



COLORADO STATE UNIVERSITY  
— GLOBAL —

FIN520: FINANCIAL REPORTING AND ANALYSIS

**Credit Hours:** 3

**Contact Hours:** This is a 3-credit course, offered in accelerated format. This means that 16 weeks of material is covered in 8 weeks. The exact number of hours per week that you can expect to spend on each course will vary based upon the weekly coursework, as well as your study style and preferences. You should plan to spend 14-20 hours per week in each course reading material, interacting on the discussion boards, writing papers, completing projects, and doing research.

**Faculty Information:** Faculty contact information and office hours can be found on the faculty profile page.

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## COURSE DESCRIPTION AND OUTCOMES

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### Course Description:

This course studies the process of business analysis and valuation through the evaluation of financial statements. Topics include analysis of financial statements and ratio, strategic, prospective, equity, and credit analysis.

### Course Overview:

This course examines an important element of business analysis, namely financial statement analysis. The course provides a balanced view of analysis, including both equity and credit analysis, and both cash-based and earnings-based valuation models. The effect of applying Generally Accepted Accounting Principles (GAAP) on measurement and recognition of assets, liabilities, revenues, and expenses is emphasized. Topics include evaluating the financial performance of businesses through financial statement analysis including analysis of profitability, liquidity, solvency and operating leverage of the business.

This course is designed to help students effectively analyze and interpret financial statements in order to make well-informed strategic business decisions that are in line with the company's objectives. The focus is on the mechanics of financial statements with emphasis on the analysis, forecasting, interpretation, disclosures and reporting of financial data using the Generally Accepted Accounting Principles (GAAP).

### Course Learning Outcomes:

1. Apply financial statements to determine the creditworthiness of a firm.
2. Employ financial statements to evaluate the profitability of a firm.
3. Utilize financial statements to evaluate the market strategy of the firm and the quality of its management.
4. Forecast the future income and cash flow of the firm.
5. Evaluate the quality of financial information.

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## PARTICIPATION & ATTENDANCE

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Prompt and consistent attendance in your online courses is essential for your success at CSU-Global Campus. Failure to verify your attendance within the first 7 days of this course may result in your withdrawal. If for some reason you would like to drop a course, please contact your advisor.

Online classes have deadlines, assignments, and participation requirements just like on-campus classes. Budget your time carefully and keep an open line of communication with your instructor. If you are having technical problems, problems with your assignments, or other problems that are impeding your progress, let your instructor know as soon as possible.

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## COURSE MATERIALS

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### Required:

Subramanyam, K. R. (2014). Financial statement analysis (11th ed.). New York, NY: McGraw Hill. ISBN13: 9780078110962

***NOTE:** All non-textbook required readings and materials necessary to complete assignments, discussions, and/or supplemental or required exercises are provided within the course itself. Please read through each course module carefully.*

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## COURSE SCHEDULE

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### Due Dates

The Academic Week at CSU-Global begins on Monday and ends the following Sunday.

- **Discussion Boards:** The original post must be completed by Thursday at 11:59 p.m. MT and Peer Responses posted by Sunday 11:59 p.m. MT. Late posts may not be awarded points.
- **Critical Thinking:** Assignments are due Sunday at 11:59 p.m. MT.
- **Live Classroom:** Although participation is not required, Live Classroom sessions are held during Week 3 and Week 6. There are two total sessions.

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## WEEKLY READING AND ASSIGNMENT DETAILS

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### Module 1

#### Readings

- Chapters 1 & 2 in Financial statement analysis
- Barth, M. (2018). The future of financial reporting: Insights from research. *Abacus*, 54(1), 66-78.
- McCann, D. (2018). Study finds disturbing evidence of earnings management. *CFO.com*.

#### Discussion (25 points)

#### Portfolio Reminder (0 points)

A Portfolio Project, which consists of a financial statement analysis, is due before midnight on Sunday of Week 8—the end of the course. There are two options available for your Portfolio Project. You will choose only one option to complete. Do not do both assignments. Read both Portfolio Project descriptions in the Module 8 folder. Review the Portfolio Project Rubric and then choose which option you will complete for your final Portfolio Project.

## Module 2

### Readings

- Chapter 3 in *Financial Statement Analysis*
- Drum, J., Stangle, B., & Starfield, R. (2018). Keeping covenants: Getting debt ratios right. *Journal of Accountancy*, 225(6), 34-38.
- Mehra, R. (2018). Business loan vs. equity financing: Which is more suitable for your business? *The Economic Times, New Delhi*.
- Shannon, C. (2016). How will the new lease accounting standard impact loan covenants? *Equipment Leasing & Financing, Washington D.C.*, 32(4), 40-41.
- Sliwoski, L. (2017). Understanding the new lease accounting guidance. *Journal of Corporate Accounting and Finance*, 28(40), 48-52.

### Discussion (25 points)

#### Critical Thinking: Title (75 points)

Choose one of the following two options for your Critical Thinking assignment. Do not complete both projects. Identify your choice in the title of your submission.

