



Financial Statement Analysis (Fall 2018)

Course Descriptions and Syllabus

Your instructor

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Consultation hours: Tuesday 1.00pm – 1.30pm

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Course Descriptions

Overview

How accounting choices made by a company will help/hinder our understanding of the core activities of a business is the core essence of our course – *Financial Statement Analysis*. Financial Statement Analysis builds upon Core Introductory Accounting and aims to equip you with the skills to read, analyze and interpret financial statement data to make informed business decisions regarding investment or resource allocation. Such skills are required of executives, bankers, analysts, investment managers, and other users of financial information.

We typically turn to financial information to understand the operational and financial workings of a company. However, uncovering and translating this information into actionable insights is not always straightforward or easy. To help you acquire such knowledge and skills, the course is organized in two parts:

Part I: Framework uncovering a company's value-creation activities

We need to first understand the business environment and company-reported accounting information. We focus on accounting choices that will help/hinder our understanding of the business. In addition to reviewing the line items we learned from Core Introductory Accounting, an overview of other line items to be covered in Part II will also be provided.

In order to truly assess management's value-creation activities, we discuss the needs to reformulate financial statements. We will implement reformulation of financial statements suitable for profitability analysis. We then focus on the analysis and interpretation of our profitability analysis (along with other common ratios) for companies from different industries. We finish part I with predictions of Return on Net Operating Assets (RNOA) for assigned companies of interest.

Part II: Adjusting and assessing specific line items

In part II, we will apply tools for adjusting and assessing specific line items to identify primary red flags for accounting quality issues and potential abuses. More specifically, what adjustments an equity analyst would make. We will implement tools that enable us to assess relative performance when comparable companies utilize different accounting methods (converting LIFO to FIFO, capitalizing R&D, capitalizing operating leases).

We will also examine more advanced accounting topics such as revenue recognition for long-term contracts, accounts receivable factoring, inventory for manufacturing firms, accounting for income taxes, derivatives, pension benefits, debt and equity instruments.

The line items are organized as follows:

- i. Revenue and Accounts Receivables
- ii. Operating Capacity
- iii. Fixed Claims
- iv. Estimated Claims
- v. Equity Claims

Throughout the semester, we will translate our knowledge of the business environment and company's current status to form predictions about future financial performance and conditions. This will prepare you for Advanced Financial Statement Analysis in which the forecasted information is applied to various valuation models.

The course has a very practical emphasis. We will apply the tools and concepts via a series of class exercises. You will be assessed based on a mid-term exam, a final exam, on-line mini tests, pop quizzes as well as a group project/presentation.

Mandatory Reading Materials

Class notes will be made available electronically on NYU Classes.

Recommended Optional Text

Financial Statement Analysis and Valuation, 4th edition, by Peter Easton, Marry Lea McAnally, Gregory Sommers and Xiao-Jun Zhang, published by Cambridge Business Publishers.

Other Course Materials

You may access all other course materials including class exercises, solutions to class exercises, requirements for group presentation on NYU Classes. No hard copies of handouts will be distributed in class.

Assessments

Your final grade is calculated based on:

On-line Mini Tests	15%
Pop Quizzes	5%
Mid-Term Exam	20%
Final	30%
Group Project/Presentation (CE3.5)	10%
Group Project	20%

Tentative Class Schedule

Session	Topics	Mandatory Readings - Class Notes	Class Exercises
Part I - Framework to uncover a company's value-creation activities			
1. 9/4 2. 9/6 3. 9/11	Introduction – Earnings Quality & Financial Statement Analysis <ul style="list-style-type: none"> - Business Activities and Articulation of Financial Statements - Earnings vs ΔCash and concept of accrual accounting - Overview of Earnings Quality and Earnings Management - How accounting choices help/hinder our understanding of the business 	CN1	CE1.1 CE1.2 CE1.3
4. 9/13 5. 9/18 6. 9/20 7. 9/25	Review of Financial Statements <ul style="list-style-type: none"> - Review of line items from Core Introductory accounting and their earnings quality issues and common abuses - Overview of other line items to be covered in Part II 	CN2	CE2.1
Due	On-line Mini Test I due at 9.30am on 9/27		
8. 9/27 9. 10/2 10.10/4 11.10/11	Reformulation of Financial Statements <ul style="list-style-type: none"> - Why the need to reformulate statement? - Implementation issues when reformulating statements - Profitability Analysis - Other ratio analysis (growth prospects and risk) 	CN3	CE3.1 CE3.2 CE3.3
12. 10/16 13. 10/18	Profitability Analysis and Interpretation (cont.) <ul style="list-style-type: none"> - Profitability analysis for a specific company Mid-Term Review	CN3 (cont.)	CE3.4 Sample Mid-Term
Due	On-line Mini Test II due at 9.30am on 10/23		
14. 10/23 15. 10/25	Revenue Recognition (Intro) <ul style="list-style-type: none"> - When/what/how much to recognize - Percentage of Completion - Financial Statements for Construction Companies 	CN4	CE4.0 CE4.1 CE4.2

Session	Topics	Class Notes	Class Exercises
16. 10/30 17. 11/1	Group Presentations (Round I)		CE3.5
18. 11/6	In-Class Mid-Term Exam		
Part II - Adjusting and assessing specific line items			
19. 11/8 20. 11/13 21. 11/15	Revenue and Accounts Receivables <ul style="list-style-type: none"> - Multiple Element Revenue Arrangements - Quality of Reported Revenue - Gross vs Net Revenue - Accounts Receivables & Accounts Receivable Factoring - Change in Accounting Estimate vs Accounting Principle 	CN4	CE4.3 CE4.4 CE4.5 CE4.6 CE4.7 CE4.8
Due	Online Mini Test III due at 9.30am on 11/20		
22. 11/20 23. 11/27 24. 11/29	Operating Capacity <ul style="list-style-type: none"> - Capitalize vs Expense - Inventory for Manufacturing Companies - Converting LIFO to FIFO - Property, Plant and Equipment - Asset Impairment - Intangible Assets - Goodwill Impairment - Capitalizing R&D - Quality of Reported PP&E and Depreciation 	CN5	CE5.1 CE5.2 CE5.3 CE5.4 CE5.5 CE5.6
25. 12/4 26. 12/6	Fixed Claims <ul style="list-style-type: none"> - Investments in Debt Securities - Leases (lessee's perspective) - Converting Operating Leases into Capital Leases 	CN6	CE6.0 CE6.1 CE6.2 CE6.3
27. 12/11	Estimated Claims <ul style="list-style-type: none"> - Income Taxes - Permanent vs Temporary Difference - Deferred Tax Assets/Deferred Tax Liabilities - ETR vs Statutory Tax rate - Valuation Allowance - PRE 	CN7	CE7.1
Due	Online Mini Test IV due before class on May 7		

Session	Topics	Class Notes	Class Exercises
28. 12/13	Profitability analysis for different industries		CE9.1
Final Project Due 12/14 at 5.00pm (submit via NYU classes)			
Final Exam (According to University Schedule)			