Financial Statement Analysis (ACCT-UB.0003) Fall 2014

Professor: Christine Cuny

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Office Hours:* Tuesdays 12:45pm-1:45pm and Thursdays 12:45pm-1:45pm, unless noted otherwise in NYU Classes; and by appointment

TA Office Hours:* By appointment (E-mail to schedule)

*Note: If you plan to attend office hours (with the professor), please reserve a time slot in advance. You will find a link to reserve an appointment within each office hour posted in the schedule on NYU classes.

Course Objective:

The objective of this course is to understand how to read, interpret, and analyze financial statements. Throughout the course, we will use the financial statements of several real companies to illustrate concepts. Specifically, we will:

- Study the interrelationships between financial statement line items
- Use ratio analysis to understand and compare firms
- Understand accounting disclosures
- Use accounting disclosures to adjust financial statements
- Forecast future earnings using accounting disclosures
- Value a firm using forecasts

Prerequisites:

The course assumes you have a solid grasp of general accounting concepts and principles

Course Materials:

- The required textbook for the course is "Financial Statement Analysis & Valuation," by Easton, McAnally, Sommers, and Zhang (2nd or 3rd Edition). If you can find an earlier version of the textbook cheaper online, feel free to use it. You will not need to bring the book to class, but my lectures will assume you have read the assigned pages. You will also need the textbook to complete the optional practice problems, which you will find helpful in preparing for exams.

- At the beginning of each topic, I will hand out packets containing lecture slides, in-class exercises, and select pages from financial statements for illustrative purposes.

- You will need access to Microsoft Excel for the second half of the course.

- You will find a financial calculator very helpful in the second half of the course. If you plan to go into accounting or finance, this is a worthwhile investment. The Texas Instruments BA II Plus Financial Calculator sells for $25 on Amazon.

Grading:

Your grade in the course will be determined according to this tentative point distribution:

Exam I	30%
Exam II	30%
Assignments	30%
Professionalism	10%

Exams (60%)

There are two exams that are aimed at assessing your grasp of the learning objectives for each section. You are required to bring writing equipment, a calculator, and 1 page of formulas and notes. The class meeting prior to each exam will be a review session. I will also hold an optional Q&A session at 5pm the Sunday before each exam.

Assignments (30%)

There are six assignments throughout the semester that are aimed at solidifying your understanding of the concepts covered in class by applying them to the financial statements of Target Corporation. You will have a minimum of a week after we have covered each topic in class to complete the associated assignment. You can work on these assignments individually or in groups of up to five people. Most assignments are worth 5% of the total course grade and graded on a scale from 0-10. The detailed point breakdown for each assignment is as follows:

Assignment	Topic	Due Date	Point Value
1	Common size & percentage change analysis	9/23	5%
2	Dupont & Penman Profitability Analysis	10/2	7.5%
3	Risk Analysis	10/9	2.5%
4	Accounting Analysis	11/11	5%
5	Parsimonious Forecast	12/2	5%
6	Valuation	12/11	5%
Total Assignments			**30%**

Professionalism (10%)

I expect you to treat this class as you would treat any professional responsibility. Each student begins the semester with a professionalism score of 7 out of 10. Throughout the semester, each student has the opportunity to improve professionalism through contributing to the classroom learning environment. For example, I expect you to arrive on time and keep your cell phone off for the duration of the class. I do not explicitly take attendance, but I maintain an "on-time" sign-in sheet to monitor timeliness in arrivals. I understand that *occasionally* things come up and you may arrive a few minutes late or have to miss class. But persistent absence, tardiness and/or disrupting the rest of the class upon arrival will adversely affect your professionalism score. I also expect you to be prepared to discuss all materials relevant to the topic of the day. I strongly believe that learning is an active process. Hence, your participation is evaluated on a daily basis and figures prominently in your professionalism score.

Additional Information:

Electronic Devices:

Laptop computers, iPads, and iPhones are distracting and are therefore not permitted during class unless specifically instructed otherwise.

Policy on Class Attendance:

I do not take attendance. However, if you miss class, you cannot participate, which detracts from your ability to actively participate in your education and reduces you class participation score. I understand that over the course of 28 sessions, conflicts come up and you may need to miss a class. Therefore, if you cannot attend your registered class, you may attend one of the other class sections (if you can't make the 9:30, attend the 11:00 or 2:00, and vice versa). Please let me know you are doing this in advance and allow registered students to have the seats if the section is full. If you miss class for any reason, I will make the course material available to you upon request for the day(s) you miss because I want you to have the opportunity to make up the material you missed on your own. Exercise solutions will also be posted on NYU Classes. Please note interviews should be scheduled around your class schedule and do not count as excused absences.

Re-Grade Policy:

Grading mistakes happen occasionally. Therefore, you are permitted to submit re-grade requests on exams *within one calendar week* of the posting of the grades. To have an exam re-graded, you must submit a *written* 1-page description of your argument that explains the grading mistake and why you believe you deserve additional credit. Upon receipt of your written description, I will review the *entire* exam for grading accuracy; therefore your grade may go up or down as a result of the re-grade request.

Stern Honor Code:

You are expected to abide by the Stern honor code.

