

**NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS**

ACCT-GB.2303
Financial Statement Analysis

Professor Pepa Kraft
Fall Quarter 2011

Instructor

Pepa Kraft
Office: KLMC 10-80
Tel.: 212 998 4038
pkraft@stern.nyu.edu

Office Hours

I am happy to meet with you outside of class. I am available by appointment. Please email me to make arrangements.

Course Materials

Course materials comprise class syllabus and schedule, class notes (Power Point), readings, cases, and homework assignments. The class notes will be distributed in hard copy during class sessions along with certain other materials such as case solutions. All other class materials as well as the class notes will be available on BlackBoard. There is no coursepack.

Recommended: L. Revsine, D. W. Collins, W. B. Johnson, and F. Mittelstaedt, *Financial Reporting and Analysis*, Fourth Edition, 2008, McGraw Hill. Most students in this class will require some background reading in addition to the material that I distribute in class. This book is a good source for this material. A less up-to-date alternative is: White, Sondhi, and Fried, *The Analysis and Use of Financial Statements*, Third Edition, Wiley, 2003. Previous editions are not good substitutes. This book is the basis for certain parts of the CFA exam.

Course Description and Objectives

This course is designed to provide the tools necessary to conduct reasonably sophisticated financial statement analysis. The focus is on the use rather than the preparation of financial statements, although it will be necessary to understand something about the underlying accounting mechanics to achieve the necessary level of rigor. The interplay between accounting and corporate finance will be emphasized.

The main objective is to understand the economics of the business through the analysis of financial statements. This requires an understanding of the underlying accounting, including how to interpret financial statement footnotes and related disclosures as well as the statements themselves, and how to use this information in ways that are relevant for applications such as credit analysis, equity valuation, and transaction structuring. This

course does *not* cover forecasting, valuation, and related applications, which are the domain of ACCT-GB.3304 and certain finance electives; rather, the focus here is on obtaining clean inputs for those analyses. The course will be of most relevance to those who will be using financial statements as an input to economic decision-making.

Topics covered typically include the preparation and analysis of cash flow statements, revenue recognition; EPS; stock-based compensation accounting; accounting for investments, fair value accounting for financial instruments, deferred tax accounting; certain off-balance sheet financing transactions, including lease accounting, securitizations, special purpose entities. Emphasis will be given to understanding current accounting rules (GAAP) in these areas, both in the U.S. and internationally.

Classes will be lecture-based using examples drawn from actual financial statements.

Course Prerequisites

This course assumes that you have retained the material covered in the introductory core financial accounting class, COR1.GB.1306 (“Financial Accounting and Reporting”) or equivalent. I will also assume that you are familiar with present value and compound interest calculations.

Grades and Assessment

Your grade for the class is based on four components, weighted as follows:

Homework assignments (individual)	35%
Case write-ups (individual or group)	35%
Final exam (individual)	25%
Class participation	5%
Total	<u>100%</u>

Homework assignments are to be turned in when indicated on the class outline. Although you are free to discuss the homework with others, the write-ups must be your own individual unique work. An example of the required format is given at the end of this syllabus. Points will be deducted if your work does not conform to these requirements. Seven of these assignments are listed on the outline; assignments are equally-weighted for this portion of the grade.

Case write-ups are to be turned in when indicated on the class outline. You may work in groups on these write-ups and turn in one common write-up. An example of the required format is given at the end of this syllabus. Points will be deducted if your work does not conform to these requirements. Seven of these assignments are listed on the outline; assignments are equally-weighted for this portion of the grade. The cases are to be done in groups of **no more than 4 people**.

Participation is based on consistency and quality of classroom input, mainly related to case and homework discussions, but also includes asking sensible questions about class content. Participation also includes consistent class attendance – you will lose participation points if you are not in class on a regular basis.

Failure to achieve acceptable performance in any of the grade components, including participation, will lead to a failing grade for the class overall.

Late assignments will only be accepted if you have made arrangements with me prior to the due date.

Honor Code

Students in this class are required to adhere to the standards of conduct in the NYU Stern Honor Code and the Standards of Scholarship. I also require students to sign the following Stern Honor Code Pledge on each document turned in for a grade:

"This work is my own, I have fully and appropriately referenced any work and efforts of others on which I relied, I did not engage in any method or means that provided me with an unfair advantage, and in those ways and all others I adhered to the NYU Stern Code of Conduct in its completion."

