

NEW YORK UNIVERSITY
Stern School of Business

B10.2303 Section 00: Sat. 9:00am-12:00pm
Financial Statement Analysis

Spring 2013
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Teaching Assistant: **TBA**

Course Description and Objectives

Financial Statements are the most comprehensive source of information used to evaluate an organization's past performance and future prospects. This course provides students with a set of tools to effectively analyze an organization's financial statements. Specifically, this course is designed to develop students' ability to (1) identify business strategies and associated risks; (2) assess reporting and disclosure choices given the economic environment in which the organization operates; (3) use ratios and other analytical methods to evaluate and forecast performance; and (4) appreciate the potential of accounting information to assist in valuation. This course should be of interest to anyone who uses financial statements for decision making, including lenders, equity analysts, investment bankers, management and boards of directors, and others charged with monitoring or advising financial performance.

Pre-requisite: Financial Accounting and Reporting (B01.1306) or equivalent

Required Course Materials

The readings, problems, and cases for the course come from *Financial Reporting, Financial Statement Analysis, and Valuation: A Strategic Perspective (7th Edition)* by Wahlen, Baginski, & Bradshaw (FSA).

You will also need a copy of the General Mills Financial Statements 10-K, which can be downloaded at: <http://www.generalmills.com/corporate/investors/index.aspx>. Go to the form 10-K for the fiscal year ended May 27th, 2012.

Three internet addresses may prove useful to you at some point in the course:

1. Filings with the Securities and Exchange Commission: <http://www.sec.gov>
2. Pronouncement of the Financial Accounting Standards Board: <http://www.fasb.org>

3. Pronouncement of the International Accounting Standards Committee:
<http://www.iasc.org.uk>

We will also be discussing current articles on the subject. **You may not use the 6th Edition.**

Class Format and Grading

This course consists of a combination lecture and class discussion.

Your course grade will be computed as follows:

| | |
|---------------------------|------------|
| Class Participation | 10% |
| Quizzes (best 2 out of 3) | 60% |
| Group Project | <u>30%</u> |
| | 100% |

Quiz Policy

You are expected to take all quizzes at the scheduled times. There will be no make-up quizzes given. I will use the best two out of three quiz grades to compute your course grade.

The format of the quizzes will be discussed in class. Students who believe that a quiz has been incorrectly scored should submit a written request for re-grading within two class days from the time the exam is returned to you.

Honor Code

Upon enrollment in this course, you agree to adhere to the Stern MBA Honor Code and accept these consequences of your actions should you violate that code. Any instances of academic misconduct will be immediately reported to the appropriate University authorities.

Group Project

The purpose of the group project is to synthesize the various analytical skills discussed in class by applying those skills to analyze the current financial statements of a publicly traded company. Groups will select one company in the retail, manufacturing, or service industry (avoid financial institutions and regulated utilities). The analysis will include a presentation to the class and a 3-5 page written report. The presentation will be 15 minutes long with an additional 5 minutes for questions. More details about the content of the presentation and the written report will be provided in class.

You will self-select into groups of 4-5 students, each group will choose a presentation date with tie breakers decided in each class.

Course Outline

February 16th

TOPIC: Introduction to Course & Financial Statement Analysis

LEARNING OBJECTIVES:

1. Overview of financial reporting and financial statement analysis
2. Understand most effective means of mastering course and financial statement analysis
3. Discussion of General Mills Financials

READ: Chapter 1

PREPARE: Problem 1.12 (pgs. 65, 68, & 69)

February 23rd

TOPIC: Financial Reporting Highlights

LEARNING OBJECTIVES:

1. Review the purpose, underlying concepts, and accounting principles related to the balance sheet, the income statement, and the statement of cash
2. Use common size statements to make preliminary interpretations of the profitability and risk of a firm
3. Review key principles that drive the preparation of financial reports
4. Understand the environment in which financial reporting principles are determined, as well as the limitations presented when analyzing a firm using financial reports

READ: FSA, Chapter 1

PREPARE: Case 1.2; Answer questions on pgs. 87, 91, & 95

May 23rd

TOPIC: Statement of Cash Flows

LEARNING OBJECTIVES:

1. Understand the relation between net income and cash flow from operations for firms in various industries
2. Use common size statements to make preliminary interpretations of the profitability and risk of a firm
3. Prepare a statement of cash flows from balance sheet and income statement data

