



CALUNIVERSITY

ACC 511

Financial Statement Analysis

STUDY GUIDE

Textbook: *Interpreting and Analyzing Financial Statements:
A Project-Based Approach, Fifth Edition*

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TABLE OF CONTENTS

Please Note: Some chapters of the textbook may not be included in the Study Guide. The content of the excluded chapters is not within the scope of the course objectives. Learners are encouraged to read all textbook chapters as supplementary reading.

Contents

TABLE OF CONTENTS	2
HOW TO USE THIS GUIDE	6
ACADEMIC INTEGRITY POLICY.....	7
COURSE OVERVIEW	8
ACC 511: Financial Statement Analysis.....	8
Course Description:	8
Course Objectives:	8
Learning Outcomes (LO):	8
UNIT ONE	9
Chapters & Learning Outcomes	9
UNIT ONE LEARNING OUTCOMES	9
CHAPTER ONE	10
Introduction	10
KEY LEARNING POINTS.....	10
What You Will Learn	10
Activities.....	14
Chapter One Practice Exam (If provided).....	14
Week One Discussion Question (Chapter One):.....	14
CHAPTER TWO	15
Balance Sheet	15
KEY LEARNING POINTS.....	15
What You Will Learn	15
Activities.....	18
Chapter Two Practice Exam (If provided)	18

Week One Discussion Questions (Chapter Two):	18
UNIT ONE ASSIGNMENTS	19
Unit One Exam.....	19
Unit One Case Study	19
UNIT TWO	21
Chapters & Learning Outcomes	21
UNIT TWO LEARNING OUTCOMES	21
CHAPTER THREE	22
Income Statement	22
KEY LEARNING POINTS.....	22
What You Will Learn	22
Activities.....	26
Chapter Three Practice Exam (If provided)	26
Week Two Discussion Questions (Chapter Three):	26
CHAPTER FOUR	27
Statement of Stockholders' Equity	27
KEY LEARNING POINTS.....	27
What You Will Learn	27
Activities.....	30
Chapter Four Practice Exam:	30
Week Two Discussion Questions (Chapter Four):	30
UNIT TWO ASSIGNMENTS.....	31
Unit Two Exam.....	31
Unit Two Case Study	31
UNIT THREE	33
Chapters & Learning Outcomes	33
UNIT THREE LEARNING OUTCOMES	33
CHAPTER FIVE.....	34
Statement of Cash Flows	34
KEY LEARNING POINTS.....	34
What You Will Learn	34
Activities.....	37

Chapter Five Practice Exam (If provided).....	37
Week Three Discussion Questions (Chapter Five):.....	37
CHAPTER SIX.....	38
Specific Accounts.....	38
KEY LEARNING POINTS.....	38
What You Will Learn	38
Activities.....	42
Chapter Six Practice Exam (If provided):.....	42
Week Three Discussion Questions (Chapter Six):.....	42
UNIT THREE ASSIGNMENTS	43
Unit Three Exam	43
Unit Three Case Study.....	43
UNIT FOUR	45
Chapters & Learning Outcomes	45
UNIT FOUR LEARNING OUTCOMES	45
CHAPTER SEVEN	46
The Accounting Cycle.....	46
KEY LEARNING POINTS.....	46
What You Will Learn	46
Activities.....	49
Chapter Seven Practice Exam (If provided):.....	49
Week Four Discussion Questions (Chapter Seven):.....	49
CHAPTER EIGHT.....	50
Comprehensive Review	50
KEY LEARNING POINTS.....	50
Activities.....	51
Chapter Eight Practice Exam (If provided)	51
Week Four Discussion Questions (Chapter Eight):	51
UNIT FOUR ASSIGNMENTS.....	52
Unit Four Exam	52
Unit Four Case Study.....	52
UNIT FIVE	54

Chapters & Learning Outcomes	54
UNIT FIVE LEARNING OUTCOMES	54
CHAPTER NINE.....	55
Capstone Project	55
KEY LEARNING POINTS.....	55
Unit Five Case Analysis.....	56
UNIT SIX	58
Activities.....	58
Week 6 Discussion Question	58
End of Course Survey	58
UNIT SIX ASSIGNMENTS.....	59
Final Exam:	59
WEEK 6 PROJECT.....	59
COURSE PRESENTATION	60

HOW TO USE THIS GUIDE

This Study Guide is intended to facilitate understanding of key learning points found in the textbook. Read this guide as you go through each unit of your course. Reflect on the 'Ask Yourself' questions as a **TRA** (Transfer, Retention, and Application) method. The guide is organized as follows:

- An overview of learning objectives
- Key learning points of each chapter
- Activities
- Chapter Practice Exams (If provided)
- Chapter Discussion Questions
- Unit Exams
- Unit Assignments
- End of Course Survey
- Week 6 Discussion Questions
- Final Exam
- Course Project

This Guide is not a substitute for the textbook. The Summary at the end of each Chapter of the textbook highlights the learning points for each chapter and must be read.

The Syllabus for this Course is provided as a separate document in the 'Course Document Folder' Tab in your Course room. You will find the following information in the Syllabus:

- How to Study
- Credit Hours Defined
- Study Schedule
- Library Services
- Academic Integrity Policy
- University Policies
- Help Desk

You must read the Syllabus and other documents posted in the Course Document folder of your Course Room so you will understand how to maximize learning, grading requirements, and how to earn the desired grade.

Faculty qualifications and contact information are available in the General Discussion Forum of your Course Room as an attachment entitled: Instructor Policies. Please do not hesitate to contact your course instructor if you have questions.

ACADEMIC INTEGRITY POLICY

Ideas and learning form the core of the academic community. In all centers of education, learning is valued and honored. No learning community can thrive if its members compromise their achievement and seek to establish an unfair advantage over their fellow student/learners. The academic standards are based on a pursuit of knowledge and assume a high level of integrity in every one of its members.

When this trust is violated, the academic community suffers injury and must act to ensure that its standards remain meaningful. The vehicle for this action is the Academic Integrity Policy outlined in CalUniversity's Student Handbook.

The Academic Integrity Policy is designed to foster a fair and impartial set of standards upon which academic dishonesty will be judged.

All student/learners are required to read, understand, and adhere to these standards, which define and specify the following mandatory sanctions for such dishonest acts as copying, plagiarism, lying, and unauthorized collaboration, alteration of records, bribery, or misrepresentation for the purpose of enhancing one's academic standing.

Please comply with the following:

1. Please read your Instructor's policy on submitting papers for plagiarism check and the consequences of plagiarism
2. Sign and submit the Probity Form (See Course Room Important Documents) to the General Discussion Forum
3. Submit your paper for plagiarism check (Go to the Student Resource Center). The similarity index should not be higher than 20%. If it is higher than 20%, reduce the percentage by deleting or paraphrasing the words identified as matching other papers. Submit your papers for grading only after you have taken this step.
4. Know the consequence of plagiarism:
 - a. First Offense – Instructor's discretion (See Instructor Policies)
 - b. Second Offense – "F" grade for the paper; student to attend and complete plagiarism workshop
 - c. Third Offense – "F" grade for the course; student may be placed on academic probation/dismissal at the discretion of the Chief Academic Officer

If you need more information on plagiarism, contact your Student Advisor to register for a workshop on how to avoid plagiarism.

COURSE OVERVIEW

ACC 511: Financial Statement Analysis

Course Description:

This course examines the role of financial statement analysis in the evaluation of a company and the prediction of its future financial viability. A major emphasis is placed on using financial statements for performance evaluation, equity valuation, credit analysis, and business decision-making.

Course Objectives:

- To examine the role of financial statement analysis in predicting performance
- To understand the elements of financial statements
- To evaluate and analyze financial statements

Learning Outcomes (LO):

At the end of the course, learners will be able to:

- LO 1. Identify and explain the four financial statements and their elements
- LO 2. Explain the sets of federal and international rules governing the preparation of financial statements
- LO 3. Prepare, compute, and interpret ratio, trend, and common-size analysis
- LO 4. Identify and explain a balance sheet, how it is organized, and its individual components
- LO 5. Prepare, compute, and interpret ratio, trend, and common-size analysis.
- LO 6. Prepare, interpret, and analyze income statement and explain how it is organized.
- LO 7. Explain the elements of a Statement of Stockholders' Equity and how it is organized.
- LO 8. Use ratio analysis to evaluate solvency, profitability, and investment performance.
- LO 9. Prepare, compute, and interpret ratio, trend, and common-size analysis.
- LO 10. Explain the elements of a Statement of Cash Flows and how it is organized.
- LO 11. Compute direct and indirect methods for operating cash flows and cash flow ratios.
- LO 12. Explain how a firm measures the value of its assets and liabilities.
- LO 13. Describe the 10 steps of the accounting cycle.
- LO 14. Record, classify, and report transactions and prepare journal entries.
- LO 15. Assess a company's profitability, efficiency, liquidity, and solvency through financial statement analysis.
- LO 16. Research and apply financial statement analysis to a publicly traded corporation.

