



Financial Statement Analysis

Course Descriptions and Syllabus

Your instructor

Professor: Julian Yeo
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Consultation hours: By appointments
Classes: Tuesday, Thursday 3.30pm -4.45pm, T-201

Your Teaching Assistant

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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, a mid-term exam, a final exam as well as a group project/presentation.

Mandatory Reading Materials

Class notes will be made available electronically on NYU Classes.

Recommended 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:

Class Participation	10%
Class Exercises (only ones that you have been asked to turn in)	10%
Mid-term Exam	20%
Final Exam	30%
Group Project and Presentation	30%

Tentative Class Schedule

Session/ week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part I - Framework to uncover a company's value-creation activities			
1. & 2. Sept 3, Sept 8	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	Modules 1 & 2
3.- 6. Sept 10 Sept 15 Sept 17 Sept 22	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	Module 2
7. & 8. Sept 24 Sept 29	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	Module 3
9. – 10. Oct 1 Oct 6 Oct 8	Profitability Analysis and Interpretation (cont.) <ul style="list-style-type: none"> - Profitability analysis for different industries -Group Presentations (Round I)	CN3 (cont.)	Modules 3 & 4
11. Oct 15	In-Class Mid-Term Exam		

Session/ week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part II - Adjusting and assessing specific line items			
12.-15. Oct 15 Oct 20 Oct 22	Revenue and Accounts Receivables <ul style="list-style-type: none"> - Revenue Recognition - Percentage of Completion - Accounts Receivables Factoring 	CN4	Module 5
16 - 18 Oct 29 Nov 3 Nov 5	Operating Capacity <ul style="list-style-type: none"> - Inventory - Property, Plant and Equipment - Intangible Assets 	CN5	Modules 5 & 6
19. & 20. Nov 10 Nov 12	Fixed Claims <ul style="list-style-type: none"> - Investments in Debt Securities - Leases (lessee's perspective) 	CN6	Modules 7 & 10
21. & 22. Nov 17 Nov 19	Estimated Claims <ul style="list-style-type: none"> - Income Taxes 	CN7	Modules 5 & 7
23. & 24. Nov 24 Dec 1	Equity Claims <ul style="list-style-type: none"> - Investment in Equity Securities, Business Combinations, and consolidation 	CN8	Modules 8 & 9
25.-27. Dec 3 Dec 8 Dec 10	Group Presentations (Round II)		
28. Dec 15	In-Class Final Exam		