

Financial Statement Analysis: ACCT-UB.3.1.002  
Fall 2012– Mondays and Wednesdays 9:30 A.M. – 10:45 A.M.  
Mondays and Wednesdays 11:00 A.M. – 12:15 P.M.  
Mondays and Wednesdays 2:00 P.M. – 3:15 P.M.

Professor April Klein  
K-MEC 10-93  
E-mail: [aklein@stern.nyu.edu](mailto:aklein@stern.nyu.edu)

OFFICE HOURS:

Thursday 11 A.M. – Noon and  
Friday 12:30 P.M.-1:30 P.M.  
and by appointment

### Course Objectives

This course is designed to prepare you to interpret and analyze financial statements effectively. This course explores in greater depth financial reporting topics introduced in the core course in financial accounting and also examines additional topics not covered in that course. The viewpoint is that of the user of financial statements. This course is designed primarily for students who expect to be intensive users of financial statements as part of their professional responsibilities.

The pre-requisites for this course are the core course in financial accounting and the core course in managerial accounting.

### Course Materials

- I am going, for the first time, without a book. Blackboard contains (1) power point slides, (2) problem sets, and (3) other handouts that will be used throughout the term. Please see this syllabus for details on these handouts.
- If you would like a book, I can recommend two:
  - Easton, McAnally, Sommers, and Zhang, “Financial Statement Analysis & Valuation,” Cambridge Business Publishers, 3<sup>rd</sup> Edition.
  - Wahlen, Baginski, and Bradshaw, “Financial Reporting, Financial Statement Analysis, and Valuation,” Southwestern Publishing, 7<sup>th</sup> Edition.
- Note, these two books are not required, but you might find them helpful. I used the Wahlen, Baginski, and Bradshaw in the past.
- **Other course materials will be on Blackboard. We will be looking quite a bit at Apple, Facebook, Amazon, and Groupon. All three filings (and excerpts) are on Blackboard.**

### Assignments

- Readings, cases and/or problems are assigned for each class. You should come to class prepared to discuss your analysis of the cases and problems. Regular class participation is important to the learning process for you and your classmates.

- You may work in groups to discuss homework assignments.
- Additional assignments either will be discussed in class or are extra problems for your benefit. I will tell you the assignments that will be discussed in class prior to that class.

### **Grading**

Grading will be based on the following weights:

Midterm 1	20%
Midterm 2	20%
Midterm 3	20%
Final Exam	40%

### **Blackboard**

I will be using Blackboard to post notes, the syllabus, and to communicate with you throughout the term. If you have any questions as to how to use Blackboard, please see me after class.

### **Seating Chart**

I will be using a seating chart to get to know your names. I will bring the chart to class on September 21, so please select your seat on that date. You must remain in that seat for the entire class – unless you expressly ask me for a changed seat.

### **Course Policies**

#### ***Attendance***

I do not take attendance. However, under the guidelines of the Stern School, class attendance is part of a student's grade. If you miss a class, it is your responsibility to make it up.

#### ***Late Arrivals***

I would appreciate it if you could arrive in class on time. If you are late, please enter the class w/o disrupting the other students. Similarly, if you need to leave class early, please do it as quietly and inconspicuously as possible.

#### ***Computers in Class***

I am sorry, but I do not allow students to use computers in class. Please put them away.

#### ***Cell Phones and Text Messaging***

Unless you are expecting an urgent message, please turn off your cell phones and Crackberries.

#### ***Stern Honor Code***

You must abide by the Stern honor code. That means, among other things, that you must hand in your own work, not copy anyone else's work, and not hand in anyone's homework assignments.

## Syllabus

### **September 5: Introduction to Course: What is Financial Statement Analysis?**

Learning Objectives:

1. Overview of financial reporting and financial statement analysis
2. Understand most effective means of mastering course

### **September 10: Overview of Financial Reporting**

Read: I hope you kept your financial accounting book. Peruse through this book and remind yourself how the accounting system works and how the financial statements look like.

In class: Target Case (on blackboard).

