

DRAFT
COLLEGE
SCHOOL OF BUSINESS/GRADUATE STUDIES

ST. THOMAS UNIVERSITY

FL2/Fall
Term ~~SU1/Summer~~, 2020

ACC 770 – Managerial Accounting

Instructor: Professor C.E. Reese
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Text: Accounting: Text and Cases, 13th Edition, by Anthony, Hawkins & Merchant. New York: Irwin/McGraw-Hill, Inc., 2011.

Course Description:

An analysis of accounting information for the purpose of planning, controlling and decision-making. Emphasis on concepts of financial statement analysis, funds flow statements, cost analysis, budgeting, and control techniques.

Prerequisite: ACC 500, ACC 530 or equivalent.

Student Goals:

The student should gain understanding of the use of accounting information to aid in the basic managerial functions of planning, control, and decision-making.

Course Competencies:

Upon completion of the course, the student should be able to prepare cost analyses, cash flow statements, budgets, cost comparisons, and financial statement analysis used in managerial decision-making situation.

Attendance and Assignment Completion (Expectations):

You are expected to attend class. If you miss class, you are still responsible for the material covered. Assignments are due at the beginning of the class on the date shown. Assignments will ONLY be accepted on the due date. ~~E-mail them to the instructor (before the due date) if you have to be absent. An alternative is to hand deliver the assignment to the instructor's office before the assignment due date.~~

Assignments should be submitted on CANVAS no later than 11:59 p.m.

Grading:

Class Participation (Discussion of Cases)	20%	100
Term Project (Comparative Analysis)	30%	150
Case Assignments (Case Solutions)	<u>50%</u>	<u>250</u>
Total	100%	500

Schedule of Activities and Assignments:

ACC 770	Course Schedule	FL2, Term SU1 , 2020
<u>Date</u>	<u>Topic/Chapter(s)</u>	<u>Case(s)</u>
5/14 10/22	Course introduction	
5/21 10/29	Chapters 1-12: Review of Financial Accounting/Guidelines for case analysis	1-1*(in class analysis)
5/28 11/5	Chapters 13 & 14: Analyzing and Understanding Financial Statements Selection of term project companies	1-1 & 10-3*
6/4 11/12	Chapter 15: Management Accounting Term project outline due Chapter 16: Cost Behavior	13-6** 15-1**
6/11 11/19	Chapter 17: Full Costing Chapter 18: Costing System Variations Chapter 22: Responsibility Accounting	16-3* 17-1 18-4**
6/18 11/26	Chapter 23 & 24: Planning, Budgeting and Control Term project draft submission (optional)	22-5 23-4*
6/25 12/3	THANKSGIVING	
6/25 12/10	Chapter 26: Short-Run Decisions	24-1 & 26-3*
	Term project due (With PowerPoint Presentations)	

*Cases from the 11th or 12th edition.

**Case and issues to be provided by instructor.

ACC 770 Case Analysis Style

Title page

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Issues (questions at end of case facts)

- 1.
2.
 - a.
 - b.
- 3.

Facts (summary of relevant facts in chronological order and in narrative form)

Analysis

- 1.
2.
 - a.
 - b.
- 3.

Conclusions (solution and/or recommendation in re: issue)

- 1.
2.
 - a.
 - b.

Reference/Citations/Bibliography

Note: For some assigned cases not all elements of the case solution may/might be appropriate. This generalization is most relevant to cases primarily involving preparation of financial statements or other primarily computational analysis.

Introduction to the Case-Study Method

(Adapted from: Seperich, G.J, M.J. Woolverton, J. G. Beierlein and D. E. Hahn, eds., Cases in Agribusiness Management, Gorsuch Scarisbrick, Publishers, Scottsdale, AZ 1996)

The case-study method may be new to you. Experience has shown that case studies bring interesting, real-world situations into the classroom. As you discuss cases with your fellow students, you will learn that decision-making is often a confrontational activity involving people with different points of view. Most important, you will learn how to work toward consensus while tolerating legitimate differences of opinion.

Decision-making is what managers do. The decisions of managers directly influence the operations of an organization. If you are to be successful in a healthcare administration career, you must learn to be a good decision maker. You must develop the ability to apply classroom training in management to organizational problem solving so that you can learn how to (1) make decision making easier, (2) improve the analytical quality of decisions, (3) reduce the time required to make decisions, and (4) increase the frequency of correct decisions.

