

THE BEST PRACTICE IN TEACHING FINANCIAL ACCOUNTING FOR EXECUTIVE MBA CLASSES: BUILD YOUR OWN CASE

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ABSTRACT

The purpose of this paper is to explain how I have used “Build your own Case” assignment to teach basic financial statement analysis in my executive MBA classes. This assignment is based on a homework assignment in finance and accounting when a summary of financial data and ratios are presented to the students and they are asked to identify and associate each set of the information to a particular company included in the problem. In order for a student to answer the question, they should have a general knowledge about these companies and have a good understanding of their financial attributes including strengths and weaknesses. My assignment requires each student to choose his/her favorite company and perform a complete financial statements analysis for the company. Then each team will integrate their finding in one comprehensive spreadsheet, building their own case to design a problem asking to identify the companies represented in the selection.

Keywords: Teaching MBA, Accounting Education, Executive MBA, Teaching Innovation

Introduction

Innovation and creativity is a key differentiator between successful and unsuccessful teaching relevance in business education particularly in executive MBA (EMBA) programs. Focusing on proven strategies, taking advantage of the great experience of the students, has helped me to develop what I consider the Best Practice in completing a financial accounting section of my course; “Accounting Information for Executive Decisions”. The purpose of this paper is to explain how I have used “Build your own Case” assignment to teach basic financial statement analysis in EMBA classes. One of the interesting homework assignments in finance and accounting which is presented in many textbooks is when a summary of financial data and ratios are presented to the students and they are asked to identify and associate each set of the information to a particular company included in the problem. In order for a student to answer the question, they should have a general knowledge about these companies and have a good understanding of their financial attributes including strengths and weaknesses. My assignment requires each student to choose his/her favorite company and perform a complete financial statements analysis for the company. Then each team will integrate their finding in one comprehensive spreadsheet, building their own case to design a problem asking to identify the companies represented in the selection. This assignment has motivated/energized my students to work together and share their knowledge about all they have learned in my course. A complete set of examples and analysis will be provided in this paper.

Introduction to our Program

Executive MBA program in our institute is a two-year lock-step program starting with a two full day residency program. Accounting Information for Executive Decision is relatively a new course developed to cover all aspect of accounting issues particularly financial and managerial accounting topics. This course starts with a two sessions at the residency and takes additional 15 weeks of regular contact times. It is equivalent to 3.75 credit hours. This course replaced a two-course sequence in financial and managerial accounting. The purpose of this paper is to describe one of the assignments in the course which has encouraged student to share what their knowledge and skills with each others and has created an excitement for the instructor to see student's feedback. The finding will be supported by some examples of students' projects in the last two years.

Description of the Course

Combining case studies, readings, lectures and class discussion, this course empower the student to integrate accounting information into organizational planning and control processes. Topics covered include understanding the accounting cycle, the strategic approach to analyzing financial statements (including balance sheet, income statement and cash flow), costing systems, cost-volume-profit analysis, budgeting and control systems, relevant cost and decision-making, performance evaluation and strategic cost management. The course will emphasize practical application of both financial and managerial accounting. The first half of the course emphasizes financial accounting and is concluded by the assignment described in this paper/abstract.

The project

Different Numbers for Different Industries - There are two sections for this project. Section one is a group project where students will construct the problem, building a spreadsheet covering all significant financial data for the companies that they have already analyzed. This section includes a short explanation of each of the companies that they have reviewed as another assignment. (Please see appendix A for details).

The second part of the problem is individual analysis, to match each company with a set of the ratios and other information provided in the first section. It is obvious that students already know these companies; however my objective is to see how they can relate them to the industry and the company specifics. I am suggesting that each student look at the problem/case as though it is presented in the textbook and try to see if they can identify each company by looking at the attributes such as financial ratios or any other information presented in the case. For example if company A has no inventory, it can be a bank or an airline. It cannot be a merchandising or manufacturing. However, they need more information to support the identity of each company. I know they already know the right answer however I encourage them to articulate and support their responses based on the fact not based on their knowledge of the case. If the facts do not support the analysis, they have to revise the construct of the case. (Please see appendix B for an example of a group and individual write up).

APPENDIX A. GUIDELINE FOR INDIVIDUAL TERM PAPER

Company Analysis

Effective financial statement analysis requires an understanding of the economic characteristics and competitive strategies of a business as well as the accounting principles and procedures underlying their financial statements. The premise of this assignment is that students learn financial statement analysis most effectively by performing the analysis on actual companies. Each student will choose a company of their choice and evaluate short-term and long-term financial position, profitability and cash flow of the company in relation to the industry and competition. The report should include but not limited to horizontal and vertical analysis of balance sheet and income statement, ratio analysis covering profitability, activity, solvency, financial leverage and market ratios, and a projection of cash flow. Following are some suggestions for this project. Attach a copy of the financial statements to your report.

