ACCT 7130/7136 Financial Analysis and Valuation
Syllabus – Fall 2016

Professor:	Dr. James H. Long, CGMA, CIA, CMA, CPA/ABV
Email Address:	JamesLong@auburn.edu
Office:	351 Lowder Hall, (334) 844-6214
Office Hours:	By appointment
Class Meets:	Monday/Wednesday 8:00 a.m. – 9:15 a.m. (Lowder 009/Distance Education)
	Monday/Wednesday 9:30 a.m. – 10:45 a.m. (Lowder 015)

COURSE DESCRIPTION AND OBJECTIVES

ACCT 7130/7136 adopts a financial statement user's perspective in order to enhance your understanding of the ways in which creditors and investors use financial statement information, and provides in-depth coverage of the tools and techniques employed to analyze a company's financial statements, value the firm, and make investment decisions. Relevant topics include:
1. the impact of economics on financial statements,
2. the effect of judgment on the measurement of assets and liabilities,
3. the difference between income and cash flows,
4. the cash flow statement,
5. profitability and risk analysis,
6. the concept of accounting quality,
7. financial statement forecasting, and
8. the concepts and methods underlying firm valuation.

Furthermore, successful accounting professionals possess strong analytical and communications skills, and are expected to work effectively with other professionals from diverse backgrounds. The course assignments are intended to help you develop and enhance these skills.

COURSE MATERIALS

- Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective by Wahlen, Baginski & Bradshaw, 8th Edition (Required),

- Starbucks 2012 Annual Report (available free on Starbucks' website)

Recommended Reading List (if you find yourself interested in this subject matter outside of the classroom)

- Barbarians at the Gate: The Fall of RJR Nabisco by Bryan Burrough
- Liar's Poker by Michael Lewis
- The Predator's Ball by Connie Bruck
- The Smartest Guys in the Room by Bethany McLean and Peter Elkind
- When Genius Failed: The Rise and Fall of Long-Term Capital Management by Roger Lowenstein

CLASS ORGANIZATION

Classes will consist of short lectures intended to highlight important topics from the assigned readings and related class discussion. In addition, we will work through selected questions, exercises and cases to provide relevant examples of important concepts. In order to maximize the value that you receive from this instructional format, you should come to class fully prepared to discuss the topics covered by the assigned readings. Remember that while undergraduate education is intended to provide you with the foundation required to enter a professional workplace, graduate education is an investment in yourself focused on providing you with a competitive advantage in the marketplace. The return on your investment in this class will be positively related to the level of effort that you are willing to put forth.

GROUP ASSIGNMENT

Forecasting Project: Once we cover Chapter 10, you will complete an Excel-based forecasting project. The project will require you to forecast financial statements for Starbucks based on a set of assumptions that I will give you. Specifics will be communicated by mid-October. On-campus students will complete the forecasting project in groups of 2 or 3 (10 groups of 2, 9 groups of 3); distance students have the option to complete this assignment in groups or individually. You are responsible for forming your own groups. **You may NOT collaborate with non-group members**. Completion of the forecasting project is open book/open note. Any questions should be directed to the professor.

INDIVIDUAL ASSIGNMENTS

You will complete the following assignments individually. **You may NOT collaborate with anyone**. Any questions should be directed to the professor.

HW – Time Value of $ and **HW – Basic Valuation:** These homework assignments are intended to gauge your understanding of the concepts related to the time value of money and basic valuation. Thorough comprehension of these concepts is required to understand and apply our firm valuation models.

Midterm Exam: The mid-term exam will be given in class on Wednesday, October 12 (distance students must complete the exam within three business days, i.e., by Monday, October 17). The exam will cover the material that we encounter over the first half of the semester.

Final Exam: The final exam will be given in class on Wednesday, November 16 (distance students must complete the exam within three business days, i.e., by Monday, November 21). The exam will primarily cover the material that we encounter over the second half of the semester, although this material builds on what we covered in the first half of the semester.

Risk Analysis Assignment: You will either read The Big Short: Inside the Doomsday Machine by Michael Lewis, or watch the 2015 film version starring Christian Bale, Steve Carell, and Ryan Gosling. The events portrayed in The Big Short document a recent occasion on which a number of intelligent, experienced financial professionals failed to accurately assess the risks associated with investments in mortgage backed securities. Consequently, their firms experienced severe financial distress, which in turn

cascaded through the financial system, shaking the markets to their core. A few savvy market participants recognized these failures of risk assessment before the market as a whole, and profited handsomely.