#### **Option #1:** Financing Activities Analysis: Hayes, Inc.

Answer the following questions in your submission.

Question #1: Some car companies currently face numerous lawsuits due to reported cases of failed brakes, which could negatively impact image of those companies. Such lawsuits are prime examples of contingent losses because the loss is contingent upon an adverse settlement or verdict in the case. The litigation loss contingency should be accrued if a loss is probable and can be estimated. Probable and estimable are difficult concepts that offer managers a fair degree of discretion.

1. List two reasons why the managers in this case might resist quantification and accrual of a loss liability.
2. In 1-2 paragraphs, describe a circumstance when managers might be willing to accrue a contingent loss that they had earlier resisted accruing.

Question #2: On January 1, 2014, Hayes, Inc. leases equipment from Smithsonian Company for an annual lease rental of \$25,000. The lease term is five years, and the lessor's interest rate implicit in the lease is 8%. The lessee's incremental borrowing rate is 8.25%. The useful life of the equipment is five years, and its estimated residual value equals its removal cost. Annuity tables indicate that the present value of an annual lease rental of \$1 (at 8% rate) is \$3.993. The fair value of leased equipment equals the present value of rentals. (Assume the lease is capitalized.)

Required:

1. Prepare accounting entries required by Hayes, Inc. for 2014.
2. Compute and illustrate the effect on the income statement for the year ended December 31, 2014, and for the balance sheet as of December 31, 2014.
3. Construct a table showing payments of interest and principal made every year for the five-year lease term.
4. Construct a table showing expenses charged to the income statement for the five-year lease term if the equipment is purchased. Show a column for (1) amortization, (2) interest, and (3) total expenses.
5. In one paragraph, discuss the income and cash flow implications from this capital lease.

Your submission should:

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the CSU-Global Guide to Writing and APA Requirements.

### **Option #2: Financing Activities Analysis: IBM**

Answer the following.

Question #1: Fully explain how a capital lease is accounted for by a lessee from at inception and during the first year of the lease assuming ownership of the property is transferred to the lessee by the end of the lease. You are not required to explain the criteria for distinguishing between capital and operating leases.

Question #2: On January 1, 2015 IBM leases an equipment from Omaha Inc. for an annual lease rental of \$20,000. The lease term is five years and the lessor's interest rate implicit in the lease is 8%. The lessee's incremental borrowing rate is 8.25%. The useful life of the equipment is five years and its estimated residual value equals its removal cost. Annuity tables indicate that the present value of an annual lease rental of \$1 (at 8% rate) is \$3.993. The fair value of leased equipment equals the present value of rentals. (Assume the lease is capitalized.)

Required:

1. Prepare IBM's accounting entries for 2015.
2. Compute and illustrate the effect on the income statement for the year ended December 31, 2015, and for the balance sheet as of December 31, 2015.
3. Construct a table showing payments of interest and principal made every year for the five-year lease term.
4. Construct a table showing expenses charged to the income statement for the five-year lease term if the equipment is purchased. Show a column for (1) amortization, (2) interest, and (3) total expenses.
5. In one paragraph, discuss the income and cash flow implications from this capital lease.

Your submission should:

- Be 1-2 pages for the written portion.

- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the CSU-Global Guide to Writing and APA Requirements.

### **Portfolio Milestone (5 points)**

#### Organization Selection (Options #1 and #2)

Begin by reviewing the requirements for the final Portfolio Project, available in the Module 8 folder. Be sure you understand the project and ask your instructor questions if needed.

To earn 5 points this week, submit the names of the organizations you will use in your Portfolio Project.

## **Module 3**

### **Readings**

- Chapters 4 & 5 in *Financial Statement Analysis*.
- Harris, P., & Harris, A. (2017). The positive outlook of the last in first out inventory methods. *Journal of Business & Economic Research*, 15(1), 1-4.
- Rashty, J. (2018). The new guidance for goodwill impairment. *CPA Journal*, 88(9), 48-51.

### **Discussion (25 points)**

#### **Live Classroom (0 points)**

#### **Critical Thinking: Title (75 points)**

Choose one of the following two options for your Critical Thinking assignment. Do not complete both projects. Identify your choice in the title of your submission.

#### **Option #1: Investing Activities Analysis Exercises and Problems**

##### *Question #1:*

Below are two unrelated cases involving marketable equity securities. Explain how the information provided affects the classification, carrying value, and income reported for that company's investment securities.

1. The balance sheet of a company does not classify assets and liabilities as current and noncurrent. The portfolio of available-for-sale equity securities includes securities normally considered current that have a net cost in excess of market value of \$2,000. The remainder of the portfolio has a net market value in excess of cost of \$5,000.
2. A company's noncurrent portfolio of marketable equity securities consists of the common stock of one company. At the end of the prior year, the market value of the security was 50% of original cost, and this effect was properly reflected in a Valuation Adjustment account. However, at the end of the current year, the market value of the security had appreciated to twice the original cost. The security is still considered noncurrent at year-end.

