

DUTCHESS COMMUNITY COLLEGE
Financial Accounting
ACC 104
Fall 2009

Section 03 Monday & Wednesday 9:00 – 10:50 T 318

TEAM PROJECT

This Team Project counts as 10% of your final grade.

It will take a significant amount of time and effort, so plan accordingly.
The key to successfully completing this project is organization and planning.

Each team will be acting as the managers of a financial analysis company.

First Deliverable (1 point): Due September 21

- You should choose a name for your company.

- You will be analyzing TWO companies of your choice. You can pick any two American-based companies who have publicly traded stocks (But not any of the companies covered in the text book, e.g., Tootsie Roll). Picking two companies in the same industry will make this project much easier. **IT IS HIGHLY RECOMMENDED THAT YOU CHECK TO INSURE THAT THE COMPANIES YOU CHOOSE HAVE READILY AVAILABLE FINANCIAL STATEMENTS.** Typical problems are that they are not United States companies or they are subsidiaries.

- Read the *Memo Standards* section below and provide me with a memo stating:
 - the names of the two companies you have chosen.
 - Read the *GRADING and The COMPENSATION COMMITTEE* section below and provide me with your initial compensation proposal. Typically, teams initially agree to shares the work and points equally.

Second Deliverable (2 points): Due October 26

Provide me with a memo with the following information:

- Read each company's most recent annual report and summarize the following information:
 - Company name
 - Stock ticker symbol

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- Ending date of latest fiscal year
- Describe the principal products or services the company provides
- Breakout of Revenues by Region (saying “they are global” is NOT acceptable. You may need to read through the *Notes to the Financial Statements* to find this information.)
- Name of the company’s external auditors and what their opinion says about the financial statements (summarize: The opinion will likely say something along the lines of “... the financial statements... fairly represent...”) **AND** the internal controls.
- Most recent price of the company’s stock and its ANNUAL dividends per share (Note that this is NOT the same as *annualized dividends*). Be sure that you note the source and date of this information.

WARNING: The expectation is that you are reading the companies’ financial statements which should be available online at the companies’ website. Do NOT use Yahoo.Finance or other such websites.

- Review each company’s financial statements for the last **two** years and show the following information:
 - From the Income Statement, i.e., NOT the entire Income Statement:
 - Gross Profit (not applicable to service companies)
 - Income from Operations
 - Net Income
 - From the Balance Sheet, i.e., NOT the entire Balance Sheet:
 - Total Assets (an indication of size)
- The *Team Skills Assessment* forms from each member of the team. (The *Team Skills Assessment* process will be addressed in separate documents.) Note the penalty adjustment described in the COMPENSATION COMMITTEE section if a team member fails to deliver a Team Skills Assessment form.
- Any amendments to your compensation proposal.

Third Deliverable (4 points): Due November 12

Provide me with a memo with the following information:

- Summarize the key accounting policies, if any, as regards:
 - revenue recognition
 - merchandise inventories (LIFO, FIFO, etc.)
 - property and equipment (depreciation/amortization)

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- Using the library and/or the internet, find at least two RECENT articles discussing your company and/or its industry.
 - Describe the companies, their industry and their outlook, e.g., what threats or opportunities are the companies facing?
 - Based on your research and reading of the annual report (especially the *Letter to Shareholders* and the *MD&A*), summarize the company's plans, if any, to address the threats and/or opportunities. Note that I do NOT want a summarization of all of the *Letters to the Shareholders* and the *MD&A*; you should relate the relevant concepts from them to the articles you have chosen. For example; an article in the Wall Street Journal discusses competition from low-cost overseas producers is threatening your company's industry and the MD&A states that the company is trying to cut costs in order to compete.
- The *Team Skills Assessment* forms from each member of the team. Note the penalty adjustment described in the COMPENSATION COMMITTEE section if a team member fails to deliver a Team Skills Assessment form.
- Any amendments to your compensation proposal.

