Accounting 1A - Final Project

Annual Report Case Study Overview

1) To complete this assignment you will need to use the annual reports of your two companies; i.e. the Primary and Secondary from the pairing of companies you selected.

2) Work in assigned study groups**. The team will submit one project in addition you will turn in your own analysis for the summary. See the Grading section below.**

3) The case study analysis is intended to be reflective of the learning from each Chapter of Libby, the Case studies for American Eagle/Urban Outfitters. The team within the guidelines of these instructions construct a format for the project that will present the analysis and application of information in the most effective manner. The instructions provided, include a series of templates Annual Report Case Study Analysis Template, this will assist in guiding the process. In addition, provided is an example of how you may approach the case study, do not dwell on the format, focus on the content and analysis.

    a. Use the **Annual Report Case Study Template** to help you formulate narrative responses to be included in your analysis for the journal, company analysis, ratio analysis, and summary sections. As you complete each chapter, more and more of the templates will apply. Therefore, you need to be selective of which templates will help define the narrative for each chapter. The ultimate goal, is to address the content of the Annual Report Case Study Template before attempting to compose the individual SUMMARY.

4) You are expected to write narratives about each section. ***It is not acceptable to copy text directly from the annual reports in to the Annual Report Case Study Template.*** You are expected to write the narratives. In addition, you must provide citations. Excellent resources for citations: http://www.cabrillo.edu/services/writingcenter/Plagiarism.html#Quote or available through the reference desk at the Cabrillo Library **The MLA Handbook for Writers of Research Papers.** Plagiarism will not be tolerated. Do your own work as a team and as an individual. The purpose of the project is to demonstrate what you have learned, not to mimic Wall Street Financial Analysts. From the Cabrillo Catalog, "Students are expected to know how to credit sources, how to quote and paraphrase, and how to avoid plagiarizing the work of others. If you are unsure, ask your instructor for assistance before you submit your work for credit."

5) Grading: You are graded based on the Grading Rubric provided, plus the Student Peer Evaluation for team participation.

    a. Total of **180 points** for the project:

        i. Company Analysis: (20 points, team effort)

        ii. Final Project Journal: (90 points, team effort)

            1. Chapter "take aways"
            2. Chapter "Case Studies"
            3. Market Analysis
            4. Ratio Analysis

        iii. Final Project Individual Summary: 50 points (individual effort)

iv. Team/Individual Peer Review (20 points, team review of individual effort)

1. See the Peer Evaluation Rubric for the breakdown of the scoring by each team member.
2. Total team points per individual will be scored by prorating the weighted score for each student from the team.

6) Locating Information in the Annual Report:

a. See *"How To find 10k and Industry Ratios video; Corporate Annual Reports"* found on Blackboard content page for your Financial Accounting Section

b. Annual reports can be located by going to: https://www.google.com/finance?tab=we, see referenced video above.

c. Once you are at the Google finance site, input the trading name of the corporation or the trading symbol.

i. The company annual report should be from the most current year-end report. You will have to deal with some terminology that you are not familiar with able be forced to make decisions about what is and what is not relevant. Use your text book and the Weiner Study Guide.

d. In this case analysis, the term "current" year refers to the most recent year for which the annual report was prepared. (note: the annual reports must be from the same fiscal years)

e. Note that terminology and formats used in "real world" annual reports probably will deviate somewhat from the textbook. This does not mean that our textbook is wrong, only that there is a wide variety of acceptable terminology and formats (within limits) that are used in practice.

f. Note; that financial statements are "consolidated," which means that accounts are often shown combined together, so you will not see a separate line item for each and every account. Combining accounts or condensing the information enhances understandability by removing excessive details concerning items that are not material enough to be shown separately. Sometimes, further detail concerning an item in the financial statements can be found in the notes that follow the financial statements.

g. In a few instances, an item may not be disclosed. In that case, simply indicate in the appropriate blank that the item is not disclosed. Be careful here though to make sure that you are not overlooking something! Information may be disclosed in the financial statements, significant accounting policies note, other notes, or in other parts of the annual report.

7) When you have questions

a. Discuss the question with your other team members and, if you cannot reach a consensus, then ask your professor for help!! **I am always available as a resource**

8) Final Project DESCRIPTION AND OBJECTIVES

a. An annual report communicates a wide variety of information about a corporation, both financial and nonfinancial, to those who use financial statements. In this case, you will analyze the actual annual report of a "real world" company.

b. Specifically, the final project analysis asks you to:

i. answer general "theory" questions regarding annual report items
ii. locate and report information in your company's annual report
iii. perform calculations and analyses on your company's financial statement data

iv. evaluate the results from your calculations and analyses and form conclusions regarding your company compared, to prior reporting periods(trend analysis), the competitor and the industry.

c. This case analysis has many important learning objectives and purposes, including:

i. to provide a comprehensive review of important concepts covered in this course (which is an excellent starting point in reviewing for each of the chapter assessments), as well as integrating the knowledge you have gained during the semester so that you can see the "big picture,"

ii. to provide "hands on" experience applying your knowledge using an actual corporate annual report

iii. to improve your ability to locate, obtain, and organize information contained in an annual report

iv. to expose you to alternative formats for financial statements and disclosures as well as terminology that may not be "just like" the textbook

v. to practice your communication skills (i.e., effective reading, listening, writing, speaking)

vi. to improve/reinforce your interpersonal skills by providing experience in working with other students as a cooperative learning team

vii. to provide a foundation in understanding and using corporate annual reports that will be useful in your future college courses and professional career, as well as from a potential investor standpoint.

