
Section 1

Using the Annual Report Project

Description and Purpose

The **Annual Report Project (ARP)** is designed to accompany *Financial Accounting*, Sixth Edition, by Ingram, et al. The project is a series of assignments in which students are matched up with a single firm, obtain that firm's annual report, SEC 10-K, and proxy statement, and then explore and analyze those financial documents step-by-step as topics are raised in the text.

The primary purpose of the **ARP** is for students to observe *live*, up-to-date financial information in its *natural habitat*. Students have the opportunity to extend and apply what they have learned in the textbook to a real annual report. It gives them practice in deciphering accounting terminology that differs from company to company and practice in recognizing various and differing presentation formats that are common in external financial statements. The project is designed to increase your students' ability to recognize, utilize, and apply the concepts and lessons they learn in your accounting course.

Another purpose of the **ARP** is to build teamwork skills. Many employers have made some variation of the following remark, "You professors educate students one-at-a-time but we employers work them in teams." The clear implication is that employers often consider our graduates to be deficient in this skill area. Employers expect their new employees to have experience working closely on team-oriented projects. Since teamwork skills take time, effort, and practice to develop, the **ARP** represents an early opportunity in the business school curriculum to introduce or extend teamwork skills. Failure to develop and extend teamwork skills is just as dangerous to a career as failing to master personal computer, writing, or speaking skills.

A third purpose of the **ARP** is to familiarize students with many of the classic sources of business and financial information because their employers will expect them to be able to quickly and accurately obtain business and financial information about suppliers, customers, competitors, or acquisition candidates. Therefore, Assignments 2 and 10 require that students go to the library and use the classic business reference sources available from publishers such as Dun & Bradstreet, Mergent, and Standard & Poors. Because more and more information is now available on the Internet, students can also find free information there.

Organization

The **ARP** has 15 assignments. Assignments 1 through 6 orient the student to his/her company, industry, and specific financial reports while Chapters 1 through 7 of the text establish the basics of the accounting information system and financial reporting. Assignment 7 is a writing assignment. Assignments 8 through 14 follow the corresponding chapters in the text, i.e., when the text raises a topic such as financial leverage, the related assignment sends the student to his/her company's financial reports to determine how (or if) that topic applies to

that company. The final assignment is the Capstone Project.

Changes to this Edition

There were few changes to the Sixth Edition of the **ARP**, but there were several notable changes to the Fifth Edition. They are listed here in case you did not use the Fifth Edition.

1. **Assignments** – Assignments were realigned to coincide with the revised chapters in the Fifth Edition text of Ingram, et al. Several Assignments were combined without loss of content, while Assignment 5 was expanded to create Assignments 4, 5 and 6, which cover the material in more detail.
2. **Questions** – Many questions and/or requirements were streamlined.
3. **Memos/Reports** – There were new options for the writing portion of the **ARP**.
4. **Assigning companies** – To simplify assigning a company, lists of the Dow 30, NASDAQ 100, and NYSE U.S. 100 were printed in Sections 6, 7 and 8, respectively, of the *Instructor's Manual*. Because the Dow 30 appears almost in its entirety on the NYSE U.S. 100, the latter was listed according to industry groups. (Microsoft and Intel are NASDAQ stocks.)
5. **Acronyms** – A list of common acronyms was printed in Appendix B.

Writing Assignments

The writing assignments bring together all of the information which the students learn about their company. They are spread throughout the **ARP** to make it easier for the students to write them and you to grade them.

There are three suggested approaches—memos, an initial report, and a capstone project. Regardless of the approach used, coverage of the **ARP** material will be virtually identical. The student will prepare an overall assessment of his/her company and make an appropriate recommendation.

Memos are the preferred approach. They are brief, one to three pages in length, and are written after Assignments 3, 6, 10, 12 and 14. Memo No. 6 in Assignment 15 highlights significant information from the previous memos and makes a final recommendation. A general scenario is provided in the **ARP's** Introduction to Memos on page vi, but another scenario could be constructed focusing on a lending decision or potential supplier.

The **Initial Report** in Assignment 7 utilizes the same information as the first two memos, but in report form. It can be completed in sequence or as part of the Capstone Project in Assignment 15.

The **Capstone Project** is a culmination of the **ARP**. It incorporates the content of the Initial Report if that was not done in Assignment 7.

Individual Students Versus Student Teams

The **ARP** was designed for use by students working individually or (preferably) in learning groups, or student teams. (See Section 2 of this *Instructor's Manual* for comments and recommendations about how to form teams.) Regardless of which approach is used, the

assignments will be identical.

If students are working in teams, they will complete the Group Project on page 3 of the **ARP**. This section brings the team together for the first time and gets it started. This is when you can either assign each team a company or you can assign each team an industry and let the team choose its own company. (See Section 8 for a list of companies organized by industry.)

Strategic Decisions

There are several strategic decisions you must make regarding use of the **ARP**. First, you must decide whether students work individually or in groups. Both ways have been used successfully, but personally I prefer the group, or team-based approach, assigning one company to each team. All team members work on the same company, which generates more interaction among the team members and greater in-depth discussion of issues. Also, there is evidence that the students much prefer this approach.

Second, regardless of whether you adopt the individual or team approach, you must choose whether to collect each individual assignment or focus on the writing assignments. While you *could* collect the assignments on a weekly basis just as you might collect and grade homework, it is not necessary. Instead, maximum benefits are usually derived from the project when students must integrate the separate assignments into a written report.