After completing a few case studies, you should find them an interesting and rewarding way to learn. Each case can have more than one right answer depending on how the problem is defined and which assumptions are made. Students commonly spend several hours preparing the solution for a case assigned for classroom discussion. The time you spend working on case studies will be well spent because it will prepare you to confidently take on a position in health management in which decision-making challenges face you each day. Success in your career will be the real reward for the work you do in preparing case studies.

ATTACKING THE CASE

Your first reaction upon reading a case will probably be to feel overwhelmed by all the information. Upon closer reading, you may feel that the case is missing some information that is vital to your decision. Don't despair. Case writers do this on purpose to make the cases represent as closely as possible the typical situations faced by managers. One definition of management is "the art of using scanty information to make terribly important, semi-permanent decisions under time pressure." One reason for using the case-study method is for you to learn how to function effectively in that type of decision-making environment.

When assigned a case that does not contain all the information you need, you can do two things: First, seek additional information. Library research or a few telephone calls may provide the necessary facts. Second, you can make assumptions when key facts or data are not available. Your assumptions should be reasonable and consistent with the situation because the "correctness" of your solution may depend upon the assumptions you make. This is one reason that a case can have more than one right solution. In fact, your teacher may be more interested in the analysis and process you used to arrive at the decision than in its absolute correctness.

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In some cases, the case writer(s) have provided questions to guide your analysis; in other cases it is up to you, the case analyst, to decide which questions are relevant in defining the problem. This too is by design. In a management situation you will have to decide which questions to ask, and certainly no one will give you a list of multiple-choice answers. *This is why it is suggested that you not limit your analysis to the questions at the end of a case.*

WRITING THE REPORT

You probably will be asked to write reports for at least some cases. The following guidelines will help you write an effective case analysis.

First, in business communications a **short report** is usually considered better than a long report. This does not mean that in your report you can skip key points, but rather that you state relevant points clearly and concisely. Do not include trivial matters.

Second, the report should be well written. It should be **typed** and not contain spelling or grammatical errors. The report you hand in for class should be equivalent in quality to a report you would write for your boss.

A well-written report would contain the following elements:

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BALANCE SHEET

Current Assets

Cash and cash equivalents
Short-term marketable securities
Accounts receivable
Notes receivable
Inventories
Prepaid expenses
Deferred tax assets

Noncurrent Assets

Land
Buildings and equipment
Assets acquired by capital lease
Intangible assets
Natural resources
Other noncurrent assets

Current Liabilities

Short-term debt
Current maturities of long-term debt
Accounts payable
Unearned revenue or deferred credits
Payroll taxes and other withholdings
Other accrued liabilities

Noncurrent Liabilities

Long-term debt
Deferred income taxes
Other long-term liabilities

Owners' Equity

Common stock
Preferred stock
Additional paid-in capital
Retained earnings
Treasury stock
Accumulated other comprehensive income (loss)

INCOME STATEMENT

Sales
Cost of goods sold
Gross profit (or gross margin)
Selling, general, and administrative expenses
Income from operations
Gains (losses) on sale of assets
Interest income
Interest expense
Income tax expense
Unusual items
Net income
Earnings per share

STATEMENT OF CASH FLOWS

Operating Activities

Net income
Depreciation expense
(Gains) losses on sale of assets
(Increase) decrease in current assets
Increase (decrease) in current liabilities

Investing Activities

Proceeds from sale of property, plant, and equipment
Purchase of property, plant, and equipment

Financing Activities

Proceeds from long-term debt
Repayment of long-term debt
Issuance of common / preferred stock
Purchase of treasury stock
Payment of dividends

Case 10-3

Kansas City Zephyrs Baseball Club, Inc.

Prepared by Battu Bat ~~REDACTED~~

For

Professor C.E. Reese

i/n partial fulfillment of the requirement for

ACC 770-Managerial Accounting

College School of Business Graduate Studies

St. Thomas University

Miami Gardens, Fla.,

SP
Term ~~12/Summer~~ *Spring/20*

~~May 26, 2013~~

March 13, 2020

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References

Appendix/Appendices

Issues

1. Why does net income not equal cash flows?
 - a. Why do we need accrual accounting?
 - b. Why don't we fire all accountants and just publish summary bank statements?
2. Why do the differences between owners', players' CAAP and truth number exist?
 - a. This is the "positive accounting" question. Can accounting numbers be neutral representations of what happened?
3. What importance are the periodic net income numbers if the clubs can always be sold for huge profits?
4. How should Bill Ahern resolve the accounting conflict between the owners and players?
 - a. How much did the Kansas City Zephyrs Baseball Club earn in 1983 and 1984?
5. The case describes three areas in which the accounting is being disputed:
 1. Player compensation.
 2. Roster depreciation.
 3. Transfer pricing of related party operations (stadium costs).