COMPANY ANALYSIS (20 points):

1) Name of the company and competitor to be studied this semester:

   a) Symbol for your companies on the stock market

   b) Type of business (retailing, computer hardware/software, health care, etc.)

   c) Why did you select these companies?

2) Select one of the companies as your "primary" and the other as the "competitor". Provide the following information for your primary company:

   a) Give a brief history of the primary company and secondary company

      i) What is your company's business i.e. what does your company do to earn revenues. Specific Industry and Sector (this will be found on the Final Project Corporate Listing, with the paired corporations.

      ii) Is there a management discussion and analysis section in the annual report?(Typically, and for most of the companies on the list this MD & A will be available in the annual report) If so, summarize valid information it contains.

      iii) The top officers of a corporation usually address the stockholders about the performance and prospects for the company in a letter at the beginning of the annual report. For your companies, list the name(s) and title(s) of the person who wrote the letter.

         (1) What is the name of the President/CEO, and other officers of the corporation?

         (2) this is significant, specifically because of past experience, and how this is impacting strategy of the corporation.

(3) Summarize what management says in the letter regarding the current year's performance for your company. Provide cited examples.

(4) Summarize what management says in the letter regarding the future goals, prospects and strategy for your company. Provide several cited example.

2) What is stated about the composition of the Board of Directors. Are any names provided? If so, provide names and one line biography of each board member (this should be a citation from the annual report or corporate website.)Understand the impact of the board, with regard to risk management, strategic direction, audit, and corporate governance. Provide specific reference if available, as an example roles in risk management, audit compliance, corporate ethical standards of conduct, etc.

3) Does the corporation have an audit committee? Does it have an internal audit department?

a) Qualified or unqualified report?

b) Can you find any information dealing with internal control?

c) Who are the external auditors? Are they the same auditors for your competitor company? Is there any specific task they are providing beyond audit compliance?

Example of content regarding Audit report:

REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS (AUDITOR'S REPORTS)

Independent CPAs (auditors) prepare two reports based on their audits; one on the company's financial statements and the other on the company's internal control system. The auditor's reports add credibility to the annual report. For your company, what is the name of the independent auditor and to whom are the reports addressed?

The auditor's report on the financial statements identifies responsibilities of management and auditors with respect to the financial statements. Identify

(a) who is responsible for the financial statements and
(b) what is the auditor's responsibility with respect to the financial statements?

The auditor's report on the financial statements also discusses the "audit."
(a) What do generally accepted auditing standards require in planning and performing the audit of the financial statements?
(b) What activities are included in performing the audit of the financial statements?

The auditor's report on the financial statements also contains an opinion section.
(a)What is the auditors' opinion regarding your company's financial statements?

Final Project JOURNAL(90 points)

1) You must start a journal the following information:
   b) Trading symbols of the companies, exchange for each company; i.e. NYSE, NASDAQ, etc (this is provided on the corporate listing provided on the website)
   c) You have $50,000 to start you investment. You must determine the investment and number of share you will purchase from each or only one company (e.g. if the stock price is $2 per share, your number of shares will be 25,000)
   d) Document the starting stock price for each company, and keep a weekly log of the stock price and the change in your initial $50,000 dollar investment; i.e. what the total value of your investment is at the end of each week
2) It is very important that you document any significant events or press release that is impacting the stock price.
   a) In addition, note any changes submitted to the SEC, i.e. 8k releases, or 10Q or 10k
   b) You need to demonstrate that you are achieving the SLO (student learning objectives, as outline in the course syllabus)

3) The journal provides the opportunity for you to demonstrate your success in achieving the Student Learning Outcomes outlined in the course syllabus.

   a) The journal and needs to have detail:
      2) Use the coverage from the weekly lectures to perform the ratio analysis, and financial analysis

      3) As the semester progresses you will effectively complete all of the required ratios and interpretation required for the final summary analysis

      4) Use the Chapter TAKE-AWAYS as an outline for each of the journal entries. Specfically should have as a minimum 14 chapter TAKE-AWAYS analysis for your primary and secondary company. Each chapter will have multiple learning objectives, therefore you may want to have multiple journal entries for each chapter. Note: the Chapter TAKE-AWAYS are very useful for reviewing the chapter, and studying the material for each assessment. The journal allows you to apply what you are learning in each chapter.