Also note the following non-exhaustive list of violations:

- I consider it a violation of the Honor Code for you to consult class notes, solutions, case write-ups, etc., from prior years or that are otherwise available on the internet or through other venues in preparing class assignments.
- For group assignments, I expect all group members to contribute at some level to each assignment.

Finally...

Please feel free to contact me at any time with any questions, comments, or suggestions that you might have. I hope that you enjoy the class!

Date: January 26, 2010
To: Investment Manager,
Wary Bare Portfolio Management, LLC

From: Zack Aardvark
Paul Kangaroo
Kayla Platypus
Anthony Zebra
Section 81

This document shows the correct format for all class assignments (homework assignments and case write-ups). Points will be deducted for formatting that does not comply with these guidelines.

- o Use 12 point font and double-spaced text.
- o Do not use a cover page.
- o Because these are professional documents, points will be deducted for grammatical and spelling missteaks. You may use English spellings acceptable in either London (realise, centre, flavour, car tyre) or New York (realize, center, flavor, car tire).
- o Your name or names must be shown at the top right, as shown above, alphabetized by last name if a group assignment. Section number(s) must also be shown here (next to name if different across group).
- o Use portrait rather than landscape orientation for text.
- o Include all exhibits, graphs and/or figures after the text on separate pages, labeled, and referenced in the text.
- o Staple pages at top left corner (only).

Pages limits (maximums) are as follows:

- o Be brief and concise!
- o Homework assignments. Five pages total, text and calculations.
- o Case write-ups. Three pages text; four pages exhibits.

All documents must be submitted as hard copy on the assigned date. If it is necessary for you to email documents to me, use **pdf format only** and be sure formatting for the pdf documents conforms to the requirements indicated here. Do not forget to include your name on any email attachment.

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Section: 01
 Meets: MW 1:30-2:50pm
 Location: 3-120

Session	Date	Topic	Readings	Cases	Homeworks
1	7-Sep 12-Sep	Introduction and Institutional Background, Review	Ch. 1, Ch. 18 (1069-1081), Ch. 4 (196-207), Ch. 17 (1007-1030)		
2	14-Sep 19-Sep	Review of Basic Accounting/Analysis; Performance measurement	Ch. 2		Coke vs. Pepsi, Cash Flow Problem
3	21-Sep 26-Sep	EPS, ESO	Ch. 15 (873-880), 888-908) Ch. 17 (1034-1037) EPS Keiso extract (872-884)	THCR	
4	28-Sep 3-Oct	Revenue Recognition	Ch. 3, Ch. 16 (965-967)	Oracle	EPS questions (E17-17, E17-18, E17-21, E17-25, E17-26, E17-28)
5	5-Oct 10-Oct	Ratios	Ch. 5	EDS	Microsoft RR
6	12-Oct 17-Oct	Receivables, incl. Securitizations	Ch. 8 (excl 436-443), Ch. 17 (1034-1037)		
7	19-Oct 24-Oct	Long-lived assets	Ch. 10, Ch. 6 (301-302), Ch. 16 (961-963)		Bad debt questions
8	26-Oct 31-Oct	Equity method and consolidation, SPEs, Contingencies and Commitments	Ch. 16 (excl 939-944, 968-977) Ch. 11 (629-631, 649-652)	Oil and gas	
9	2-Nov 7-Nov	Investments in Marketable Securities, Fair Value Accounting	Ch. 16 (939-944), Ch. 6 (323-325) Ch. 11 (616-620)		
10	9-Nov 14-Nov	Accounting for bonds and derivatives	Ch. 11 (601-625, 632-649)		State Street

Session	Date	Topic	Readings	Cases	Homeworks
11	16-Nov 28-Nov	Deferred Taxes	Ch. 13	Southwest Airlines	
12	30-Nov 5-Dec	Leases	Ch. 12 (incl Appendix), Ch. 17 (1033-1034)	Comcast	Hard Wok Café
13	12-Dec	Valuation and Credit Risk, Summary and wrap-up	Ch. 6	Starbucks	
14	19-Dec	Final exam			

Note: Thanksgiving break on 21-Nov and 23-Nov.

Case denotes group (or individual) case assignments, as defined on the syllabus.

Homework denotes individual homework assignments, as defined on the syllabus.