

# **Southeastern College**

## **Financial Statement Analysis**

**ACTG 4163--Fall 2004**

**William Hahn, CPA, DBA**

**Office Hours: As posted on my door  
in building H-7 or by appointment**

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**TEXT:** Gibson, Charles. Financial Reporting and Analysis 9<sup>th</sup> ed.

**Financial Calculator:** HP 10BII (or similar model) or 12c. One of the two is required, the 12c is highly recommended as your choice.

**COLLEGE MISSION STATEMENT:** Southeastern, a Christ-centered college, fosters student success by integrating personal faith and higher learning. Within our loving Pentecostal community, we challenge students to prepare professionally so they can creatively serve their generation in the Spirit of Christ.

**CATALOG DESCRIPTION:** This course provides a background for understanding methods used to analyze financial statements for lending, investing, and management purposes. In addition to text material, the course will utilize the financial statements of a publicly traded company for analytical skill development purposes.

**PREREQUISITE:** BUSI 2233

Credit Hours: (3)

### **OBJECTIVES OF COURSE**

#### **A. Suggested Prerequisites**

1. Business Math
2. Introduction to Accounting (Required)
3. Micro Economics
4. Business Finance
5. Spreadsheet Applications

#### **B. Entrance Competencies**

It is expected that through prior undergraduate courses, students already will be familiar with the major concepts and theories of:

- 1) the accounting process and its impact on internal and external financial statements,
- 2) microeconomic principles of industry structure and their impact on decisions of a corporation,

- 3) the mathematical constructs that impact financial statements,
- 4) the importance of cash flow in the decision-making process,
- 5) the ability to construct spreadsheets using Excel or similar software

### C. Exit Competencies

By the end of this course, the student should have a working knowledge and an increased capacity to:

- 1) understand common techniques used in the statement analysis process
- 2) conduct data gathering and analysis impact for managerial, investment, and lending decisions
- 3) operate financial statement analysis software
- 4) analyze a complete set of financial statements, highlight strong and weak performance, make a lending or investment decision, and present your analysis in both written and verbal form.

## INSTRUCTIONAL PROCEDURE

- A. Lecture/Discussion—Individual and group
- B. End of Chapter Assignments
- C. Analysis preparation (several small analyses)
- D. Final Project—Written Analysis and In-Class Presentation

Several written analyses, concise and complete, will be prepared on both an individual and group basis. The format used to communicate your analysis will evolve as the course progresses.

## EVALUATION

- |                               |  |
|-------------------------------|--|
| 1. Midterm Examination        | 25%                                    |
| 2. Written Financial Analyses | 25% Average of those prepared in class |
| 3. Final Project              | 40%                                    |
| 4. Class Contribution         | 10% (includes assignment preparation)  |

### Grading Scale:

- |            |   |
|------------|---|
| 90% - 100% | A |
| 80% - 89%  | B |
| 70% - 79%  | C |
| 60% - 69%  | D |
| Below 59%  | F |

## STUDENTS WITH DISABILITIES

Southeastern College is committed to the provision of reasonable accommodations for students with disabilities as defined in Section 504 of the Rehabilitation Act of 1973. Students who think they may qualify for these accommodations should notify their instructor immediately. Special services are

provided through the Career and Counseling Office.

## RESPONSIBILITIES OF STUDENTS

Information in each chapter and each assignment will provide a framework for the next topic of discussion. The pace of this course is intense, and the workload is significant. Instructional methods will include lecture, advance preparation assignments, and student interaction.

Each student is expected to commit to the following guidelines in this class. These are:

1. **Preparation**—the class discussion will mean little if text material is not read and the assignments prepared in advance.
2. **Presence**—unique thoughts and insights cannot be contributed to group discussions, or a student learn, if not present.
3. **Promptness**—late arrivals disrupt the class and adversely impact the decorum of the process. **Note: Three times late equals one absence for evaluation purposes.**
4. **Participation**—as part owner of the discussion, it is each student's responsibility to share in the advancement of the group's collective skills and knowledge.
5. **Attendance**—Adhere to college policy. See amplification below.
6. **Academic Honesty**—Any instance of academic dishonesty, including plagiarism, will be handled in accordance with the Student Handbook.
7. **Specific Policies**—If you cannot be present for a class, you are responsible for contacting either me, or a fellow student, or using BlackBoard or email in order to find out what was covered in class the day you were absent and what will be covered in the next class.

