

# Financial Statement Analysis (ACCT-UB.0003) Spring 2024

**KMC 4-80 (11:00 MW); KMC 5-90 (2:00, 3:30 MW)**

Syllabus for Textbook Edition 6

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**Office Hours (KMC 10-91):\*** Mondays 12:45pm-1:45pm and Wednesdays 12:45pm-1:45pm and by appointment

**TA Office Hours (Zoom):** 5:00-6:30pm the night before assignment due dates and by appointment

**\*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 Brightspace.

## 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:

- Throughout the course, you will receive three course packets containing lecture slides, in-class exercises, assignments, and practice exam questions. You will receive four supplements containing select pages from financial statements for illustrative purposes. All of these materials are available through Brightspace.
- You will need access to Microsoft Excel.
- You will find a financial calculator 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 roughly \$30 on Amazon: [Link](#).
- The optional textbook for the course is “Financial Statement Analysis & Valuation,” by Easton, McAnally, Sommers, and Zhang. The book is currently in its sixth edition, but feel free to use an earlier version. You will need the textbook to complete the optional practice problems, which are helpful for solidifying concepts and preparing for exams.

## Grading:

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

Exam I	33%
Exam II	33%
Assignments	33%

### Exams (66.67%)

There are two exams that are aimed at assessing your grasp of the learning objectives for the course. Exams will be taken in person. Before the exam, I will hold an in-class review session and a Zoom Q&A session. I do not offer make-up exams.

### Assignments (33.33%)

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. Your five highest scores will be included in your course grade (I will drop your lowest assignment score). You will have a minimum of a week after we cover each topic in class to complete the associated assignment. You can work on these assignments individually or in groups of up to five people (you may hand in one copy per group). To receive credit for the assignments, they need to be submitted electronically via Brightspace before 5pm New York time on the due date. The solution is posted at 5pm on the due date of the assignment, therefore I cannot accept late submissions. The assignment due date schedule is as follows:

Assignment	Topic	Due Date
1	Common size & percentage change analysis	2/14
2	Dupont & Penman Profitability Analysis	2/28
3	Risk Analysis	3/11
4	Accounting Analysis	4/17
5	Parsimonious Forecast	4/24
6	Valuation	5/1

Note: The TAs will hold additional office hours the Sunday (if the assignment is due on Monday) or Tuesday (if the assignment is due on Wednesday) before each assignment is due (on Zoom).

### Re-Grade Policy:

Grading mistakes happen occasionally. Therefore, you are permitted to submit re-grade requests on exams and assignments *within one calendar week* of the posting of the grades. To have an exam re-graded, you must submit a short *written* 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/assignment for grading accuracy; therefore your grade may go up or down as a result of the re-grade request.

## **Additional Information:**

### **Policy on Class Attendance:**

I do not take attendance. However, past semesters have shown a strong correlation between class attendance and overall course performance. The exams are based on our in-class discussions, so participating in class will naturally correlate with your exam performance. I understand that over the course of 28 sessions, personal, health, and religious conflicts come up and you may need to miss class. You are welcome to attend an alternative section as long as there is space in the room. All classes are recorded, so if you cannot attend any of the sections, I will make the recording available to you upon request 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 Brightspace. In the event that the course needs to be offered entirely online for a particular class meeting, we will meet synchronously at our regularly scheduled class time using Zoom. Additional details will be emailed to you in the event of a shift to online instruction.

### **Academic Integrity, General Conduct & Behavior:**

The Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found [here](#). Students are also expected to maintain and abide by Stern's Policy in Regard to In-Class Behavior & Expectations ([link](#)) and the NYU Student Conduct Policy ([link](#)).

### **Student Accessibility**

If you will require academic accommodation of any kind during this course, you must notify me at the beginning of the course (or as soon as your need arises) and provide a letter from the Moses Center for Student Accessibility (212-998-4980, [mosescsa@nyu.edu](mailto:mosescsa@nyu.edu)) verifying your registration and outlining the accommodations they recommend. For more information, visit the CSA website.

### **Student Wellness**

These are stressful times. I encourage you to reach out if you need help. The NYU Wellness Exchange offers mental health support. You can reach them 24/7 at 212-443-9999, or via the "NYU Wellness Exchange" app. There are also drop in hours and appointments. Find out more [here](#).

### **Name Pronunciation and Pronouns**

NYU Stern students now have the ability to include their pronouns and name pronunciation in Albert. I encourage you to share your name pronunciation and pronouns this way. Please utilize this [link](#) for additional information.

### **Inclusion Statement**

This course strives to support and cultivate diversity of thought, perspectives, and experiences. The intent is to present materials and activities that will challenge your current perspectives with a goal of understanding how others might see situations differently. By participating in this course, it is the expectation that everyone commits to making this an inclusive learning environment for all.

