NEW YORK UNIVERSITY

Stern School of Business

ACCT-GB.2303: FS 9:00am – 12:30pm Fall 2015

Financial Statement Analysis Professor Joshua Ronen Office: 10-71 KMC

Phone: 998-4144 Fax: 995-4230

Email: [jronen@stern.nuy.edu](mailto:jronen@stern.nuy.edu)

Website: [www.stern.nyu.edu/~jronen](http://www.stern.nyu.edu/~jronen)

Teaching Assistant: Kushagra Urs

Email: kdu202@stern.nyu.edu

**Course Description and Objectives**

Financial Statements are the most comprehensive source of information used to evaluate on 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 (8th Edition)* by Wahlen, Baginski, & Bradshaw (FSA).

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 7th Edition.**

**Class Format and Grading**

This course consists of a combination lecture and class discussion.

Your course grade will be computed as follows:

Homework 30%

Quizzes (best 2 out of 3) 35%

Group Project 30%

Participation 05%

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.

Quiz 1: October 14th

Quiz 2: November 11th

Quiz 3: November 30th

**Honor Code**

Upon enrollment in this course, you agree to adhere to the Stern MBA Honor 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 25 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 3-4 students, presentation dates will be chosen and announced by the TA.

**Course Outline**

1. September 16th

TOPIC: Overview

LEARNING OBJECTIVES:

1. Steps employed by financial statement analysts to conduct their analysis.
2. The role of financial statements analysis in efficient capital markets.
3. Sources of financial statements information.

READ: FSA, Chapter 1.

Problem 1.11

1. September 30th

TOPIC: Asset and Liability Valuation and Income Recognition

LEARNING OBJECTIVES:

1. The mixed attribute accounting model
2. asset and liability valuation and the trade-off between relevance and representational faithfulness
3. Income Recognition
4. income taxes
5. analyzing effects of transactions on the financial statements

READ: FSA, Chapter 2

PREPARE and submit: Case 1.2 a-i, v-ee; 2-15; 2-19

1. October 7th

TOPIC: Statement of Cash Flows

LEARNING OBJECTIVES:

1. purpose of the cash flows statement
2. relations among cash flow activities
3. cash flows and a firm’s lifecycle
4. relation between net income, balance sheet, and cash flows
5. preparing the cash flow statement
6. usefulness of the cash flow statement for accounting and risk analysis

READ: FSA, Chapter 3

3.15, 3.20, 3.24 & 3.27; Case 3.3

1. October 14th

TOPIC: Profitability Analysis

Quiz 1 on October 14th

LEARNING OBJECTIVES:

1. various measures of income
2. return on assets (ROA)
3. return on common shareholders equity (ROCE)
4. interpretation of ROA and ROCE
5. benefits and limitations of using financial statement ratios

READ: FSA, Chapter 4

PREPARE and submit: Case 4.2; 4.15, 4.19, and 4.24

1. October 21st

TOPIC: Risk Analysis

LEARNING OBJECTIVES:

1. Disclosures regarding risk and risk management
2. analyzing financial flexibility by disaggregating ROCE
3. short-term liquidity risk
4. long-term solvency risk
5. bankruptcy risk
6. systematic risk

READ: FSA, Chapter 5

Case 5.2; 5.13, 5.16

1. October 28th

TOPIC: Accounting Quality

LEARNING OBJECTIVES:

1. Accounting quality
2. earnings management
3. liability recognition and measurement
4. asset recognition and measurement
5. specific events that affect Earnings persistence
6. tools in the assessment of accounting quality
7. Financial reporting worldwide

READ: FSA, Chapter 6:

PREPARE and submit case 6.3; 6.16, 6.19

1. November 4th

TOPIC: Financing Activities:

LEARNING OBJECTIVES:

1. equity financing
2. retained earnings, accumulated other comprehensive income, and reserves
3. debt financing
4. leases

READ: FSA, Ch. 7

PREPARE: Case 7.3; 7.16, 7.18, 7.22

1. November 11th

TOPIC Investing Activities

Quiz 2 on November 11th

LEARNING OBJECTIVES:

1. Long-lived operating assets
2. allocating acquisition costs to periods benefited
3. relation between book values and market values of long-lived assets
4. investments in securities
5. primary beneficiary of a Variable-Interest entity

READ: FSA, Chapter 8 (pgs. 592-642)

Case 8.2; 8.21, 8.22, 8.24

1. November 18th

TOPICS: Operating Activities

LEARNING OBJECTIVES:

1. revenue recognition
2. expense recognition
3. income taxes

READ: FSA, Chapter 9 (pgs. 682-717)

PREPARE: Case 9.2; 9.14, 9.20, 9.21, and 9.25

1. November 25th

TOPIC: Forecasting Financial Statements

LEARNING OBJECTIVES:

1. preparing financial statement forecasts
2. project revenues
3. project operating expenses
4. project operating assets and liabilities
5. project financial leverage, financial assets, equity, and financial income items
6. project provisions for taxes, net income, dividends, and retained earnings
7. balance the balance sheet
8. project the statement of cash flows
9. shortcuts to forecasting
10. testing the validity of assumptions and sensitivity analysis

READ: FSA, Chapter 10

Case 10.2

1. December 2nd

Quiz 3 on December 2nd

2 GROUP PRESENTATIONS on December 2nd

READ: Ch. 10

Problem 10.15

1. December 9th

GROUP PRESENTATIONS

13. December 16th

GROUP PRESENTATIONS