

# Financial Statement Analysis (ACCT-UB.0003) Fall 2017

KMC 4-120 (11:00 TR), TISC UC-04 (2:00 TR), TISC UC-04 (3:30 TR)

Syllabus for Textbook Edition 4

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**Office Hours:\*** Tuesdays 12:45pm-1:45pm and Thursdays 12:45pm-1:45pm, unless noted otherwise in NYU Classes; and by appointment

**TA Office Hours:\*** 5:30-7pm the night before assignment due dates and by appointment (E-mail to schedule)

**\*Note:** If you plan to attend office hours (with the professor), please reserve a time slot in advance. You will find a link to reserve an appointment within each office hour posted in the schedule on NYU classes.

## Course Objective:

The objective of this course is to understand how to read, interpret, and analyze financial statements. Throughout the course, we will use the financial statements of several real companies to illustrate concepts. Specifically, we will:

- Study the interrelationships between financial statement line items
- Use ratio analysis to understand and compare firms
- Understand accounting disclosures
- Use accounting disclosures to adjust financial statements
- Forecast future earnings using accounting disclosures
- Value a firm using forecasts

## Prerequisites:

The course assumes you have a solid grasp of general accounting concepts and principles

## Course Materials:

- The required textbook for the course is "Financial Statement Analysis & Valuation," by Easton, McAnally, Sommers, and Zhang. The book is currently in its fifth edition, but feel free to use an earlier version. You will not need to bring the book to class, but my lectures will assume you have read the assigned pages. You will also need the textbook to complete the optional practice problems, which you will find helpful in preparing for exams.
- Throughout the course, you will receive course packets containing lecture slides, in-class exercises, and practice exam questions. You will also receive supplements containing select pages from financial statements for illustrative purposes.
- You will need access to Microsoft Excel.
- You will find a financial calculator very helpful in the second half of the course. If you plan to go into accounting or finance, this is a worthwhile investment. The Texas Instruments BA II Plus Financial Calculator sells for \$25 on Amazon.

## Grading:

Your grade in the course will be determined according to this tentative point distribution:

Exam I	33%
Exam II	33%
Assignments	33%

### Exams (66.67%)

There are two exams that are aimed at assessing your grasp of the learning objectives for each section. You are required to bring writing equipment, a calculator, and 1 page of formulas and notes. The class meeting prior to each exam will be a review session. I will also hold an optional Q&A session two days before each exam. I do not offer make-up exams.

### Assignments (33.33%)

There are six assignments throughout the semester that are aimed at solidifying your understanding of the concepts covered in class by applying them to the financial statements of Target Corporation. You will have a minimum of a week after we have covered each topic in class to complete the associated assignment. You can work on these assignments individually or in groups of up to five people (you may hand in one copy per group). In order to receive credit for the assignments, they need to be submitted in hard-copy before class begins. If you cannot attend class on an assignment due date, you may submit the assignment before the specified due date. The solution is posted at 5pm on the due date of the assignment, therefore I cannot accept late submissions. The assignment due date schedule is as follows:

Assignment	Topic	Due Date
1	Common size & percentage change analysis	9/28
2	Dupont & Penman Profitability Analysis	10/12
3	Risk Analysis	10/19
4	Accounting Analysis	11/14
5	Parsimonious Forecast	11/30
6	Valuation	12/7
<b>Total Assignments</b>		

Note: The TAs will hold additional office hours the day before each assignment is due (tentatively from 5:30 to 7:00pm in KMC 10-181).

### Re-Grade Policy:

Grading mistakes happen occasionally. Therefore, you are permitted to submit re-grade requests on exams and assignments *within one calendar week* of the posting of the grades. To have an exam re-graded, you must submit a *written* 1-page description of your argument that explains the grading mistake and why you believe you deserve additional credit. Upon receipt of your written description, I will review the *entire* exam for grading accuracy; therefore your grade may go up or down as a result of the re-grade request.

## **Additional Information:**

### **Electronic Devices:**

Laptop computers, iPads, and iPhones are distracting and are therefore not permitted during class unless specifically instructed otherwise.

### **Policy on Class Attendance:**

I do not take attendance. However, past semesters have shown a strong correlation between class attendance and overall course performance. The material we cover in class supplements the material in the book. Therefore, reading the book is a complement (not a substitute) for attending class. I understand that over the course of 28 sessions, personal and religious conflicts come up and you may need to miss a class. If you miss class for any reason, I will make the video available to you upon request for the day(s) you miss because I want you to have the opportunity to make up the material you missed on your own. Exercise solutions will also be posted on NYU Classes.

### **Stern Honor Code:**

You are expected to abide by the Stern honor code.

## **Course Framework:**

Specific content and dates are subject to change. The general progression of the course is divided into three sections, as follows:

### **1. In this section of the course, you will develop the tools to understand and compare firms. We will:**

- Review basic financial accounting concepts
- Become familiar with the information available to investors and analysts
- Learn where to find information in real 10-Ks
- Learn how to compute various financial ratios
- Understand the value of common-size financial statements in understanding the nature of a firm's business
- Learn how ratios can be used to identify trends within a company over time and across firms within an industry
- Learn how to use financial ratios to assess a firm's profitability and risk
- Learn how to interpret financial statement ratios
- Learn how operating and financing activities affect inferences of financial statement ratios
- Learn how to adjust the financial statements to allow for cross-sectional comparison
- Understand the discretion management has in classifying revenues, expenses, gains, and losses on the income statement and the implications of this discretion
- Learn how to recast financial statements to undo distortions
- Learn the difference between temporary and permanent income