## **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	Before Class Readings 6e	After Class Practice Problems 6e	Bring to Class		Assignment Due
				Course Pack	Supplement	
1/22 (Mon)	Course Introduction	1-12 to 1-19		1		
1/24 (Wed)	Accounting Refresh	Skim 2-1 to 2-21 Target MD&A	Q1-7, M1-25; E1-35 Q2-17, M2-23, 28	1	1	
1/29 (Mon)	Intro to financial statements		E2-34, P2-50	1	1	
1/31 (Wed)	Intro to financial statements			1	1	
2/5 (Mon)	Common-size analysis	Pepsi MD&A	E2-42, 43, 44	1	2	
2/7 (Wed)	Common-size analysis			1	2	
2/12 (Mon)	Profitability analysis	1-24 to 1-27 8-26 to 8-27	E1-38, 39, 41 P1-43, 44, P2-49; M8-31	1	2	
2/13 (Tue)	Assignment 1 TA Office Hours					
2/14 (Wed)	Profitability analysis	Appendix 3B Skim Module 9	Q1-19, P1-49, 50, 51, 52, 53 M9-20, E9-28, 32, 36	1	2	1
2/19 (Mon)	No Class (President's Day)					
2/21 (Wed)	Penman Profitability analysis	Module 3	Q3-2, 3, 5, 6, M3-23 Q3-10, 14, M3-21, E3-37 P3-44, 46, 48, 52	1	2	
2/26 (Mon)	Pro-forma Adjustments	2-12 to 2-15; 6-25 to 6-29 & 5-34 to 5-38	Q5-9, Q6-12, E5-32, P5-39, P5-40	1	2	
2/27 (Tue)	Assignment 2 TA Office Hours					
2/28 (Wed)	Risk analysis I	Module 4	Q4-3, 10, 12, 13, M4-16, 17, 21	1	2	2
3/4 (Mon)	Risk analysis II	7-18 to 7-23	E4-22, 26, 28, P4-32	1	2	

**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	Before Class Readings 6e	After Class Practice Problems 6e	Bring to Class		Assignment Due
				Course Pack	Supplement	
3/4 (Mon)	Accounts Receivable I	5-21 to 5-27	Q5-2, M5-18, 19, 20, 21	2	3	
3/6 (Wed)	Accounts Receivable II	HP 10K (Item 1)	E5-44, P5-58	2	3	
3/6 (Wed)	Inventory I	Deere 10K (Item 1)	Q6-2, 3, 6, M6-13, 15	2	3	
3/10 (Sun)	Assignment 3 TA Office Hours					
3/11 (Mon)	Exam I Review	6-3 to 6-15	E6-26, 30, P6-41	2	3	3
3/12 (Tue)	Optional Q&A Session			1 & 2		
3/13 (Wed)	<b>Exam I</b>			1 & 2		
3/18 & 3/20	Spring Break					
3/25 (Mon)	Inventory II	6-3 to 6-15	E6-26, 30, P6-41	2	3	
3/25 (Mon)	Fixed Assets I	6-20 to 6-24; 6-31 to 6-33	Q6-7, 8, M6-17, 19	2	3	
3/27 (Wed)	Fixed Assets II	United Tech. 10K (Item 1)	E6-32, 36, 37, P6-43, 44	2	3	
4/1 (Mon)	Present Value	Appendix 7A		2	3	
4/1 (Mon)	Leases	10-3 to 10-12	Q10-1, 2, 3, M10-14 15	2	3	
4/3 (Wed)		American 10K (Item 1)	E10-28, 30, P10-40			

**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	Before Class Readings 6e	After Class Practice Problems 6e	Bring to Class		Assignment Due
				Course Pack	Supplement	
4/8 (Mon)	Conference Call	Starbucks Press Release Starbucks MD&A		3	4	
4/10 (Wed)	Forecasting Revenues	Mod. 11		3	4	
4/15 (Mon)	Forecasting Financial Stmt's	Appendix 11C	Q11-7, M11-11, E11-30	3	4	
4/16 (Tue)	Assignment 4 TA Office Hours					
4/17 (Wed)	Forecast Reasonableness			3	4	4
4/22 (Mon)	Cost of Capital	12-10 to 12-17	Q12-3, 6, 7, M12-15, 20, 21, E12-30, 31, P12-39, 40	3	4	
4/23 (Tue)	Assignment 5 TA Office Hours					
4/24 (Wed)	Discounted Cash Flow	13-4 to 14-14	Q13-3, M13-8, E13-10, 13, P13-14	3	4	5
	Residual Income Model	14-6 to 14-9 & Appendix 13B	Q14-5, M14-10, E14-18, 21, P14-26			
4/29 (Mon)	Market-Based Valuation	15-3 to 15-11	Q15-1, 2, M15-8, 10, 12, 16, E15-23, 24, 27, 33, P15-37	3	4	
4/30 (Tue)	Assignment 6 TA Office Hours					
5/1 (Wed)	Exam II Review			2 & 3		6
5/6 (Mon)	In-class Q&A Session			2 & 3		
5/8 (Weds)	<b>Exam II @ 12pm (11:00 Section)</b>					
5/8 (Weds)	<b>Exam II @ 2pm (2:00 Section)</b>					
5/13 (Weds)	<b>Exam II @ 2pm (3:30 Section)</b>					