



The Adviser: \$ELLING \$NEAKERS

An Advanced Accounting Challenge

Everybody owns at least one pair of athletic footwear. Ever wonder how much money the companies behind them are earning?

As the Adviser, you have recently been hired by a large shoe company (Nike, Adidas, Puma, Under Armour, or Sketchers) to analyze its financial strengths and weaknesses, assess its overall health and compare how they stack up against the competition.

Over the next several weeks, you'll complete activities that will get you familiar with the company's inner workings and financial performance. Your insights will help them gauge its current position in the marketplace and determine new strategies to run past the competition.

Here's what you'll be covering, week by week:

1. Company overview
2. Company financial statements
3. Cash & controls
4. Receivables
5. Inventory
6. Long-term assets
7. Current liabilities
8. Long-term liabilities
9. Corporate equity
10. Cash flow
11. Final analysis

In the end, you'll understand the ins and outs of how \$120 billion worth of athletic shoes are sold each year in just about every country on the planet.

ACTIVITY 1: Company Overview

Create a team of 3-5 classmates and choose one of the companies below to evaluate together.

Nike	Adidas	Puma	Under Armour	Skechers
STOCK SYMBOL NKE	STOCK SYMBOL ADDDF	STOCK SYMBOL PMAAF	STOCK SYMBOL UA	STOCK SYMBOL SKX

Company: _____

Team Members: _____

Perform an internet search to find and download your company's most recent annual report, then save it for future use. Using its website and annual report, complete the table below:

Official name:
Form of business (circle one): Single Industry Corporation Multi-Industry Conglomerate
Headquarters address:
Financial website:
Product website (if different):
Committed to sustainability/corporate social responsibility? (circle one): Yes No If yes, provide evidence:
Names of CEO and CFO:
Currency used for financial reporting:
Financial reporting abbreviation (billions, millions or thousands):

ACTIVITY 2: Financial Statements

Fill out the tables below for the company you've chosen to investigate. You should find everything in its annual report or annual financial statements (hint: search online for EDGAR, the Electronic Data Gathering, Analysis, and Retrieval system, and use the "interactive data" versions).

Current assets	
Long-term assets	
Total assets	
Current liabilities	
Long-term liabilities	
Equity	
Shares outstanding	

Revenue	
Cost of goods	
Operating expenses	
Interest expense	
Tax expense	
Depreciation/amortization expense	
Unusual items	
Net income/(loss)	
Earnings per share	
Comprehensive income	
Total dividends	
Ending retained earnings	

Net cash provided by/(used in) operating activities	
Net cash provided by/(used in) investing activities	
Net cash provided by/(used in) financing activities	
Net change in cash	

ACTIVITY 4: Receivables

1. What is the company's balance in receivables at year end? Has it increased or decreased from the prior year? Does it include non-customer receivables? Why is this important?
2. Compute the receivables turnover rate and the number of days in receivables. What does this mean?
3. Search the web to find the current average receivables turnover rate for the footwear industry. How does your company compare to the industry? Explain.
4. How does the company account for uncollectible accounts? Has this changed over time? If so, how have the changes impacted the amount of money collected? Explain. Could management use uncollectible accounts to manage the company's net income? Explain.
5. Based on your research, do you have any significant business concerns about the company's receivables? Explain.

ACTIVITY 5: Inventory

1. What types of inventory does the company you're investigating hold (i.e. raw materials, work in process or finished goods)? Provide examples of the goods held.
2. How does the company value its inventories? What does this mean?
3. What is the company's inventory turnover? How does it compare to the footwear/apparel industry average? Explain.
4. What is the company's gross profit margin? How does it compare to the footwear/apparel industry average? Explain. (Hint: To calculate gross profit margin, divide gross profit by revenue and express as a percentage, i.e., 42.1%).
5. Does the company provide any details about its supply chain? Does it claim to be sustainable? Do you agree with its claims? Explain.

ACTIVITY 6: Long-Term Assets

1. List a few examples of the company's long-term assets. If none are specifically mentioned in the annual report, imagine what they might be. What is their value to the business? Why do investors care about them?
2. Using the footnotes in the annual report, find the depreciation method that the company uses and the estimated useful lives of the assets. Could the company use depreciation to manage earnings? Explain.
3. Compute the company's asset turnover. How does it compare to the footwear/apparel industry average? Explain.
4. Does the company list any intangible assets? If yes, what is their business purpose and how are they amortized?

ACTIVITY 7: Current Liabilities

1. What is the company's largest current liability? Do you think this is consistent with the industry? How do you know?
2. Does the company list a current portion of long-term debt? What does this mean? Is it a concern for the financial managers of the firm? Explain.
3. Calculate the company's current ratio (hint: divide current assets by current liabilities). How does it compare to the footwear/apparel industry? Is this a concern for the financial managers of the firm? Explain.
4. Could management use current liabilities to manage earnings? Explain.

ACTIVITY 8: Long-Term Liabilities

1. What accounts are included as long-term liabilities? Briefly explain what each represents.
2. If the company has issued bonds, what are its features? When are they due? Were they issued at a premium, face or a discount? How do you know? Why does this matter? Visit yahoo.finance.com to determine today's market value of one bond. Why does an investor care?
3. Could management use long-term liabilities to manage earnings? Explain.
4. Using the footnotes to the financial statements, find at least one example of the use of time value of money. Explain why the application of time value is appropriate to account for the transaction.
5. What is the company's debt ratio (total liabilities divided by total assets)? How does this compare to the footwear/apparel industry? What level of risk does this pose for an investor? Explain.

ACTIVITY 9: Corporate Equity

1. How many shares of the company's stock are currently outstanding? What is the market value per share at year end? What is the company's current market cap (shares x current market value)? Is this important to an investor? Explain.
2. Using the information above, identify the major changes in each area over the last two years. Which changes are "normal"? Which changes are unusual?
3. Does the company hold treasury stock? Why? Explain. Why does this matter? Are there any ethical issues associated with treasury stock? Explain.
4. Does the company have any foreign currency adjustments? What does this mean? Why does it matter?
5. Why is it important for the company to have a balanced debt-to-equity ratio? What happens if a company has more debt than equity (also known as being highly leveraged)? What happens when you have more equity than debt? What are the risks of both scenarios?

ACTIVITY 10: Cash Flow

1. What is the company's major source of cash (operating, investing, financing)? Is this good or bad? Explain.
2. What method does the company use to present cash from (or to) operating activities? Do you find this helpful or confusing? Explain.
3. Did the company report any non-cash transactions on its statement of cash flows? If yes, explain the amount and nature of the transaction. If no, why not?
4. What value does the statement of cash flows add to your analysis of the company? Explain.
5. Where does the company account for its interest expense? Its dividends? Why is it done this way?

ACTIVITY 11: Final Analysis

1. Based on the information you reviewed, do you believe the company to be in good financial health? Explain, citing specifics.

Prepare to represent the company your team has chosen in a class discussion around which company is most successful from a financial perspective.

2. After listening to presentations, which company do you think is favored to have the most long-term success?
3. How does your company stack up to the market leader?
4. What financial areas, if any, do you feel that the company you represented needs to immediately address?