##### *Question #2:*

IBM acquires 80% of ABC, Inc. for \$40 million on January 1, 2013. At the time of acquisition, ABC has total net assets with a fair value of \$25 million. For the years ending December 31, 2013, and December 31, 2014, ABC, Inc. reports net income (loss) and pays dividends as shown here:

Net Income (loss)	Dividends Paid	Net Income (loss)	Dividends Paid
\$2,000,000	\$1,000,000 (2014)	\$(600,000)	\$800,000 (2013)

The excess of the acquisition price over the fair value of net assets acquired is assigned to goodwill. Since goodwill has an indefinite life, it is not amortized.

Required:

1. Compute the value of IBM's investment in ABC, Inc. as of December 31, 2014, under the equity method.
2. Discuss the strengths and weaknesses of the income statement and balance sheet in reflecting the economic substance of this transaction and subsequent business activities using the equity method.

Your submission should:

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the CSU-Global Guide to Writing and APA Requirements.

## Option #2: Investing Activities Analysis Exercises and Problems

### Question #1:

Use the financial data below from XYZ, Inc. to answer the questions below. Note that the reported figures are in thousands of dollars:

	2015	2014
Inventory	\$219,686.00	\$241,154.00
Cost of Sales	\$54,661.00	\$675,138.00
Net Income	\$31,185.00	\$64,150.00
Tax Rate	37%	37%

*Note 1: If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventory would have been approximately \$26.9 million and \$25.1 million higher than reported at 2015 and 2014, respectively.*

Required:

1. What would the ending inventory have been in 2014 and 2015 had FIFO been used?
2. What would be the net income for the year ending in 2015 had FIFO been used?
3. Discuss the usefulness of LIFO to FIFO restatements for analysis purposes.

*Question #2:*

WinterSpills, Inc. acquires 90% of Peterson Company in a business combination. The total consideration is agreed upon, but the exact nature of WinterSpills' payment is not yet fully specified. This business combination is accounted for as a purchase. It is expected that at the date of the business combination, the fair value will exceed the book value of Peterson's assets minus liabilities. WinterSpills desires to prepare consolidated financial statements that include the financial statements of Peterson.

Required:

1. Explain how the method of accounting for a business combination affects whether goodwill is reported.
2. If goodwill is recorded, explain how to determine the amount of goodwill.
3. From a conceptual standpoint, explain why consolidated financial statements should be prepared.
4. From a conceptual standpoint, identify the first necessary condition before consolidated financial statements are prepared.

Your submission should:

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the CSU-Global Guide to Writing and APA Requirements.

## Module 4

### Readings

- Chapters 6 & 7 in *Financial Statement Analysis*
- Bauman, M., & Shaw, K. (2016). Balance sheet classification and the valuation of deferred taxes. *Research in Accounting Regulation, 28*(2), p. 77-85.
- Rix, N., Wille, M., & Dauberman, M. (2017). Revenue recognition. It's here. Now what? *California CPA, 86*(4), 11-18.

### Discussion (25 points)

#### Critical Thinking: Title (75 points)

Choose one of the following two options for your Critical Thinking assignment. Do not complete both projects. Identify your choice in the title of your submission.

**Option #1:** Operating Activities Analysis Exercises and Problems

Using the financial data below, prepare a statement of cash flows for the year ended December 31, 2014 for Summer Peebles, Inc. using the indirect method.

**Summer Peebles, Inc.**

**Income Statement Year Ending December 31, 2014**

<b>Sales</b>	\$1,000.00
<b>Cost of Goods Sold</b>	-\$650.00
<b>Depreciation Expense</b>	-\$100.00
<b>Sales and General Expense</b>	-\$100.00
<b>Interest Expense</b>	-\$50.00
<b>Income Tax Expense</b>	-\$40.00
<b>Net Income</b>	\$60.00

**Summer Peebles, Inc.**

**Balance Sheets as of December 31, 2013 and 2014**

<b>Assets</b>	<b>2013</b>	<b>2014</b>
<b>Cash</b>	\$50.00	\$60.00
<b>Accounts Receivable, Net</b>	\$500.00	\$520.00
<b>Inventory</b>	\$750.00	\$770.00
<b>Current Assets</b>	\$1,300.00	\$1,350.00
<b>Fixed Assets, Net</b>	\$500.00	\$550.00
<b>Total Assets</b>	\$1,800.00	\$1,900.00
<b>Liabilities and Equity</b>		
<b>Notes Payable to Banks</b>	\$100.00	\$75.00
<b>Accounts Payable</b>	\$590.00	\$615.00
<b>Interest Payable</b>	\$10.00	\$20.00
<b>Current Liabilities</b>	\$700.00	\$710.00
<b>Long-Term Debt</b>	\$300.00	\$350.00



<b>Deferred Income Tax</b>	\$300.00	\$310.00
<b>Capital Stock</b>	\$400.00	\$400.00

Your submission should:

- Include the Excel spreadsheet with computations.
- Follow the CSU-Global Guide to Writing and APA Requirements.