Facts

EXHIBIT 6 Summary of Items of Disagreement Between Owners and Players (000s)

Items of Dispute	1983			1984		
	Owners	Players	Difference	Owners	Players	Difference
Roster depreciation	\$2,000.0	0.0	\$2,000.0	\$2,000.0	0.0	\$2,000.0
Current roster salary	9,111.0	\$5,897.4	3,213.6	10,097.0	\$7,256.5	2,840.5
Amortization of signing bonuses	0.0	716.0	(716.0)	0.0	947.0	(947.0)
Nonroster guaranteed contract expense	0.0	0.0	—	1,250.0	500.0	750.0
Stadium operations	4,086.0	3,300.0	786.0	4,457.0	3,500.0	957.0
Total effect on net income			<u>\$5,283.6</u>			<u>\$5,600.5</u>
Effect on Net Income (before tax)	1983	1984				
Income before tax per Owners' Financial Statements (Exhibit 1)	(\$2,373.6)	(\$2,602.7)				
Total Items of Disagreement	<u>5,283.6</u>	<u>5,600.5</u>				
Income before tax per Players' Financial Statements (Exhibit 4)	<u>\$2,910.0</u>	<u>\$2,997.8</u>				

changes losses to profits. In 1984, the change is from a loss of \$1.7 million to a profit of \$1.4 million. In the labor negotiations, the owners keep claiming that they're losing money and can't afford the contract terms we feel are fair. We just don't think that's true. They are "losing money" only because they have selected accounting methods to hide their profits.

Bill: Well, you've given me a lot to think about. There are a lot of good arguments on both sides. Thank you for your time. I'll have my answer for you soon.

BILL'S DECISION

By Wednesday, April 17, Bill was quite confused. To clarify the areas of disagreement, he prepared the summaries shown in Exhibit 6, but whereas the sets of numbers were clear, the answers to the conflicts were not. Bill had expected this arbitration to be rather straightforward, but instead he was mired in difficult issues involving the accounting unit, depreciation, amortization of intangibles, and related-party transactions. Now he was faced with a tight deadline, and it was not at all obvious to him how to define "good accounting methods" for the Zephyrs Baseball Club.

Case 10-3**Kansas City Zephyrs Baseball Club, Inc.***

On April 17, 1985, Bill Ahern sat in his office and contemplated a difficult judgment he had to make in the next two days. Two weeks before, Bill had been asked to be an arbitrator in a dispute between the Owner-Player Committee (OPC, the representatives of the owners of the 26 major league baseball teams in collective bargaining negotiations) and the Professional Baseball Players Association (PBPA, the players' union).

A BASEBALL ACCOUNTING DISPUTE

The issue Ahern had to resolve was the profitability of the major league baseball teams. The players felt they should share in the teams' profits; the owners maintained, however, that most of the teams were actually losing money each year, and they produced financial statements to support that position. The players, who had examined the owners' statements, countered that the owners were hiding profits through a number of accounting tricks and that the statements did not accurately reflect the economic reality. Ahern's decision on the profitability issues,

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was important because it would affect the ongoing contract negotiations, particularly in the areas of minimum salaries and team contributions to the players' pension fund.

On April 9, Ahern met with the OPC and the representatives of the PBPA. They explained they wanted him to focus on the finances of the Kansas City Zephyrs Baseball Club, Inc. This club was selected for review because both sides agreed its operations were representative, yet it was a relatively clean and simple example to study: the baseball club entity was not owned by another corporation, and it did not own the stadium the team played in. Furthermore, no private financial data would have to be revealed because the corporation was publicly owned. Ahern's task was to review the Zephyrs' financial statements, hear the owners' and players' arguments, and then reach a decision as to the profitability of the team by Friday, April 19.

MAJOR LEAGUE BASEBALL

Major league baseball in the United States was comprised of a number of components bound together by sets of agreements and contractual relationships. At the heart of major league baseball were the 26 major league teams. Each team operated as an independent economic unit in such matters as contracting for players, promoting games and selling tickets, arranging for the use of a stadium and other needed facilities and services, and negotiating local broadcasting of games. The teams joined together to establish common rules and playing schedules, and to stage championship games.