UNIT ONE

Chapters & Learning Outcomes

The key points of the following chapters (see textbook) will be discussed in this Unit:

- Chapter One
Introduction pages 1 to 30
- Chapter Two
Balance Sheet pages 31 to 57

UNIT ONE LEARNING OUTCOMES

This Unit meets the following learning outcomes:

- LO 1. Identify and explain the four financial statements and their elements
- LO 2. Explain the sets of federal and international rules governing the preparation of financial statements
- LO 3. Prepare, compute, and interpret ratio, trend, and common-size analysis
- LO 4. Identify and explain a balance sheet, how it is organized, and its individual components

CHAPTER ONE

Introduction

KEY LEARNING POINTS

What You Will Learn

The key learning points in this chapter are:

- Identifying and understanding the four financial statements and their elements.
- Understanding the sets federal and international rules governing the preparation of financial statements.
- Understanding how to prepare, compute, and interpret ratio, trend, and common-size analysis.

WHAT IS ACCOUNTING? (Page 1)

This section introduces accounting and why it is important to understand the “language of accounting.” The text defines **accounting** on **page 1** as both a “system for recording, classifying, and reporting transactions,” and a “language for conducting business.”

Ask yourself: Why is it important that I learn the language of accounting?

THE FOUR FINANCIAL STATEMENTS (Page 2)

This section introduces the four basic financial statements presented by companies. Make sure you are familiar with each of the following statements and what they report. (Each one will each be discussed in more detail in this chapter.)

- A **balance sheet (page 2)** shows a firm’s financial position on a certain date. It reports **assets (page 2)** and if they are financed with **liabilities (debts) (page 2)** or **stockholder equity (owners’ shares) (page 2)**.
- An **income statement (page 2)** shows how profitable a firm is during an accounting period. It reports **revenues (page 2)** and **expenses (page 2)**, and their difference: **net income (page 2)**.
- A **statement of stockholders’ equity (page 2)** shows whether the earnings from an accounting period are **distributed (page 2)** as dividends or retained as **retained earnings (page 2)**.
- A **statement of cash flows (page 2)** shows a firm’s cash inflows and cash outflows during an accounting period.

Ask yourself: Which of these statements had I seen previously? Were any of them new to me?

1. THE BALANCE SHEET (Pages 3 to 4)

Read about Nike, Inc. on **page 3**. This chapter will explore Nike's financial statements in depth. Examine Nike's balance sheet on **page 3**.

Make sure you are familiar with the **accounting equation (page 3)**:

$$\text{Assets} = \text{liabilities} + \text{stockholders' equity}$$

Review the definition for **assets** on **page 3**. **Accounts receivable (page 3)** are amounts to be received by the firm.

Review the definition for **liabilities** on **page 4**. **Accounts payable (page 4)** are amounts to be paid by the firm.

Review the definition for **stockholders' equity** on **page 4**. These accounts usually include: **contributed capital** and **retained earnings**. Read more about them on **page 4** and make sure you are familiar with both.

Ask yourself: What are some of my firms' assets and liabilities? How much would be in our accounts payable on our balance sheet?

2. THE INCOME STATEMENT (Page 5)

Examine Nike's income statement on **page 5**.

Review the definition for **revenues** on **page 5**. You should be familiar with both **sales revenue (page 5)** and **service revenue (page 5)**.

Review the definition for **expenses** on **page 5**. The largest expense item is usually **cost of sales** expense (also called **cost of goods sold**), read more about it and Nike's example on **page 5**.

You should also know the following equation for **net income (page 5)**:

$$\text{Revenues} - \text{Expenses} = \text{Net Income}$$

Ask yourself: What was my firm's net income last year?

3. STATEMENT OF STOCKHOLDERS' EQUITY (Page 6)

Examine Nike's Statement of Stockholders' Equity on **page 6**. Make sure you are familiar with how it reports both **renewed capital earnings (page 6)** and **contributed capital (page 6)**.

4. STATEMENT OF CASH FLOWS (Page 6)

Examine Nike's Statement of Cash Flows on **page 6**. You should know each of the following three distinct areas of business activity: **operating activities**, **investing activities**, and **financing activities**. These are all discussed in more detail on **page 6**.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Page 7)

This section discusses the system of setting rules and audits, created by accountants and the federal government, that govern preparing financial statements.

The rules management must follow, when preparing financial statements for investors, are known as the **GAAP (Generally Accepted Accounting Principles) (page 6)**. Currently these are set by the **FASB (Financial Accounting Standards Board) (page 6)**.

Audits (page 6) make sure companies are complying with GAAP rules and can only be conducted by **CPA's (Certified Public Accountants) (page 6)**. CPA's are bound by an ethics code set by the **AICPA's (American Institute of CPA's) (page 6)**. Auditing standards are set by the **Public Company Accounting Oversight Board (PCAOB) (page 6)**.

Read about the role of the **SEC (Securities and Exchange Commission) on page 6**.

Ask yourself: How do these rules affect my firm?

Make sure you are also familiar with the **HISTORICAL COST PRINCIPLE** discussed on **page 7**.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Page 8)

This section discusses the global accounting rules governing U.S. companies. This single set of global rules is known as the **International Financial Reporting Standards (IFRS) (page 8)** and was created by the **International Accounting Standards Committee (IASC) (page 8)**.

While the U.S. GAAP and IFRS are being converged, this process is still ongoing. As such, the text will point out important differences between the two throughout the book.

Ask yourself: Why did countries converge to a single set of accounting standards?

RATIO ANALYSIS (Pages 8 to 11)

Read this section to better understand the use of ratio analysis. This section uses examples from Nike and two of its competitors, Adidas and Under Armour.

You should be familiar with each of the following financial statement ratios and what they each say about a company:

- **DEBT RATIO (Pages 8 to 9)**

$$\text{Debt Ratio} = \text{Total Liabilities} / \text{Total Assets}$$

- **ASSET TURNOVER RATIO (Page 10)**

$$\text{Asset Turnover} = \text{Sales Revenue} / \text{Total Assets}$$

- **RETURN ON SALES (ROS) (Page 10)**

Return on Sales = Net Income / Sales Revenue

- **RETURN ON ASSETS (ROA) (Page 11)**

Return on Assets = Net Income / Total Assets

Ask yourself: What was my firm's debt ratio last year?

TREND ANALYSIS (Page 12)

Read this section, and review the examples from Nike on **page 12**, to better understand the use of trend analysis. You should also be familiar with how to calculate a trend index:

$$\text{Trend Index} = \text{Current Amount} / \text{Base Year Amount} \times 100$$

COMMON-SIZE STATEMENTS (Page 13)

Read about **common-size income statements** and **common-size balance statements** on **page 13**. Examples of each, from Nike, are also shown in the text.

To review, read the chapter **SUMMARY** on **page 14**.

Activities

Chapter One Practice Exam (If provided)

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week One section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week One Discussion Question (Chapter One):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Describe ratio analysis and its use. Your answer should include a brief explanation of each of the four ratios discussed in the text, what they each say about a company, and their differences.

[Note: Your instructor will post the question to the Week One Weekly Discussion Question Forum]

CHAPTER TWO

Balance Sheet

KEY LEARNING POINTS

What You Will Learn

The key learning points in this chapter are:

- Understand how to prepare, compute, and interpret ratio, trend, and common-size analysis.
- Identifying and understanding a balance sheet, how it is organized, and its individual components.

INTRODUCTION (Pages 31 to 32)

This chapter will look at the balance sheet (page 31) in more detail. Read the example Statement of Financial Position on page 31.

Ask yourself: How would I assess my own personal finances? What is my “net worth”?

Make sure you understand the difference between liquidity (page 31) and solvency (page 32), and why, according to the text, a company must have strong liquidity and healthy solvency to survive. This chapter will look at the Walt Disney Company’s balance sheet to evaluate their liquidity and solvency.