**Option #2: Operating Activities Analysis Exercises and Problems**

Using the Balance Sheet and Income Statement data below, analyze the transactions for Tolito Treats, Inc. for 2013 and 2014.

**Tolito Treats, Inc.**

**Balance Sheets as of December 31, 2013 and 2014**

	<b>2013</b>	<b>2014</b>
<b>Cash</b>	\$34,000.00	\$34,500.00
<b>Accounts Receivable, Net</b>	\$12,000.00	\$17,000.00
<b>Inventory</b>	\$16,000.00	\$14,000.00
<b>Investments (Long Term)</b>	\$6,000.00	—
<b>Fixed Assets</b>	\$80,000.00	\$93,000.00
<b>Accumulated Depreciation</b>	-\$48,000	-\$39,000.00
<b>Total Assets</b>	\$100,000.00	\$119,500.00
<b>Accounts Payable</b>	\$19,000.00	\$12,000.00
<b>Bonds Payable</b>	\$10,000.00	\$30,000.00
<b>Common Stock</b>	\$50,000.00	\$61,000.00
<b>Retained Earnings</b>	\$21,000.00	\$28,000.00
<b>Treasury Stock</b>	—	-\$11,500.00
<b>Total Liabilities and Equity</b>	\$100,000.00	\$119,500.00

Additional data for the period January 1, 2014 through December 31, 2014 are:

1. Sales on account, \$70,000.

2. Purchases on account, \$40,000.
3. Depreciation, \$5,000.
4. Expenses paid in cash, \$18,000 (including \$4,000 of interest and \$6,000 in taxes).
5. Decrease in inventory, \$2,000.
6. Sales of fixed assets for \$6,000 cash; cost \$21,000 and two-thirds depreciated (loss or gain is included in income).
7. Purchase of fixed assets for cash, \$4,000.
8. Fixed assets are exchanged for bonds payable of \$30,000.
9. Sale of investments for \$9,000 cash.
10. Purchase of treasury stock for cash, \$11,500.
11. Retire bonds payable by issuing common stock, \$10,000.
12. Collections on accounts receivable, \$65,000.
13. Sold unissued common stock for cash, \$1,000.

Required:

1. In Excel, prepare a statement of cash flows (indirect method) for the year ended December 31, 2014.
2. In Excel, prepare a side-by-side comparative statement contrasting two bases of reporting: (1) net income and (2) cash flows from operations.
3. Which of the two financial reports in (b) better reflects profitability? Explain in one paragraph in Word or using a comment box in Excel.

Your submission should:

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the CSU-Global Guide to Writing and APA Requirements.

## Module 5

### Readings

- Chapter 8 in *Financial Statement Analysis*
- Benoit, D. (2016). Finance's hot new metric: ROIC. *Wall Street Journal*.
- Gallo, A. (2016). A refresher on return on assets and return on equity. *Harvard Business Review Digital Articles*. 2-6.

### Discussion (25 points)

#### Critical Thinking: Title (75 points)

Choose one of the following two options for your Critical Thinking assignment. Do not complete both projects. Identify your choice in the title of your submission.

#### **Option #1: Profitability Analysis Exercises and Problems**

Do the assigned problems using Summer Peebles, Inc.'s condensed 2014 financial data below:

<b>Assets</b>	
Current Assets	\$250,000.00
Noncurrent Assets	\$1,750,000.00
Total Assets	\$2,000,000.00
<b>Liabilities and Equity</b>	
Current Liabilities	\$200,000.00
Noncurrent Liabilities (8% Bonds)	\$675,000.00
Common Stockholders' Equity	\$1,125,000.00
Total Liabilities and Equity	\$2,000,000.00

**Additional Information:**

- Net income for 2014 is \$157,500.
- Income tax rate is 50%.
- Amounts for total assets and shareholders' equity are the same for 2013 and 2014.
- All assets and current liabilities are considered to be operating.

**Required:**

1. Determine whether leverage (from long-term debt) benefits Rose's shareholders. (Hint: Examine ROCE with and without leverage.)
2. Compute the NOPAT and RNOA (use ending NOA).
3. Demonstrate the favorable effect of leverage given the disaggregation of ROCE and your answer to part (B).

**Your submission should:**

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the CSU-Global Guide to Writing and APA Requirements.

**Option #2: Profitability Analysis Exercises and Problems**

Do the assigned questions using Malimash, Inc.'s 2014 financial data below:

**Malimash, Inc.**

**2014 Financial Data (\$ millions)**

**Income Statement Data**

Sales Revenue	\$7,120.00
Depreciation	\$230.00
Interest Expense	\$10.00
Pretax Income	\$2,550.00
Income Taxes	\$900.00
Net Income	\$1,650.00

**Balance Sheet Data**

Current Assets	\$4,850.00
Fixed Assets, Net	\$2,400.00
Total Assets	\$7,250.00
Current Liabilities	\$3,290.00
Long-Term Debt	\$100.00
Shareholders' Equity	\$3,860.00
Total Liabilities and Shareholders' Equity	\$7,250.00

**Required:**

1. Calculate return on common equity for 2014 using year-end amounts and assuming no preferred dividends.
2. Disaggregate the ROCE into operating (RNOA) and non-operating components.
3. Comment on Merck's use of leverage. (Assume all assets and current liabilities are operating at a 35% tax rate).