The business of most teams was limited exclusively to their major league activities. Very few integrated vertically by owning their own stadium or minor league teams. Most teams were organized as partnerships or privately held corporations, although a few were subunits of larger corporations. While baseball was often thought of as a big business, the individual teams were relatively small. For most of them, annual revenues were between \$20 million and \$30 million.

Each team maintained an active roster of 24 players during the playing season, plus 16 minor league players "on option," who might see major league action during the season. This made a total of 40 players on major league contracts for each team at any one time. Each team played a schedule of 162 games during the season, 81 at home and 81 away.

Collectively, the team owners established most of the regulations that governed the industry. The covenant that bound them was the Major League Agreement (MLA), to which was attached the Major League Rules. The rules detailed all the procedures the clubs agreed on, including the rules for signing, trading, and dealing with players.

Under the MLA, the owners elected a commissioner of baseball for a seven-year term. The commissioner acted as a spokesperson for the industry, resolved disputes among the clubs and the other baseball entities, policed the industry, and enforced the rules. The commissioner had broad powers to protect the best interests of the game. The commissioner also administered the Major Leagues Central Fund, under which he negotiated and received the revenues from national broadcast contracts for major league games. About one-half of the fund's revenues were passed on directly to the teams in approximately equal shares.

Within the overall structure of major league baseball, the 26 teams were organized into two leagues each with its own president and administration. The American League had 14 teams and the National League had 12 teams, of which one was the Kansas City Zephyrs. Each league controlled the allocation and movement of its respective franchises. In addition to authorizing franchises, the leagues developed the schedule of games, contracted for umpires, and performed other administrative tasks. The leagues were financed through a small percentage share of club ticket revenues and receipts from the World Series and pennant championship games.

In addition to the major league teams, U.S. baseball included about 150 minor league teams located throughout the United States, Canada, and Mexico. Minor league teams served a dual function: they were entertainment entities in their own right, and they were training grounds for major league players. Through Player Development Contracts, the major league teams agreed to pay a certain portion of their affiliated minor league teams' operating expenses and player salaries.

MEETING WITH THE ZEPHYRS' OWNERS

Bill Ahern spent Tuesday reviewing the history of major league baseball and the relationships between the various entities that make up the major leagues. Then he met with the Zephyrs owners' representatives on Wednesday.

The owners' representatives gave Ahern a short history of the team and presented him with the

EXHIBIT 1 Income Statements Owners' Figures (000s omitted)

	Year Ending October 31	
	1983	1984
Operating Revenues:		
Game Receipts	\$16,526.0	\$18,620.0
National Television	2,360.8	2,730.8
Local Broadcasting	3,147.9	3,575.1
Concessions	2,886.3	3,294.3
Parking	525.1	562.0
Other	786.9	843.9
Total Revenues	\$26,233.0	\$29,626.1
Operating Expenses:		
Spring Training	\$ 545.0	\$ 594.0
Team Operating Expenses:		
Players' Salaries:		
Current Roster	9,111.0	10,097.0
Nonroster Guaranteed Contract Expense	0.0	1,250.0
Coaches' Salaries	756.9	825.7
Other Salaries	239.0	260.8
Miscellaneous	2,655.9	2,897.3
Player Development	2,996.0	3,269.0
Team Replacement:		
Roster Depreciation	2,000.0	2,000.0
Scouting	672.8	734.0
Stadium Operations	4,086.0	4,457.0
Ticketing and Marketing	1,907.0	2,080.0
General and Administrative	3,541.0	3,663.0
Total Operating Expense	\$28,510.6	\$32,127.8
Income from Operations	(2,277.6)	(2,501.7)
Other Income (Expense)	(96.0)	(101.0)
Income before Taxes	(2,373.6)	(2,602.7)
Federal Income Tax Benefit	855.9	944.2
Net Income (Loss)	\$ (1,517.7)	\$ (1,658.5)

team's financial statements for the years 1983 and 1984 (Exhibits 1 and 2). The current owner was a corporation with five major shareholders, which bought the team on November 1, 1982, for \$24 million. The Zephyrs did not own any of their minor league teams or their stadium, but two of the Zephyrs' owners were part owners of the private corporation that owned the baseball stadium.

Ahern studied the financial statements for a short time, and then he met with Keith Strong, the own-

ers' lawyer. The conversation can be summarized by the following exchange:

Bill: I would like to know more about the controversial items in your financial statements. First, could you please explain your players' salaries expense entries?

