

New York University Stern School of Business
Financial Statement Analysis
C10.0003-Fall 2011

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10-79 KMC--998-0027
Class web site: Blackboard

GOAL: We discuss the rationale, objectives, tools, and techniques of accounting, their impacts on corporate financial reporting and financial statement analysis, and their use within the context of other data systems and efficient markets. Traditional and nontraditional methods of financial statement analysis are described, compared and examined. We develop and analyze information from financial statements, associated notes, and allied sources and use those pieces of information to understand the operations and condition of the firm.

COURSE REQUIREMENTS- Accounting core course. You should have a working knowledge of the materials presented in the financial accounting core course and have a willingness to analyze and interpret materials that are described in many forms; the descriptions included in annual reports are frequently imperfect and incomplete.

YOUR EXPECTATIONS- There are no simple answers to financial analysis issues. If there were, there would be little use for the course. Investment and other analytical decisions would be easy and straight forward. Do NOT look for this course to provide you with the a single correct way to evaluate an investment opportunity. There are too many alternatives; there is disagreement as to the nature of a market equilibrium; the future is uncertain; user goals differ; the past may have been improperly measured or measured using different accounting methodologies; each firm presents itself differently and is changing; the data sets are always incomplete and are not entirely compatible with each other. Each firm represents a different package of investments, funding, policy, expertise, and analytical problems in the short-term and in the long-term.

Instead, look at the course as being able to offer you ways to analyze and compare companies in a noisy and imperfect environment and to point out issues and considerations that can affect your analysis. You may want to analyze the same firm differently in different circumstances or if you change your goals and standards; you may want to analyze two firms differently even if you retain the same goal for each firm.

We will not be able to cover all aspects of financial reporting so that many of our analyses are representative of those associated with other areas of financial reporting.

TECHNIQUE- Discussion-lecture is the basic approach for most of the semester. Examples illustrating strengths and problems in various areas will be used. Examples will include a mix of 'blackboard' examples, examples from annual reports and examples drawn from other sources. Student presentations occur later in the semester.

Questions and comments are an integral part of the course; they are always welcome and may offer opportunities to clarify specific and general issues. Current events are also relevant.

TEXT- Wahlen, Baginski and Bradshaw (WBB), Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective (7th edition) (custom text). This text bridges accounting and finance; it outlines selected materials in several accounting topics and offers examples of corporate reporting. The materials are oriented toward users of financial statements. However, the analysis of each topic often leaves more complete detail to other texts.

SUPPORT MATERIALS- Visit Blackboard early and often. It has announcements, class notes, slide shows, spreadsheets, sample exams and miscellaneous articles. Some of these materials will be distributed in class.

ASSIGNMENTS--

Midterm Exam (35%)- This exam will be an in class; short answer, and problem oriented. The exam will involve finding and developing information from an annual report. If you cannot take the exam at the appointed time, then it is **your** obligation to take the exam **BEFORE** the scheduled time.

Final Exam (40%)-This exam will be a comprehensive, closed book, short answer, and problem oriented exam. It is likely that part (or all) of this exam will involve finding and developing information from an annual report. If you cannot take the exam at the appointed time, then it is **your** obligation to take the exam **BEFORE** the scheduled time.

Hand-ins (5%) – There are several assignments due during the semester. They will be reviewed for completeness. Sometimes there may be no single correct answer as interpretations may differ. Make two copies of each hand-in. The first copy is to be handed in at the start of class. You retain the second copy for discussion and as a basis for notes. Late papers will **NOT** be accepted.

In-Class Contributions to Discussion (5%)-There is no certain way to grade for contributions in the classroom. However, those who are prepared AND contribute regularly and thoughtfully in the classroom, **including the 'hand-in'** cases, will benefit. Cases, problems and hand-ins to be discussed (as time permits) are indicated for most classes. You do not have to hand in any of the cases or problems unless indicated as hand-ins. You are also expected to be a full contributor to the group project

Financial Statement Analysis Group Project (15%)-The goal of this project is for you to become familiar with a specific firm and its primary industry, and to make a projection about its performance in the near future using ratios and techniques presented here and elsewhere and using information from financial statements and related sources.