### **September 12 & 17 Balance Sheet Analysis – Asset Analysis**

*For September 12 class, print out the “Groupon financial statements” from its 2011 10-K report.. It’s on blackboard. I also put up the entire filing for your perusal.*

*For September 17 class, print out the “Facebook financial statements” from its S-1 IPO filing. It’s on blackboard. I also put up the entire filing for your perusal.*

Read: Handout on Changing LIFO to FIFO

In class (9/17): ConocoPhillips vs. Exxon Mobil (on blackboard)

See blackboard for an additional LIFO-FIFO problem which you might find useful to do.

**Make-up class:** For those who cannot attend the 9/17 class for religious reasons, I have scheduled a make-up class on September 21.

### **September 19: Income Statement Analysis**

Read: “Analysis of Warranty Accruals Reveals Margin Issues” (on blackboard).

*We’ll be looking at Facebook, Groupon and Apple in this class. You should bring in the income statements for all three companies.*

### **September 24 & October 1: Pro-forma Earnings**

Note: there will be no class on September 26 due to Yom Kippur.

In class (10/1): General Mills (on blackboard) - I strongly suggest you give this a shot as it is difficult to do otherwise.

### **October 3: Midterm 1**

### **October 8 & 10 & 17 Statement of Cash Flows**

October 8 & 10 Creating a Statement of Cash Flows

***Important: Bring in the handout called “SCF Problem and HW” for the October 8 & 10 classes***

Homework: Do the SCF for 2012 in the hand-out.

October 17: Patterns of Cash Flows & Analyzing SCF

***Important: Bring in the handout called “Packet of Cash Flow Statements” for the October 17 class.***

### **October 22: Midterm 2**

### **October 24 & 29 & 31 Profitability Analysis - Using ROA and ROCE**

October 24: *ROA and its Components*

Read: [http://en.wikipedia.org/wiki/Financial\\_ratio](http://en.wikipedia.org/wiki/Financial_ratio); the one exception is ROA in which the numerator should read [Net Income from Continuing Operations + (1-T)\*Interest Expense + Minority Interest Earnings]. Use this for the ROA DuPont equation as well.

***Due on October 24: Calculate the ROA, the Dupont disaggregation of ROA into profit margin and asset turnover ratio, A/R turnover ratio (and in days) and the fixed asset turnover ratio for Facebook. We will use them to compare them to Starbucks in class.***

Homework: Calculate the same ratios for Apple computer (for 2011). Compare them to the Facebook ratios. We will discuss this in class on October 29.

October 29: *ROCE and relating ROA to ROCE*

***Due on October 29: Calculate the ROCE and the Dupont disaggregation of ROCE into adjusted profit margin, asset turnover and leverage for Facebook. We will use them in class on October 29.***

***Bring in your statements for Facebook, Apple, and Amazon for October 29 class.***

Homework: Relate ROA to ROCE by using the method that we did in class for Facebook.

In class (10/31): Lehman Brothers Case: This is a different disaggregation and a great illustration of why Lehman went bust.

Practice Problem: Chemical Industries (on blackboard) – not a hand-in

### **November 5 & 7: Risk Analysis**

Read: [http://en.wikipedia.org/wiki/Financial\\_ratio](http://en.wikipedia.org/wiki/Financial_ratio);

In class (both classes): Clorox (on blackboard)

***Bring in the handouts on Clorox 2008 and Clorox 2010 to class. We will be using them during these two classes.***

Practice Problem: Chemical Industry (on blackboard)

### **November 12 & 14: Equity Analysis**

No reading or homework assignment.

### **November 19: Midterm 3**

---

### **November 21: Lecture on Hedge Fund Activism: Current Research and Statistics**

See Blackboard for the papers that we will discuss

### **November 26 & 28: Income Taxes**

Read; Power Point slides from class

**In class (11/26): Home Depot – due on November 28**

Homework: Amazon Income Statement Case (on blackboard)

**December 3: Assets and Liabilities On and Off-Balance Sheet: Operating and Capital Leases**

Read: Power Point Slides

In Class: We will be putting the operating leases of Ruby Tuesday back on balance sheet.

Homework: Facebook – use the financial statements and fill in the boxes in your power point slides

**December 5 & 10: Introduction to Pensions and Post-Retirement Benefits**

Read: Handout on Pension Terms;  
<http://teachmeaccounting.blogspot.com/2010/01/pension-accounting.html> is a good, succinct handout on SFAS 158

Homework: General Electric Case (on blackboard)

**December 12: Review for Final**

**Final Exam: TBA**