Material will be covered in class that is not presented in the textbook. This material may include information included in lectures, additional readings, and in-class exercises. Exams will cover this material as well as that assigned in the textbook.

Material not turned in when due will be accepted, but will receive a penalty of **one full letter grade reduction for each day late. Material will NOT be accepted if it is over FIVE days late and will earn a grade of zero.**

**Attendance is important.** This class meets two times a week. Any absences in excess of what is allowed by the *Student Handbook* will result in an appropriate grade reduction.

**Failure to take a test on the assigned date will result in a ZERO for that test** unless the absence is approved in advance by me or is an emergency that is excused by the Academic Dean. If you travel with and

athletic team or are a member of the CMC, you are responsible for submitting required material prior to your departure or via email while traveling.

All other academic policies are described in the Student Handbook.

## **COURSE CALENDAR AND/OR OUTLINE**

(Approximate material coverage and testing dates. May be modified as semester progresses. Note that the weeks set forth below are class weeks and are different from calendar weeks due to holidays and other time away from the academic calendar.)

### **WEEK 1**

A. Discussion topics include:

1. Review of accounting, finance, and economic principles impacting financial statement analysis.
2. "Cs" of Credit mode
3. Capacity analysis model

B. Assignment

Reading: Chapter 1.

### **WEEK 2**

A. Discussion topics include:

1. Financial statements inter-relatedness
2. Annual Report review and discussion
3. Published analysis review and presentation

B. Assignments

Reading: Chapter 2 and Hershey's Annual Report

Research: Bring published statement analysis to class

Case: 2-2, The Dangerous Morality of Managing Earnings

### **WEEK 3**

A. Discussion topics include:

1. Balance sheet analysis considerations
2. Hershey's Balance Sheet and related footnotes

B. Assignments

Reading: Chapter 3

Problems: 3-3, 3-6

Case: 3-5

Research: Company to be analyzed submitted for approval

#### **WEEK 4**

A. Discussion topics include:

1. Income statement analysis considerations
2. Hershey's Income Statement and related footnotes

B. Assignments

Reading: Chapter 4

Problems: 4-1, 4-9, 4-11

Case: 4-2

C. **Midterm Examination**

#### **WEEK 5**

A. Discussion topics include:

1. Ratio analysis
2. Common size analysis
3. Trend analysis
4. Library resources
5. Hershey's application

B. Assignments

Reading: Chapter 5

Problems: 5-2, 5-7

#### **WEEK 6**

A. Discussion topics include:

1. Current assets, liabilities, and working capital
2. Ratios
3. Liquidity
4. Hershey's application

B. Assignments

Reading: Chapter 6

Problems: 6-2, 6-8, 6-11

Case: 6-3

Research: Short presentation of highlights of material collected for comprehensive analysis

#### **WEEK 7**

A. Discussion topics include:

1. Long-term debt analyses
2. Hershey's application

B. Assignments

Reading: Chapter 7  
Problems: 7-1, 7-4, 7-7

### **WEEK 8**

- A. Discussion topics include:
1. Profitability analysis
  2. Hershey's application
- B. Assignments  
Reading: Chapter 8  
Problems: 8-1, 8-2, 8-7  
Case: 8-7

### **WEEK 9**

- A. Discussion topics include:
1. Analysis from investor perspective
  2. Hershey's application
- B. Assignments  
Reading: Chapter 9  
Problems: 9-1, 9-3  
Case: 9-5

### **WEEK 10**

- A. Discussion topics include:
1. Statement of cash flows
  2. Hershey's application
- B. Assignments  
Reading: Chapter 10  
Problems: 10-1, 10-6

### **WEEK 11**

- A. Discussion topics include:
1. Expanded analysis
  2. Hershey's application
- B. Assignments  
Reading: Chapter 11  
Problems: 11-12

### **WEEKS 12 - 15**

- A. Discussion topics include:  
Selected financial statements will be assigned for group analysis and presentation. Generally, one statement per week will be analyzed, presented and discussed.

B. Assignments

Reading: Chapters 12 and 13 as appropriate. These should be referenced based on the nature of the statement being examined.

C. Presentations:

Individual presentations of statements analyzed on a comprehensive basis.

D. Final Exam:

The final exam will be a comprehensive analysis of a company of your choice. This analysis must be presented in a professional manner. Your grade will be determined by a combination of your written report and a short verbal presentation of your project (about 10 minutes). The presentation will take place during the time scheduled for final exams. You must present your analysis in order to pass this course.