

San Jose State University
SUMMER 2009
 Financial Statement Analysis
 MBA 224 1800- 2200 OFF CAMPUS
PROGRAM (SUBJECT TO CHANGE)

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Course Description: REQUIRED: COMPLETION OF MBA 220

This course is directed at students interested in critical evaluation of financial statements. The course will specifically develop the ability to understand, interpret, and analyze financial information. The course will also examine the relationship between financial statement information and the capital markets. The course will help you integrate much of what you have learned in the MBA Program to date, develop skills that you may not already possess, and expand the way you view businesses and the professional roles you may play in the future.

“The effective analysis of a set of financial statements requires an understanding of (1) **the economic characteristics and current conditions of a firm’s business**; (2) **the particular strategies the firm selects to compete in each of these businesses**; and (3) **the accounting principles and procedures underlying the firm’s financial statements**. Equipped with these three essential building blocks, the analyst can assess the success of the strategies as measured by profitability, relative to the level of risk involved. The analyst can then use this information to project the firm’s future earnings and cash flows as a basis for valuation. This three-fold approach to financial statement analysis elevates it from one involving the mechanical calculation of a long list of financial statement ratios to one where the analyst has an opportunity to integrate concepts from economics, business strategy, accounting and other business disciplines.”

Required Materials:

Stickney and Brown, **Financial Reporting and Statement Analysis, 6th Ed. ISBN 0-324-30295-9**
 Stickney and Brown, **FSAP software** (download from internet-
www.thomsonedu.com/accounting/stickney - download all file sections as needed.)
 -Students will be using a spreadsheet package (knowledge of one is a prerequisite) FSAP template at textbook website-please download and test to see if it is working on your computer)

Grading:

Scoring	
Mid-terms (2) (INDIVIDUAL)	225 points 90%=A- *explain grading
Project-Final Examination (TEAM)	30 points 90%=A-
Short cases/problems (2) (INDIVIDUAL)	30 points 90%=A- (ONLY ONE COUNTS) Case 1 DUE IN 7/11 case 4.2 Case 2 DUE IN 8/10 to be assigned No late cases accepted for any reason. ALL CASES MUST BE EDITED BY THE STUDENT; -1 PER EDITING ERROR APPLIES.
PROJECT FIRM’S FSAP (TEAM)	Due date 5 pts 7/11
PROJECTION TEMPLATE FOR PROJECT FIRM (TEAM)	Due date 5 pts 8/3
PROJECTION TEMPLATE – team	5 points Wal-Mart’s template Due 7/20 P10.16

1. www.cob.sjsu.edu
2. Go to accounting/finance department/ click on faculty
3. click on Mallory McWilliams
4. Look for MBA 224 class
5. print off the power points slides
6. print off the FSAP template for Wal-Mart and Starbucks

FINAL EXAM -Term Project: (THIS PROJECT REQUIRES EXTENSIVE TIME OUTSIDE OF CLASS; THUS GROUPS WILL BE ORGANIZED BY THE INSTRUCTOR. CAREFUL ON TIME MANAGEMENT. IF A STUDENT DESIRES TO COMPLETE AN INDIVIDUAL PROJECT INSTEAD OF A TEAM PROJECT THAT STUDENT NEEDS TO CONTACT THE INSTRUCTOR AND DISCUSS THE PROJECT AND OBTAIN THE INSTRUCTOR'S APPROVAL PRIOR TO THE THIRD CLASS MEETING. NOT ALL REQUESTS FOR INDIVIDUAL PROJECTS ARE APPROVED.)

A financial analysis project is an excellent synthesizing device for the financial statement analysis course. You will be asked to form teams of about 4 – 5 students. Each team will select and evaluate one company in an industry and then prepare an analysis, which (see the table of contents handout):

- (1) summarizes the economic and current conditions in the industry;
- (2) describe the strategies the firm pursues;
- (3) inputs the adjusted data into the projection template and project forward 3 –5 years;
- (4) input the data into a FSAP worksheet with appropriate adjustments;
- (5) perform a profitability and risk analysis;
- (6) perform a valuation using Chapter 11, 12 and 13 methods; and
- (7) assess the reasonableness of the current market price.

Teams can pick the industry they wish to evaluate but generally only one team per an industry. The reports will be evaluated based on clarity, quality of analysis, organization, and persuasiveness. Your personal score for the group project will be a function of both the group's written and oral project score. The project is due on the last day of the class. During the first two weeks of class we will discuss the presentation for the project and at different points in the semester each team will meet with the instructor to advise of the progress being made on the project.

- Please have your team's selection of a firm and industry available by end of the second-class meeting.

Homework Assignments: THE TEXTBOOK IS USED AS A REFERENCE BOOK; USE THE POWER POINT SLIDES TO REVIEW A CHAPTER.

Before you come to each class, read the material as outlined in the syllabus. Homework problems will be completed during the class hour and students should review these prior to the assigned class. **IT IS CRUCIAL THAT ALL STUDENTS REVIEW THE WORK WE HAVE COMPLETED IN CLASS BEFORE THE NEXT CLASS MEETING.** Each chapter uses concepts and techniques learned in the previous chapters. If you wish to understand the material better, you cannot afford to ignore the homework.

