



FINANCIAL STATEMENT ANALYSIS

C10.0003.01

Monday and Wednesday, 2:00 -3:15 pm
Spring 2012

Professor: Jim Ohlson
OFFICE: KMC 10-85
OFFICE HOURS: Thursdays 11:00-2:00 (or by appointment)
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Course Description: This course develops concepts and tools used to analyze financial statements for purposes of equity valuation. All four financial statements will be discussed extensively to extract information that assesses a firm's performance. An appreciation of a firm's current performance is essential to forecast future performance, which in turn affect the estimation of its value. Most of your time will be spent on learning how to implement, interpret, and manipulate spreadsheets. Case studies will serve as an important tool to appreciate core concepts. At the end of the course you should be proficient in FSA, in terms of concepts as well as practice.

Learning Objectives:

- Develop an understanding of how one integrates finance concepts like cost of capital in the analysis of financial statements.
- Develop an understanding how the basic financial statements interact and differ in the information they provide.
- Develop an understanding of how one uses financial statements to forecast future outcomes such as earnings and dividends and cash flows.
- Develop an understanding of the conceptual and practical difference between enterprise and financial activities.
- Develop an understanding of how one converts forecasts to estimate a firm's value.
- Develop the skills to use spread sheets (i.e., excel) as a tool in financial analysis.

Recommended Textbook: Penman, S., *Financial Statement Analysis and Security Valuation*, McGraw-Hill, 4th Edition.

[You need not acquire this text, but it serves as a standard reference book]

Main Learning Documents: *Financial Statement Analysis and Equity Valuation Spreadsheets*. Dan Gode & Jim Ohlson. These documents can be downloaded on the

net, godeohlson.com (It is for free. The site will be updated throughout the semester.) In addition, throughout the course you will get documents with the heading *UAR: Understand and Remember*. These documents will list important points discussed in class.

Grading:

Homework/Assignments	15%
Midterm	20%
Final	50%
Project	15%

Rules related to assignments: Due before the class to which it has been assigned. It should be sent by email to a TA (details will be provided). Do not neglect the deadline; *late emails will be rejected (zero score)*. While you can consult with your fellow students, what you hand in must reflect your own honest understanding.

Distribution of assignments: Assignments will be posted on Thursdays, before 5pm. They will be due Wednesdays, with a 2:00 pm deadline. Assignments are essential; do not enroll in this course unless you are willing to spend at least 2 hours a week on these.

Rules related to exams: You can bring 4 pages of notes, but nothing else. You should bring a regular calculator. There will be no makeup exams if you miss the exam or do poorly. (Exceptions: health or family reasons.)

Midterm date: Tentatively scheduled for the last class before the mid-semester break.

Rules related to project: You will join a self-selected group consisting of no more than 5 individuals. You cannot consult with any individuals except those in your group. Due date is right before the last class; it should be sent by email to the TA.

Rules related to class attendance: Class attendance is not part of the grade. That said, you cannot ask the instructor or TAs what occurred in class unless you in fact attended (exception in obvious cases of health and family problems, religious observance, and civic obligations). You should also keep in mind that for this kind of class there is no way you can really make up by “reading the text”. When you attend class, *all phones must be turned off*. You should generally bring a laptop to class, but these should be turned off unless relevant for class discussion. If you come late to

class more than twice you will be given a warning that subsequent infractions will affect your course grade.

Rules related to communications: You are expected to consult Blackboard at least every 12 hours throughout the week. I will post course notes etc. on a regular basis as the need arises. You will occasionally be told to download material which you have to bring to class. You are of course free to email me, but you have to recognize that I will not provide out-of-class e-mail tutorials on topics covered in the text or in class. However, I do have office hours which are there to discuss whatever concerns you.

Lectures: The lectures will center on the spreadsheets and how to apply these to cases. There will be no “topic” schedule: there is too much uncertainty as to time requirements for each spread sheet. However, for the initial few weeks (about five, plus/minus one) we will discuss FSA1 and VAL1 (see the godeohlson.com website). To avoid any confusion as to what aspects of the spreadsheets we have completed, I will now and then post on blackboard a summary: what we have discussed, what you are supposed to have spent time on, and how to prepare for the forthcoming class.