

**Financial Statement Analysis**  
**ACCT 8700**  
**Wednesday Evenings, Spring, 2001**  
**4:30-7:00 PM**

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**COURSE MATERIALS:**

- 1. Palepu, Healy & Bernard, Business Analysis & Valuation, Using Financial Statements (Referred to in assignment schedule as BAV)**
- 2. Schilit, Financial Shenanigans, 1<sup>st</sup> Ed., 1993**  
(Referred to in assignment schedule as FS)
- 3. Supporting Notes: Concepts, Preparation Guidelines & Problems.**  
Various handouts will be provided during the semester on a regular basis. These handouts are critical for effective use of class time and for firmly internalizing the concepts presented in this course.  
(Referred to in assignment schedule as SN)
- 4. Financial Statements of Selected Companies**
  - General Mills
  - Best Buy
  - McDonalds

**NOTES**

**The Class Policies provided with this syllabus specify all the requirements regarding grading, testing, attendance, and other important issues related to this course. Please read these policies very carefully.**

**The schedule and assignments below are subject to modification or change by Dr. Giovinazzo, if in his judgement, he believes such alterations will enhance the overall learning experience of the class or are necessary due to unforeseen situations or circumstances which arise during the semester.**

# **Guidelines For Using The Syllabus**

## **Financial Statement Analysis ACCT 8700 – Spring, 2001**

### **Class:**

Indicates the number of the class session, the day of the week, and whether the class will be held in the morning or afternoon.

### **Topics & Reading Assignments:**

- **Topics:** The subject matter and technical issues that will be covered are listed.
- **Readings:** The specific chapters are listed for each of the two books used in the course. In some cases, particular pages are indicated and it is specified which pages should be browsed or read carefully.
- **Source Material:** All three basic sources are listed for each class session, even if there is no assignment for that week. Remember each is denoted by an abbreviation:

**Business Analysis & Valuation** is denoted as BAV;

**Financial Shenanigans** is denoted as FS;

**Supporting Notes** are denoted as SN.

### **Cases & Problem Assignments:**

Cases are listed by title and chapter location. All handouts are numbered and will be available both on the course web site and at a designated photocopy store.

### **Other Provided Information:**

The syllabus also provides information regarding when exams and tests will be scheduled and when various segments of the term project are due.

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<u>Class</u>	<u>Date</u>	<u>Topic &amp; Reading Assignment</u>	<u>Case &amp; Problem Assignments</u>
1		<p>Overview of Business Analysis</p> <p>Industry Analysis Competitive Profile Analysis Strategy Analysis Common Size Analysis (Vertical Analysis) Trend Analysis (Horizontal Analysis) Spontaneous Items Analysis</p> <p>Ratio Analysis</p> <ul style="list-style-type: none"><li>• Profitability</li><li>• Liquidity</li><li>• Solvency (Leverage or Risk)</li><li>• Market Tests</li><li>• Ratios Related To Each Fundamental Question</li></ul> <p>Proforma Financial Statements</p> <p>Business Analysis Applications</p> <ul style="list-style-type: none"><li>• Financial Performance Analysis</li><li>• Identification of Operational &amp; Financial Weaknesses</li><li>• Formulating Managerial Opportunities For Improvement</li><li>• Financial Planning &amp; Projections</li><li>• Focusing &amp; Directing Management Efforts</li><li>• Determining Viable &amp; Optimal Debt Structures</li><li>• Business Valuations</li><li>• Security Analysis</li></ul> <p>Reading Assignment: BAV-Chapter 1</p> <p><u>Term Project</u></p> <ul style="list-style-type: none"><li>• Form Project Teams</li><li>• Select Team's Company</li><li>• Complete Team Data Forms</li></ul>	General Mills (HO-#1)