      5) You need to use the homework from each chapter, case study, class discussion and assessment as a basis for demonstrating in the journal your ability to apply what you have learned with the analysis of your primary and secondary company

   b) Chapter TAKE-AWAY outlines in addition use the CP case studies assigned for each chapter to assist in the evaluation. Please note, some of the TAKE-AWAYS cannot be demonstrated in the Journal, such as debit and credit entries made by the corporation. On the otherhand, there can be recognition of the impact of how the financial statements are impacted by operating activities, investing activities and financing activities. The Chapter TAKE-AWAY provides a basic content outline of what must be covered in each journal analysis for each chapter:

      2) Chapter 1; Page 28

      3) Chapter 2; Page 77

      4) Chapter 3; Page 133

      5) Chapter 4; Page 193

6) Chapter 5; Page 259

7) Chapter 6; Page 309

8) Chapter 7; Page 370

9) Chapter 8; Page 429

10) Chapter 9; Page 489

11) Chapter 10; Page 538

12) Chapter 11; Page 579

13) Chapter 13; Page 683

14) Chapter 14; Page 733

c) Journal entries become the content for your SUMMARY analysis. ***With a well constructed journal your final summary report will be a very simple task at the end of the semester.***

d) The initial entry in your journal and will also be the basis for the company analysis portion of the report at the end of the project. (Note this information is already provided from the corporation listing in the course syllabus)

1) Weekly entries detailing the stock performance changes
   (a) price per share and total value of the investments
   (b) If you change the investment amounts, you must document why you may the change and provide backup from the financial reporting or press releases from the respective company.
      (i) if there are specific ratios results that cause the change in your investments, you must provide the ***WHY*** interpretation, and the details of how you calculated the ratio(s)
      (ii) Example of a journal entry for Chapter 1. ***See the following pages for an excerpt from a student submission:***

MARKET DATA ANALYSIS:

4) Prepare a form similar to the one below for the current and prior year of your primary company, current year for your competitor.

d) Some companies will have different names for these accounts; others will not have any balances in the accounts.

e) You may rename the accounts, if desired. Put N/A if the account name is not applicable for your company. Use *Word* or *Excel*.

f) Where it states to use the Current Year numbers, you are to use the numbers from the annual report you have been working with since the beginning of the semester.

iii) You may have other accounts that are not listed below. Expand the table to include the "other" accounts

g) ***Note, not all of the information may be available, this is OK***. Some of the companies on the selection list are emerging technologies.

iii) If the information is not available, try to understand why, and discuss in your final analysis.

iv) This is a summary of the annual report, 10k. You need to extract the information from the financial statements; Income statement, Balance Sheet, Statement of Stockholder Equity.

(a) You will also need to obtain the statement of cash flows

h) Complete the following based on your stock portfolio:

iii) Stock Market Data: (Note: this must be updated and part of your journal if you make any trades or changes during the course of the semester. In other words, if you change the initial investments you made at the beginning of the semester, you must complete the chart below and reflect in your journal.)

i) Resources for Primary and Company Market data, industry ratios, and company news:

https://www.google.com/finance?tab=we

	Primary Company Current Quarter	***Primary Company Current Year***	***Primary Company Prior Year***	***Competitor Current Year***
Monetary Units (thousands, millions)				
Cash & Cash Equivalents				
Accounts Receivable				
Inventory				
Marketable Securities				
Total Current Assets				
Property, Plant, & Equip				
Accumulated Depreciation				
Total Assets				
Total Current Liabilities				
Long-term Liabilities				
Total Liabilities				
Contributed Capital				
Retained Earnings				
Total Stockholers' Equity				
Net Sales/Revenue				
Cost of Sales				
Gross Profit				

Operating Expenses				
Depreciation Expense				
Net Income				
Inc/Dec in Cash				
Dividends Paid				
Inventory Valuation Method				
Depreciation Method(s)				

	Company	***Competitor***
Stock Price @ purchase date		
Stock Price @ sale date		
Price Earnings Ratio @ purchase date		
Price Earnings Ratio @ sale date		
Earnings per Share @ sale date		
Number of Shares Purchased		
Gain/Loss per share		
Total Gain/Loss		
Annual Dividends Per Share		
Dividend Payout Ratio		

RATIO ANALYSIS:

5) Ratios need to be included with each chapter journal/analysis. It is important to provide the calculations, analysis and interpretation. Use a form similar to the one below to summarize the results. The table will be very useful for seeing the interconnections, and trends as a easy to read summary. In addition, in the preparation of the individual SUMMARY write-up, very useful to have the table available to inform conclusions and comparisons.

d) ***Note: Refer to Chapter 14 as reference for all of the ratios covered during the course. Remember the chapter is only a "summary" the detail for each ratio is found in each specific chapter covered during the course of the semester.***

iii) ***Note: Do not use the ratios from the various financial websites. The ratios on the financial websites are slightly different. You are expected to complete the ratios on your own.***

e) It is critical that you show your work and how you calculated the ratio. When calculating ratios that require averages (average inventory, average accounts receivable, etc.) use **the average (i.e. (prior and current year)/2**. Three year's worth of information would be required to calculate the prior year average. This will require you to have access to the most current annual report and look at the multiyear information provided in the report.

f) ***Note: you must show the work, the answer alone is insufficient when describing in the journal***).

g) ***Many of the ratios will not have the industry average,*** therefore enter what is available for the industry averages. This, of course, is not the "perfect" way because you will compare "old" numbers to current industry averages, but this is a learning exercise to show you understand the concepts and can interpret the ratio with regard to the company performance.

h) ***Remember, it's the process that counts! Show all of your work for the ratios, and discuss what each ratio indicates about the company performance. This is absolutely critical to the final project.***

Ratio Summary Table:

	Primary Company Current Year	***Primary Company Prior Year***	***Competitor Current Year***	***Industry Average***
Liquidity Analysis:				
Cash ratio				
Current ratio				
Quick (acid test) ratio				
Accounts receivable turnover				
Average age of receivables				
Solvency Analysis:				
Debt to Equity ratio				
Profitability Analysis:				
Return on equity				
Return on assets				
Financial Leverage Percentage				
Earnings per share (your calculation from annual report)				
Profit margin				
Gross profit percentage				
Fixed asset turnover ratio				
Inventory Analysis:				
Inventory turnover				
Average Days' Supply in inventory				

Ratio Analysis Table Example:

RATIO ANALYSIS SUMMARY

	Primary Company Current Year	Primary Company Prior Year	Competitor Current Year	Industry Average
Liquidity Analysis				
Cash Ratio	0.19	0.21	0.04	
Current Ratio	1.17	1.24	1.39	1.61
Quick (Acid Test) Ratio	0.25	0.28	0.08	1.04
Accounts Receivable Turnover[1]	54.45	50.89	61.13	1.66
Average Age of Receivables	6.70	7.17	5.97	
Solvency Analysis				
Cash Coverage Ratio	236.45	NA	22.13	NA
Debt to Equity Ratio	2.25	2.02	1.67	38.16
Profitability Analysis				
Return on Equity[1]	7.61%	12.13%	10.39%	1.05%
Return on Assets[1]	2.48%	4.21%	4.17%	5.82%
Financial Leverage Percentage	5.13%	7.92%	6.22%	NA
Earnings per Share[2]	1.38	2.13	0.69	NA
Quality of Income	4.96	3.16	3.71	NA
Profit Margin	1.48%	2.57%	2.06%	0.43%
Gross Profit Percentage	30.87%	30.39%	29.48%	3.09%
Fixed Asset Turnover Ratio[1]	6.27	6.64	9.20	NA
Book Value/Common Share	16.87	17.82	6.87	NA
Inventory Analysis				
Inventory Turnover[1]	2.76	2.77	1.76	0.30
Average Days' Supply in Inventory	135.19	131.77	207.39	NA

[1] - These ratios involve the calculation of an average, and prior year calculations for BKS use data from the prior year annual report. This is to reflect the restating of the prior year financial data to account for the removal of a discontinued operation and allow comparisons to be made with the current year financial data.

[2] - The value used for average outstanding common stock in this calculation is that presented in the income statement.

Ratio Table Example continued:

LIQUIDITY ANALYSIS

Cash Ratio – Industry Average = NA

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$$

BKS (in thousands)	**BAMM** (in thousands)
Current Year	Current Year
$= \frac{281608}{1475675}$ = **0.19**	$= \frac{5529}{157492}$ = **0.04**
Prior Year	
$= \frac{335080}{1590167}$ = **0.21**	

Cash Ratio gives a measure as to whether the company has the ability to pay its short-term debt, but uses purely cash and cash equivalents in its calculation. It's a very conservative method, and produces a clearer picture as to how much cash the company actually has to pay its short-term debt. BKS comes out as in a better position compared to BAMM. This ratio gives a totally different slant to liquidity when compared to the following ratio.

Current Ratio – Industry Average = 1.61

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

BKS (in thousands)	**BAMM** (in thousands)
Current Year	Current Year
$= \frac{1723304}{1475675}$ = **1.17**	$= \frac{219637}{157492}$ = **1.39**
Prior Year	
$= \frac{1965681}{1590167}$ = **1.23**	

Current Ratio gives a measure as to whether the company has the ability to pay its short-term debt. For BKS year-on-year a slight decline is observed in their ability to pay down short-term debt, and is expected considering the economy. Both current assets and current liabilities have decreased over the year, but

Example: Complete Journal with Market Data, Ratios, Case Studies, Chapter Take Ways:

WEEK 1: 14-18 SEPTEMBER, 2009

Company	BKS				BAMM			
Date	Open	Close	Gain/Loss		Open	Close	Gain/Loss	
14-Sep-09	$20.49	$21.60	1.03	5.01%	$11.81	$12.04	0.07	0.58%
15-Sep-09	$21.60	$21.90	0.30	1.39%	$11.96	$12.47	0.43	3.57%
16-Sep-09	$21.99	$22.04	0.14	0.64%	$12.49	$12.53	0.06	0.48%
17-Sep-09	$22.06	$22.18	0.14	0.64%	$12.56	$12.33	-0.20	-1.60%
18-Sep-09	$22.22	$22.32	0.14	0.63%	$12.30	$12.32	-0.01	-0.08%

A positive week for BKS with gains attained each day, BAMM made a gain overall, but on a daily bases by the end of the week the stock price was in decline. Viewed from my starting position, both investments have increased in value, with my BKS holding producing a gain of $2126.

BKS (Purchase Price - $20.57/Stock)			BAMM (Purchase Price - $11.97/Stock)		
Available Value 1215 @ $22.32	Unrealized Gain/Loss		Available Value 2088 @ $12.32	Unrealized Gain/Loss	
$27118.80	$2126.25	8.51%	$25724.16	$730.80	2.92%

No press releases forthcoming from either company for this week. BKS gains a mention in engadget.com (Sept 18), their article referring to BKS having filed with the FCC its own e-book reader. This is the next step for BKS in the expansion of their digital operations, competition to Amazon's Kindle and Sony's Reader. No indication that BAMM will go down this route.