Examine Walt Disney’s consolidated (page 32) balance sheet on page 32.

UNDERSTANDING THE WALT DISNEY COMPANY’S BALANCE SHEET (Pages 33 to 37)

Review the accounting equation and recall the definitions for assets, liabilities, and stockholders’ equity (which can also be referred to as shareholders’ equity), all discussed on page 33.

Read about these in The Walt Disney Company’s balance sheet on page 33. You should know why their assets and liabilities are listed in the order of liquidity as well as why they are broken into current assets, noncurrent assets, current liabilities, and noncurrent liabilities. (Page 33)

- **CURRENT ASSETS (Page 34)**

This section further discusses **current assets** and examines how they are displayed on Disney’s balance sheet.

Because they can be liquidated immediately, a balance sheet always begins with **cash and cash equivalents (page 34)**.

Make sure you are familiar with the following types of current assets on Disney's balance sheet, discussed in the text on **page 33: receivables, inventories, and television costs.**

Ask yourself: What are my firm's current assets?

- **NONCURRENT ASSETS (Pages 35 to 36)**

This section further discusses noncurrent assets and examines how they are displayed on Disney's balance sheet. You should know the following types of noncurrent assets from Disney's balance sheet:

- **Film and television costs (page 35)**
- **Parks, resorts and other property (page 35)**
 - These are also known as **property, plant, and equipment** or **fixed assets.**
 - Make sure you are also familiar with **depreciation expense, accumulated depreciation, book value, projects in progress, and land,** all discussed on **page 35.**
- **Intangible assets (page 35)**
- **Goodwill (page 35)**

Ask yourself: What are my firm's noncurrent assets?

- **CURRENT LIABILITIES (Page 36)**

This section further discusses **current liabilities** and examines how they are displayed on Disney's balance sheet. Make sure you are familiar with the following types of current liabilities from Disney's balance sheet: **accounts payable, current portion of borrowings, and unearned royalties and other advances,** all discussed on **page 36.**

Ask yourself: What are my firm's current liabilities?

- **NONCURRENT LIABILITIES (Pages 36 to 37)**

This section further discusses **noncurrent liabilities** and examines how they are displayed on Disney's balance sheet. . Make sure you are familiar with the following types of noncurrent liabilities from Disney's balance sheet: **borrowings (page 36), deferred income tax liabilities (page 36), and commitments and contingencies (page 37).**

Ask yourself: What are my firm's noncurrent liabilities?

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Page 37)

Read about the effect of the "financial statement presentation" project on balance sheets on page 37. Also read about the similarities and differences between IFRS and U.S. GAAP as they relate to balance sheets.

DEBT VERSUS EQUITY (Page 38)

Read this section to better understand how businesses finance their assets with a mixture of debt and equity. With debts, the borrowing company is the **debtor (page 38)**, while the entity loaning the money is the **creditor (page 38)**. Equity refers to issuing stock. The owners of this stock are called **stockholders** or **shareholders (page 38)**.

ANALYZING THE BALANCE SHEET (Pages 38 to 42)**LIQUIDITY: CURRENT RATIO** (Page 38)

Read this section to better understand how the current ratio (page 38) measures a firm's short-term liquidity (page 38).

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

SOLVENCY: DEBT RATIO (Page 39)

Read this section to better understand how the debt ratio (page 38) measures a firm's solvency (page 29).

$$\text{Debt Ratio} = \text{Total Liabilities} / \text{Total Assets}$$

TREND ANALYSIS (Page 40)

Read this section, and examine the example given in the text, to better understand performing a trend analysis.

$$\text{Trend Index} = \text{Current Amount} / \text{Base Year Amount} \times 100$$

COMMON-SIZE BALANCE SHEET (Page 41)

Read this section, and examine the comparison done in the text, to better understand preparing a common-size balance sheet and performing a common-size analysis.

Ask yourself: How safe is Disney's financial position?

To review, read the chapter **SUMMARY** on pages 42 to 43.

Activities

Chapter Two Practice Exam (If provided)

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week One section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week One Discussion Questions (Chapter Two):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Explain how a balance sheet helps creditors and stockholders assess a corporation's financial risk. Include a brief explanation of each of the entities involved, their relationship to the company, and difference between debt and equity in your answer.

[Note: Your instructor will post the question to the Week One Weekly Discussion Question Forum]

UNIT ONE ASSIGNMENTS

Unit One Exam

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week One section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Unit One Case Study

For this Case Study, select a company of your own choosing. Write a 3 to 5 page paper (1000 to 1500 words) in APA format in response to the following questions:

- a. Look up the most recent balance sheet for your chosen company. Develop a strategy to analyze the balance sheet. (Ex: Which line would you look at first? Second? Third? Etc.) Why?
- b. From your analysis, does this company appear to report a strong or weak financial position? Why? Support your response with at least two observations.
- c. Would you recommend investing in this company? Why or why not?

Make sure to include a link to the most recent balance sheet for your chosen company in your sources.

2. Cover page (See APA Sample paper)
3. Introduction
 - a. A thesis statement
 - b. Purpose of paper
 - c. Overview of paper
4. Body (Cite sources with in-text citations.)
 - a. Look up the most recent balance sheet for your chosen company. Develop a strategy to analyze the balance sheet. (Ex: Which line would you look at first? Second? Third? Etc.) Why?
 - b. From your analysis, does this company appear to report a strong or weak financial position? Why? Support your response with at least two observations.
 - c. Would you recommend investing in this company? Why or why not?
5. Conclusion – Summary of main points
 - a. Lessons Learned and Recommendations
6. References – List the references you cited in the text of your paper according to APA format.
(Note: Do not include references that are not cited in the text of your paper)

GRADING

Your instructor will provide a grading rubric to evaluate your paper. Please see the Instructor Syllabus and Policies for details.

UNIT TWO

Chapters & Learning Outcomes

The key points of the following chapters (see textbook) will be discussed in this Unit:

- Chapter Three
Income Statement pages 58 to 90
- Chapter Four
Statement of Stockholders' Equity pages 91 to 116

UNIT TWO LEARNING OUTCOMES

This Unit meets the following learning outcomes:

- LO 5. Prepare, compute, and interpret ratio, trend, and common-size analysis.
- LO 6. Prepare, interpret, and analyze income statement and explain how it is organized.
- LO 7. Explain the elements of a Statement of Stockholders' Equity and how it is organized.
- LO 8. Use ratio analysis to evaluate solvency, profitability, and investment performance.

CHAPTER THREE

Income Statement

KEY LEARNING POINTS

What You Will Learn

The key learning points of this chapter are:

- Understanding how to prepare, compute, and interpret ratio, trend, and common-size analysis.
- Preparing, interpreting, and analyzing an income statement and understanding how it is organized.

INTRODUCTION (Page 58)

This chapter will look at the **income statement (page 58)** in more detail. An income statement is also called the **Statement of Income, Statement of Earnings, Statement of Operations, or Statement of Profit and Loss (P&L). (Page 58)** Make sure you understand why the income statement is so important to investors. This chapter will evaluate the profitability of Amazon.com while also introducing you to interpreting, preparing, and analyzing the data on its income statement.

UNDERSTANDING AMAZON.COM'S INCOME STATEMENT (Pages 58 to 59)

Make sure you understand the difference between a **single-step income statement (page 58)** and a **multi-step income statement (page 58)**.

Single-Step Income Statement is:

$$(Revenues \text{ and } Gains) - (Expenses \text{ and } Loses) = Net \text{ Income}$$

Ask yourself: How would I calculate my firm's net income using a single-step income statement?

Amazon.com's multi-step income statement is shown under **AMAZON.COM** on **page 59**. Each of the five steps, in the multi-step income statement, are discussed in the following sections:

- **STEP ONE: REVENUES - COST OF SALES = GROSS PROFIT (Pages 60 to 62)**

Read **pages 60 to 61** to better understand **REVENUES AND REVENUE RECOGNITION**.

Review the definition for **revenues** on **page 60**. Make sure you understand the difference between **sales (page 60)** and **net sales (page 60)**.

Revenue is recorded according to the **Revenue Recognition Principle (page 60)**, which means they are recorded when they are **earned (page 60)** rather than when the money is collected. Read about the exceptions to the Revenue Recognition Principle on **pages 60 to 61**.

Ask yourself: What were the net sales for my firm last year?

Read **pages 61 to 62** to better understand **EXPENSES AND THE MATCHING PRINCIPLE**.