I. Amounts and ratios

1. Working capital.
2. Current ratio.
3. Quick or acid-test ratio.
4. Accounts receivable turnover.
5. Average collection period.
6. Inventory turnover.
7. Average number of days per inventory turnover.
8. Business cycle.
9. Number of bonds and number of share of stock outstanding.
10. Book value of securities: (a) per bond, (b) per share of preferred stock, and (c) per share of common stock.
11. Capitalization ratio.
12. Debt-equity ratio.
13. Interest coverage.
14. Coverage of dividends on preferred stock.
15. Earning per share.
16. Diluted earning per share.
17. Return on assets.
18. Return on equity.
19. Return on sales.
20. Dividend payout ratio.
21. Dividends yield ratio.

II. Common-size financial statements (Balance sheet and income statement)

III. Dollars and percentage changes (trend Analysis)

IV. Analysis and conclusions

APPENDIX B. AN EXAMPLE OF A GROUP AND INDIVIDUAL WRITE-UP

The following is an example of a case study that a team has developed and the response written by a team member. More examples will be presented at the meeting.

Part I Group Project

The following ratios are for five companies in separate industries. The companies are listed as A-E in the table. Match each company A-E with the correct company from the list the table. Explain your choices.

Ratio	Company				
	A	B	C	D	E
Profit Margin %	31.4%	6.84%	2.0%	12.50%	23.10%
Current Ratio	2.45	1.35	3.13	7.91	1.37
Acid Test (quick ratio)	2.30	0.39	1.84	7.91	1.23
A/R Turnover	7.03	48.76	69.0	10.0	11.2
Inventory Turnover	6.88	4.83	3.1	n/a	6.27
Days in AR	51.91	7.49	5.29	10.0	32.6
Days in Inv	53.09	75.57	117.74	0	58
Operating Cycle	105.00	83.06	123.03	10.0	90.84
Debt to Assets	0.24	0.38	0.10	0.11	0.32
Ret on Assets	8%	12.85%	10%	12.05%	16.90%

The five companies to which the above ratios relate are listed below in alphabetical order:

Cisco

Large corporation selling scalable, standards-based networking products that address a wide range of business needs of other corporations. Product offerings fall into several categories: core technologies, routing and switching; Advanced Technologies (home networking, IP telephony, optical networking, security, storage area networking, and wireless technology)

Google

This company is the world's largest search engine and one of the five most popular sites on the internet. It generates revenue primarily through two programs: highly targeted advertising and online search services.

Home Depot

This company is the world's largest company within the home improvement retail industry. It has been in a state of slow and steady growth for the past two decades. Has 1,890 retail stores worldwide.

Research In Motion

Research In Motion is the leading designer, manufacturer and marketer of innovative wireless solutions for the worldwide mobile communications market. Products include Blackberry wireless email solution, wireless handhelds, and wireless modems. The company has accrued a contingency reserve related to an impending patent infringement lawsuit.

Mine Safety

The company is appliance global leader in the development, manufacture and supply of sophisticated products that protect people's health and safety. Products include: air purifying respirators, fire helmets, body armor, gas detection devices, head, eye, face, and hearing protection, and mining safety devices. The company operates the most complete R&D facilities within its industry.

Part II – Individual student response

Company A = Research in Motion

Company B = Home Depot

Company C = Mine Safety Appliances

Company D = Google

Company E = Cisco

Google's main products are advertising and online search services, neither of which require inventory on hand. We can therefore determine that **Google is Company D, as it has no inventory**. Mine Safety Appliance has the most complete R&D facilities in its industry. It manufactures an extensive line of high quality products that need to be quality checked and regulated – a slow process that results in large amounts of inventory on hand. Compared to the other 4 companies, it should have by far the highest amount of Days in Inventory. We can therefore determine that **Mine Safety Appliance is Company C, with 117.7 Days in Inventory**. We know that Home Depot is well established, with a slow and steady growth rate, which would suggest that it puts up profit margins within its industry average year after year. Industry averages in the retail industry are typically in the 5-15% range. Home Depot would therefore have to be either Company B or D based on profit margin - the other choices are too far out of the range. But since we previously identified Google as Company D based on inventory turnover, we can safely assume that **Home Depot is Company B, with a profit margin of 6.84%**.

The majority of Cisco's products and services are most likely sold on account to its customers. Therefore, we know that Cisco is either Company A or E based on their DSO ratios of 51.9 and 32.6, respectively. The other choices have DSO ratios that are just too low (7.5, 5.3 and 10). So we must now decide between A & E. A company the size of Cisco, with as much money tied up in inventory as it does, simply could not remain solvent if it also allowed its DSO to reach 51.9 days (company A). We can therefore assume that **Cisco is Company E, with a DSO of 32.6 days and days in inventory of 58**.

Research in Motion is therefore Company A by default. We can also confirm that RIM is Company A by looking at its ratios. A profit margin of 31.4% in the wireless technology industry, especially for a company with patents on product technology as popular as the Blackberry devices, is certainly reasonable. Days in A/R of 51.9 makes sense as most of RIM's customers are network carriers and resellers. Days in inventory of 53 also makes sense as the company would have to maintain an adequate amount of raw materials for its products.