If the Capstone Project is used, have the students read Assignment 15 during the first week of class so they understand that the **ARP** is a term project. Also by using Memo No. 2 in Assignment 6 or the Initial Report in Assignment 7, students can receive feedback on the quality of their efforts.

Additionally, each individual or team can, if you so choose, make an end-of-term class presentation based on their written report.

Estimated Time to Complete

In-class time—The amount of required in-class time can be negligible. Introduce the project the first day of class while going over the syllabus. If teams are used, take about 10-15 minutes to assign them. Thereafter, other than inquiring occasionally at the beginning of a class session, “Are you having any problems with the **ARP**?” no additional class time needs to be invested. The questions arising in response to inquiries usually don’t take long to answer. How much time you spend on discussion of the Readings and the Questions for Consideration can be decided as you progress through the term. Of course, in-class cooperative learning exercises could be derived from many of the assignments.

Out-of-class time—Generally, with the exception of Assignment 15, each assignment is a one-hour assignment. Usually they don’t actually take an hour to complete, but a certain amount of time is necessary for the student to go to the library, find the references, etc. As long as the assignments are clearly laid out at the beginning of the term, students seldom complain about the time necessary for completing them. Complaints have arisen, however, when one or more additional **ARP** assignments are *sprung* on them during the course. They don’t like that one bit and complain vociferously.

The time necessary to complete the **ARP** will vary widely depending upon the strategic decisions you have made. Assignments will take less time for individual students than for

teams, particularly if your students do not have significant experience with team-based work. The teams will be less efficient as the students invest start-up time in learning how to work together. Of course, it's this learning phase regarding teamwork that employers want to see occur at the educational institution rather than on the job.

A further complicating aspect of estimating time requirements for this project is that students often *get into* these assignments to such a degree that they end up investing a great deal of *non-required* time because their interest level is so high. They will spend hours poring over their annual reports and 10-Ks as well as articles about their company and industry. They'll spend hours searching electronic databases in the library for information about their firm and its competitors. And, of course, the availability of Internet-based information only increases the amount of time that one can spend. The **ARP** will pique student interest.

Deleting Certain Assignments

The **ARP** is flexible with regard to the collection of assignments you can use effectively. If you wish to reduce the overall number of assignments, delete the assignments in the order shown below until you have a project of a magnitude you are happy with. Be aware that the easiest and most direct way to reduce the magnitude of the project is to delete the written assignments. However, that eliminates the formally written synthesis and analysis of the material and reduces the students' development of their writing skills.

Suggested order of assignment deletion—6, 13, 11, 9, 7 and 2.

Summary of Annual Report Project Assignments

Following is a brief description of each assignment and the tasks for each one.

Assignment 1 explains how to choose a company and obtain its annual report, SEC 10-K, and proxy statement.

Assignment 2 considers the selected company's industry and environment using classic library resources and/or the Internet to obtain basic background information. Students write a short summary of two articles—one about their company and one about its industry—and indicate why the article is significant and interesting. (You may want to provide guidelines as to the articles selected. For example, you might require that each article be from a U.S. business periodical, at least two pages in length, and from the most recent two years.)

Assignment 3 leads the student through the major sections of his/her firm's annual report. Attention is focused on the non-financial sections, e.g., MD&A, statement of management responsibility, and auditors' report.

Assignment 4 requires students to make an in depth analysis of their company's income statement (including special items, i.e., discontinued operations and extraordinary items), balance sheet classifications, and statement of stockholders' equity accounts. Additionally, four basic financial ratios are introduced which students use to analyze their company.

Assignment 5 provides a comprehensive analysis of the statement of cash flows and introduces two alternative measures to earnings, e.g., EBIT and EBITDA.

Assignment 6 identifies three of the most common SEC reports. Its major focus, however, is the 10-K report. The required sections of the 10-K are listed, and students indicate where

that information is found in their company's 10-K. Students write briefly on the similarities and differences between their company's annual report and SEC 10-K. A review of the proxy statement is also made.

Assignment 7 has students prepare an Initial Report about their company based on environmental and financial information gained through the first six assignments. Students make an overall analysis of their company.

Assignment 8 correlates to Chapter F8 in the text, and subsequent **ARP** assignments follow the text in a lock-step pattern. In Assignment 8, the Notes to the Financial Statements are analyzed, including those involving the Time Value of Money.

Assignment 9 familiarizes the student with the results of his/her firm's *financing activities*, exploring types and characteristics of the firm's financing, as well as items such as stock splits, dividends, and stock options.

Assignment 10 focuses on analysis of long-term financing choices and leverage. It requires use of either Mergent's *Bond Record* or Standard & Poor's *Bond Guide* to determine information (e.g., bond rating, call price, etc.) about the firm's outstanding debt. A current issue of *The Wall Street Journal*, or the Internet, is used to summarize stock trading experience on a given day. Six *financing activity* ratios are computed and evaluated.

Assignment 11 explores results of the firm's *investing activities*, e.g., depreciation, cash flow from investing activities, investments, mergers, and goodwill.

Assignment 12 focuses on selected characteristics of the firm's long-term asset accounts. The return on assets is explored by analyzing asset turnover and profit margin, and performance of the firm's segments is evaluated.

Assignment 13 focuses on a firm's *operating activities* and current assets, e.g., revenue recognition, accounts receivable valuation, inventory and inventory cost methods, and subsequent events.

Assignment 14 evaluates the firm's profit margin and asset turnover ratios for cues as to the firm's profit strategy. Six measures (ratios) of operating efficiency and effectiveness are computed and compared to those of other firms.

Assignment 15 is a capstone project that integrates all prior assignments into a single end-of-term report. A suggested outline or organization for the report is given.