Review the definition for **expenses** on **page 60**. A company's largest expense is usually its **Cost of Sales (aka Cost of Goods Sold (COGS)) (page 60)**.

Following the Revenue Recognition Principle, Cost of Sales is recorded at the same time as Revenues, matching expenses to revenue. This is known as the **Matching Principle (page 60)**. Read more about these two principles and how they form the basis for **Accrual Accounting** on **page 61**. Make sure you understand the difference between accrual accounting and **Cash-basis Accounting (page 60)**.

Ask yourself: What was the cost of sales for my firm last year?

The final piece of the first step, in the multi-step income statement, is calculating the **Gross Profit (page 62)**.

$$\text{Revenues} - \text{Cost of Sales} = \text{Gross Profit}$$

- **STEP TWO: GROSS PROFIT - OPERATING EXPENSES = OPERATING INCOME (Pages 63 to 64)**

Read this section to better understand a firm's **operating expenses (page 63)**. Read about Amazon.com's five categories of operating expenses on **page 63**. Subtracting a firm's operating expenses from its gross profit will give that firm's **Operating Income (also referred to as its Income from Operations) (page 63)**. The chart on **page 64** illustrates Amazon.com's operating income from 1997 to 2008.

- **STEP THREE: OPERATING INCOME +/- NONOPERATING REVENUES AND EXPENSES = INCOME BEFORE INCOME TAX (Pages 64 to 65)**

This step "reports items that affect income but have little relevance to operations." (**Page 64**) This includes **gains and losses**. Read about them on **pages 64 and 65**. A firm's **Income Before Income Tax (aka Income from Continuing Operations before Income Tax) (page 65)** is found by adding or subtracting these nonoperating revenues and expenses to or from a firm's operating income.

- **STEP FOUR: INCOME BEFORE INCOME TAX-PROVISION FOR INCOME TAX= INCOME FROM CONTINUING OPERATIONS (Page 65)**

Read about the **Provision for Income Tax (aka Income Tax Provision or Income Tax Expense)** on **page 65**. Make sure you also understand how corporations can report an **Income Tax Benefit (page 65)**. Subtracting provision for income tax from income before tax gives a firm its **Income**

from Continuing Operations (page 65).

- **STEP FIVE: INCOME FROM CONTINUING OPERATIONS +/- NONRECURRING ITEMS = NET INCOME (Page 66)**

Read about the infrequent and unusual items, known as **nonrecurring items (page 66)**, that may appear at the bottom of a firm's income statement. You should be familiar with the following two possible types of nonrecurring items: **discontinued operations (page 66)** and **extraordinary items (page 66)**. Once these items are added or subtracted, a firm arrives at its **net income (page 66)**.

Also read about the differences between IFRS and U.S. GAAP, as it related to this step, on **page 66**.

Ask yourself: What are some examples of extraordinary items that might affect my firm?

ANALYZING THE INCOME STATEMENT (Pages 67 to 73)

This section discuss why, when reading an income statement, you want to interpret and understand a company's profitability. Make sure you read this section and are familiar with the three comparisons, given on **page 67**, that will help you.

Also read the bottom of **page 67** to better understand the concept of **productivity**. Microsoft's strong record of profitability is displayed on **page 68**.

Make sure you are familiar with each of the following ratios and how they are used to analyze an income statement.

- **RETURN ON SALES (Pages 68 to 69)**

Review **Return on Sales (ROS)** (aka **net profit margin**) and what it measures on **page 68**. Make sure you understand the use of this ratio and review the sample comparisons in the text on **page 69**.

$$\text{Return on Sales} = \text{Net income} / \text{Sales Revenue}$$

Ask yourself: Why is it useful to make comparisons with other companies when analyzing financial statement ratios?

- **ASSET TURNOVER (Page 69)**

Review the **asset turnover ratio** on **page 69** and make sure you understand how it is used in this context.

$$\text{Asset Turnover} = \text{Sales Revenue} / \text{Total Assets}$$

- **RETURN ON ASSETS (Page 70)**

Review **Return on Assets (ROA)** and what it measures on **page 70**. Make sure you understand the use of this ratio and the three company strategies companies can focus on, also discussed on

page 70.

$$\text{Return on Assets} = \text{Return on Sales} \times \text{Asset Turnover} = \text{Net income} / \text{Total Assets}$$

- **GROSS PROFIT MARGIN (Page 71)**

Read about calculating a firm's **Gross Profit Margin (GP%)** (aka **Gross Margin**) on **page 71**.

$$\text{Gross Profit Margin} = \text{Gross Profit} / \text{Sales Revenue}$$

- **TREND ANALYSIS (Page 72)**

Read this section, and examine the Amazon.com example, to better understand how performing a trend analysis can show how different accounts on an income statement are changing.

- **COMMON-SIZE ANALYSIS (Page 73)**

Read this section to better understand preparing a common-size income statement.

To review, read the chapter **SUMMARY** on **pages 73 to 74**.

Activities

Chapter Three Practice Exam (If provided)

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Two section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week Two Discussion Questions (Chapter Three):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Describe the five steps in a multi-step income statement. Include a brief explanation of the elements in each step in your answer.

[Note: Your instructor will post the question to the Week Two Weekly Discussion Question Forum]

CHAPTER FOUR

Statement of Stockholders' Equity

KEY LEARNING POINTS

What You Will Learn

The key learning points of this chapter are:

- Understanding the elements of a Statement of Stockholders' Equity and how it is organized.
- How to use ratio analysis to evaluate solvency, profitability, and investment performance.

INTRODUCTION (Pages 91 to 92)

This chapter will look at the **Statement of Stockholders' Equity (page 91)** in more detail.

Read this section to understand why it is important to know how a company divvies up its ownership shares (into **stock (page 91)**). The Statement of Stockholders' Equity tells investors about changes in stockholders' equity and the structure of a company's ownership. This chapter will evaluate the stockholders' equity of Freeport-McMoRan Copper & Gold, Inc. (FCX).

Ask yourself: Do I own stock in any companies? If so, which ones?

You should be familiar with what it means for a company to be **publicly traded (page 91)**. A company must file with a state and be given the number of stock shares **authorized (page 92)**. Then these shares can be **issued (page 92)**. This might happen as part of an **Initial Public Offering (IPO) (page 192)**. Companies can also buy back their stock—this is called **treasury stock (page 92)**.

Make sure you know how the number of **Shares Outstanding (page 92)** is calculated:

$$\text{Shares Outstanding} = \text{Shares Issued} - \text{Treasury Shares}$$

You should also understand the concept of **Par Value**, discussed on **page 92**. Amounts received in excess of par is recorded separately on the balance sheet and called **Additional Paid-In Capital (or Capital in Excess of Par) (page 92)**.

Read about the differences between **preferred stock** and **common stock** on **page 96**. Make sure you are familiar with the two ways preferred stock is “preferred” over common stock.

STOCKHOLDERS' EQUITY ON THE BALANCE SHEET (Pages 93 to 94)

Read about FCX and examine the stockholders' equity section of their consolidate balance sheet on **page**

93. Make sure you are familiar with the three types of stock offered by FCX and their features.

Ask yourself: Why is important for investors to understand the feature so each class of stock?

STATEMENT OF STOCKHOLDERS' EQUITY (Pages 94 to 96)

Examine the excerpt from FCX's consolidate Statements of Stockholders' Equity on **page 95**. Read this section to better understand the importance of analyzing a company's **Statement of Stockholders' Equity (page 94)**. You should also be familiar with a firm's use of the **Notes to Financial Statements**, discussed on **page 96**.

TREASURY STOCK (Page 96)

Read more about the use of **treasury stock** on **page 96**. Make sure you are familiar with the accounting treatment of treasury stock: **it is recorded as an asset because it is impossible for a company to own itself. (Page 96)**

RETAINED EARNINGS (Page 97)

Read more about **retained earnings** on **page 97**.

Also read the inset on **page 97** to better understand why FCX reported a net loss in 2008.

Ask yourself: What were the retained earnings for my firm last year?

OTHER COMPREHENSIVE INCOME (Page 97)

This section discusses the "back door" income exceptions that are not include in a firm's net income and go straight to stockholders' equity. This is called **Other Comprehensive Income (Loss) (page 97)** and primarily consists of three gain/loss items not recorded on the income statement. They are instead recorded as part of **Accumulated Other Comprehensive Income (Loss) (page 97)** in Stockholders' Equity.