Your submission should:

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the CSU-Global Guide to Writing and APA Requirements.

**Portfolio Milestone (45 points)**

Project Outline (Options 1 and 2)

Submit your project outline. For more information, please visit the Module 8 folder to review the Portfolio Project options and the rubric below.

**Module 6**

**Readings**

- Chapter 9 in *Financial Statement Analysis*

- Lahart, J. (2016). Investing red flag: Pro forma results and share-price performance; the bad news that companies ignore in pro forma results shows up in their stock performance--eventually. *Wall Street Journal*.
- Lee, R., & Curatola, A. P. (2017). Does the content of pro forma earnings influence nonprofessional investors? *Management Accounting Quarterly*, 18(4), 1-7.

**Discussion (25 points)**

**Live Classroom (0 points)**

**Critical Thinking: Title (75 points)**

Choose one of the following two assignments to complete this week. Do not do both assignments. Identify your assignment choice in the title of your submission.

<b>Techno Corp</b>	
<b>Income Statement</b>	
<b>Actual results 2019 for 12 months ending December 31, 2019</b>	
Sales revenue (10,000 units at \$250 each)	\$2,500,000
Cost of goods sold (\$100 per unit)	(\$1,000,000)
Gross profit	\$1,500,000
Operating expenses	(\$500,000)
Operating profit	\$1,000,000
Interest expense	(\$200,000)
Net profits before taxes	\$800,000
Taxes (30%)	(\$240,000)
Net profits after tax	\$560,000
Dividends on common stock	\$224,000

<b>Techno Corp</b>	
<b>Balance Sheet</b>	
<b>December 31, 2019</b>	
<b>ASSETS</b>	
Cash	\$500,000
Marketable securities	\$300,000
Accounts receivable	\$500,000
Inventory	\$400,000
Total current assets	\$1,700,000
Net fixed assets	\$2,000,000
Total assets	\$3,700,000
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>	
Accounts payable	\$150,000
Taxes payable	\$120,000
Notes payable (long-term debt due within one year)	\$200,000
Other current liabilities	\$200,000
Total current liabilities	\$670,000
Long-term debt	\$1,800,000
Total liabilities	2,470,000
Common stock	\$500,000
Retained earnings	\$730,000
Total liabilities and stockholder's equity	\$3,700,000

### **Option #1: Techno Corporation Paper**

Techno Corporation is developing its pro forma financial statement forecasts for 2020 and 2021. Its actual results for 2019 are shown in the income statement and balance sheet.

#### **Background**

- The relationship between cost of goods sold and sales revenue is expected to continue in the near term and no inflation is expected.
- Operating expenses include \$200,000 in depreciation (fixed expense), the remainder is variable costs tied to sales revenue.
- Fixed assets are adequate to support sales growth for the next two years and long-term debt will decline \$200,000 per year.
- Dividend policy calls for 40% of net profits after taxes to be paid before yearend.
- Interest is 10% of long-term debt and notes payable
- Inventory needs to grow at half the rate of sales growth and accounts receivable maintains the same relationship to sales as was the case on December 31, 2019 for 2019 sales. Accounts payable maintains the same relationship to cost of goods sold as of December 31, 2019 for 2019 sales.
- Any cash over \$500,000 is put in marketable securities, Interest income is negligible
- Other current liabilities are stable.
- Taxes payable are equal to one-half of the current year's taxes.
- Assume sales will increase 10% per year for each of the next two years.

#### **Assignment**

You are a consultant, external to this firm. Create two years (2020 and 2021) of pro forma income statements and balance sheets and the statement of cash flows, including operating, investing and financing sections for 2020 only.

Prepare a 4-5-page Word document with tables showing the pro forma statements in tables. Explain the purposes of pro forma (projected financial statements) and who might find them useful.

Your paper should conform to the CSU-Global Guide to Writing and APA. Include scholarly references as needed in addition to the course textbook to support your views. The CSU-Global Library provides access to numerous applicable sources.

Discuss why management tends to be optimistic in their projected financial statements and how that can be misleading.

### **Option #2: Techno Corporation Presentation**

Techno Corporation is developing its pro forma financial statement forecasts for 2020 and 2021. Its actual results for 2019 are shown in the income statement and balance sheet.

