

Intermediate Accounting II (ACCT 270) Sophomore/Junior Diagnostic Project

The Accounting Department's Sophomore/Junior Diagnostic Project has been designed to help you learn to analyze financial statements (Annual Reports), an activity essential to your professional development at this time in the major program. The Project will also help us to determine how effectively you are continuing to improve the liberal arts skills of critical thinking and effective oral and written communication, also essential to your success in the profession.

Format: 3 or 4 students per group (sign -up sheet on my office door)

Materials: 1999 through 2001 Corporate Annual Report of 10K filings for a company that has been approved by course professor. Each group must select a company that has not been chosen previously by another group.

Required Contents of the Presentation and Full -Sentence Outlines:

1. Describe the Company including:
 - Industry Background
 - The business environment
 - Company background
 - Operating activities
 - The auditors
2. Give an overview of the annual reports. What has this company included in its Annual Report for its readers that is particularly important to understanding the company's prospects?
3. Assess the general condition of this business enterprise. (Is there an established pattern of stability, growth, stagnation, contraction, etc.?)
4. Give an analysis of the company's competitive strategy. If you were the CFO (Chief Financial Officer) of this business enterprise, what would be your future strategies, goals and objectives for this company? And how would you reflect these through the preparation of annual operating budgets? (Scope: 2 years)
5. Make an investment and a credit recommendation. As a speculative investor seeking to purchase stock, would you purchase this company's stock? Would you lend this company more funds? Why or Why Not?

Time frame: Approximately 25 minutes per group

Criteria for evaluation:

The Content of your responses to Questions 1 through 5 will demonstrate the degree to which you have mastered the subject matter of the assignment. Your critical thinking skills and your effective oral and written communication skills will be evaluated with the criteria listed on the attached "Individual Performance Evaluation."

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INDIVIDUAL PERFORMANCE EVALUATION

Name _____
 Date _____
 Report _____

Grading Scale: On a 6-point scale, the individual is scored on the extent to which he or she met the evaluation criteria. The scale is as follows:

	To a	To a		
Completely	great extent	satisfactory extent	Inadequately	Not at all
6	5	4	3	2
				1

Criteria Points

CRITICAL THINKING.

Your description of the company was thorough.

Your description of the component parts of the Annual Report was accurate.

Your analysis of the company's condition was thorough.

Your evaluation of the company's condition was based on sound evidence.

Your recommendations for future developments and for the budget reflected a clear understanding of the company's nature and past performance.

EFFECTIVE ORAL COMMUNICATION.

You were dressed appropriately for a professional presentation. .

You were poised, controlled, expressive and maintained eye contact..

You described the project clearly and you use technical vocabulary accurately..

You related your part of the presentation to the parts presented by other team members..

You anticipated the audience's questions and answered questions clearly and directly.

You reinforced important points through skillful reiteration and summary.

TECHNOLOGICAL COMPETENCY.

You used technology effectively for developing your visual aids..

Your visual aids enhanced your presentation..

EFFECTIVE WRITTEN COMMUNICATION.

You provided a useful written outline of your section that was an integral part of the group outline..

Your outline was well organized and clear.

Total points (90 points possible).

Your presentation was delivered at the time scheduled and was an appropriate length (10 points possible).

Total score (100 points possible).

Comments:

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Guidance for Completing the Financial Analysis

Introduction

In order to evaluate your understanding of the use financial statements in decision-making, you are asked to assume the role of a financial analyst. Your group will study the profitability, stability, solvency, and potential for growth of a publicly held company from the perspective of outside users consisting of investors and creditors. Try to think of your analysis as a form of storytelling. You are going to tell the story of what your company has been doing for the past three years and where you think it will be going in the future.

Before you begin to produce your written outlines and undertake the analysis of your company's financial statements, you need to compile the following information:

1. Industry information.
2. A company profile.
3. Any current news stories that might impact your company's future prospects.
4. Historical stock price information.
5. Annual reports of 10-k filings for at least four years.
6. Calculations of financial ratios appropriate for completing the level 3 analysis described below.

Once you have collected the information above, your group will be ready to create your presentation. Your audience is investors who want to know whether they should buy stock and creditors who also have a stake in the company's well-being. To tell them your company's story convincingly, a successful presentation should consist of the following levels of analysis.

Level 1 -- Business and Industry Analysis

The first part of this level of analysis (no more than five of your presentation) should focus on industry profitability and be organized around at least three of the following topics:

1. Rivalry among existing firms
2. Threat of new entrants into the market
3. Threat of substitute products
4. Bargaining power of customers
5. Bargaining power of suppliers
6. Overall evaluation of industry profitability

The second part should be a competitive strategy analysis consisting of:

1. A comparison of your firms' competitive strategies to its competitors.
2. An assessment of the company's ability to sustain its competitive strategy.
3. An assessment the threats from competitors.
4. A discussion of any potential changes in your firms' industry structure that could make your company's competitive strategy ineffective.

Finally, you should identify all sources of information (other than annual reports and 10Ks) used in the first two parts. Each group must compile a bibliography to accompany your individual outlines. The sources are to be identified in a manner that would allow the reader to

quickly track down the information. For example, in identifying a particular article, you should specify the article title, publication, author(s), date, and pages.

Level 2 -- Accounting Analysis and Generation of Historical Financial Data

You should perform an *accounting analysis* for your firm's financial statements in order to determine the degree to which the firms' accounting captures their underlying business reality.

As part of this analysis, you will want to do each of the following:

1. Identification of key accounting policies
2. Assessment of accounting flexibility
3. Evaluation of accounting strategy
4. Evaluation of disclosure quality
5. Identification of potential red flags
6. Identification of necessary adjustments for accounting distortions

Level 3 -- Analysis of Historical Financial Data

Using the financial data generated in part 2, you will conduct analyses of your firms' profitability, solvency, and operating efficiency that should provide support for your conclusions.

You should compare your company's ratios across at least three years and also compare them with at least one competitor or to industry averages. Which ratios you choose to discuss in your presentation will depend on what issue are critical to your conclusions. However, at a minimum your presentation should cover the following areas:

1. **Liquidity Ratios** to measure the firm's ability to meet maturing short-term obligations.
 - a) Current Ratio
 - b) Quick Ratio or "Acid Test" Ratio
2. **Financing Ratios** - provide some indication of the riskiness of a company with regard to its ability to pay its long-term debts.
 - a) Debt to Equity Ratio
 - b) Times Interest Earned Ratio
3. **Activity Ratios** - measure a company's efficiency in managing its assets.
 - a) Receivables Turnover Ratio
 - b) Inventory Turnover Ratio
4. **Profitability Ratios** - assist in evaluating a company's profit-making activities.
 - a) Gross Profit Percentage
 - b) Return on Shareholders' Equity
5. **Stock Ratios:** These ratios can be used to analyze share price.
 - a) Earnings per Share
 - b) Price Earnings Ratio
 - c) Dividend Yield

Your conclusion should tie together all of the preceding analysis into both an investment and a credit recommendation. If possible, compare your valuation with the current market valuation of the company and make a buy-sell recommendation.