STOCK SPLITS & STOCK DIVIDENDS (Page 98)

Read this section to better understand **stock splits (page 98)** and **stock dividend (page 98)**.

Ask yourself: What is my opinion on the value of stock splits and stock dividends?

RETURN ON EQUITY (Pages 98 to 99)

Read about the **Return on Equity (ROE)** ratio and what it measures on **page 98**.

$$\text{Return on Equity} = \text{Net Income} / \text{Stockholders' Equity}$$

Make sure you also understand how ROE differs from Return on Sales (ROS) and Return on Assets (ROA), discussed on **page 98**.

FINANCIAL LEVERAGE RATIO (Pages 99 to 100)

Read this section to understand why **a high debt ratio, and the high financial risk that comes with it, can also boost profits** for a company. (Page 99)

Make sure you are also familiar how financial leverage is calculated:

$$\text{Financial Leverage} = \text{Total Assets} / \text{Stockholders' Equity}$$

And how ROE can also be calculated by Return on Assets multiplied by Financial Leverage.

TIMES INTEREST EARNED RATIO (Page 100)

Read about the Times Interest Earned Ratio on **page 100** and make sure you are familiar with how it is calculated:

$$\text{Times Interest Ratio} = \text{Operating Income} / \text{Interest Expense}$$

EARNINGS PER SHARE (Page 101)

This section discusses the net income (loss) earned by an individual share of stock. This is called **Earnings per share (EPS) (page 101)**. Read this section to better understand how it is calculated:

$$\text{Earnings Per Share} = (\text{Net Income} - \text{Preferred Dividends}) / (\text{Average Number of Common Shares Outstanding})$$

You should be familiar with the difference between EPS and a stock's **Market Value per share (page 101)**.

Many firms report two EPS figures, **basic** and **diluted (page 101)**. Make sure you also understand how to compute each and the role that issuing **stock options (page 101)** plays.

DIVIDEND RATE (Page 102)

Read about calculating the **Dividend Rate**, how it is reported, and what it represents to investors on **page 100**.

$$\text{Dividend Rate} = \text{Annual common stock dividends paid} / \text{Average number of common shares outstanding}$$

PRICE EARNINGS RATIO (Pages 102 to 103)

Read about the **Price Earnings (P/E) Ratio** on **page 102** and make sure you are familiar with how it is calculated:

$$\text{Price Earnings Ratio} = \text{Market Price Per Share} / \text{EPS}$$

To review, read the chapter **SUMMARY** on **pages 103 to 104**.

Activities

Chapter Four Practice Exam:

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Two section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week Two Discussion Questions (Chapter Four):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Compare and contrast preferred stock and common stock. Include a brief discussion of the reasons why it is important for investors to understand the different features of each of a firm's classes of stock in your answer.

[Note: Your instructor will post the question to the Week Two Weekly Discussion Question Forum]

UNIT TWO ASSIGNMENTS

Unit Two Exam

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Two section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Unit Two Case Study

For this Case Study select a company of your own choosing. Write a 3 to 5 page paper (1000 to 1500 words) in APA format in response to the questions:

- a. Look up the most recent income statement for your chosen company. Develop a strategy to analyze the income statement. (Ex: Which line would you look at first? Second? Third? Etc.) Why?
- b. From your analysis, does this company appear to report a strong or weak financial position? Why? Support your response with at least two observations.
- c. Would you recommend investing in this company? Why or why not?

Make sure to include a link to the most recent balance sheet for your chosen company in your sources.

2. Cover page (See APA Sample paper)
3. Introduction
 - a. A thesis statement
 - b. Purpose of paper
 - c. Overview of paper
4. Body (Cite sources with in-text citations.)
 - a. Look up the most recent income statement for your chosen company. Develop a strategy to analyze the income statement. (Ex: Which line would you look at first? Second? Third? Etc.) Why?
 - b. From your analysis, does this company appear to report a strong or weak financial position? Why? Support your response with at least two observations.
 - c. Would you recommend investing in this company? Why or why not?
5. Conclusion – Summary of main points
 - a. Lessons Learned and Recommendations
6. References – List the references you cited in the text of your paper according to APA format.
(Note: Do not include references that are not cited in the text of your paper)

GRADING

Your instructor will provide a grading rubric to evaluate your paper. Please see the Instructor Syllabus and Policies for details.

UNIT THREE

Chapters & Learning Outcomes

The key points of the following chapters (see textbook) will be discussed in this Unit:

- Chapter Five
Statement of Cash Flows pages 117 to 154
- Chapter Six
Specific Accounts pages 155 to 210

UNIT THREE LEARNING OUTCOMES

This Unit meets the following learning outcomes:

- LO 9. Prepare, compute, and interpret ratio, trend, and common-size analysis.
- LO 10. Explain the elements of a Statement of Cash Flows and how it is organized.
- LO 11. Compute direct and indirect methods for operating cash flows and cash flow ratios.
- LO 12. Explain how a firm measures the value of its assets and liabilities.

CHAPTER FIVE

Statement of Cash Flows

KEY LEARNING POINTS

What You Will Learn

The key learning points of this chapter are:

- Understanding the elements of a Statement of Cash Flows and how it is organized.
- Learning how to compute direct and indirect methods for operating cash flows and cash flow ratios.

INTRODUCTION (Pages 117 to 119)

This chapter will look at the **statement of cash flows (page 117)** in more detail. Make sure you understand the difference between cash flows and revenues. Read about Cedar Fair on **pages 117 and 118**. This chapter will look at different parts of Cedar Fair's Statement of Cash Flows and analyze the company's solvency and liquidity. You should also be familiar with the differences between a **limited partnership (page 118)**, like Cedar Fair, and a corporation.

Review Cedar Fair's consolidated statements of cash flows on **page 119**.

Ask yourself: Could I foresee my company ever becoming a limited partnership? Why or why not?

THREE CATEGORIES OF CASH FLOWS (Pages 120 to 127)

This section discusses the three categories of cash flows, classified by accountants: **financing activities**, **investing activities**, and **operating activities**. Read about these on **page 120**, they are each discussed in more detail below.

Review the summary of typical **Transactions Reported on the Statement of Cash Flows** for each category on **page 120**.

1) FINANCING ACTIVITIES (Page 121)

Read this section to better understand *financing activities*. These are transactions that involve stockholders and creditors. You should be familiar with what activities are considered financing activities.

One strategy for understanding financial statements, discussed in the text on **page 121**, is to look at the largest numbers. Keep this in mind as you examine Cedar Falls consolidated statements of cash flows on **page 121**.

2) INVESTING ACTIVITIES (Page 122)

Read this section to better understand *investing activities*. These are transactions that involve long-lived assets. You should be familiar with what activities are considered investing activities.

Ask yourself: Is Cedar Fair making adequate investments in new revenue-generating assets?

3) OPERATING ACTIVITIES (Page 123)

Read this section to better understand *operating activities*. These are transactions that involve cash inflows and outflows from a company's central business. You should be familiar with what activities are considered operating activities.

You should know both of the following methods for preparing the operating activities section of the statement of cash flows.

- **Operating Activities – THE DIRECT METHOD (Pages 123 to 125)**
- **Operating Activities – THE INDIRECT METHOD (Pages 125 to 126)**

Make sure you understand the two kinds of reconciling items that explain the differences between net incomes and cash flows in the indirect method, discussed on **page 126**. You should also be familiar with the formula on **page 126** that explains the indirect method

Ask yourself: What are the differences between the two methods?

INTERNATIONAL FINANCIAL REPORTING STANDARDS (Page 127)

Read about the differences between U.S. GAAP and IFRS, in regards to reporting and disclosing cash flows, on **page 127**. Some of this information is also summarized in the table on **page 127**.

ANALYZING THE STATEMENT OF CASH FLOWS (Pages 128 to 130)

This section discuss what can be learned from analyzing a firm's statement of cash flows about how it raises, spends, and generates cash.

Make sure you read this section and are familiar with each of the following ratios and how they are used to better understand how a firm generates cash. They are each also key terms.

- **FREE CASH FLOW (Page 128)**

$$\text{Free Cash Flow} = \text{NCOA} - (\text{Capital expenditures} + \text{Dividends paid})$$

- **CASH FLOW ADEQUACY (Page 128)**

$$\text{Cash Flow Adequacy} = (\text{NCOA}) / (\text{Capital expenditures} + \text{Dividends paid})$$

- **CASH FLOW LIQUIDITY (Page 129)**

$$\text{Cash Flow Liquidity} = (\text{Cash} + \text{Market Securities} + \text{NCOA}) / (\text{Current liabilities})$$

- **QUALITY OF INCOME (Page 130)**

$$\text{Quality of Income} = (\text{NCOA}) / \{\text{Net income}\}$$

To review, read the chapter **SUMMARY** on **pages 131 to 132**.