#### ***Background***

- The relationship between cost of goods sold and sales revenue is expected to continue in the near term and no inflation is expected.
- Operating expenses include \$200,000 in depreciation (fixed expense), the remainder is variable costs tied to sales revenue.
- Fixed assets are adequate to support sales growth for the next two years and long-term debt will decline \$200,000 per year.
- Dividend policy calls for 40% of net profits after taxes to be paid before yearend.
- Interest is 10% of long-term debt and notes payable
- Inventory needs to grow at half the rate of sales growth and accounts receivable maintains the same relationship to sales as was the case on December 31, 2019 for 2019 sales. Accounts payable maintains the same relationship to cost of goods sold as of December 31, 2019 for 2019 sales.
- Any cash over \$500,000 is put in marketable securities, Interest income is negligible
- Other current liabilities are stable.
- Taxes payable are equal to one-half of the current year's taxes
- Assume sales will increase 10% per year for each of the next two years.

#### ***Assignment***

You are a financial manager, internal to this firm. You have been asked to present in front of investors who are interested in putting large amounts of money into this company. Your goal is to use the data of these financial statements to convince them to do so. Complete a power point presentation that provides an initial impression of the company financial situation. Please provide an analysis on the company's assets, liabilities, cash, and profit. Prepare 10–15 slides with 150–200 words in the notes page. Speak to the trends of the firm.

Your submission should conform to the CSU-Global Guide to Writing and APA. Include scholarly references as needed in addition to the course textbook to support your views. The CSU-Global Library provides access to numerous applicable sources.

## **Module 7**

### **Readings**

- Chapter 10 in *Financial Statement Analysis*
- Archibald, G. (2018). Figuring out your balance sheet financial ratios and operating ratios. *Rochester Business Journal*, 34(32), 28-29.
- DeAngelo, H., & Roll, R. (2016). Capital structure instability. *Journal of Applied Corporate Finance*, 28(4), 38–52.

### **Discussion (25 points)**

### **Critical Thinking: (75 points)**

#### **Option #1: Ratio Analysis Exercises and Problems**

Use the net income statement for Summer Peebles, Inc., below, to do the following assigned problems.

- A. Compute the following earnings coverage ratios:
1. Earnings to fixed charges.
  2. Cash flow to fixed charges.
  3. Earnings coverage of preferred dividends.
- B. Analyze and interpret the earnings coverage ratios in (A).

**Summer Peebles, Inc. Consolidated Income Statement (\$ thousands)  
Year Ending December 31, 2015**

<b>Sales</b>		\$15,000.00
<b>Undistributed Income of Less Than 50%- Owned Affiliates</b>		\$300.00
<b>Total Revenue</b>		\$15,300.00
<b>Cost of Goods Sold</b>	\$7,000.00	
<b>Selling and Administrative Expenses</b>	\$2,000.00	
<b>Depreciation</b>	\$600.00	
<b>Rental Expense</b>	\$500.00	
<b>Share of Minority Interest in Consolidated Income</b>	\$200.00	



<b>Interest Expense</b>	\$400.00	-\$10,700.00
<b>Income Before Taxes</b>		\$4,600.00
<b>Income Taxes</b>		
Current	\$900.00	
Deferred	\$400.00	-\$1,300.00
<b>Net Income</b>		\$3,300.00
<b>Less Dividends</b>		
Common Stock	\$300.00	
Preferred Stock	\$400.00	-\$700.00
<b>Earnings Retained for the Year</b>		\$2,600.00

*Additional Information:*

1. The following changes occurred in current assets and current liabilities for 2015:

<b>Current Accounts</b>	<b>Increase (Decrease)</b>	<b>Current Accounts</b>	<b>Increase (Decrease)</b>
<b>Accounts Receivable</b>	\$900.00	<b>Notes Payable to Bank</b>	-\$200.00
<b>Inventories</b>	-\$800.00	<b>Accounts Payable</b>	\$700.00
<b>Dividend Payable</b>	-\$100.00		

2. The effective tax rate is 40%.
3. Shares of minority interests in consolidated income do not have fixed charges.
4. Interest expenses include:

<b>Interest Incurred (Except Items Below)</b>	\$600.00
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<b>Amortization of Bond Premium</b>	-\$300.00
<b>Interest on Capitalized Leases</b>	\$140.00
<b>Interest Incurred</b>	\$440.00
<b>Less Interest Capitalized</b>	-\$40.00
<b>Interest Expense</b>	\$400.00

5. Amortization of previously capitalized interest (included in depreciation) is \$60.
6. Interest implicit in operating lease rental payment (included in rental expense) is \$120.

Your submission should:

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the *CSU-Global Guide to Writing and APA Requirements*

### **Option #2: Ratio Analysis Exercises and Problems**

Use the data for Tolito Treats, Inc., below, to do the assigned problems.

- A. Compute the following earnings coverage ratios:
  1. Earnings to fixed charges.
  2. Cash flow to fixed charges.
  3. Earnings coverage of preferred dividends.
- B. Analyze and interpret the earnings coverage ratios in (A).

