6_tu808
- 13 Oct. 16 W **Examination #1**

***** Assignment numbers in boxes MUST be done in [myBusinessCourse](#) *****

Instructional Program—continued

- 14 Oct. 21 M Topic: Intercorporate Entities—Part 1
Due: Read Module 9 (pgs 1-16); Mod #9 work 22, 39, 26, 29, 23, 13
- 15 Oct. 23 W Topic: Intercorporate Entities —Part 2
Due: Read Module 9 (pgs 17-28 & skim pgs 29-33); Mod #9 work 32, 41, 36, 28, 30, 38
- 16 Oct. 28 M Topic: Off-Balance-Sheet Financing—Part 1
Due: Read Module 10 (pgs 1-11); Mod #10 work 28, 21, 20, 30, 22
- 17 Oct. 30 W Topic: Off-Balance-Sheet Financing—Part 2
Due: Read Module 10 (pgs 12-29); Mod #10 work 31, 25, 26, 15, 27, 17
Project progress check [Analyze investments and off-balance-sheet financing for Team Co]
- 18 Nov. 4 M Topic: Adjusting and Forecasting Financial Statements—Part 1
Due: Read Module 11 (pgs 1-29); Mod #11 work 20, 22, 26
- 19 Nov. 6 W Topic: Adjusting and Forecasting Financial Statements—Part 2
Due: Read Module 11 (pgs 30-51); Mod #11 work 31(skip SCF), 21, 29
- 20 Nov. 11 M Topic: Cost of Capital and Valuation Basics—Part 1
Due: Read Module 12 (pgs 1-16); Mod #12 work 5, 7, 13, 39, 40, 30, 29, 46
Project progress check [Forecasting for Team Co—determine Team Co's growth & ratio assumptions]
- 21 Nov. 13 W Topic: Cost of Capital and Valuation Basics—Part 2
Due: Read Module 12 (pgs 17-21); Mod #12 work 35, 36, 41, 42, 43, 47
- 22 Nov. 18 M Topic: Cash-Flow-Based Valuation—Part 1
Due: Read Module 13 (pgs 1-11); Mod #13 work 9, 10, 15
Project progress check [Estimate Team Co's WACC—possibly assume a 3-4% risk free rate and a 5% market risk premium; Beta can be obtained from Google or Yahoo finance sites, or estimated]
<http://www.youtube.com/watch?v=1lhn-TIFPAM> <http://www.youtube.com/watch?NR=1&v=Asf3Q85MS1U>
- 23 Nov. 20 W Topic: Cash-Flow-Based Valuation—Part 2
Due: Review Module 13 (pgs 13-15); Mod #13 work 11, 16, 18
- 24 Nov. 25 M Topic: Operating-Income-Based Valuation
Due: Read Module 14; Mod #14 work 10, 11, 21, 12, 18, 19, 17, 16
- 25 Nov. 27 W Topic: Teamwork on course project; Finalize framework & work on write-up for team project
- Dec. 1 S ----- **Team Project Due—via email no later than 9 p.m.**
Convert/merge files to one pdf file and submit 1 email per team and copy teammates; Subject line must read: **'CompanyName' / Lec '#'** / **LastName1, LastName2, LastName3, LastName4, LastName5**
- 26 Dec. 2 M Topic: Market-Based Valuation
Due: Read Module 15; Mod #15 work 21, 22, 38, 25, 48, 6, 28, 41
- 27 Dec. 4 W Topic: Presentations and Analyses of Team Projects—Part 1 (request chairs)
Due: Complete and turn in points for your assigned team
- 28 Dec. 9 M Topic: Presentations and Analyses of Team Projects—Part 2 (request chairs)
Due: Complete and turn in points for your assigned team
- 29 Dec. 11 W Topic: **Examination #2**
- Dec.18/20 T TBA