As you read the book or watch the film, you will consider the underlying failures in risk assessment that occurred and the lessons you can apply to financial analysis and valuation. Chapter 5 of the textbook provides a detailed discussion of the risk assessment process. On Wednesday, November 30, we will have an in-class discussion of the underlying failures in risk assessment and lessons that you learned. Your contribution to this discussion will be reflected in your class participation grade.

Class Participation (On-Campus): On-campus students will have numerous opportunities to participate in class by voluntarily contributing during lecture/case discussions, and by interacting with guest speakers. We will also employ a random number generator, which will select a student to briefly discuss/summarize the assigned reading(s) at the beginning of class, and may periodically have reading pop quizzes in order to incentivize appropriate preparation.

Class Participation (Distance): Distance students have several participation requirements. First, each student will write a brief paper (two page maximum, 12-point, Times New Roman font, with 1" margins) or prepare a video presentation (5 minutes maximum) briefly discussing/summarizing two of the assigned textbook readings during the course of the semester. Each paper/video presentation is due by **8 a.m. (CST) on the day we cover the assigned reading in class**.

Secondly, each student will write a brief paper (four page maximum, 12-point, Times New Roman font, with 1" margins) or prepare a video presentation (5 minutes maximum) summarizing the underlying failures in risk assessment s/he noted in either <u>When Genius Failed</u> or <u>The Big Short</u>, and the lessons that s/he learned related to financial analysis and valuation from these historical examples. This distance participation assignment is **due at 8 a.m. (CST) on Wednesday, November 30**.

<u>GRADING</u>

The distribution of points among assignments is:

			The tentative grading scale is:	
HW – Time Value of $	10 points		360-400 points (90%)	A
HW – Basic Valuation	10 points		320-359 points (80%)	B
Mid-term Exam	120 points		280-319 points (70%)	C
Forecasting Project	80 points		240-279 points (60%)	D
Final Exam	120 points		Below 240 points	F
Class Participation	60 points			
Total	400 points			

Note: I will not employ a grading curve for individual assignments. However, should the final class average fall significantly below my expectations, I reserve the right to adjust the final grades accordingly.

Professionalism Clause: In addition to the point distribution described above, the professor reserves the right to deduct points from a student's point total at the end of the semester for unprofessional behavior as

determined by the professor. The number of points deducted will depend on the severity of the unprofessional behavior.

ADDITIONAL POLICIES AND PROCEDURES

Academic Honesty: Each student is expected to be familiar with the University's policy regarding academic honesty. Because of the nature of the accounting profession, I take academic honesty seriously. Any student who engages in any form of academic dishonesty will be subject to the maximum allowed disciplinary action. To avoid any issues, make sure that you understand the parameters of each assignment, particularly whether an assignment should be completed individually or in a group, and whether the assignment is open book/open note.

School of Accountancy Academic Honesty Policy: We, the School of Accountancy (SOA) faculty, believe in the honesty and integrity of our students. Experience has taught us that many academic honesty issues arise from the lack of clear guidance and communication. The SOA Academic Honesty Policy was implemented to improve guidance and communication related to academic honesty. In addition to this policy, your professor will provide additional clarity as it relates to course-specific, academic honesty issues.

General: All portions of the Auburn University student Academic Honesty Code (Title XII) found in the *Student Policy eHandbook* will apply to this class. The Academic Honesty Code can be accessed at: https://sites.auburn.edu/admin/universitypolicies/Policies/AcademicHonestyCode.pdf. All academic honesty violations will be reported to the Auburn University Academic Honesty Committee.

Exams: No part of any exam from any accounting course (past and present) at Auburn University may be possessed, reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the written permission of the course professor from which the exam originated. Violation of this policy will be considered a violation of the Academic Honesty Code.

Collaboration: Many courses within the School of Accountancy require completion of projects, cases, exercises, and/or other assignments outside of the classroom environment. The professor may require that these assignments be completed individually or within a group setting. Each student (and group) should understand and abide by the collaboration guidelines for *each assignment* in order to avoid violating the Academic Honesty Code.

The acceptable level of collaboration may vary greatly from assignment to assignment, course to course, and from professor to professor. It is the professor's responsibility to notify students to what extent collaboration is allowed. **Absent written notification from the professor you should assume that collaboration of any sort is NOT permitted.** Collaboration includes a number of activities, such as working together to complete an assignment, discussing an assignment before it has been completed, and discussing an assignment after it has been completed but before it has been turned in. Make sure that you understand the degree of collaboration allowed by the professor. If you are not sure, ask the professor.

Attendance: Because much of the graduate learning experience involves activities that take place in class, attendance is mandatory. Promptness is expected, and repeated tardiness or unexcused absence will result in a grade penalty determined under the provisions of the professionalism clause described above.