**Tolito Treats, Inc. Consolidated Income Statement (\$ thousands)  
Year Ending December 31, 2015**

<b>Sales</b>		\$20000.00
<b>Undistributed Income of Less Than 50%- Owned Affiliates</b>		\$300.00
<b>Total Revenue</b>		\$20,300.00
<b>Cost of Goods Sold</b>	\$9,000.00	
<b>Selling and Administrative Expenses</b>	\$2,000.00	
<b>Depreciation</b>	\$600.00	

<b>Rental Expense</b>	\$500.00	
<b>Share of Minority Interest in Consolidated Income</b>	\$200.00	
<b>Interest Expense</b>	\$400.00	-\$12,700.00
<b>Income Before Taxes</b>		\$7,600.00
<b>Income Taxes</b>		
Current	\$900.00	
Deferred	\$400.00	-\$1,300.00
<b>Net Income</b>		\$6,300.00
<b>Less Dividends</b>		
Common Stock	\$300.00	
Preferred Stock	\$400.00	-\$700.00
<b>Earnings Retained for the Year</b>		\$5,600.00

*Additional Information:*

1. The following changes occurred in current assets and current liabilities for 2015:

<b>Current Accounts</b>	<b>Increase (Decrease)</b>	<b>Current Accounts</b>	<b>Increase (Decrease)</b>
<b>Accounts Receivable</b>	\$900.00	<b>Notes Payable to Bank</b>	-\$200.00
<b>Inventories</b>	-\$800.00	<b>Accounts Payable</b>	\$700.00
<b>Dividend Payable</b>	-\$100.00		

2. The effective tax rate is 40%.
3. Shares of minority interests in consolidated income do not have fixed charges.
4. Interest expenses include:

<b>Interest Incurred (Except Items Below)</b>	\$600.00
<b>Amortization of Bond Premium</b>	-\$300.00

<b>Interest on Capitalized Leases</b>	\$140.00
<b>Interest Incurred</b>	\$440.00
<b>Less Interest Capitalized</b>	-\$40.00
<b>Interest Expense</b>	\$400.00

5. Amortization of previously capitalized interest (included in depreciation) is \$60.
6. Interest implicit in operating lease rental payment (included in rental expense) is \$120.

Your submission should:

- Be 1-2 pages for the written portion.
- Include the Excel spreadsheet with computations.
- Clearly separate your responses so your instructor knows the problems you are answering.
- Follow the *CSU-Global Guide to Writing and APA Requirements*.

## Module 8

### Readings

- Chapter 11 in *Financial Statement Analysis*
- Ghaeli, M.R. (2016). Price-to-earnings ratio: A state-of-art review. *Accounting*, 3(2), 131-36.
- Hsu, P.-H., & Hu, X. (2016). Advisory board and earnings persistence. *Journal of Accounting, Auditing & Finance*, 31(1), 134-57.

### Discussion (25 points)

### Portfolio Project (300 points)

#### **Option #1:** Financial Statement Analysis

As a financial statement analyst, select two organizations in the same industry and analyze their financial statements over time. The financial analysis period must be, at a minimum, the three most recent years. Since you will be spending a considerable amount of time on the project, ensure that you pick organizations that interest you.

The Form 10-K reports, which the organizations filed with the SEC, may be the best place to learn about a particular industry, organization, and organizational strategy, and to obtain reported financial statements. The reports are accessible at <http://www.sec.gov/edgar.shtml> .

An alternative means to obtain the report is by clicking on the SEC filings link on an organization's website to obtain the latest Form 10-K filings. You can also find current stock valuation and other relevant stock information from financial portals such as Yahoo finance, Google finance, and Reuters.

Your Portfolio Project must include the following for the two organizations (see below for more detail):

- Executive Summary

- Ratio Calculation
- Ratio Analysis
- Projected financial statements including income statements, balance sheets, and statements of cash flows
- Your opinion on the overall financial health of each company

The executive summary should include an explanation of the business itself, background information on each company, including product lines, geographical locations and the company's position in the industry.

The Ratio Calculations should be done in a table in Excel and included with your submission. The following ratios should be included for **each company and for 2 years**:

- Working Capital
- Current Ratio
- Total Debt to Total Equity Ratio
- Times Interest Earned
- RNOA
- ROCE

The ratio analysis should include an explanation of the importance of each ratio, what the ratio tells you about each company, how the ratio changes from year to year, and which company appears better based on each ratio.

The Projected financial statements should be done in Excel and included with your submission. \*You will need to make necessary adjustments for material non-recurring or unusual income or expenses as well as off-balance sheet assets or liabilities, among others as covered in the course. The adjustment will improve comparability and ensure accurate representation of the organization's' economic performance. Be sure to identify important assumptions regarding the companies, industry and business environment, and other important assumptions for estimates and forecasts, including their business strategies.

Your opinion of the overall financial health of the company should reflect everything you have learned throughout the course as to the analysis of financial reporting.

Your submission should include:

- The financial statements from the companies you analyzed
- The Excel Ratio Table Calculations
- The Excel Projected Financial Statements
- An 8-10 page paper covering the information listed above
- Include the financial statements you analyzed and other information used as exhibits after the reference page.

