Financial Statement Analysis

Course Descriptions and Syllabus

Your instructor

Professor: Julian Yeo
Email: jyeo@stern.nyu.edu
Consultation hours: By appointments

Your Teaching Assistant
TBA

Course Descriptions

Overview

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.

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 would an equity analyst make.
The line items are organized as follows:

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

In addition, 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 (3 hours), and a final group presentation.

**Mandatory Reading Materials**
Class notes will be made available electronically on NYU Classes.

**Recommended Text**

**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 Exercises (only ones that you have been asked to turn in) 20%  
- Mid-term Exam (3 hours) 40%  
- Group Presentation 40%
<table>
<thead>
<tr>
<th>Session/week</th>
<th>Topics</th>
<th>Mandatory Readings - Class Notes</th>
<th>Background Readings from Recommended Text</th>
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</table>
| 1            | Introduction – Earnings Quality and Earnings Management  
- Business Activities and Articulation of Financial Statements  
- Earnings vs ∆Cash and concept of accrual accounting  
- Concept of “cookie jar” reserve  
- Overview of Earnings Quality and Earnings Management  
- How accounting choices help/hinder our understanding of the business | CN1 | Modules 1 & 2 |
| 2            | Review of Financial Statements  
- 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 |
| 3            | Reformulation of Financial Statements  
- Why the need to reformulate statement?  
- Implementation issues when reformulating statements  
- Profitability Analysis  
- Other ratio analysis (growth prospects and risk) | CN3 | Module 3 |
| 4            | Profitability Analysis and Interpretation (cont.)  
- Profitability analysis for different industries | CN3 (cont.) | Modules 3 & 4 |

Part I - Framework to uncover a company’s value-creation activities
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<tr>
<th>Session/week</th>
<th>Topics</th>
<th>Mandatory Readings - Class Notes</th>
<th>Background Readings from Recommended Text</th>
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<tr>
<td>Part II - Adjusting and assessing specific line items</td>
<td><strong>Revenue and Accounts Receivables</strong>&lt;br&gt;- Revenue Recognition&lt;br&gt;- Percentage of Completion&lt;br&gt;- Accounts Receivables Factoring</td>
<td>CN4</td>
<td>Module 5</td>
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<td>5</td>
<td><strong>Operating Capacity</strong>&lt;br&gt;- Inventory&lt;br&gt;- Property, Plant and Equipment&lt;br&gt;- Intangible Assets&lt;br&gt;- “Other Assets”</td>
<td>CN5</td>
<td>Modules 5 &amp; 6</td>
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<td>6</td>
<td><strong>Mid-Term Exam</strong></td>
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<td>7</td>
<td><strong>Fixed Claims</strong>&lt;br&gt;- Investments in Debt Securities&lt;br&gt;- Debt&lt;br&gt;- Leases (lessee’s perspective)&lt;br&gt;- Derivatives</td>
<td>CN6</td>
<td>Modules 7 &amp; 10</td>
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<td><strong>Estimated Claims</strong>&lt;br&gt;- Pension and Other Postretirement Benefits&lt;br&gt;- Income Taxes&lt;br&gt;- Contingencies&lt;br&gt;- Accrued Liabilities (related to Restructuring)</td>
<td>CN7</td>
<td>Modules 5 &amp; 7</td>
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<td>9</td>
<td><strong>Equity Claims</strong>&lt;br&gt;- Investment in Equity Securities, Business Combinations, and consolidation&lt;br&gt;- Shareholders’ equity, share-based payments and EPS</td>
<td>CN8</td>
<td>Modules 8 &amp; 9</td>
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<td>10</td>
<td><strong>Forecasting</strong>&lt;br&gt;- Constructing Pro-Forma Statements&lt;br&gt;- Analysis of Growth&lt;br&gt;- Requirements for Group Presentations</td>
<td>CN9</td>
<td>Module 11</td>
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<td>11</td>
<td><strong>Group Presentations</strong>&lt;br&gt;* Day-time MBA, this would be take place over weeks 12 &amp; 13.</td>
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