Activities

Chapter Five Practice Exam (If provided)

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Three section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week Three Discussion Questions (Chapter Five):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Compare and contrast the two methods for preparing the operating activities section of the statement of cash flows. Include a brief explanation of what types of activities are considered operating activities as well as the different requirements for U.S. GAAP and IFRS in your answer.

[Note: Your instructor will post the question to the Week Three Weekly Discussion Question Forum]

CHAPTER SIX

Specific Accounts

KEY LEARNING POINTS

What You Will Learn

The key learning point of this chapter is:

- Understanding how a firm measures the value of its assets and liabilities.

INTRODUCTION (Pages 155 to 156)

This chapter discusses how to measure the value of a company's assets and liabilities. The financial statements of Research in Motion Limited ("RIMM") will be used to demonstrate the concepts. Read about RIMM on **page 155** and review their consolidated balance sheet on **page 156**.

CASH AND CASH EQUIVALENTS (Page 157)

This section discusses **cash (page 157)** and **cash equivalents (page 157)**. Make sure you understand that difference between the two.

INVESTMENTS (Pages 157 to 158)

Read this section to better understand the types of **investments (page 157)** companies make.

Companies have to make several decisions about their investments. They must classify them as **short-term investments** (aka **marketable securities**) or **long-term investments (page 157)**. They must decide if they are **trading securities (page 157)** or **available-for-sale (page 157)**. You should understand the difference between each of these choices.

You should also know how investments are usually recorded on the balance sheet. This technique is called **Mark-to-market (page 157)**, meaning investments are recorded at market value.

Ask yourself: What investments does my firm have?

Make sure you are familiar with the difference between **realized gains and losses (page 157)** and **unrealized gains and losses (page 157)**.

ACCOUNTS RECEIVABLE (Pages 158 to 160)

This section discusses the monies to be received from customers from previous sales, called the firm's **accounts receivable (page 158)**. Make sure you understand how this affects the way a company presents its **gross (page 158)**.

Read why and how firms make **allowance for bad debts, allowance for uncollectibles, and allowance for doubtful accounts** on **page 158**.

You should also be familiar with what it means when a firm **writes off** (**page 159**) and account.

Read RIMM's description of its accounts receivable on **page 159**.

ACCOUNTS RECEIVABLE TURNOVER (Page 160)

Accounts receivable turnover (page 160) measures how fast a company collects its accounts receivable. You should be familiar with the following equation:

$$\text{Accounts Receivable Turnover} = \text{Sales revenue} / \text{Accounts receivable}$$

ACCOUNTS RECEIVABLE DAYS (Page 160)

You should also be familiar with the formula for accounts receivable days:

$$\text{Accounts Receivable Days} = 365 \text{ days in the year} / \text{Accounts receivable turnover}$$

Ask yourself: Why do analysts sometimes prefer to use *accounts receivable days*?

INVENTORY (Pages 161 to 167)

Read about **inventory** on **page 161**. The illustration on **page 161** can help you understand how inventory flows through a firm. Read about why companies need to select a **cash flow assumption (page 161)**.

SPECIFIC IDENTIFICATION (Page 161)

This section discusses the **specific identification inventory method (page 161)**.

FIRST-IN, FIRST OUT (Page 162)

This section discusses the **first-in, first-out (FIFO)** system of inventory rotation on **page 162**. Read about this system and examine the examples given in the text.

LAST-IN, LAST-OUT (Pages 163 to 165)

This section discusses the **last-in, last-out (LIFO)** system of inventory rotation on **page 163**. Read about this system and examine the examples given in the text.

Read about the differences between FIFO and LIFO on **page 164**.

Some terms you should be familiar with from this section: **raw materials (page 164)**, **work in process (page 164)**, **finished goods (page 164)** and the **provision for excess and obsolete inventory (page 165)**.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (Page 165)

This section discusses the difference in requirements for U.S. GAAP and IFRS regarding the use of LIFO and FIFO.

Ask yourself: Why doesn't IFRS permit the use of LIFO?

GROSS PROFIT PERCENTAGE (Page 165)

This section discusses how a firm can calculate its **gross profit margin (page 165)**.

$$\text{Gross Profit Margin} = \text{Gross Profit} / \text{Sales Revenue}$$

INVENTORY TURNOVER (Page 166)

This section discusses how a firm can calculate its **inventory turnover (page 166)**.

$$\text{Inventory turnover} = (\text{cost of goods sold}) / (\text{inventory})$$

INVENTORY DAYS (Pages 167)

You should also be familiar with the formula for inventory days:

$$\text{Inventory days} = (365 \text{ days in the year}) / (\text{inventory turnover})$$

PROPERTY, PLANT, & EQUIPMENT (Pages 168 to 173)

Long-term assets that are expected to provide a benefit in the future are **property, plant, and equipment (aka PPE, fixed assets, or capital assets) (page 168)**. These assets are recorded as **acquisition cost (aka original cost or historical cost) (page 168)**.

Make sure you read about **depreciation expense on page 168**.

Ask yourself: Why doesn't land depreciate?

You should also be familiar with the following key terms: **residual value (aka salvage value or scrap value) (page 168)**, **depreciation base (page 168)**, **accumulated depreciation (page 168)**, and **book value (aka carrying value; PPE, net; or the cost not yet depreciated)**.

You should know both of the following common depreciation methods: **straight-line (SL)** and **double-declining balance (DDDB)**. They are both discussed below:

- **STRAIGHT-LINE DEPRECIATION (Page 169)**

$$\text{Depreciation Expense} = (\text{Depreciable Base} / \text{Expected useful life}) = (\text{Acquisition cost} - \text{residual value}) / \text{Expected useful life}$$

- **DOUBLE-DECLINING BALANCE DEPRECIATION (Pages 170 to 171)**

$$\text{Depreciation Expense} = \text{Book value} \times 2 \times (1 / \text{expected useful life})$$

Depreciation expenses decreases each year as the book value decreases each year. This is illustrated in an example in the text on **pages 170 to 171**.

Read **COMPARING STRAIGHT-LINE WITH DOUBLE-DECLINING BALANCE** on **pages 171 to 172**.

GAINS AND LOSSES ON SALE OF PPE (Pages 172 to 173)

Read this section to better understand the gains and losses on sale of PPE. This is computed as the selling price less the book value. It is a loss if the difference is negative. It is a gain if the difference is positive.

Review the examples given in the text and RIMM's policy for accounting for PPE on **page 172** as well as their note to the financial statements on **page 173**.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (Page 173)

This section discusses the difference in requirements for U.S. GAAP and IFRS regarding PPE.

CURRENT AND LONG-TERM LIABILITIES (Pages 174 to 177)

Read this section to better understand **liabilities** (aka **accounts payable**) (**page 174**). These are amounts owed to creditors. Make sure you understand the difference between current and long-term liabilities.

Ask yourself: What, if any, liabilities does my firm have?

This section also discusses the many types of liabilities that require careful estimates. These include: **warranty payable (page 174)** as well as **post-retirement benefits (page 174)** that create **post-retirement benefit liability (page 174)**. The most difficult to estimate is **contingent liabilities (page 174)**. Make sure you are familiar with each of these.

Also read about how accountants record contingent liabilities on **page 174**. You should understand the difference between probable and estimable. Review RIMM's litigation footnote on **page 175**.

Read about how firms deal with income taxes, **Income tax payable**, and **deferred tax liability** on **pages 175 to 176**.

Long-term debts are discussed on **page 176**. You should be familiar with a type of long-term debt known as **bonds payable (page 176)**. Make sure you understand what it means for a bond to **mature (page 176)** and why debtors must then pay the **principal (page 176)**.

Ask yourself: Do I have any bonds? Are they matured? If not, when will they mature?

To review, read the chapter **SUMMARY** on **pages 177 to 178**.

Activities

Chapter Six Practice Exam (If provided):

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Three section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week Three Discussion Questions (Chapter Six):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Compare and contrast FIFO and LIFO. In your answer, include a discussion of why U.S. GAAP permits LIFO while IFRS does not.

