



# *Financial Statement Analysis*

## *Course Descriptions and Syllabus*

### *Your instructor*

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Consultation hours: By appointments

### *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.

The course has a very practical emphasis. We will apply the tools and concepts via a series of class exercises. You will be assessed based on a mid-term exam, on-line mini tests as well as a group project/presentation.

### ***Mandatory Reading Materials***

Class notes are your mandatory reading for this course. Class notes are available electronically on NYU Classes.

### ***Recommended Optional Text***

*Financial Statement Analysis and Valuation*, 4<sup>th</sup> 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:

On-line Mini Tests	10%
Mid-term Exam	30%
Group Project/Presentation (Round 1- CE3.5)	10%
Final Group Project/Presentation	20%
Final Exam	30%

Session	Topics	Mandatory Readings - Class Notes	Class Exercises
Part I - Framework to uncover a company's value-creation activities			
1. 9/5 2. 9/12	Introduction – Earnings Quality & Financial Statement Analysis <ul style="list-style-type: none"> <li>- Business Activities and Articulation of Financial Statements</li> <li>- Earnings vs <math>\Delta</math>Cash and concept of accrual accounting</li> <li>- Overview of Earnings Quality and Earnings Management</li> <li>- How accounting choices help/hinder our understanding of the business</li> </ul>	CN1	CE1.1 CE1.2 CE1.3
3. 9/17 4. 9/24 5. 9/26 6. 10/1	Review of Financial Statements <ul style="list-style-type: none"> <li>- Review of line items from Core Introductory accounting and their earnings quality issues and common abuses</li> <li>- Overview of other line items to be covered in Part II</li> </ul>	CN2	CE2.1
On-line Mini Test I (check NYU classes for due date)			
7. 10/3 8. 10/8	Reformulation of Financial Statements <ul style="list-style-type: none"> <li>- Why the need to reformulate statement?</li> <li>- Implementation issues when reformulating statements</li> <li>- Profitability Analysis</li> <li>- Other ratio analysis (growth prospects and risk)</li> </ul>	CN3	CE3.1 CE3.2 CE3.3
9. 10/10 10. 10/15	Profitability Analysis and Interpretation (cont.) <ul style="list-style-type: none"> <li>- Profitability analysis for a specific company</li> </ul> Mid-Term Review	CN3 (cont.)	CE3.4 Sample Mid-Term
On-line Mini Test II (check NYU classes for due date)			
11. 10/17 12. 10/22	<b>Group Presentations (Round I)</b>		CE3.5
13. 10/24 14. 10/29	<b>In-Class Mid-Term Exam</b>		

Session	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part II - Adjusting and assessing specific line items			
15. 10/31 16. 11/5 17. 11/7 18. 11/12	Revenue and Accounts Receivables <ul style="list-style-type: none"> <li>- When/what/how much to recognize</li> <li>- Percentage of Completion</li> <li>- Financial Statements for Construction Companies</li> <li>- Multiple Element Revenue Arrangements</li> <li>- Quality of Reported Revenue</li> <li>- Gross vs Net Revenue</li> <li>- Accounts Receivables &amp; Accounts Receivable Factoring</li> <li>- Change in Accounting Estimate vs Accounting Principle</li> </ul>	CN4	CE4.0 CE4.1 CE4.2 CE4.3 CE4.4 CE4.5 CE4.6 CE4.7 CE4.8
	Online Mini Test III (check NYU Classes for due date)		
19. 11/14 20. 11/19	Operating Capacity <ul style="list-style-type: none"> <li>- Capitalize vs Expense</li> <li>- Inventory for Manufacturing Companies</li> <li>- Converting LIFO to FIFO</li> <li>- Property, Plant and Equipment</li> <li>- Asset Impairment</li> <li>- Intangible Assets</li> <li>- Goodwill Impairment</li> <li>- Capitalizing R&amp;D</li> <li>- Quality of Reported PP&amp;E and Depreciation</li> </ul>	CN5	CE5.1 CE5.2 CE5.3 CE5.4 CE5.5 CE5.6
21. 11/26 22. 11/28	Fixed Claims <ul style="list-style-type: none"> <li>- Investments in Debt Securities</li> <li>- Leases (lessee's perspective)</li> <li>- Converting Operating Leases into Capital Leases</li> </ul>	CN6	CE6.0 CE6.1 CE6.2 CE6.3
23. 12/3 24. 12/5	Estimated Claims <ul style="list-style-type: none"> <li>- Income Taxes</li> <li>- Permanent vs Temporary Difference</li> <li>- Deferred Tax Assets/Deferred Tax Liabilities</li> <li>- ETR vs Statutory Tax rate</li> <li>- Valuation Allowance</li> <li>- PRE</li> </ul>	CN7 CN8	CE7.1 CE8.1 CE9.1

	<ul style="list-style-type: none"> <li>- Equity Method Investment</li> <li>- Consolidation (overview)</li> </ul> Profitability analysis for different industries		
25. 12/10 26. 12/12	<b>Final Group Presentations</b>		
	Online Mini Test IV and Final Group Project due at the start of our last class		