Financial Analysis - (in thousands of $, Industry Averages based on September 22nd, 2009, Reuters)
At first glance the balance sheets for both companies appear pretty good – great big numbers, total liabilities (dress it up how you want its debt) less than total assets so enough assets to pay creditors, or so it appears – but does the use of ratios show a different story. From the financial equation:

Economic resources = Sources for financing the economic resources

(In thousands)	**Assets = Liabilities + Stockholders' Equity**
BKS – As of January 31, 2009	$2,993,888 = $2,072,274 + $921,614
BKS – As of February 2, 2008	$3,249,826 = $2,175,106 + $1,074,720
BAMM – As of January 31, 2009	$279,292 = $174,798 + $104,494

I think the figures suggest that the companies are sized differently. The decrease in assets, liabilities and stockholders' equity from the prior to current year can be clearly seen, and the fact that debt is used to fund assets more than stockholders' equity.

Differences are noted in how the Annual Reports are dated. BKS and BAMM reports cover the same period, but the reference to fiscal year differs. Both companies' fiscal year ends on the Saturday closest to the last day of January, in this case January 31st, 2009, BKS are reporting this as fiscal year 2008, whereas BAMM refer to this time period as fiscal year 2009.

Example continued:

Both companies recognize revenue in a similar manner – time of sale – although BAMM with the added caveat of 'and customer takes delivery'. Both companies employ a member's program with the method of recognition the same.

From the current year's income statement BKS reported net income 44.1% down from the prior year's annual report. A huge reduction overall but considering the market conditions experienced that the financial data relates to then it is expected. A reduction in revenue of 3.1% compared to prior year, coupled with small increases in cost of sales and operating expenses (including a number of one off operating expenses), the added interest expense and a loss reported from discontinued operations all aided in reducing net income. And the effect on the stock price, no impact. The first thing I noticed between BKS and BAAM when looking at BAMM's income statement is where expenses have been included. BKS included impairment charges as part of Selling and Administrative Expenses, BAMM itemized this charge, and where BAMM included new store expenses under Operating, Selling and Administrative Expenses BKS itemizes this. As a % of revenue comparison BAMM has lower operating expenses and a greater % of net income compared to BKS, the effect on the stock price, no impact (BAMM net income reduced from prior year). I did have a look at the historical stock price of both companies to see the effect that the September 2008 banking meltdown had. BKS showed fluctuations in market price for first half of 2008, with a stock price of $29.06 on September 19th, BAMM had steadily declined from $10.07 at the beginning of the year to $7.09 by September 19th, but then carnage. Both stocks tanked it, BKS to $13.46 and BAMM to $1.75 by November 21st – bloody norra, as us Brits would say. The stocks dropped by 54% and 75% respectively from the September stock price. Of the two companies, I think BKS was seen as the least risk to investors.

Well this was a shocker, with net income of $75,920, BKS paid out $51,581 in dividends over the current year, that's a sizeable chunk of net income. Dividends have been paid continuously from fiscal year 2005, with dividends paid/share increasing year on year. I suppose to not pay, or reduce drastically the amount of dividend/share, would have a negative impact to market confidence in the company, and if they've the cash it keeps the stockholders sweet. BAMM also paid dividends over the year, but nearer 50% of net income rather than the approximately 66% of net income that BKS paid out. What really surprised me was the amount of dividend paid out during the prior year by BAMM - $3.36, most relating to the dividend paid out after the second quarter results of fiscal year 2008 (February 2007-2008). The BAMM Board of Directors declared a special one-time cash dividend of $3.09 to be paid on common stock. You'd think they'd won the lottery, but there's no indication on their balance sheet, actually there is nothing to suggest why such a large dividend was paid out.

From the current quarterly financial reports, ended August 1, 2009, sales were interesting. Whereas BKS sales decreased for Barnes & Noble and B Dalton stores, barnesandnoble.com saw an increase in sales.

My thinking is that I would expect to see a similar result for BAMM. In their case, Books-A-Million stores decreased, but their electronic commerce suffered a decrease in sales.

BKS cash flow from operations was reduced as a result of lower earnings, and with outflows reported for both investing and financing activities, BKS ended the year with a net decrease in cash and cash equivalents. BAMM cash flow from operations increased as a result of adjustments made to reconcile net income. With BKS the two prior years recorded a net increase and net decrease in cash flow, BAMM have reported decreases for both these prior years. That to me doesn't seem good.

Earnings Per Share (EPS) – how well is the company performing.

$$\text{EPS} = \frac{\text{Net Income}}{\text{Weighted Average Common Stock Outstanding}}$$

BKS (in thousands)	**BAMM (in thousands)**
Fiscal Year Ending January 31, 2009	Fiscal Year Ending January 31, 2009
EPS = $\frac{75920}{55207}$ = **$1.38**	EPS = $\frac{10574}{15219}$ = **$0.69**
Fiscal Year Ending February 2, 2008	
EPS = $\frac{135799}{63662}$ = **$2.13**	

There are industry averages available but not for a straight calculation based on current annual reports. My calculation for BKS agrees with that reported in the current annual report. A slight variance in the calculation for BAMM compared to that reported in their Annual Report, I'm assuming this is a result of my numbers been rounded to nearest thousand, where as the company have used exact. EPS for the current year was going to be down from the prior year, you don't need to be a financial analyst to work this one out. There is a noticeable difference between BKS and BAMM, apart from company size, the EPS calculation should allow comparison and I would say that BKS is performing better than BAMM and that's reflected in its stock price.