To complete this assignment you will need to understand and interpret parts of the financial statements, learn about the economy as it affects the firm and understand the firm's ability to take advantage of these opportunities.

There will be eight or nine groups of 5 to 6 persons each. Each group picks a unique industry and each individual picks a firm within the industry. Final presentations will be in classes after Thanksgiving and should last about 30 minutes with 5 additional minutes for questions. This schedule is necessary so that there can be two presentations per period so please be prompt and courteous to your fellow students.

There should be a description of the industry and its status within the economy. Each company should be outlined describing its status within the industry. A statement as to the group's expectation about the future of the industry is also appropriate

You may create your own group. Please create your group and give me a list of your members by September 21. Anyone not in a group by September 21 will be assigned to a group. It is expected that all assigned members be fully integrated into the group and that members will contribute fully to the group.

Acceptable firms should:

- report using US generally accepted accounting principles;
- be industrials, retailers or service firms and **NOT** raw materials or financial service firms;
- have at least two operating segments or two geographic segments;
- have some outstanding long term debt and/or leases;
- not be in or going into bankruptcy or about to be merged according to current popular literature; and
- have not changed their fiscal years during the last three reporting periods.

You should use macro, industry and corporate data or materials from company, internet and library sources. DO NOT consult directly with professionals. Remember, the goal is not to generate an analysis agreeing with professionals; it is to use accounting and supporting data in conjunction with the tools and ideas discussed here and elsewhere to develop and support a feeling for the immediate economic and accounting future of the firm.

Project hand-ins include a PowerPoint presentation that summarizes the economic condition of the industry and a statement about each company included in the analysis and a **short** document describing your industry and company findings (limited to no more than one page per industry and for each firm within the industry). Treat this document as though it is a summary outline of your findings you would present to your project manager.

You are expected to follow the undergraduate code of conduct and the graduate honor code throughout the semester.

We follow Stern's default policies for anything not covered here.

<u>Date</u>	<u>Topic</u>	<u>Reading</u>	<u>Classroom Discussion</u>
9/7	Introduction		
9/12	Overview	Ch 1 (17-41, 55-56)	
9/14	Overview	Ch 1 (41-51)	Hand in - Target
9/19	Broad Accounting Issues	Ch 9	9.9
9/21	Income Statement – Structure, Revenues	Ch 8 (630 – 649)	
9/26	Income Statement – Expenses, Provisions	Ch 8 (649 – 651, 657 - 661)	
9/28	Cash Flows - Operations	Ch 3 (153 – 193)	
10/3	Cash Flows - Investing	Ch 3	3.19
10/5	Cash Flows – Financing, Non Cash Flows	Ch 3 (194 – 202)	Case 3.3 (226)
10/12	Profitability	Ch 4	
10/17	Profitability	Ch 4	4.28
10/19	Profitability	Ch 6 (439 – 460)	6.4, Hand in – Chemical Industry
10/24	Risk	Ch 5	
10/26	Risk	Ch 5	5.21; Hand in – Starbucks (Risk Ratios - 411)
10/31	Review		
11/2	Midterm		
11/7	Assets – Inventory, PPE	Ch7, Ch 8 (522 – 549, 650 – 657)	8.21
11/9	Assets – Investments	Ch 7 (549 – 589)	7.10, 7.11
11/14	Assets/Obligations – Debt, Leases	Ch 6 (460 - 493)	6.20
11/16	Assets/Obligations – Taxes	Ch 8 (661 – 672)	8.26
11/21	Assets/Obligations – Pensions	Ch 8 (672 – 684)	8.22; Hand in – CocaCola (Pensions – 728)
11/23	Assets/Obligations – Foreign Operations	Ch 7 (589 – 600)	7.25
11/28	Presentations		
11/30	Presentations		
12/5	Presentations		
12/7	Presentations		
12/12	Review		
12/14	Final Exam		