[Note: Your instructor will post the question to the Week Three Weekly Discussion Question Forum]

UNIT THREE ASSIGNMENTS

Unit Three Exam

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Three section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Unit Three Case Study

For this Case Study you will be using Southwest Airlines (LUV) on page 142. Write a 3 to 5 page paper (1000 to 1500 words) in APA format in response to the questions:

- a. Looking at the information provided from Southwest Airlines on **page 142**, which of the four years was the strongest cash position for Southwest Airlines? Explain your response with at least two relevant observations.
 - b. Look up the most recent Statement of Cash Flows from Southwest Airlines. Compare the information you find to the information provided on **page 143**. What observations can you make about Southwest Airlines' current financial position based on this comparison.
 - c. Can a company ever have too much cash? Why or why not?
 - d. Can a company ever have too little cash? Why or why not?
2. Cover page (See APA Sample paper)
 3. Introduction
 - a. A thesis statement
 - b. Purpose of paper
 - c. Overview of paper
 4. Body (Cite sources with in-text citations.)
 - a. Looking at the information provided from Southwest Airlines on **page 142**, which of the four years was the strongest cash position for Southwest Airlines? Explain your response with at least two relevant observations.
 - b. Look up the most recent Statement of Cash Flows from Southwest Airlines. Compare the information you find to the information provided on **page 143**. What observations can you make about Southwest Airlines' current financial position based on this comparison.
 - c. Can a company ever have too much cash? Why or why not?
 - d. Can a company ever have too little cash? Why or why not?
 5. Conclusion – Summary of main points
 - a. Lessons Learned and Recommendations
 6. References – List the references you cited in the text of your paper according to APA format.
(Note: Do not include references that are not cited in the text of your paper)

GRADING

Your instructor will provide a grading rubric to evaluate your paper. Please see the Instructor Syllabus and Policies for details.

UNIT FOUR

Chapters & Learning Outcomes

The key points of the following chapters (see textbook) will be discussed in this Unit:

- Chapter Seven
The Accounting Cycle pages 211 to 267
- Chapter Eight
Comprehensive Review pages 268 to 292

UNIT FOUR LEARNING OUTCOMES

This Unit meets the following learning outcomes:

- LO 13. Describe the 10 steps of the accounting cycle.
- LO 14. Record, classify, and report transactions and prepare journal entries.
- LO 15. Assess a company's profitability, efficiency, liquidity, and solvency through financial statement analysis.

CHAPTER SEVEN

The Accounting Cycle

KEY LEARNING POINTS

What You Will Learn

The key learning points of this chapter are:

- Learning the 10 steps of the accounting cycle.
- Understanding how to record, classify, and report transactions and prepare journal entries.

INTRODUCTION (Page 211)

This chapter explains how to record, classify, and report transactions and provides an overview of the accounting cycle.

THE 10-STEP ACCOUNTING CYCLE (Page 211)

The accounting system gathers data and converts this data to useful information through **accounts (page 211)**, **journals (page 211)**, and **ledgers (page 212)**. You should be familiar with each of these.

Ask yourself: Does my firm have a **chart of accounts (page 211)**?

The 10 steps in **THE ACCOUNTING CYCLE** are illustrated on **page 212**. Review this chart and read the sections below to make sure you understand each of its 10 steps:

STEP 1: Analyze and Prepare Transaction Journal Entries (TJEs) (Page 213)

STEP 2: Post TJEs to the Ledger (Page 213)

STEP 3: Prepare the Unadjusted Trial Balance (Page 213)

STEP 4: Prepare Adjusting Journal Entries (AJEs) (Page 214)

STEP 5: Post AJEs to the Ledger (Page 214)

STEP 6: Prepare the Adjusted Trial Balance (Page 214)

STEP 7: Prepare the Financial Statements (Page 214)

STEP 8: Prepare Closing Journal Entries (CJEs) (Page 214)

STEP 9: Post CJE to the Ledger (Page 214)**STEP 10: Prepare the Post-Closing Trial Balance (Page 215)**

Some key terms you should also know from this section: **transaction (page 213)**, **trial balance (page 213)**, **statement of cash flows (page 214)**, **temporary accounts (page 214)**, and **permanent accounts (page 215)**.

Ask yourself: Why must a transaction affect at least two accounts?

ANALYZE TRANSACTIONS USING THE ACCOUNTING EQUATION (Pages 215 to 218)

This section uses data from the transactions of Lincoln's Tax Accounting Corporation (LTAC) to show how data goes through the accounting cycle. Review Lincoln's Tax Accounting Corporation's chart of accounts on **page 215** and analyze the six example transactions shown on **pages 216 to 217**. The transaction summary on **pages 217 and 219**

PREPARE JOURNAL ENTRIES USING DEBITS AND CREDITS (Pages 219 to 230)

Read about the debit/credit system on **page 219**. Make sure you understand how it builds off the accounting equation (ASSETS = LIABILITIES + STOCKHOLDERS' EQUITY) and simplifies into: DEBITS = CREDITS. You should also know why, "Retained Earnings is increased by revenues and decreased by expenses and dividends." (**Page 220**) Think of credits as **sources** of funds, and debits as **uses** of funds.

The rest of this section again uses transactions from Lincoln's Tax Accounting Corporation (LTAC) to demonstrate use of the accounting cycle. This time, instead of using the accounting equation to record transactions, the text uses debits and credits. Make sure you read this section and are familiar with how the data goes through each of the following steps:

STEP 1: Analyze and Prepare Transaction Journal Entries (TJEs) (Pages 220 to 222)**STEP 2: Post TJEs to the Ledger (Page 222)****STEP 3: Prepare the Unadjusted Trial Balance (Page 223)****STEP 4: Prepare Adjusting Journal Entries (AJEs) (Pages 223 to 224)**

Principal x Rate x Time = Interest (page 224)

STEP 5: Post AJEs to the Ledger (Page 224)**STEP 6: Prepare the Adjusted Trial Balance (Page 225)****STEP 7: Prepare the Financial Statements (Pages 225 to 226)****STEP 8: Prepare Closing Journal Entries (CJEs) (Pages 227 to 228)**

STEP 9: Post CJE to the Ledger (Page 229)

STEP 10: Prepare the Post-Closing Trial Balance (Page 230)

Ask yourself: What does **posting (page 222)** mean?

Ask yourself: How does the accounting system help my firm and me?

TRANSACTION JOURNAL ENTRIES OF A MERCHANDISE RETAILER (Pages 230 to 231)

This section discusses the difference in recording transactions for a merchandise retailer (as compared to a service retailer like Lincoln's Tax Accounting Corporation)

MORE ADJUSTING JOURNAL ENTRIES (Pages 231 to 233)

Read this section and make sure you are familiar with the four steps in the adjusting process listed on **page 231**.

To review, read the chapter **SUMMARY** on **page 233**.

Activities

Chapter Seven Practice Exam (If provided):

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Four section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week Four Discussion Questions (Chapter Seven):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Describe the 10 steps of the accounting cycle. Include a brief explanation of the debit / credit system in your answer.

[Note: Your instructor will post the question to the Week Four Weekly Discussion Question Forum]

CHAPTER EIGHT

Comprehensive Review

KEY LEARNING POINTS

The goal of this chapter is to provide you with a series of activities that will help you review and integrate the concepts you have learned throughout this course.

Read the **INTRODUCTION** on **page 268** and complete the following activities:

- **ACTIVITY 93: Transactions Affecting Total Assets (Page 269)**
- **ACTIVITY 94: Transactions Affecting Total Liabilities (Page 270)**
- **ACTIVITY 95: Transactions Affecting Stockholders' Equity (Page 271)**
- **ACTIVITY 96: Transactions Affecting Net income (Page 272)**
- **ACTIVITY 97: Which Financial Statement? (Page 273)**
- **ACTIVITY 98: Financial Statement Preparation (Pages 274 to 274)**
- **ACTIVITY 99: Ratio Analysis (Pages 276 to 277)**

Activities

Chapter Eight Practice Exam (If provided)

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Four section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Week Four Discussion Questions (Chapter Eight):

The purpose of the discussion question is to allow you as the Learner to demonstrate your understanding of the chapter's key learning points and how you might apply them in given situation. Participating in the discussion question forum provides you as the Learner an opportunity to compare your ideas to ideas from others in your class.

Instructions: Using the chapter's key learning points, provide your answer to the question below.

Discuss how the information you've learned in this course can be applied to your firm. Your answer should include at least ways this course will impact your firm's approach to financial statements in the future.