READ: FSA, Chapter 3

PREPARE: Problems 3.15 through 3.20, & 3.25; Case 3.3

March 2nd

TOPIC: Profitability and Risk Analysis

LEARNING OBJECTIVES:

1. Analyze and interpret changes in the operating profitability of a firm using the rate of return on assets and its components, profit margin, and total assets turnover
2. Analyze and interpret changes in the rate of return on common shareholders' equity including the conditions when a firm uses financial leverage successfully
3. Understand the importance of effective working capital management and apply analytical tools for assessing short-term liquidity risk
4. Understand the benefits and risks of financial leverage and apply analytical tools for assessing long-term solvency risk

READ: FSA, Chapter 4 & 5; Problems 4.15 through 4.19, 4.23, & 5.15

PREPARE: Case 4.2, pgs. 331-344

March 9th

TOPIC: Data Issues in Analyzing Financial Statement

LEARNING OBJECTIVES:

1. Develop an understanding of the concept of "earnings equality" with emphasis on the sustainability, measurement, and manageability of reported earnings
2. Master the ability for deciding when and how to adjust reported income in order to use it in evaluating performance and in predicting future earnings of a firm
3. Understanding the differences of Specific Events & Conditions that affect Earnings' Equity

READ: FSA, Chapter 7 (pgs. 522-549); Chapter 8 (pgs. 630-657); Chapter 9

PREPARE: Problems 9.9 & 9.10

March 16th

TOPIC: Income Recognition, LIFO Footnote Adjustments, Fixed Assets, Intangibles, Software Development Costs, Income Recognition

LEARNING OBJECTIVES:

1. Observe the effects on the financial statements of recognizing income prior to the time of sale, at the time of sale, and subsequent to the time of sale
2. Observe the time series pattern of income when firms recognize income prior to the time of sale, at the time of sale, and subsequent to the time of sale
3. Review the accounting for inventories and depreciable assets
4. Examine the impact of assets and net income of capitalizing and amortizing intangibles development
5. Identify the financial statement effects of alternative ways of organizing research and development activities and restate the income statement to a format that enhances analysis of the profitability of a technology-based firm

READ: FSA, Ch. 8: Revenue Recognition (pgs. 630-649); LIFO (pgs. 650-657)

PREPARE: Problems 8.15, 8.21, & 7.15

March 30th

TOPIC: Accounting for Income Taxes

LEARNING OBJECTIVES:

1. Understand the need for recognizing deferred income tax expense when book income differs from taxable income because of temporary differences
2. Understand the conditions that give rise to deferred tax assets and deferred tax liabilities
3. Use disclosures of individual deferred tax assets and deferred tax liabilities to study amounts recognized for financial tax and reporting
4. Use disclosures of the effective tax rate to understand why a firm's average tax rate differs from the statutory tax rate
5. Analyze the impact of income taxes on assessment of profitability

READ: FSA, Ch. 2 (pgs. 121-131) & Ch. 8 (pgs 661-672)

PREPARE: Problems 2.14, 8.26

April 6th

TOPIC: Liability Recognition and Valuation

LEARNING OBJECTIVES:

1. Understand and apply the concept of an accounting liability to various transactions intended to keep debt off of the balance sheet
2. Observe the importance of identifying the entity bearing the risks and enjoying the economic return when deciding liability recognition issues

READ: FSA, Ch. 5 (pgs. 460-493)

PREPARE: Problems 6.17, 6.18, 6.19

April 13th

TOPICS: Leases

LEARNING OBJECTIVES:

1. Understand the distinction between the operating lease method and the capital lease method, including the criteria for using each method and their financial statement effects
2. Convert firms using the operating lease method to the capital lease method

READ: FSA, Ch. 8

April 20th

TOPIC: Pension and Healthcare Benefits

LEARNING OBJECTIVES:

1. Distinguish between the amounts that firms report on their financial statements with respect to a pension or healthcare benefit plan and to the amounts that appear on the financial statements of the pension or healthcare benefits fund and understand why the two differ
2. Use pension and healthcare disclosures to measure the economic status and financial performance of a pension or healthcare benefits plan
3. Observe the role of actuarial assumptions in accounting for pensions and healthcare benefits
4. Understand reserves in the financial statements

READ: FSA, Ch. 8 (pgs. 672-684)

PREPARE: Problem 8.22

April 27th

TOPIC: Forecasting Financial Statements

READ: Ch. 10

PREPARE: Problem 10.15

May 4th

CATCH UP

May 11th

GROUP PRESENTATIONS