Examinations:

There will be two (2) examinations. Calculators will be allowed. Generally speaking there will be NO make-up examinations. In the event of a rare emergency on the day of the examination, you should notify me as soon as possible.

Short cases/Problems:

Throughout the semester two short cases or problems have been assigned for students to complete. These will be completed at home and are due as stated on the syllabus. No make-ups will be given. (On the due dates the cases are due no later than 30 mins after the class starts. no exceptions) The highest case counts toward the final grade. A missed case just becomes the lowest score. **YOU MUST EDIT THESE CASES. -1 PER EDITING ERROR. BE CAREFUL. CASES ARE DONE BY THE INDIVIDUAL AND NOT THE TEAM. ONLY THE INDIVIDUAL EFFORT SHOULD BE TURNED IN. A HANDOUT WILL BE GIVEN FOR EACH CASE STATING THE REQUIREMENTS. BE SURE TO USE THE HANDOUT TO DETERMINE THE REQUIREMENTS FOR ANSWERING THE CASE.** These cases must be given to the instructor in the classroom in hard copy format only and must be turned in by 1830 hours on the date due in.

Class Session:

To use classroom time efficiently and effectively, we will stress analysis and application of the concepts that you have learned on your own. We follow the general flow of the textbook, but we do not simply repeat the text. We emphasize important points, add new information, review homework problems and apply the concepts to real-world situations. **It is imperative that the student completes the required reading and reviews the homework problems before class. Students will be called on to discuss the solutions to various problems.** Ample opportunities will be given to you in class for asking questions and answering questions raised by others. Please be prepared for class.

Class participation is an opportunity and a responsibility. It provides an opportunity for students to practice important career skills such as the ability to express and defend one’s ideas. It is a responsibility because students expect to learn from the viewpoints of their classmates. Non-participating students do not provide their classmates with this important benefit. During class discussions I will call on students who are not participating in order to help you get involved. Remember we all want to benefit from your comments.

Academic Dishonesty:

Please refer to San Jose State University’s guidelines relating to academic dishonesty. Any violation of academic integrity in any portion of this course will lead the student to a course grade of “F”.

ASSIGNMENT SCHEDULE

(subject to change)

ALL STUDENTS MUST READ CHAPTER 1 PRIOR TO THE FIRST CLASS

DATE	TOPIC	ASSIGNMENT
6/22	Introduction/overview	Setup teams, start Chapter 1 Handout problem Discuss P1.1
6/29	Income flow vs Cash flow Chapter 3 Download FSAP for PEPSI	Review Case 1.1 P1.2 FSAP (P4.2), P3.14, 3-15,3.16 Students to load FSAP and download PEPSI files Bring sheets to class, Students to load Wal-mart into FSAP and bring sheets to class next week

7/6 all teams must try putting the financial statements for their firms in the FSAP	Chapter 4 Profit and Risk analysis Chapter 5 Risk analysis	P4.1(b), P4.3(b,c) P4.11 P5.3 Review Wal-mart FSAP& PEPSI FSAP Case No. 4.2 due next time(use the handout on the case.)
SAT 7/11 8:30 – 12:30	Chapter 6 Relevant Financial Statement Adjustments Review chapter 1, 3, 4, & 5 material using each teams' firm FSAP and additional handouts Chapter 7 Alternative Revenue Recognition	PICK UP CASE NO. 1 Due in at 0900 hours Hard copy only P6.1,6.2 Review Case 6.1 Review Chapter 10 projections P10.16 Students to turn in FSAP for Teams (5 pts) P7.1
7/13 6PM -7:30 Ch 10 (7:45-10:00) exam	MIDTERM 1 (2.15 hrs) CHAPTERS 1 – 5 (100 POINTS) one problem from each chapter but chapter 4 & 5 combined.	Review projected statements for Wal-mart P10.16
7/20	Chapter 7 cont. Inventory and Depreciation Chapter 8 leases (operating leases only)	<u>P7.9, 7.14,7.15 handouts</u> <u>P8.15 and parts of Case 8.1</u> <u>Pick up P10.16-Wal-mart's projected statements (team) (5 pts)</u>
7/27	Teams TO BUILD projections using the FSAP sheets see Chapter 10 Chapter 8 Leases (we will want to see the footnotes for each of your firms this evening). REVIEW ALL MATERIAL FOR EXAM CHAPTERS 7 & 8	<u>Capitalize each firm's operating leases (need footnotes on each firm).</u> Work on firm's projected statements
8/1 SAT 8:30-1230 8:30-1000 REVIEW TOPICS 1000-1230 EXAM	MIDTERM 2 (2.0 HOURS) CHAPTERS 7 AND 8 TOPICS (income recognition, inventory changes, depreciation changes, capitalizing operating leases)	Students to work on projected statements for their firms and review topics for exam
8/3	Review all projection templates for firms Valuation Chapters 11,12, &13 Use the handouts to value firms Complete all valuation work	Students to turn in a draft of the projected financial statements for each team's firm. (5 pts) Students to have annual reports including footnotes for each firm.
8/10	PROJECTS DUE IN	presentations Case 2 is due in