Keith: Sure. Here is a list of our roster players and what we paid them last year [see Exhibit 3]. The number we show on our 1984 income statement is

EXHIBIT 2 Balance Sheets Owners' Figures (000s omitted)

	Year Ending October 31	
	1983	1984
Assets		
Current Assets:		
Cash		
Marketable Securities	\$ 488.0	\$ 561.0
Accounts Receivable	6,738.0	7,786.1
Notes Receivable	598.0	681.2
Total Current Assets	256.0	234.0
Property, Plant, & Equipment	8,080.0	9,262.3
Less Accumulated Depreciation	1,601.0	1,892.0
Net PP&E	(359.0)	(511.0)
Initial Roster	1,242.0	1,381.0
Less Accumulated Depreciation	12,000.0	12,000.0
Net Initial Roster	(4,000.0)	(6,000.0)
Other Assets	8,000.0	6,000.0
Franchise	2,143.0	4,123.2
Total Assets	6,500.0	6,500.0
	<u>\$25,965.0</u>	<u>\$27,266.5</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts Payable	\$ 909.2	\$ 1,020.2
Accrued Expenses	1,207.5	1,461.8
Total Current Liabilities	2,116.7	2,482.0
Long-Term Debt	7,000.0	8,073.7
Other Long-Term Liabilities	2,443.3	3,964.3
Shareholders' Equity		
Common Stock, par value \$1 per share, 500,000 shares issued	500.0	500.0
Additional Paid-In Capital	10,000.0	10,000.0
Retained Earnings	3,905.0	2,246.5
Total Liabilities and Shareholders' Equity	<u>\$25,965.0</u>	<u>\$27,266.5</u>

the total expense of \$10,097,000. Most of the expense represents cash outflows in 1984. The only exception is shown in the last column of this exhibit. For our highest paid players, we have agreed to defer a portion of their salary for 10 years. That helps save them taxes and provides them with some income after their playing days are over.

Bill: What is the nonroster guaranteed contract expense?

Keith: That is also player salary expense, but we break it out separately because the salaries are paid to players who are no longer on our active roster. The salaries are amounts we owe to players whom we released who had long-term guaranteed con-

tracts. The amount of \$750,000 represents the amount we still owe at the end of 1984 to two players shown in Figure A. Joe Portocararo, one of our veteran pitchers, signed a four-year guaranteed contract last year, but before the season started he suffered a serious injury, and Joe and the team jointly decided it was best he retire. We released U. R. Wilson in spring training, hoping that another team would pick him up and pay his salary, but none did.

We still owe these players the amounts in their contracts. We decided to expense the whole amount in 1984 because they are not active players; they are not serving to bring in our current revenues. We felt it was more meaningful and

EXHIBIT 3 Detailed Players' Salary Summary—1984 (000s omitted)

Roster Player	Signings Bonus	Base Salary	Performance and Attendance Bonuses	Total Compensation	Portion of 1984 Salary Deferred until 1994
Bill Hogan	\$ 500.0	\$ 850.0	\$ 250.0	\$ 1,600.0	\$ 250.0
Corby Megorden	300.0	600.0	225.0	1,125.0	200.0
Manuel Vasquez	200.0	500.0	100.0	800.0	150.0
Jim Showalter		600.0	100.0	700.0	200.0
Scott Van Buskirk	150.0	400.0	100.0	650.0	150.0
Jerry Hyde	150.0	400.0	50.0	600.0	150.0
Dave Schafer		355.0	50.0	405.0	130.0
Leslie Yamshita		300.0	37.5	337.5	100.0
Earl McLain		220.0	37.5	257.5	50.0
Shannon Saunders		210.0	37.5	247.5	50.0
Gary Blazin		190.0	37.5	227.5	40.0
Rich Hayes		160.0	25.0	185.0	30.0
Sam Willett		140.0	17.5	157.5	21.0
Chuck Wright	20.0	115.0	12.5	147.5	
Jim Urquart		115.0	12.5	127.5	
Bill Schutt		115.0	12.5	127.5	
Mike Hegarty		115.0	12.5	127.5	
Bruce Selby		110.0	12.5	122.5	
Dave Kolk		110.0	12.5	122.5	
Bill Kelly		110.0	12.5	122.5	
Dave Carr		110.0	12.0	122.0	
Tom O'Conner		110.0	5.0	115.0	
Jake Luhan		110.0		110.0	
Ray Woolrich		100.0		100.0	
John Porter		100.0		100.0	
Dusty Rhodes		100.0		100.0	
Lynn Novinger		100.0		100.0	
Bill Williams		95.0		95.0	
Jim Sedor		95.0		95.0	
Ralph Young		95.0		95.0	
Ed Marino		95.0		95.0	
Ray Spicer		90.0		90.0	
Eric Womble		90.0		90.0	
Ron Gorena		90.0		90.0	
Gene Johnston		90.0		90.0	
Jack Zollinger		90.0		90.0	
Ken Karr		90.0		90.0	
Tom Crowley		80.0		80.0	
Joe Matt		80.0		80.0	
Bill Brunelle		80.0		80.0	
Roster Player Salary	<u>\$1,320.0</u>	<u>\$7,605.0</u>	<u>\$1,172.0</u>	<u>\$10,097.0</u>	<u>\$1,521.0</u>