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2		Industry Analysis Competitive Profile Analysis Strategy Analysis  Reading Assignment: BAV-Chapter 2	General Mills (HO-#1 Continued)  American Online (BAV-Chap. 2)
3		Accounting Analysis  Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 3</li> <li>• FS-Preface &amp; Pages 1-32</li> <li>• Michael E. Porter,                "How Competitive Forces Shape Strategy,"                Harvard Business Review, March/April, 1979                (HO-#2)</li> </ul>	Harnischfeger (BAV-Chap. 3)
4		Term Projects - Part I (Presentations & Submissions) <ul style="list-style-type: none"> <li>• Industry Analysis</li> <li>• Competitive Profile</li> <li>• Strategy Analysis</li> <li>• Accounting Analysis</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• HO #3: Bruns &amp; Merchant,                "The Dangerous Morality of Managing Earnings,"                Management Accounting, August, 1990</li> <li>• HO-#4: Meyer &amp; Owsen, "Coca-Cola's accounting:                Is it really the real thing?,"                Accounting Today, September-October 11, 1998</li> </ul>	No Case Assignment
5		Detailed Financial Statement Analysis of a Company <ul style="list-style-type: none"> <li>• Common Sized Statements</li> <li>• Trend Analysis</li> <li>• Ratio Analysis</li> <li>• Profitability</li> <li>• Liquidity</li> <li>• Solvency</li> <li>• Market Tests</li> <li>• Identification of Critical Issues                &amp; Development of A Focused Analysis</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 9</li> <li>• HO-#6: Financial Ratios</li> </ul>	Best Buy (HO-#5)

FIRST TEST

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<u>Class</u>	<u>Date</u>	<u>Topic &amp; Reading Assignment</u>	<u>Case &amp; Problem Assignments</u>
6		Asset Analysis  Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 4</li> <li>• FS-Chapter 11</li> </ul> Review of First Test	Boston Chicken (BAV-Chap. 4)
7		Liability & Equity Analysis  Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 5</li> <li>• FS-Chapter 5</li> </ul>	Mfg. Homes, Inc. (BAV-Chap. 5)
8		Financial Statement Analysis Review of Concepts & Techniques Covered-To-Date <ul style="list-style-type: none"> <li>• Common Sized Statements</li> <li>• Trend Analysis</li> <li>• Ratio Analysis</li> <li>• Profitability</li> <li>• Liquidity</li> <li>• Solvency</li> <li>• Market Tests</li> <li>• Identification of Critical Issues &amp; Development of A Focused Analysis</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 9</li> <li>• HO-#8 Detailed &amp; Disaggregated Profitability Analysis</li> </ul>	Best Buy (HO-#5) General Mills (HO-#1) McDonalds' (HO-#7)
9		Prospective Analysis: Forecasting Preparing Proforma Financial Statements <ul style="list-style-type: none"> <li>• Basic Concepts</li> <li>• Framework For Proforma Analysis               <ul style="list-style-type: none"> <li>• Past Performance</li> <li>• Dependability</li> <li>• Conservatism</li> <li>• Time Intervals</li> </ul> </li> <li>• External Factors               <ul style="list-style-type: none"> <li>• The Economy</li> <li>• The Industry</li> <li>• The Market</li> <li>• Government Regulations</li> </ul> </li> </ul> Weather & Natural Disasters	Maxwell Shoe Co. (BAV-Chap. 10)

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<u>Class</u>	<u>Date</u>	<u>Topic &amp; Reading Assignment</u>	<u>Case &amp; Problem Assignments</u>
9		Prospective Analysis (Continued) <ul style="list-style-type: none"> <li>• Internal Factors               <ul style="list-style-type: none"> <li>• Management</li> <li>• Physical Plant</li> <li>• Competitive Environment</li> <li>• Market Strategy</li> </ul> </li> <li>• Preparation Guidelines               <ul style="list-style-type: none"> <li>• Income Statement                   <ul style="list-style-type: none"> <li>⇒ Sales/Revenue</li> <li>⇒ Cost of Good Sold/Gross Profit</li> <li>⇒ Operating Expenses</li> <li>⇒ Interest Expenses</li> <li>⇒ Gains &amp; Losses</li> </ul> </li> <li>• Balance Sheet                   <ul style="list-style-type: none"> <li>⇒ Cash</li> <li>⇒ Accounts Receivable</li> <li>⇒ Fixed Assets</li> <li>⇒ Accounts Payable</li> <li>⇒ Accruals</li> <li>⇒ Notes Payable</li> <li>⇒ Other Long-term Debt</li> <li>⇒ Net Worth</li> </ul> </li> <li>• Cash Flow Statement                   <ul style="list-style-type: none"> <li>⇒ Utilization of Projected Income Statement &amp; Balance Sheet Figures</li> </ul> </li> </ul> </li> <li>• Sensitivity Analysis</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 13: Pgs: 13-3 to 13-4</li> <li>• HO-#8 Detailed &amp; Disaggregated Profitability Analysis</li> </ul>	
10		SECOND TEST  Term Project- Part II Financial Statement Analysis (Presentations & Submissions) <ul style="list-style-type: none"> <li>• Common Sized Statements</li> <li>• Trend Analysis</li> <li>• Ratio Analysis</li> <li>• Profitability</li> <li>• Liquidity</li> <li>• Solvency</li> <li>• Market Tests</li> <li>• Spontaneous Items Analysis</li> <li>• Identification of Critical Issues &amp; Development of A Focused Analysis</li> </ul>	No Case Assignment