[Note: Your instructor will post the question to the Week Four Weekly Discussion Question Forum]

UNIT FOUR ASSIGNMENTS

Unit Four Exam

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Four section. Select the available activities that may include Practice Exams, Unit Exams and Assignments.

Unit Four Case Study

For this Case Study you will use financial information from Circuit City Stores (CCYTQ) in **Activity 101** on **pages 283 to 284**. Write a 3 to 5 page paper (1000 to 1500 words) in APA format in response to the questions:

- a. Analyze Circuit City Stores' balance sheet on **page 283**. Based on your analysis, does the balance sheet indicate a strengthening, steady, or weakening financial position? Why? List observations that support your conclusion and explain why.
- b. Analyze Circuit City Stores' income sheet on **page 284**. Based on your analysis, does the income statement strengthening, steady, or weakening earnings potential. Why? List observations that support your conclusion and explain why.
- c. Analyze Circuit City Stores' statement of cash flows report on **page 284**. Based on your analysis, does the statement of cash flows report a strengthening, steady, or weakening cash position? Why? List observations that support your conclusions and explain why.
- d. Circuit City filed for bankruptcy on November 10, 2008. What signs of this impending bankruptcy do you find in these financial statements? When did these signs start to appear?

Make sure to include a link to the most recent balance sheet for your chosen company in your sources.

2. Cover page (See APA Sample paper)
3. Introduction
 - a. A thesis statement
 - b. Purpose of paper
 - c. Overview of paper
4. Body (Cite sources with in-text citations.)
 - a. Analyze Circuit City Stores' balance sheet on **page 283**. Based on your analysis, does the balance sheet indicate a strengthening, steady, or weakening financial position? Why? List observations that support your conclusion and explain why.
 - b. Analyze Circuit City Stores' income sheet on **page 284**. Based on your analysis, does the income statement strengthening, steady, or weakening earnings potential. Why? List observations that support your conclusion and explain why.
 - c. Analyze Circuit City Stores' statement of cash flows report on **page 284**. Based on your analysis, does the statement of cash flows report a strengthening, steady, or weakening cash position? Why? List observations that support your conclusions and explain why.
 - d. Circuit City filed for bankruptcy on November 10, 2008. What signs of this impending bankruptcy do you find in these financial statements? When did these signs start to appear?

5. Conclusion – Summary of main points
 - a. Lessons Learned and Recommendations
6. References – List the references you cited in the text of your paper according to APA format.
(Note: Do not include references that are not cited in the text of your paper)

GRADING

Your instructor will provide a grading rubric to evaluate your paper. Please see the Instructor Syllabus and Policies for details.

UNIT FIVE

Chapters & Learning Outcomes

The key points of the following chapters (see textbook) will be discussed in this Unit:

- Chapter Nine
Capstone Project pages 293 to 313

UNIT FIVE LEARNING OUTCOMES

This Unit meets the following learning outcomes:

- LO 16. Research and apply financial statement analysis to a publicly traded corporation.

CHAPTER NINE

Capstone Project

KEY LEARNING POINTS

The goal of this chapter is to take the concepts you have learned throughout this course and apply them to a publicly traded corporation.

Follow the directions in the text on **page 293** and complete the following activities:

- **ACTIVITY 103: Tell Me About Your Company (Pages 294 to 296)**
- **ACTIVITY 104: Stock Market Research (Pages 297 to 298)**
- **ACTIVITY 105: Condensed, Common-Sized, and Trend Analysis Financial Statements (Pages 299 to 303)**
- **ACTIVITY 106: Compute Ratios (Page 304 to 306)**
- **ACTIVITY 107: Compare Ratios to Industry Norms (Page 307 to 308)**
- **ACTIVITY 108: Written Report (Page 309 to 310)**
- **ACTIVITY 109: Presentation (Page 311 to 313)**

Unit Five Case Analysis

For this case analysis you will follow the directions in the text for **Activity 103 on page 294** and complete the following activities:

Choose a company to research. The company must be publicly traded, not the company where you currently work. Your selection may be a competitor or a supplier of your company, related to a hobby of yours, a possible stock investment, or simply sound interesting.

Write a 3 to 5 page paper (1000 to 1500 words) in APA format in response to the activities discussed in the “Body” section of the recommended outline below.

NOTE: Include information from a variety of resources.

- 1. Consult the Form 10-K filed with the SEC.** This form contains a wealth of information. Read through Item 1. Business Summary to find information regarding the business, product offerings, marketing strategy, competition, and market share. Available at the [SEC Company filings site](http://www.sec.gov/edgar/searchedgar/companysearch.html). (<http://www.sec.gov/edgar/searchedgar/companysearch.html>)<https://caluniversity.sharepoint.com/Academics/MBA/www.sec.gov/edgar/searchedgar/companysearch.html>
- 2. Review the Annual Report** and especially the Letter to Shareholders, which summarizes the past year and highlights future opportunities. Annual Reports are generally available online at the company’s website in the investor relations section..
- 3. Explore the corporate website.** A corporate website usually provides updated, comprehensive information including links to current news items and financial information. Note that the company provides the information posted on the website and, therefore, may be biased in favor of the company.
- 4. Select at least two significant news items from recent business periodicals.** Examples of business periodicals include The Wall Street Journal, Forbes, Fortune, Inc., and Business Week. Many of these periodicals are available online.

1. Cover page (See APA Sample paper)
2. Introduction
 - a. A thesis statement
 - b. Purpose of paper
 - c. Overview of paper
3. Body (Cite sources with in-text citations.)
 - a. Research and then describe your company's primary business activities. Include:
 1. A brief historical summary,
 2. A list of competitors,

3. The company's position within the industry,
 4. Recent developments within the company/industry,
 5. Future direction, and
 6. Other items of significance to your corporation.
4. Conclusion – Summary of main points
 - a. Lessons Learned and Recommendations
 5. References – List the references you cited in the text of your paper according to APA format.
(Note: Do not include references that are not cited in the text of your paper)

GRADING

Your instructor will provide a grading rubric to evaluate your paper. Please see the Instructor Syllabus and Policies for details.

UNIT SIX

Activities

Unit Six is an optimal time for students to review each course assignment and reflect on key learning points.

In this final week of the course, you are required to do the following:

- Respond to the Week Six Discussion Question.
- Complete the end of course survey
- Download and save the study guide
- Complete the Final Exam
- Complete and submit the Course Project

Week 6 Discussion Question

What are the key lessons that you learned in this course?

Why are these lessons important to you?

Your instructor will post the discussion questions to the Week Six Discussion Question forum.

End of Course Survey

Click on the End of Course Survey object to document your feedback regarding the strengths and areas for improvement

UNIT SIX ASSIGNMENTS

Final Exam:

Log into the CalUniversity Learn Center and enter this specified course. Once in the course, scroll down to the Week Six section. Select the available activities that may include Final Exam and Assignments.

WEEK 6 PROJECT

Choose one of the following options:

Option 1 – Web Research

Conduct an Internet search to find companies noted for best practices in Financial Statement Analysis. Describe what these best-practice companies do in the field of Financial Statement Analysis. What are the similarities across companies? Describe any major differences. Critique the best practices. State how you would implement the best practices in your organization.

Submit your project in APA format with at least three in-text references. Length: 5 pages (excluding cover and reference pages)

Option 2 – Organization Comparison

Identify two organizations with different Financial Statement Analysis processes. Describe these differences. Indicate how the Financial Statement Analysis strategies of these companies might be similar or different. Provide a rationale for your conclusions using relevant concepts from the text and peer reviewed articles.

Submit your project in APA format with at least three in-text references. Length: 5 pages (excluding cover and reference pages)

Option 3 – Create your own project.

This option provides an opportunity for you to create your own project based on the end of program capstone/dissertation. The project must include the learning objectives of the current course. This option requires the instructor's approval.

Submit your project in APA format with at least three in-text references. Length: 5 pages (excluding cover and reference pages)

Once you have finalized and completed your chosen project, click on the Week 6 Project object to submit the assignment.

COURSE PRESENTATION

Choose a topic that is related to one or more of the Course Objective.

Describe the topic.

State the purpose and the importance of the course topic.

Provide an overview of the presentation.

Create 5 to 6 PowerPoint slides of the content of the topic using 3 to 5 bullets per slide.

Include speaker notes of the presentation.

Note: You could create a live presentation (such as via YouTube) and provide a link to the presentation.

Once you have finalized your course presentation, click on the Course Presentation object to submit your assignment.