Price/Earnings Ratio (P/E Ratio) – how many times current EPS investors are willing to pay for a company's stock.

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

Industry Average = 2.99 - Trailing P/E Ratio, based on stock price at close of market on September 22nd, 2009, $21.85 (BKS) and $12.46 (BAMM).

BKS (in thousands)	**BAMM (in thousands)**
Fiscal Year Ending January 31, 2009	Fiscal Year Ending January 31, 2009
P/E Ratio = $\frac{21.85}{1.38}$ = **15.83**	P/E Ratio = $\frac{12.46}{0.69}$ = **18.06**
(Reuters = 15.59)	(Reuters = 15.20)

SUMMARY REPORT (50 points):

7) **The most important part** - Write a summary report based on the information and ratios of the companies and industry averages above.
   a) This should be an integrated report rather than separate reports for each company.
   b) Compare and contrast the companies with each other and with the industry, indicating which company seems to have the better ratios for each category.
   c) Report news that may explain any changes you have found in your companies.
   d) What are the strengths/weaknesses of each company? Use as an additional resource, but not required,
      i) **The Ecology of Commerce** and **Cradle to Cradle, Remaking the way we make things**.
      ii) **Financial Accounting, As a Second Language, David P. Weiner** (This is an excellent resource, use it as a basis for your summary analysis)
   e) Interpret the ratios and use as the basis for your analysis of the operational effectiveness of your primary company. Use the comparative company(i.e. The secondary company) as one of the elements in the industry and similiar businesses. Using the ratios as the scapel to cut through the public reporting and determine the **WHY, HOW and POTENTIAL** for the business.
   f) Based on the information gathered, which company do you think would be the better investment for the future? **WHY?**
   g) Attach the report and the above forms you have created in Word or Excel, and submit as to total project.
   h) You cannot do well, or even complete this project, if you have not kept your weekly journal, and recorded your observation, analysis, decisions and complete journal. Using the CHAPTER TAKE-AWAYS from Libby, and Weiner, Financial Accounting as a Second Language are the only references you will need. You do not need to do any further research on Google, the course content is the only basis for the project.
   i) A number of the companies are news worthy and will be critical Healthcare National Policy, Energy renewal, sustainability, economic stability, and social responsibility.
   j) A Grading Rubric is provided as a separate document to assist with preparing the final submission.
   k) Your final analysis is the most critical portion of the final project, it is worth 50 points. The final project represents your accumulated understanding of ***Financial Accounting 1A***, it is the ***CAPSTONE*** for the course.

Appendix A: Final Project Templates

Annual Report Case AnalysisTemplate:

PART I: INCOME STATEMENT

A OVERVIEW

1. The income statement is one of four major financial statements used to communicate the required accounting information about a business. In an annual report, the income statement may be called a statement of earnings or statement of operations, or some other similar title. What is the purpose of the income statement?

2. Financial statements and accompanying notes often report or denominate dollar amounts in thousands or millions in order to enhance readability. How does your company denominate amounts in the financial statements?

3. The primary components summarized on an income statement are an entity's revenues and expenses. Note that income statements are usually presented for the current year as well as two prior years, which permits analysis of trends over time.

   a. For a merchandising or manufacturing company, the largest revenue is derived from sales of its products. For the current and prior fiscal years, what are your company's net sales (remember to write your answers in thousands, millions, etc.)?

Current Year	Prior Year

   b. Discuss the trend in sales over the past two years and provide an explanation for this trend (hint: refer to Management's Discussion and Analysis for possible explanations).

   c. Merchandising companies compute an important subtotal called gross profit, also referred to as gross margin. For the current fiscal year, what is your company's gross profit amount? If it is not shown separately on the income statement, calculate the amount.

   d. Gross profit less operating expenses is called income from operations. Companies may also refer to this amount as operating income/earnings/profit, or may not even label the amount. For the current fiscal year, what is your company's income from operations? If it is not shown separately on the income statement, calculate the amount.

B. PROFITABILITY ANALYSIS

1. What do profitability ratios measure in the evaluation of a company?

_____

2. Vertical Analysis: Investigation of the specific income statement items that affect profitability trends over time can be accomplished by expressing items on the income statement as a percentage of net sales, which is referred to as —Vertical or Common-Size Analysis" (refer to the textbook for illustrations). Perform vertical analysis for your company for the income statement by computing each item below as a percentage of net sales. (Hint: If your company uses a single-step income statement format, first convert the data to a multiple-step format and then compute the percentages. Also note that your company may use different terminology for items below).

	Current Year	Prior Year
Net Sales		
Cost of Goods Sold	100.0%	100.0%
Gross Profit		
Operating Expenses		
Income (Loss) from Operations		
Other Revenues and Expenses		
Income (Loss) Before Income Taxes		
Income Taxes Expense		
Net Income (or subtotal listed after income taxes expense)*		

If a company presents special non-operating items related to discontinued operations or extraordinary items, then the income subtotal after income taxes expense will be labeled something similar to "income/earnings from continuing operations."