(15)

FIGURE A Calculation of Nonroster Guaranteed Contract Expense (\$000)

Player	Amount Owed			Total
	1984	1985	1986	
Joe Portocararo	\$300.0	\$350.0	\$400.0	\$1,050.0
U. R. Wilson	200.0			200.0
				<u>\$1,250.0</u>

conservative to recognize these losses now, as they result from the effects of past decisions that did not turn out well.

Bill: Okay. Let's move on to roster depreciation expense.

Keith: When the team was bought in 1982, 50 percent of the purchase price (\$12 million) was designated as the value of the player roster at that time. This amount was capitalized and is being amortized over six years.

Bill: Why 50 percent?

Keith: That is the maximum percentage that the Internal Revenue Code will allow when purchasing a sports team.

Bill: I see. Is there anything else in the statements that the players dispute?

Keith: No, I don't think so. The rest of our accounting is very straightforward. Most of our revenues and expenses result directly from a cash inflow or outflow.

Bill: Well, that answers all my questions. Thank you.

Keith: I have just one more thing to say concerning baseball finances in general. People seem to think that we generate huge profits since we have a relative monopoly, but it should be obvious that the professional baseball leagues do not exist in order to carry out traditional cartel functions. The rules and regulations governing the clubs comprising the league are essential to the creation of the league as an entity and have virtually nothing to do with pricing policies of the individual clubs. The objective of the cooperative agreements is not to constrain the economic competition among them, but rather to create the league as a joint venture that produces baseball during a season of play. Without such rules of conduct, leagues would not exist.

When this meeting was completed, Bill Ahern felt he understood the owners' accounting methods well enough.

MEETING WITH THE PLAYERS

The following Monday, Ahern met with the PBPA representatives and their lawyer, Paul Hanrahan. They presented Ahern with income statements for the years 1983 and 1984 as they thought they should be drawn up (Exhibit 4). As Ahern studied them, he found the players' version of the financial statements showed profits before tax of \$2.9 million for 1983 and \$3.0 million for 1984 as compared to the losses of \$2.4 million and \$2.6 million on the owners' statements.

Ahern's conversation with Paul Hanrahan went approximately as follows:

Bill: The income statements you have given me are very similar to those of the owners except for a few items.

Paul: That's true; most of the expenses are straightforward. There are only a few areas we dispute, but these areas can have a significant impact on the overall profitability of the team. We feel that the owners have used three techniques to "hide" profits: (1) roster depreciation, (2) overstated player salary expense, and (3) related-party transactions.

Bill: Let's start with roster depreciation. Why have you deleted it?

Paul: We feel it gives numbers that aren't meaningful. The depreciation expense arises only when a team is sold, so you can have two identical teams that will show dramatically different results if one had been sold and the other had not. We also don't think the depreciation is real because most of the players actually improve their skills with experience, so if anything, there should be an increase in

EXHIBIT 4 Income Statements Players' Figures (000s omitted)

	Year Ending October 31	
	1983	1984
Operating Revenues:		
Game Receipts	\$16,526.0	\$18,620.0
National Television	2,360.8	2,830.8
Local Broadcasting	3,147.9	3,475.1
Concessions	2,886.3	3,294.3
Parking	525.1	562.0
Other	786.9	843.9
Total Revenues	\$26,233.0	\$29,626.1
Operating Expenses:		
Spring Training	\$ 545.0	\$ 594.0
Team Operating Expenses:		
Players' Salaries:		
Current Roster	5,897.4	7,256.5
Nonroster Guaranteed Contract Expense	0.0	500.0
Amortization of Bonuses	716.0	947.0
Coaches' Salaries	756.9	825.7
Other Salaries	239.0	260.8
Miscellaneous	2,655.9	2,897.3
Player Development	2,996.0	3,269.0
Team Replacement:		
Scouting	672.8	734.0
Stadium Operations	3,300.0	3,500.0
Ticketing and Marketing	1,907.0	2,080.0
General and Administrative	3,541.0	3,663.0
Total Operating Expenses	\$23,227.0	\$26,527.3
Income from Operations	3,006.0	3,098.8
Other Income (Expense)	(96.0)	(101.0)
Income before Taxes	2,910.0	2,997.8
Provision for Federal Income Taxes ^a	1,338.6	1,379.0
City and State Taxes	236.0	253.0
Net Income	\$ 1,335.4	\$ 1,365.8

