

University of Illinois at Chicago
Accounting 585 – Fall 2006
Course Memo and Syllabus

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Course Content

Welcome to Accounting 585: Corporate Valuation and Accounting Information. In this course, we explore financial analysis in a particular context: equity valuation. The course integrates concepts from accounting, finance and business strategy.

Course Requirements and Grading

The real test of what you have gained from this course is your ability to do a valuation analysis. Therefore, your grade will be based largely on a comprehensive valuation project that will run the entire semester. By the end of the semester, you will have done a complete “cradle to grave” valuation analysis of your company. This is an individual project.

A separate handout describes the valuation project’s requirements. You should treat each portion of the valuation project as if it were an assignment at work. It should be presented in an organized, understandable way. You will be evaluated not only on the technical content of the assignments, but also on how effectively you communicate your findings through a written report. 170 points are allocated to the project. (See the separate handout on the project requirements for a breakdown of these points by project part.) 15 points are allocated to class participation. While participation for the entire semester will be considered, the most important aspect of it is the discussion of other students’ business analyses on September 28.

Course Materials

Text

The text is *Financial Statement Analysis: A Valuation Approach*, which I co-authored with a corporate finance consultant (who is also my wife). Our goal is to provide a text that is both technically accurate and practical. We want you to come away from the course able to do the analyses, do them correctly, and understand why you are doing them.

Blackboard and Other Web Sites

The course has a Blackboard site. Access it at “<http://blackboard.uic.edu>”. It contains additional course information and links to other useful sites, including Wharton Research Data Services (WRDS). WRDS provides access to a number of databases, including security returns compiled by the Center for Research in Security Prices (CRSP). You will use WRDS to access CRSP data for Part 3 of the project.

End of Chapter Material

There are questions and problems at the end of each chapter of the text. There are two main purposes to this material. First, to learn the course material, you have to apply it. The end of chapter material provides a way to do this and get quick feedback before you work on the related

portion of your project. Second, the end of chapter material should alert you if there is some material you need to understand more thoroughly. You are expected to prepare all assigned questions and problems before class and to participate in the discussion of them. Your preparation and participation will affect your class participation grade.

Honor Code, Plagiarism and Decorum

The College of Business Administration recently adopted an Honor Code, which relates to issues of academic integrity, and you are subject to it. An attachment to this memo contains the major provisions of the Honor Code, as well as how it relates to this class specifically. A second attachment deals more specifically with plagiarism issues. A third attachment relates to expected decorum and behavior in the class. Please familiarize yourself with these documents and contact me if you have any questions about them.

Miscellaneous Information

Office Hours and Electronic Communication

My official office hours are 3:30-5:00 p.m. on Wednesdays. I do not limit when I will see you to my official office hours, but you are sure to find me in my office at those times. Unless you are coming during my official office hours, please call ahead to make an appointment to avoid finding me unavailable and to help me in planning my schedule.

I am also available by phone or e-mail. I find that e-mail is useful for quick questions or relatively simple administrative issues. However, for more complicated issues or when an e-mail is likely to lead to several e-mails back and forth, please call. My e-mail address and phone number are at the top of this memo.

Once again, welcome to Accounting 585, and good luck.

L.S.

Accounting 585 – Fall 2006
Detailed Class Schedule

Session/Date		Class Agenda	Project Due Dates
1	Thu Aug 31	? Ch. 1: Introduction to Security Analysis ? Ch. 2: Security Analysis and Efficient Markets	
2	Thu Sep 7	? Chapter 2 Review Questions 3,7; Problems 2, 5, 7 ? Ch. 3: Business Analysis	Part 1: Company description
3	Thu Sep 14	? Chapter 3 Problems 10-11 ? Ch. 4: Financial Statements ? Ch. 13 (§13.1 – 13.3, excluding <i>Loss Carryforwards and Valuation</i> , p. 304): Using Income Tax Information	
4	Thu Sep 21	? Chapter 4 Problems 6, 10; Chapter 13 Problems 3-5, 7(a), 8 ? Ch. 5: Financial Statement Analysis ? Ch. 6: The Economic Balance Sheet and an Overview of Cash Flow Valuation Models	Part 2: Business analysis (Due via email Monday, September 25 at 6 PM)
5	Thu Sep 28	? Discussion of Business Analyses	
6	Thu Oct 5	? Chapter 6 Review Question 5; Problems 3-5, 7 ? Ch. 7: Discount Rates in Valuation	
7	Thu Oct 12	? Chapter 7 Review Questions 5-9, 14; Problems 1, 5 ? Ch. 9: Free Cash Flow Model and Analysis ? Ch. 13 (§13.4): Estimating Effective Tax Rate on Core Operations	
8	Thu Oct 19	? Chapter 9 Review Question 6; Problems 4-9, 11-13 ? Chapter 13 Problems 1-2, 10 ? Ch. 10: Free Cash Flow Forecasting	Part 3: Weighted-average cost of capital
9	Thu Oct 26	? Ch. 10: Free Cash Flow Forecasting (contd.) ? Chapter 13 (<i>Loss Carryforwards and Valuation</i> , p. 304)	Part 4: Free cash flow analysis
10	Thu Nov 2	? Chapter 10 Problems 4-7 ? Chapter 13 Problem 7(b) ? Ch. 14: Cash Flow Valuation and Employee Stock Options	
11	Thu Nov 9	? Ch. 14: Cash Flow Valuation and Employee Stock Options (contd.)	Part 5: Initial forecast model and valuation
12	Thu Nov 16	? Chapter 14 Review Questions 14-15; Problems 1-2, 8-9 ? Ch. 15: Cash Flow Valuation and Pension and Other Post-Employment Benefit Plans	
THURSDAY, NOVEMBER 23: NO CLASS			
13	Thu Nov 30	? Chapter 15 Review Questions 10, 14; Problems 2-9 ? Ch. 11: The Adjusted Present Value Model ? Chs. 16-18: Multiples Valuation	
14	Thu Dec 7	? Project post-mortems	Part 6: Final valuation