Date	Topic	Before Class Readings 4e	After Class Practice Problems 4e	Bring to Class		Assignment Due
				Course Pack	Supplement	
9/5	Course Introduction	1-10 to 1-16		1		
9/7	Accounting Refresh	Skim 2-1 to 2-21 Target MD&A	Q1-2, 7, E1-23, Q2-17 M2-21, 23, 25	1	1	
9/12	Intro to financial statements		E2-31, P2-43, 47	1	1	
9/14	Intro to financial statements			1	1	
9/19	Common-size analysis	Pepsi & Coke MD&A	E2-33, 34, 36	1	2	
9/21	Common-size analysis			1	2	
9/26	Profitability analysis	1-22 to 1-23 Appendix 3B	E1-26, 27, 29 P1-30, 31, P2-41 Q1-13, P1-36, 37, 38, P1-39, 40, 41	1	2	1
9/28						
10/3	Penman Profitability analysis	Module 3	Q3-2, 3, 5, 6, M3-21 Q3-10, 14, M3-23, 27 P3-36, 37, 38, 48	1	2	
10/5	Pro-forma Adjustments	2-13 to 2-14; 5-2 to 5-6 & 5-30 to 5-34	Q5-2, 4, 6, 9 M5-19, E5-27, P5-39	1	2	
10/10	Risk analysis	Module 4; 7-22 to 7-27	Q4-3, 10, 12, 13, M4-16, 17, 21 E4-22, 26, P4-29, 32	1	2	

**2. In this section of the course, you will learn how to understand and analyze accounting disclosures. We will:**

- Understand how accounting choices affect cross-sectional and time-series variation in financial ratios
- Learn how to identify and evaluate critical accounting policies contained in the footnotes to the financial statements
- Understand the effects of these choices on the historical and future financial statements
- Learn how to adjust the financial statements to allow for cross-sectional comparison
- Learn how changes in the asset and liability valuations on the balance sheet impact the measurement of net income on the income statement

Date	Topic	Before Class Readings 4e	After Class Practice Problems 4e	Bring to Class		Assignment Due
				Course Pack	Supplement	
10/12	Accounts Receivable	6-1 to 6-13 HP 10K (Item 1)	Q6-1, M6-12, 13, 14, 15 E6-26, P6-40	2	3	2
10/17	Inventory	6-14 to 6-26 Deere 10K (Item 1)	Q6-3, 4, 5, M6-16, 18 E6-27, 28, P6-41	2	3	
10/19	Exam I Review			1 & 2		3
10/22	Optional Q&A Session 6:00pm KMC 1-70					
10/24	<b>Exam I</b>					
10/26	Fixed Assets	6-28 to 6-39	Q6-7, 8, M6-19, 21			
10/31	United Tech. 10K (Item 1)	12-6 to 12-9	E6-31, 32, 36, P6-38, 42	2	3	
11/2	Present Value	10-3 to 10-11	Q10-1, 2, 3, M10-10, 11, 16	2	3	
11/2	Leases	Southwest 10K (Item 1)	E10-19, 22, P10-28	2	3	
11/7						

**3. In this section of the course, you will learn how to use company disclosures to forecast financial statements and value a firm. We will:**

- Learn how the various financial statement ratios combine to provide a structured framework from which you can forecast future performance and calibrate its reasonableness
- Understand the importance of sales to forecasting future financial statements
- Learn how to identify the critical forecasting assumptions
- Understand the difference between income flows and cash flows
- Understand equity value is a simple summation of the discounted expected future net distributions of cash to equity holders
- Understand the assumptions of the discounted cash flow (DCF) valuation method
- Understand the principles behind estimating a terminal value and choosing a discount rate
- Learn some valuation heuristics, or shortcuts, to estimate a company's value or to compare it to a peer (e.g., Price-Earnings ratio, Market-to-Book ratio, and PEG ratio)
- Understand the assumptions behind some common valuation heuristics and how to leverage these heuristics when performing macro-level analysis of firms
- Learn how to convert analyst forecasts into a simple valuation heuristic
- Understand the intuition supporting the use of the P/E ratio
- Learn how to “anchor” valuation on current earnings

Date	Topic	Before Class Readings 4e	After Class Practice Problems 4e	Bring to Class		Assignment Due
				Course Pack	Supplement	
11/9	Conference Call	Starbucks Press Release Starbucks MD&A		3	4	
11/14	Forecasting Revenues	Mod. 11	Q11-7, 9	3	4	4
11/16	Forecasting Financial Stmt's	Mod. 11	Q11-2, 3, M11-13, 16	3	4	
11/21	Forecast Reasonableness	Mod. 11	E11-22, E11-28	3	4	
11/23	No Class - Thanksgiving					
11/28	Cost of Capital	12-10 to 12-16	Q12-3, 6, 7, M12-15, 20, 21, E12-30, 31, P12-39, 40, D12-46	3	4	
11/30	Discounted Cash Flow Residual Income Model	14-2 to 14-13 13-5 to 13-10 & Appendix 13C	Q14-5, M14-8, E14-11, 15, P14-18 Q13-3, M13-8, E13-10, 14, P13-15	3	4	5
12/5	Market-Based Valuation	15-3 to 15-12	Q15-1, 2, M15-8, 11, 13, 16, E15-23, 24, 27, 33, P15-37	3	4	
12/7	Exam II Review			2 & 3		6
12/12	No Class - Legislative day					
12/12	Optional Q&A Session 5:00 pm, KMC 1-70					
12/14	<b>Exam II</b>					