^aTax rate assumed to be 46%.

roster value over time, not a reduction as the depreciation would lead you to believe.

Bill: Okay. I understand your reasoning. I'll have to think about that. Let's move on to the next issue.

Paul: That's player salary expense. We think the owners overstate player expense in several ways. One is that they expense the signing bonuses in the year they're paid. We feel the bonuses are just a part of the compensation package, and that for accounting purposes, the bonuses should be spread over the term of the player's contract.

We gathered information on the bonuses paid in the last four years and the contract terms [Exhibit 5]. Then we adjusted the owners' income statements by removing the bonuses from the current roster salary expense and by adding an "amortization of bonuses" line. The net effect of this one adjustment on 1984, for example, was an increase in income of \$373,000.¹

¹\$1,320,000 less \$947,000.

EXHIBIT 5 Summary of Signing Bonuses (\$000)

Contract Length (Years)	Bonuses for Contracts Starting in			
	1981	1982	1983	1984
4	240	550	350	800
3	210	200	250	200
2	360	250	170	320

Bill: But the owners have really paid out all the bonuses in cash, and there is no guarantee that the players will complete their contracts.

Paul: That's partly true. Some players get hurt and are unable to compete effectively. But the number of players who do not complete their contracts is very small, and we think it is more meaningful to assume that they will continue to play over the term of their contract.

Bill: Okay. What's next?

Paul: A second adjustment we made to the players' salary line was to back out the deferred portion of the total compensation. Many of the players, particularly those who are higher paid, receive only about 80% of their salaries in any given year. They receive the rest 10 years later [Exhibit 3]. We feel that since the team is paying this money over a long period of time, it is misleading to include the whole amount as a current expense. This adjustment increased 1984 income for the Zephyrs by \$1,521,000. No salary expense deferred from prior years was added back in because that form of contract is a relatively recent phenomenon.

Bill: I've looked at some of the contracts, and it says very clearly that the player is to receive, say, \$500,000, of which \$100,000 is deferred to the year 1984. Doesn't that indicate that the salary expense is \$500,000?

Paul: No. The team has paid only \$400,000 in cash.

Bill: Doesn't the team actually set money aside to cover the future obligation?

Paul: Some teams do, and in such cases, I think we would agree that it is appropriate to recognize that amount as a current expense. But the Zephyrs don't set any money aside.

Bill: Okay. You made a third adjustment to the players' salaries.

Paul: Yes, we think the salaries due to players who are no longer on the roster should be recog-

nized when the cash is paid out, not when the players leave the roster. Unless that is done, the income numbers will vary wildly depending on when these players are released and how large their contracts are. Furthermore, it is quite possible that these players' contracts will be picked up by another team, and the Zephyrs would then have to turn around and recognize a large gain because the liability it has set up would no longer be payable.

Bill: Okay. Let's go to the last area: related-party transactions. You have listed Stadium Operations at about 80% of what the owners charged. Why is that?

Paul: You probably know that two of the Zephyrs' owners are also involved with the stadium corporation. But what you probably don't know is that they are the sole owners of that stadium company. We think that the stadium rent is set to overcharge the team and help show a loss for the baseball operations.

Bill: How did you get your numbers?

Paul: That wasn't easy, but we looked at what other teams pay for their stadiums. Every contract is slightly different, but we are sure that two of the five shareholders in the team are earning a nice gain on the stadium-pricing agreement.

Just for your own edification, this is not the only type of related-type transaction where the owners can move profits around. A few of the teams are owned by broadcasting organizations, and as a result, they report no local broadcasting revenues. Their individual losses are consolidated into the overall major league position, thus the overall loss is overstated. I know it's hard to do, but an objective look must be taken at all these related-party transactions if baseball's true position is to be fairly stated.