Fourth (and final) Deliverable (3 points): Due December 3

Provide me with a memo summarizing the following information:

- For the past two years, calculate and discuss the financial ratios (e.g., *Good or Bad*; do NOT describe or define the ratios) from the chapters covered during the semester:
 - Working Capital
 - Current Ratio
 - Inventory Turnover
 - Days in Inventory
 - Receivables Turnover
 - Average Collection Period
 - Debt to Total Assets
 - Times Interest Earned
 - Earnings Per Share
 - Price-Earnings (show date & source of stock price)
 - Gross Profit Rate
 - Profit Margin
 - Return On Assets (ROA)
 - Asset Turnover
 - Return On Common Stockholders' Equity (ROE)

You must show calculations:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{150}{75} = 2$$

Continued

- Compare and contrast the ratios of the two firms and indicate which firm has the “better” ratio.

Also provide me with:

- Copies of the financial statements for both companies.
- The *Team Skills Assessment* forms from each member of the team. Note the penalty adjustment described in the COMPENSATION COMMITTEE section if a team member fails to deliver a Team Skills Assessment form.
- Your **final** compensation proposal. As explained below, note that each individual’s final grade is based on the Total Team Points distributed based on THIS final proposal. The points are NOT distributed on a deliverable by deliverable basis.

MEMO STANDARDS

Memos that fail to adhere to the following standards will be penalized:

- They must be delivered on time. A penalty of 1 point will be deducted for each day the memo is late.
- They must be typed: handwritten memos are unacceptable.
- They must be properly identified by team number AND name.
- The team members' full names should be listed.
- They should be dated.
- The *Deliverable #* must be indicated.
- The pages should be numbered, preferably in the format *1 of 3, 2 of 3, etc.*
- **VERY IMPORTANT:** You are comparing two companies. Therefore, you must design your report to facilitate comparison. Stapling two separate reports together does not achieve the goal and is not acceptable.

GRADING and The COMPENSATION COMMITTEE

TEAM SKILLS ASSESSMENT FORMS Penalty Adjustment

All submissions will be graded on their merit. For Deliverables 2, 3 & 4, this grade will be multiplied by the ratio of the number of team members who handed in a Team Skills Assessment Form / the number of team members.

Example: Your team submits the Second Deliverable and receives the full 2 points. However, only 4 of your 5 team members hand in a Team Skills Assessment Form. The adjusted grade for this submission will be $(2 * 4/5 =) 1.6$ adjusted points earned by the team.

Calculation of TOTAL TEAM POINTS

TOTAL TEAM POINTS = adjusted points earned by the team * number of members in the team.

E.g., if the team scores 7 out of 10 points on the assignments during the semester, and there are 5 members on the team, then they have earned $7 * 5 = 35$ TOTAL TEAM POINTS.

Allocation of TOTAL TEAM POINTS to Team Members

All members of the team are on the *Compensation Committee* for your company. (Note that in real companies it is rare for the managers to be on the Compensation Committee that decides their own salary.) You must decide on how the team's points are to be distributed among the team members.

EXAMPLES:

- You may choose to share the points equally among all the team members, in which case each member would receive 20% (i.e., 1/5) or 7 points in our example.

- You may decide that a number of members of the team (e.g., 2) carried a heavier workload and should receive 10 points regardless of the outcome. Then the two members would receive 10 points and the other 3 would receive 5 points $((35 - (2 * 10)) / 3)$.
 - You do NOT have to distribute all the points. E.g., if you have a team member who has contributed little or nothing to the Team's efforts, the Team can choose to give that team member a low or even a zero grade.
- Or you can design your own compensation plan.

If you are sharing the points equally (i.e., everyone gets the same grade) you need only say SHARING EQUALLY.

ANY PLAN OTHER THAN SHARING EQUALLY (i.e., everyone does **not** get the same grade) requires a formal proposal. The Compensation Committee's proposal must be approved by a simple majority, but all members must be informed. The proposal is NOT binding, i.e., I retain the right to modify it if, in my judgment, it is unfair to any of the members of the team.

NOTE that the grades for all the deliverables are summed and allocated by the last proposal received; i.e., the grades earned on each deliverable are NOT allocated individually.

NOTE that, as in the real world, teams in the past have not hesitated to penalize members who are not contributing to the team effort.