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<u>Class</u>	<u>Date</u>	<u>Topic &amp; Reading Assignment</u>	<u>Case &amp; Problem Assignments</u>
10		Financial Statement Analysis (Continued)  Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 9</li> <li>• HO-#8 Detailed Spontaneous Items Analysis</li> </ul>	
11		Some Other Key Concepts & Considerations  Quality of Earnings & Reported Balance Sheet Values <ul style="list-style-type: none"> <li>• Accounting Shenanigans</li> <li>• Income Smoothing &amp; Earnings Management</li> <li>• Evaluating The Quality of Earnings</li> <li>• Dealing With Off-Balance Sheet Financing</li> </ul> Some Other Key Concepts and Readings <ul style="list-style-type: none"> <li>• Michael Porter on Competitive Analysis</li> <li>• Adrian J. Slywotzky on Value Migration</li> <li>• The Theory of Efficient Markets</li> </ul> Implications of The Above Readings For Financial Statement Analysis  Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 13: Pgs. 13-3 to 13-5</li> <li>• FS-Chapters 8, 9 &amp; 10</li> <li>• HO-#11 Value Migration (Slywotzky)</li> <li>• HO-#12 Profit Zone (Slywotzky)</li> </ul>	Income Smoothing Mini-Cases (HO-#9)   Off-Balance Sheet Mini-Cases (HO-#10)
12		Various Applications & Special Topics <ul style="list-style-type: none"> <li>• Valuation Analysis</li> <li>• Debt Capacity Determination</li> <li>• Optimal Loan Structuring Analysis</li> <li>• Bankruptcy &amp; Financial Failure Prediction</li> <li>• Equity Security analysis</li> </ul> Prospective Analysis: Valuation Theory, Concepts & Approaches  Various Valuation Models <ul style="list-style-type: none"> <li>• Discounted Abnormal Earnings Model</li> <li>• Value-to-Book Multiples</li> <li>• Value-to-Earnings Multiples</li> <li>• The Discounted Cash Flow Model</li> <li>• Comparing Valuation Models</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 11</li> </ul>	Schneider and Square D (BAV-Chap. 11)

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<u>Class</u>	<u>Date</u>	<u>Topic &amp; Reading Assignment</u>	<u>Case &amp; Problem Assignments</u>
13		Prospective Analysis: Valuation Implementation <ul style="list-style-type: none"> <li>• Detailed Forecasts of Performance</li> <li>• Terminal Values</li> <li>• Computing a Discount Rate</li> <li>• Computing Estimated Values</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 12</li> </ul>	The Gap, Inc. (BAV-Chap. 12)
14		Equity Security Analysis <ul style="list-style-type: none"> <li>• Investor Objectives</li> <li>• Equity Security Analysis &amp; Market Efficiency</li> <li>• Approaches to Fund Management &amp; Security Analysis</li> <li>• The Process of a Comprehensive Security Analysis</li> <li>• Financial Statement Data and Security Prices</li> <li>• Summary</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 13</li> </ul>	Best Buy (HO-#13)
TURN IN COMPLETED TERM PROJECTS			
15		Final Course Summary & Discussions  Financial Ratios Focused Upon By Different Users <ul style="list-style-type: none"> <li>• Commercial Loan Departments</li> <li>• Corporate Controllers</li> <li>• Internal &amp; External Auditors</li> <li>• Financial Managers</li> <li>• Chartered Financial Analysts</li> <li>• Investment Analysts</li> </ul> Credit Analysis & Distress Prediction <ul style="list-style-type: none"> <li>• The Analysis for Credit</li> <li>• Financial Statement Analysis &amp; Public Debt</li> <li>• Prediction of Distress &amp; Turnaround</li> <li>• Summary</li> </ul> Reading Assignment: <ul style="list-style-type: none"> <li>• BAV-Chapter 14</li> </ul>	Predicting Financial Distress Examples (HO-#14)
16		FINAL EXAM (3 hours)	