The overall effect of all these adjustments we have made to the Zephyrs' income statements

DECISION GUIDELINES

Using Ratios in Financial Statement Analysis

Horizontal & Vertical (Common Sizing) (Time series) (cross-sectional) 18

Ratio

Computation

Information Provided

Measuring the company's ability to pay current liabilities:

- | | | |
|----------------------------|---|--|
| 1. Current ratio | $\frac{\text{Current assets}}{\text{Current liabilities}}$ | Measures ability to pay current liabilities with current assets. |
| 2. Acid-test (quick) ratio | $\frac{\text{Cash} + \text{Short-term investments} + \text{Net current receivables}}{\text{Current liabilities}}$ | Shows ability to pay all current liabilities if they come due immediately. |

Measuring the company's ability to sell inventory and collect receivables:

- | | | |
|---------------------------------|--|--|
| 3. Inventory turnover | $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$ | Indicates saleability of inventory—the number of times a company sells its average inventory level during a year. |
| 4. Accounts receivable turnover | $\frac{\text{Net credit sales}}{\text{Average net accounts receivable}}$ | Measures ability to collect cash from credit customers. |
| 5. Days' sales in receivables | $\frac{\text{Average net accounts receivable}}{\text{One day's sales}}$ | Shows how many days' sales remain in Accounts Receivable—how many days it takes to collect the average level of receivables. |

Measuring the company's ability to pay long-term debt:

- | | | |
|--------------------------------|---|---|
| 6. Debt ratio | $\frac{\text{Total liabilities}}{\text{Total assets}}$ | Indicates percentage of assets financed with debt. |
| 7. Times-interest-earned ratio | $\frac{\text{Income from operations}}{\text{Interest expense}}$ | Measures the number of times operating income can cover interest expense. |

Measuring the company's profitability:

- | | | |
|---|--|--|
| 8. Rate of return on net sales | $\frac{\text{Net income}}{\text{Net sales}}$ | Shows the percentage of each sales dollar earned as net income. |
| 9. Rate of return on total assets | $\frac{\text{Net income} + \text{Interest expense}}{\text{Average total assets}}$ | Measures how profitably a company uses its assets. |
| 10. Rate of return on common stockholders' equity | $\frac{\text{Net income} - \text{Preferred dividends}}{\text{Average common stockholders' equity}}$ | Gauges how much income is earned with the money invested by common shareholders. |
| 11. Earnings per share of common stock | $\frac{\text{Net income} - \text{Preferred dividends}}{\text{Number of shares of common stock outstanding}}$ | Gives the amount of net income per one share of the company's common stock. |

Analyzing the company's stock as an investment:

- | | | |
|--|---|---|
| 12. Price/earnings ratio | $\frac{\text{Market price per share of common stock}}{\text{Earnings per share}}$ | Indicates the market price of \$1 of earnings. |
| 13. Dividend yield | $\frac{\text{Dividend per share of common (or preferred) stock}}{\text{Market price per share of common (or preferred) stock}}$ | Shows the percentage of a stock's market value returned as dividends to stockholders each period. |
| 14. Book value per share of common stock | $\frac{\text{Total stockholders' equity} - \text{Preferred equity}}{\text{Number of shares of common stock outstanding}}$ | Indicates the recorded accounting amount for each share of common stock outstanding. |

Term Project

Comparative Financial Statement Analysis of Quality Distribution, Inc. and Swift
Transportation, Inc., *2017-19*

Prepared by Bry Batt

For

Professor C.E. Reese

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College School of Business/Graduate Studies

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Introduction

One of the most important tools for assessing the strength of a business organization within its industry is financial analysis. Managers, investors, and creditors employ some form of this analysis as the beginning point for their financial decision-making. Investors use financial analyses in making decisions about whether to buy or sell stock, and creditors use them in deciding whether ~~or not~~ to lend. Financial analysis provides managers with various measurements of how the company is doing in comparison with its performance in past years and with the performance of competitors in the industry. Comparisons are essentially intended to shed light on how well a company is achieving its objectives, ~~and~~ ^{any} the overall objective of ~~a~~ business is to create value for its shareholders while maintaining a sound financial position.

The purpose of this project is to analyze and compare two public companies from ^{with one company headquartered in Florida.} within the same industry. Those companies are Office Depot with headquarters in Delray Beach, Florida and Staples Inc., headquartered in Framingham, Massachusetts. What follows first is an industry overview and a profile of the two companies. Then financial analysis is performed using the ratio analysis as well as horizontal analysis and vertical analysis. Using the ^{se} analyses, creditworthiness and investment attractiveness are determined. Finally, there ^{is a} ~~are~~ summary and conclusions.