Your project must be formatted according to CSU-Global Guide to Writing and APA Requirements. Be sure to check out the Portfolio Project rubric to guide your project writing and presentation.

The complete Portfolio Project is due this week (Week 8). The Portfolio Project includes two deliverables due at the ends of Weeks 2 and 5, respectively. These are:

- Module 2: Submit organizations' names via email to instructor for approval.
- Module 5: Submit project outline via email to instructor.

See the Portfolio Project Milestone Assignments in the respective Module folders for details.

### **Option #2: Financial Statement Analysis**

Compare and contrast the financial health of an investment grade company versus a company in financial distress. Your evaluation should include an in-depth financial statement analysis using data from the past five years. The blue chip company should be listed on a major U.S. stock market index like Dow Jones, S&P 500, or Nasdaq, and the company in financial distress have available public financial data.

Your discussion and analysis of each company should include:

- Company background
- Industry outlook
- Analysts' forecasts
- Revenue, price & income trend analysis
- Financial ratio analysis: Compute and analyze at least three ratios from each main category (i.e. liquidity ratios, asset management ratios, debt ratios, profitability ratios, and market ratios). Ensure to discuss the strengths and limitations of ratio analysis.
- Altman's Z-score calculation for at least three years and an in-depth analysis of the company's probability of bankruptcy.
- Discussion of any ethical concerns about this company and recommendations of what could be done to improve or promote ethical behavior.
- Provide a buy/sell/hold recommendation to potential investors considering the economic outlook and the financial health of each company. Be sure to use logic and objective argument to support your decision.

Deliverables:

- Well-written, 8-10 page Word document for the analysis and explanations formatted according to the CSU-Global Guide to Writing and APA Requirements.
- Include Excel spreadsheets with computations, using clearly-labeled separate worksheets for each analysis (i.e. ratio analysis, trend analysis, Altman's Z-score, etc.); these spreadsheets should be embedded in the Word document as an Appendix after your analysis and explanations.
- Include a minimum of four credible references.

The complete Portfolio Project is due this week (Week 8). The Portfolio Project includes two additional deliverables due at the ends of Weeks 2 and 5. These are:

- Module 2: Submit organizations' names via email to instructor for approval.
- Module 5: Submit project outline via email to instructor.

See the Portfolio Project Milestone Assignments in the respective module folders for details.

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## COURSE POLICIES

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### Course Grading

20% Discussion Participation

0% Live Classroom

45% Critical Thinking Assignments

35% Final Portfolio Project

0% Live Classroom

Grading Scale	
A	95.0 – 100
A-	90.0 – 94.9
B+	86.7 – 89.9
B	83.3 – 86.6
B-	80.0 – 83.2
C+	75.0 – 79.9
C	70.0 – 74.9
D	60.0 – 69.9
F	59.9 or below

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## IN-CLASSROOM POLICIES

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For information on late work and incomplete grade policies, please refer to our [In-Classroom Student Policies and Guidelines](#) or the Academic Catalog for comprehensive documentation of CSU-Global institutional policies.

### **Academic Integrity**

Students must assume responsibility for maintaining honesty in all work submitted for credit and in any other work designated by the instructor of the course. Academic dishonesty includes cheating, fabrication, facilitating academic dishonesty, plagiarism, reusing /re-purposing your own work (see *CSU-Global Guide to Writing and APA Requirements* for percentage of repurposed work that can be used in an assignment), unauthorized possession of academic materials, and unauthorized collaboration. The CSU-Global Library provides information on how students can avoid plagiarism by understanding what it is and how to use the Library and Internet resources.

### **Citing Sources with APA Style**

All students are expected to follow the *CSU-Global Guide to Writing and APA Requirements* when citing in APA (based on the APA Style Manual, 6th edition) for all assignments. For details on CSU-Global APA style, please review the APA resources within the CSU-Global Library under the “APA Guide & Resources” link. A link to this document should also be provided within most assignment descriptions in your course.

### **Disability Services Statement**

CSU-Global is committed to providing reasonable accommodations for all persons with disabilities. Any student with a documented disability requesting academic accommodations should contact the Disability Resource Coordinator at 720-279-0650 and/or email [ada@CSUGlobal.edu](mailto:ada@CSUGlobal.edu) for additional information to coordinate reasonable accommodations for students with documented disabilities.

### **Netiquette**

Respect the diversity of opinions among the instructor and classmates and engage with them in a courteous, respectful, and professional manner. All posts and classroom communication must be conducted in accordance with the student code of conduct. Think before you push the Send button. Did you say just what you meant? How will the person on the other end read the words?

Maintain an environment free of harassment, stalking, threats, abuse, insults or humiliation toward the instructor and classmates. This includes, but is not limited to, demeaning written or oral comments of an ethnic, religious, age, disability, sexist (or sexual orientation), or racist nature; and the unwanted sexual advances or intimidations by email, or on discussion boards and other postings within or connected to the online classroom. If you have concerns about something that has been said, please let your instructor know.