HONOR CODE

As a student in the College of Business Administration, you are subject to the CBA Honor Code, which contains the following:

(A) As a student I hereby commit myself to respect and uphold the University of Illinois at Chicago (UIC) College of Business Administration Honor Code during my entire matriculation at UIC. I agree to maintain the highest moral and ethical standards in all academic and business endeavors and to conduct myself honorably as a responsible member of the college academic community. This includes the following:

- ? Not to seek unfair advantage over other students, including, but not limited to giving or receiving unauthorized aid during completion of academic requirements;
- ? To represent fact and self truthfully at all times;
- ? To respect the property and personal rights of all members of the academic community.

Your valuation project is your exam – it is the primary means for evaluating your performance. Thus, many of the same rules that would apply in an exam setting apply to the valuation project, including, but not limited to, the following:

- ? You may not obtain any assistance on the valuation project from another person, whether enrolled in the course or not, other than the instructor. (See the project writeup for a discussion of the kind of assistance you will be able to obtain from me.)
- ? You may not provide any assistance on the valuation project to another student.
- ? You may not plagiarize any portion of the valuation project. See the separate attachment – Guidelines on Plagiarism – for details on what is and is not permitted.
- ? In the unlikely event there are unusual circumstances beyond your control that make it impossible for you to submit a part of the project in a timely manner, you must submit a written request for an extension prior to the due date. That request must be accurate and include all relevant facts.

Violations of any of the above, as well as other violations of the Honor Code, will receive a grade sanction and/or be referred to a disciplinary committee for more serious sanctions, at the professor's discretion. Potential disciplinary sanctions include expulsion from the University.

Note that these guidelines do not preclude students from discussing the course material with each other, and such discussions are, in fact, encouraged. However, students may not assist one another with the specific problems they encounter in their individual projects.

GUIDELINES ON PLAGIARISM

Although plagiarism is a serious matter, many students do not understand clearly what constitutes plagiarism. To avoid plagiarism on the valuation project, adhere to these guidelines:

1. Everything you write must be your own words and ideas, unless you clearly indicate a passage is a direct quote or that it was adapted from another source. This raises a difficult question. How can I write anything where, literally, every word is new; i.e. where no one else has ever used any of the words? For example, if I use the term “capital asset pricing model,” am I quoting the first person that ever used that phrase? Obviously not. There is a fine line, but it is important not to cross it. Here are guidelines you should follow:
 - If a complete sentence (or more) matches someone else’s, it is a quote. It should be surrounded by quotation marks with the source indicated.
 - If a substantial portion of a sentence matches someone else’s, it is a quote. It should be surrounded by quotation marks with the source indicated. I usually think of “substantial” as five consecutive words, but treating phrases having a single meaning (like “capital asset pricing model” as one word). This is not a hard and fast rule, but a guideline. Its application depends on the uniqueness of the words in the phrase. Anyway, let’s face it, you know if you wrote the words or copied them!
 - If you have put someone else’s ideas into your own words *without incorporating any of your own thoughts*, that passage should be sourced (but do not use quotation marks). For example:
 - ✍ You would be plagiarizing if you wrote: It all depends on what the word *is* means. (Because that is not your idea, it is Bill Clinton’s.)
 - ✍ It is acceptable to write: According to Bill Clinton, it all depends on what the word *is* means. (Because you have sourced the idea appropriately. You are not taking credit for having thought of it.)
 - ✍ It is acceptable to write: Whether one thinks it all depends on what the word *is* means says a lot about that person’s character. (Because this is a *different idea* – your idea, not Bill Clinton’s – even though it makes reference to his idea.)
 - When in doubt, provide the source. No one was ever accused of academic dishonesty because they sourced something that did not need to be.
2. You are doing an analysis, not simply gathering and repackaging the work of others. While it is acceptable to have quotes or adapted material in something you write, it is not acceptable to have your *entire paper* (or a substantial portion of it) be quotes or adapted material, even if sourced appropriately. For example, a business description may not be entirely (or substantially) a quote from the annual report, *even if it is labeled as such*.
3. Providing a bibliography or a list of references is *not* sufficient sourcing. You must indicate the sources of *specific passages* that are quotes or adaptations of the work of others, either in the text or via a footnote.
4. Violations of these guidelines will be considered plagiarism and subject the student to a grade sanction, disciplinary charges, or both. The grade sanction may not be limited to the number of points allocated to the plagiarized project.

DECORUM

In order for the classroom to be a learning environment, the following conduct is expected of the instructor and all students.

- ? Class begins at 6:00 p.m. Students are expected to arrive sufficiently before that time so that they are ready to begin class at 6.
 - o In the rare case an emergency prevents a student from arriving on time, the student should quietly take the seat closest to the door and explain his/her lateness to the instructor after class. (Note: If lateness is not rare, it is presumed not to be due to an emergency.)
- ? Class ends at 9:00 p.m. Students should not schedule other classes, appointments, interviews, etc. so that they would have to leave during class.
- ? Students should silence cellular phones and pagers during class.
- ? Students are expected to be prepared for class and participate in class discussions as appropriate.

Anyone who repeatedly violates these guidelines will be deemed to have requested a withdrawal from the class.