## POLICIES AND RULES

### Financial Statement Analysis - ACCT 8700 Main Campus - Spring Semester, 2001

*Dr. Vincent J. Giovinazzo*

#### 1. Basic Approach Taken In Course

a. The class sessions will entail mini-lectures, interactive discussions, cooperative learning, in-class group work assignments, short tests and quizzes during most class sessions, a midterm exam, and a final exam.

b. A major objective of the course is to stimulate and aid in the development of each student's critical thinking capability.

c. Students are expected to attempt to complete each assignment prior to its scheduled coverage in class. To receive the most benefit from the class sessions, students should carefully read and study the assignment and attempt to complete the related designated readings and problems prior to the class discussion on that assignment.

d. Assigned questions or problems will generally not be collected or graded during the semester. In one or two instances, however, they may be collected and used as the short test for that class session.

e. Testing will take place on a regular basis, and will be used in a large number of the class sessions. The review of all short tests and quizzes will generally take place immediately following their completion, if the remaining class time is sufficient.

f. Short group tests and individual quizzes will be given on a regular basis. For the group tests, the makeup of the groups will constantly be changing and will be formed by a random selection process immediately prior to each test.

g. Due to the limitations of class time all assigned questions and problems will not be covered in class. Copies of the solutions to these assignments will be made available. You can also arrange to see these solutions at my office. In any case, students are responsible for all assigned work even if it is not directly covered in class.

h. Classroom discussions, lectures and group assignments in class are considered to be the most important elements of the course. It is our discussions and work group experiences that will provide (1) hands-on experience with the various topics, (2) an awareness of the difficulties and limitations in applying the concepts presented in the course, and (3) the greatest opportunity for long-term permanent retention and "internalizing" of the covered concepts.

## 2. Provided By Students

a. Each student is expected to sit in the same seat at the start of every class. This seat is the one personally selected on the first day of class by the student.

b. Students are required to bring their text book, any provided class lecture notes or outlines, prepared solutions to assigned problems, and a calculator to every class session.

## 3. Class Attendance and Promptness:

a. Students should attempt to attend every class session. During the semester there will be testing in many class sessions, including six-to-seven group or individual tests and a midterm exam. It should be clearly understood that there are no makeups allowed for any missed group or individual test regardless of the cause for the related absence. Consequently the opportunity to accumulate the points for these items is simply sacrificed by any student missing one of these tests. This is further explained below.

b. In an attempt to be fair to the class as a whole, only due to extenuating circumstances or a documented emergency will the midterm or final exams be given at a time other than the scheduled times and dates. When such an exception is allowed, it should be understood that a different exam will be given from the one taken by the class, and that unlike on the regular exams, no extra points will be provided.

c. Students are expected to arrive on time for class and be in their seats at least three minutes before the scheduled start time.

d. It will be noted on the class records if a student leaves class before the time that Dr. Giovinazzo indicates class has ended for that day. If it will be necessary for a student to leave early at a particular class session, the involved student should make every effort to notify Dr. Giovinazzo prior to class. Such early departures should not be occurring on a regular basis.

e. No student will be allowed to be a member of this class if they do not attend at least one of the first two class sessions. Dr. Giovinazzo believes that the introduction, guidance, and orientation to the subject matter given in these first two sessions are critical and indispensable for developing a satisfactory level of understanding of how to effectively read, interpret and use reported financial data and annual reports. Thus any registered student who attends class for the first time at the third class session (or later) will be immediately dropped from the course by Dr. Giovinazzo.

#### 4. Grading:

a. The final grade will be based on the following testing and evaluation process. The weights given to each item are as shown.