3. Ratio Analysis:

a. Profitability can be examined by performing ratio analysis of a company. The most widely used profitability ratio is called earnings per share (EPS). For your company, list the EPS figures for net income (use —diluted EPS if your company provides both basic and diluted EPS) for the current and prior years.

Current Year	Prior Year

4. Interpretation of Trends Over Time: Based on your ratio analysis, discuss your company's trend in profitability over the past two years. Based on your vertical analysis plus further investigation, identify specific items in the income statement most significant in explaining changes over time in income as a percentage of net sales and provide an explanation of events underlying the changes in these items. (Hint: refer to Management's Discussion and Analysis for possible explanations).

5. Industry Comparisons

a. A comparison to industry-wide ratios can help to evaluate how well the company is doing relative to the industry. In the schedule below, identify the industry median for each ratio using the data provided by your instructor for your company's industry classification,

Ratio:	
Profit Margin	Industry Median:
Asset Turnover	
Return on Assets	

b. Overall profitability (i.e., return on assets) results from the interaction of profit margin and asset turnover. Compare your company's ratios to the industry and discuss whether your company is performing better or worse than the industry on each, and also discuss whether the difference in return on assets results primarily from the profit margin or asset turnover, or both.

PART II: BALANCE SHEET

A. OVERVIEW

1. The balance sheet is one of four major financial statements used to communicate the required accounting information about a business. In an annual report, the balance sheet may also be called a statement of financial position. What is the purpose of the balance sheet?

_____

_____

2. The components of the balance sheet are assets, liabilities, and stockholders' equity.

a. *From the textbook/notes*, what are the four main categories used for assets on a classified balance sheet? Indicate these categories below and the total amount for each category on your company's balance sheet for the current year-end. Note that if your company combines several categories into an "Other" category, show amounts below in the proper category (hint: you may need to refer to the notes to the financial statements to identify accounts included in this category).

Category	Total Amount (& Calculation if needed)
1.	
2.	
3.	
4.	
5. Other Assets	

b. *From the textbook/notes*, what are the two categories used for liabilities on a classified balance sheet? Indicate these categories below and the total amount for each category on your company's balance sheet for the current year-end.

Category	Total Amount (& Calculation if needed)
1.	
2.	

c. Indicate the total amount for the current year-end on your company's balance sheet for each stockholders' equity item listed below.

Category or Account	Total Amount (& Calculation if needed)
Paid-in Capital	
Retained Earnings	
Treasury stock	

d. The accounting or balance sheet equation is Assets = Liabilities + Stockholders' Equity. Prove the accounting equation is true for the current year for your company.

Assets	=	Liabilities	+	Stockholders' Equity

B. DISCLOSURES FOR SPECIFIC BALANCE SHEET ITEMS IN NOTES TO FINANCIAL STATEMENTS

1. Cash and Cash Equivalents: How does your company define cash equivalents?

2. Inventories: What accounting policy does your company disclose for inventory valuation and which method(s) is (are) used by your company to determine the "cost" of inventory?

3. Property, Plant, and Equipment

   a. Identify the accounts listed in property, plant and equipment by your company.

   b. Which depreciation method(s) is (are) used by your company?

   c. What amounts are disclosed by your company for (i) depreciation expense for the current fiscal year, and (ii) accumulated depreciation at the end of the current fiscal year? (Note that your company may combine depreciation and amortization together).

Item	Amount
i. Depreciation Expense	
ii. Accumulated Depreciation	

4. Intangibles

   a. What types of intangible assets are owned by your company?

5. Long-Term Debt: Companies primarily use two types of long-term debt instruments which are notes payable and bonds payable. At the current fiscal year-end, for the two largest individual amounts of long-term debt, list the description of the type of instrument, the interest rate, and the carrying value amount.

Description of Instrument	Interest Rate	Carrying Value

C. ANALYSIS OF FINANCIAL POSITION

1. Evaluation of Liquidity

a. What do liquidity ratios measure in the evaluation of a company?

b. One measure of a company's liquidity is working capital. Complete the schedule below to compute working capital for your company for the current and prior years.

	Current Year-End	Prior Year-End
Current Assets		
Less: Current Liabilities		
Equals: Working Capital		

c. The current ratio is a commonly used ratio to evaluate liquidity. In the schedule below, i. compute your company's current ratio as of the end of the current and prior fiscal years and ii. indicate the industry data for the current ratio for the current year-end provided by your instructor.

i. Current Ratio (current assets / current liabilities = X.X : 1 or times)		
Year-End:	Calculation	Answer:
Current		
Prior		
ii. Industry Median for Current Ratio for Current Year-End:		

d. Discuss your company's liquidity position. How does your company's liquidity compare to the industry? What is the trend over the past two years for your company's working capital and current ratio? Identify the specific balance sheet accounts most significant in explaining the changes in liquidity over time and provide an explanation of events underlying the changes in these accounts. (Hint: refer to Management's Discussion and Analysis for possible explanations).

e. Liquidity may be further assessed by analyzing accounts receivable and inventories. For your company's current fiscal year, compute the following ratios.