Class Add/Drop Policies: Class Add and Drop policies are dictated by the Auburn University Bulletin and the *Student Policy eHandbook*.

Disclaimer: The professor reserves the right to change deadlines, the course schedule, and classroom policies and procedures. Any changes will be announced in class.

Diversity: Diversity at Auburn University encompasses the whole of human experience and includes such human qualities as race, gender, ethnicity, physical ability, nationality, age, religion, sexual orientation, economic status, and veteran status. These and other socially and historically important attributes reflect the complexity of our increasingly diverse student body, local community, and national population. Auburn University recognizes and values the considerable educational benefits emanating from diversity as we prepare our students for life and leadership in a multicultural world. Students who interact with and learn about people from a variety of backgrounds are more apt to understand, appreciate, and excel in the community they inhabit. In this context, diversity is aligned with Auburn University's land grant mission of providing its students with a superior education in service to the needs of Alabama, the nation, and the world. Contact the Office of Diversity at www.auburn.edu/diversity

Due Dates: Assignments are due as described in the syllabus and on the class schedule. I will not accept late assignments, unless they are accompanied by an acceptable excuse as outlined in the *Student Policy eHandbook*. Distance students have three business days after the in-class due date to turn in assignments.

Office Hours: I encourage you to schedule an appointment when you need help with class material or assignments, or when you have other issues to discuss. However, given that this is a graduate course, I expect you to be prepared when you come for help in the course. That is, you should have attended class, read the materials, and invested significant effort to understand the material or work through the assignment in question.

Special Accommodations: Students who need accommodations should arrange a meeting with me via email as soon as possible. Prior to our meeting, please ensure that you have submitted your electronic request for accommodations through AU Access. If you do not have an Accommodation Memo but need accommodations, please make an appointment with The Program for Students with Disabilities, 1244 Haley Center, 844-2096 (V/TT).

ACCT 7130/7136 Class Schedule – Fall 2016

Day	Date	Chap.	Reading (Before Class)	Topic	Assignment Due
W	Aug. 17			Course Overview	
M	Aug. 22		R1 (read through pg. 18)	The Time Value of Money	
W	Aug. 24		R1 (pgs. 19 - 49)	Basic Valuation Concepts	**HW - Time Value of $**
M	Aug. 29	11	859-877	Risk-Adjusted Expected Rates of Return	**HW - Basic Valuation**
W	Aug. 31	11	877-898	The Dividends Valuation Approach	
M	**Sep. 05**			**Labor Day**	
W	Sep. 07	1	1-41	Overview of Financial Reporting, Financial Statement Analysis, and Valuation	
M	Sep. 12	1	41-57; Case 1.1		
W	Sep. 14	2	93-117; 128-133	Asset and Liability Valuation and Income Recognition	
M	Sep. 19	3	147-182; 193-195, Cases 3.2, 3.3	Income Flows vs. Cash Flows: Understanding the Statement of Cash Flows	
W	Sep. 21	4	241-277	Profitability Analysis	
M	Sep. 26	4	277-298, Case 4.2		
W	Sep. 28	5	335-364	Risk Analysis	
M	Oct. 03	5	364-383, Case 5.2		
W	Oct. 05	6	415-455	Accounting Quality	
M	Oct. 10	6	456-471, R1 (pgs. 50 - 63)		
W	**Oct. 12**			**Mid-term Exam**	
M	Oct. 17		R02, R03, R04	Panel: Accounting Careers in Academia	
W	Oct. 19		R1 (pgs. 63 - 80)	Guest Speaker - Brian McNeely (Regan Consulting)	
M	Oct. 24	10	761-801	Forecasting Financial Statements	
W	Oct. 26	10	802-829; Case 10.2		
M	Oct. 31	13	967-995	Valuation: Earnings-Based Approaches	
W	Nov. 02		R1 (pgs. 80 - end)	Forecasting Project Day - Open Office Hours	
M	Nov. 07	14	1005-1022	Valuation: Market-Based Approaches	
W	Nov. 09	14	1022-1048		**Forecasting Project Due**
M	Nov. 14			Hindsight is 20/20: Critical Analysis of and Lookback at Forecast Project Assumptions	
W	**Nov. 16**			**Final Exam**	
M	**Nov. 21**			**Thanksgiving Break**	
W	**Nov. 23**				
M	Nov. 28			Guest Speaker - Frank McCraw (Chartered Financial Analyst)	
W	Nov. 30			Failures of Risk Analysis - Class Discussion	**Distance: Class Participation Due**