	<u>Grade Points</u>	<u>Actual Points</u>
1. Midterm Exam	300	315
2. Group or Individual Tests	100*	100
4. Term Project	300	300
5. Final Exam	<u>300</u>	<u>315</u>
Total	1000	1030

\* Best five scores achieved on all test scores.

Note: There are no makeup tests for the group tests or for any individual tests that may be given in class.

Note: a separate handout defines all the requirements related to the term project.

Note: The term project will first receive an overall grade. Then 50 points of that score will be adjusted for each member of a group based on the peer reviews and Dr. Giovinazzo's observations and judgment regarding each student's participation and contribution level.

b. Absence From The Group Tests or Individual Tests: Absences from any of the group tests or individual tests, regardless of the cause of the absence, can not be made up under any circumstances. In these cases, the student will score no points for any missed group test or individual test.

c. Absence From One of the Two Exams: Absence from one of the two exams is a very serious matter. Absence from either exam without prior approval or without the subsequent providing of adequate written documentation will result in a grade of zero on that exam. Written documentation received subsequent to the scheduled final exam date will only be considered adequate if it indicates that (1) an unavoidable, unexpected emergency was involved and that (2) due to the nature of the emergency, advance notification was not possible.

d. The final letter grade will be determined according to the following point (or percentage) scale:

A:	900 - 1000 points	90% or better
B:	800 - 899 "	80-89%
C:	700 - 799 "	70-79%
D:	600 - 699 "	60-69%
F:	599 or less "	Under 60%

e. Any questions regarding the grading of any of the tests or the midterm exam given during the semester must be brought to the attention of the instructor and resolved within one week of the test

or the exam being returned. Any questions regarding the final exam or the final grade must be brought to the attention of the instructor and resolved by Friday, March 5, 2001. It is extremely difficult to evaluate such situations once a period of time has elapsed greater than those specified in this paragraph. Once these specified deadlines for reviewing any grading questions have passed, no grade adjustment for the particular test or exam involved will be considered.

f. Final grades are based on the student's demonstrated understanding of the concepts of this course and his/her effectiveness in applying the related analytical techniques. Professional and personal circumstances which occurred during the semester and precluded the student from performing at satisfactory levels will not be considered in the determination of the final course grade. The effect of your final grade on your overall GPA, eligibility for graduation, loss of scholarships, loss of a United States resident card, placement on academic probation, etc. is also irrelevant in the determination of your grade. In short, only your actual performance in this course is considered in determining your final grade.

Any requests to undertake special projects, additional term papers, or research analyses to make up for unsatisfactory performance in the course or to improve the final grade in the course will not be allowed.

g. Any student dropping the course will receive a grade based on the following schedule:

	<u>Grade</u>
Up to and including February 20th	W or WF*
After February 20th	WF

\*Based on the students grade average at the time of their withdrawal from the course.

h. The grade of "I" is given under very well-specified conditions identified in the catalog. It is not a grade a student can receive as a substitute for an "F" by not taking the final exam. The assigning of an "I" is at the discretion of the instructor, and is not a prerogative of the student. In no instance will it be used as a means for postponing a failing grade.

## 5. Exam Taking Rules

a. Leaving a test or exam without turning in your test paper, worksheets, any other provided materials, and any calculation notes will automatically result in a grade of F (0 points) for that exam. In the event such an event occurs a second time, the involved student will be dropped from the course with a grade of F.

b. When Scantron cards are used on an exam, your answers must be supplied on both the Scantron card (by filling in the selected blank) and the test itself (by circling the selected letter).

c. Scantron cards returned to the student to review exam

results must be submitted to the instructor at the end of that class session if some question exists regarding the calculated score. Any student who removes such a card from the class is ineligible for any further grade adjustment.

d. All parts of each major exam must be turned in to Dr. Giovinazzo before leaving the classroom. These exams will remain in Dr. Giovinazzo's files and will be available, when arranged, in the Accounting Department for review.

6. Dr. Giovinazzo's Office Hours:

College of Business Admin. Bldg., Room 544  
By Appointment  
Telephone: (404) 651-4458  
E-Mail: [vgiovina@gsu.edu](mailto:vgiovina@gsu.edu)