Inventory Turnover (cost of goods sold / average inventory = times)		
Year-End:	Calculation	Answer:
Current		

Accounts Receivable Turnover (net sales / average accounts receivable = times)		
Year-End:	Calculation	Answer:
Current		

f. Liquidity can also be assessed by computing the length of the company's operating cycle, which can be calculated as the sum of days in inventory and average collection period. In the schedule below, (i) compute your company's operating cycle as of the end of the current fiscal year-end and (ii) indicate the related industry data provided REUTERS.

Operating Cycle Components:	Calculation	i. Your Company:	ii. Industry:
Days in Inventory			
+ Average Collection Period			
= Total Days in Operating Cycle			

g. How does your company's operating cycle compare to the industry? Discuss what this difference means for cash flows. Discuss which specific components of your company's operating cycle differ most significantly from the industry and provide a possible explanation of events underlying these differences. (Hint: refer to Management's Discussion and Analysis for possible explanations).

Evaluation of Solvency

a. What do solvency ratios measure in the evaluation of a company?

b. One measure of solvency is the debt to assets ratio. In the schedule below, (i) compute your company's debt to assets ratio as of the end of the current and prior fiscal year-ends and (ii) indicate the industry data for the debt to assets ratio for the current year-end provided by your instructor.

i. Debt to Assets Ratio (total liabilities / total assets = %)		
Year-End:	Calculation	Answer:
Current		
Prior		
ii. Industry Median for Debt to Assets Ratio for Current Year-End:		

c. Compare your company's solvency position to the industry and what this indicates for your company's level of risk versus the industry. Discuss the trend over the past two years for your company's debt to assets ratio. Identify the specific accounts most significant in explaining the changes in solvency and provide an explanation of events underlying the changes. (Hint: refer to Management's Discussion for possible explanations).

PART III: STATEMENT OF RETAINED EARNINGS/STOCKHOLDERS' EQUITY

A OVERVIEW

1. What is the purpose of the statement of retained earnings?

2. Reconcile your company's beginning retained earnings to ending retained earnings for the current year by completing the following table, listing items increasing and decreasing retained earnings and their amounts (hint: use the information provided in your company's statement of stockholders' equity).

	Amount
Beginning Retained Earnings	
Increases:	
Decreases:	
Ending Retained Earnings	

B. ANALYSIS

1. At the current year-end, indicate how many shares of common stock were issued and outstanding (if your company has more than one class of common stock, use the sum of the number of shares from both classes for each item below).

Number of Shares Issued	
Less: Number of Shares of Treasury Stock	
Equals: Number of Shares Outstanding	

2. The company's dividend record is one way investors evaluate their investment in a company's stock. For your company's current and prior fiscal years, (a) identify the amount of dividends per share of common stock, and (b) compute the dividend payout ratio.

(a) Dividends per share of common stock	
Current Year	
Prior Year	

(b) Dividend Payout (common stock cash dividends declared / net income = %)		
Year:	Calculation:	Answer:
Current		
Prior		

3. Discuss the trend over the past two years for your company's dividend record—address both the dividend amount and the dividend payout ratio and provide an explanation for the trend in the ratio.

PART IV: STATEMENT OF CASH FLOWS

A. OVERVIEW

1. The statement of cash flows is one of four major financial statements used to communicate the required accounting information about a business. What is the purpose of the statement of cash flows?

2. The last part of the statement of cash flows reconciles the beginning cash (may be —cash and cash equivalentsll) balance to the ending cash balance. What is the ending cash balance for the current year shown on the statement of cash flows? Does this match the balance sheet amount shown for cash?

B. ANALYSIS

1. Operating Activities

   a. Identify the amount of cash provided (used) by operating activities for your company each year.

Current Year	Prior Year

   b. What item was the largest reconciling item from net income to net cash provided by operating activities for the current year? List the item and its dollar amount.

   c. For the adjustment listed in part b., explain why this item was added to (or subtracted from) net income to convert to cash provided by operating activities.

2. Investing and Financing Activities: For the current fiscal year-end, what investing and financing transactions resulted in (a) the largest cash inflow and (b) the largest cash outflow? Describe the transactions and indicate the amounts.

Investing	Description of Transaction	Amount
(a) inflow		
(b) outflow		

Financing	Description of Transaction	Amount
(a) inflow		
(b) outflow		

3. Assessment of Free Cash Flow

a. Free cash flow is the amount of cash provided by operating activities that remains after deducting the funds the company must commit to continue operating at its planned level. In the schedule below, calculate your company's free cash flow for the current and prior years.

	Current Fiscal Year	Prior Fiscal Year
Net Cash Provided by Operating Activities		
Less: Capital Expenditures		
Less: Dividends		
Equals: Free Cash Flow		

b. What is the trend of your company's free cash flows over the past two years? Identify the primary transaction(s) that explain the trend over time.

4. Assessment of Liquidity and Solvency Using Cash Flows

a. For your company's current fiscal year, compute the following ratios:

i. Current Cash Debt Coverage (cash provided by operations / average current liabilities = X.X: 1)		
Year:	Calculation:	Answer:
Current		

ii. Cash Debt Coverage (cash provided by operations / average total liabilities = X.X : 1)		
Year:	Calculation:	Answer:
Current		

b. Discuss your company's cash ratios. Compare your company's ratios to the rules of thumb for each provided in the textbook and what these comparisons suggest for liquidity and solvency. (Hint: refer to Management's Discussion and Analysis for information about cash adequacy).