Course Framework:

Specific content and dates are subject to change. The general progression of the course is divided into three sections, as follows:

1. In this section of the course, you will develop the tools to understand and compare firms. We will:

- Review basic financial accounting concepts

- Become familiar with the information available to investors and analysts

- Learn where to find information in real 10-Ks

- Learn how to compute various financial ratios

- Understand the value of common-size financial statements in understanding the nature of a firm's business

- Learn how ratios can be used to identify trends within a company over time and across firms within an industry

- Learn how to use financial ratios to assess a firm's profitability and risk

- Learn how to interpret financial statement ratios

- Learn how operating and financing activities affect inferences of financial statement ratios

- Learn how to adjust the financial statements to allow for cross-sectional comparison

- Understand the discretion management has in classifying revenues, expenses, gains, and losses on the income statement and the implications of this discretion

- Learn how to recast financial statements to undo distortions

- Learn the difference between temporary and permanent income

Date	Topic	Readings 3e (2e)	Practice Problems 3e (2e)	Assignment Due
9/2	Course Introduction & Accounting Refresh	1-10 to 1-14		
9/4	Intro to financial statements	Skim 2-1 to 2-20 Target MD&A	Q1-2, 7, E1-28, Q2-17 M2-21, 23, 25	
9/9	Intro to financial statements		E2-31, P2-43, 47	
9/11	Common-size analysis	Pepsi & Coke MD&A	E2-33, 34, 36	
9/16	Common-size analysis			
9/18	Profitability analysis	1-21 to 1-22 Appendix 3B	E1-31, 32, 34 P1-35, 36, P2-41	
9/23	Profitability analysis	Module 3	Q1-17, P1-41, 42, 43, 44, 45, 46 Q3-2, 3, 5, 6, M3-21	1
9/25*	Pro-forma Adjustments	2-13; 5-2 to 5-5 & 5-28 to 5-34 2-13; (5-2 to 5-5 & 5-26 to 5-30)	Q3-10, 14, M3-23, 27 P3-36, 37, 38, 48, Q5-2, 4 Q5-6, 9, M5-19, E5-27, P5-38	
9/30	Risk analysis	Module 4; 7-22 to 7-27	Q4-3, 10, 12, 13, M4-16, 17, 21 E4-22, 27(28), P4-30(31), 33(34)	

2. In this section of the course, you will learn how to understand and analyze accounting disclosures. We will:

- Understand how accounting choices affect cross-sectional and time-series variation in financial ratios

- Learn how to identify and evaluate critical accounting policies contained in the footnotes to the financial statements

- Understand the effects of these choices on the historical and future financial statements

- Learn how to adjust the financial statements to allow for cross-sectional comparison

- Learn how changes in the asset and liability valuations on the balance sheet impact the measurement of net income on the income statement

Date	Topic	Readings 3e (2e)	Assignment Due
10/2	Revenue Recognition	5-5 to 5-12 (5-5 to 5-11)	2
10/7	Accounts Receivable	6-1 to 6-13	
10/9	Inventory	6-13 to 6-25	3
10/14	No Class - Fall Break		
10/16	Midterm Review		
10/19	Optional Q&A Session (KMC 1-70)		
10/21	**Midterm**		
10/23	Fixed Assets	6-26 to 6-35 (6-27 to 6-36)	
10/28	Present Value	10-3 to 10-11	
10/30	Leases	12-6 to 12-9 (12-5 to 12-7)	
10/4	Taxes	5-19 to 5-25 (5-18 to 5-25)	
11/6	Inter-corporate Entities	9-1 to 9-27	

3. In this section of the course, you will learn how to use company disclosures to forecast financial statements and value a firm. We will:

- Learn how the various financial statement ratios combine to provide a structured framework from which you can forecast future performance and calibrate its reasonableness

- Understand the importance of sales to forecasting future financial statements

- Learn how to identify the critical forecasting assumptions

- Understand the difference between income flows and cash flows

- Understand equity value is a simple summation of the discounted expected future net distributions of cash to equity holders

- Understand the assumptions of the discounted cash flow (DCF) valuation method

- Understand the principles behind estimating a terminal value and choosing a discount rate

- Learn some valuation heuristics, or shortcuts, to estimate a company's value or to compare it to a peer (e.g., Price-Earnings ratio, Market-to-Book ratio, and PEG ratio)

- Understand the assumptions behind some common valuation heuristics and how to leverage these heuristics when performing macro-level analysis of firms

- Learn how to convert analyst forecasts into a simple valuation heuristic

- Understand the intuition supporting the use of the P/E ratio

- Learn how to "anchor" valuation on current earnings

Date	Topic	Readings 3e (2e)	Assignment Due
11/11	Conference Call	Starbucks Press Release Starbucks MD&A	4
11/13	Forecasting Revenues	Mod. 11	
11/18	Forecasting the Financial Statements	Mod. 11	
11/20	Forecast Reasonableness	Mod. 11	
11/25	No Class - Thanksgiving		
11/27	No Class - Thanksgiving		
12/2	Cost of Capital	12-2 to 12-21 (12-2 to 12-19)	5
12/4	Discounted Cash Flow & Residual Income Model	14-2 to 14-12 13-2 to 13-10 & Appendix 13C (13-4 to 13-9 & Appendix 13C)	
12/9	Market-Based Valuation	15-3 to 15-12 (15-3 to 15-11)	
12/11	Final Review		6
12/14	Optional Q&A Session (KMC-170)		
12/16	**Final Exam (8:00, 10:00, 2:00)**		