

NEW YORK UNIVERSITY
Stern School of Business

ACCT-GB.2303.30: T 6:00pm – 9:00pm
Financial Statement Analysis

Spring 2018
Professor Joshua Ronen
Office: 10-71 KMC
Phone: 998-4144 Fax: 995-4230
Email: jronen@stern.nyu.edu
Website: www.stern.nyu.edu/~jronen

Teaching Assistant: David Szajnuk
Email: djs738@stern.nyu.edu

Course Description and Objectives

Financial Statements are the most comprehensive source of information used to evaluate an organization's past performance and future prospects. This course provides students with a set of tools to effectively analyze an organization's financial statements. Specifically, this course is designed to develop students' ability to (1) identify business strategies and associated risks; (2) assess reporting and disclosure choices given the economic environment in which the organization operates; (3) use ratios and other analytical methods to evaluate and forecast performance; and (4) appreciate the potential of accounting information to assist in valuation. This course should be of interest to anyone who uses financial statements for decision making, including lenders, equity analysts, investment bankers, management and boards of directors, and others charged with monitoring or advising financial performance.

Pre-requisite: Financial Accounting and Reporting (B01.1306) or equivalent

Required Course Materials

The readings, problems, and cases for the course come from *MindTap for Financial Reporting, Financial Statement Analysis, and Valuation: 9th Edition*) by Wahlen, Baginski, & Bradshaw (FSA).

Three internet addresses may prove useful to you at some point in the course:

1. Filings with the Securities and Exchange Commission: <http://www.sec.gov>
2. Pronouncement of the Financial Accounting Standards Board: <http://www.fasb.org>
3. Pronouncement of the International Accounting Standards Committee: <http://www.ifrs.org/Pages/default.aspx>

We will also be discussing current articles on the subject. **You may not use the 7th Edition.**

Class Format and Grading

This course consists of a combination lecture and class discussion.

Your course grade will be computed as follows:

Homework	30%
Quizzes (best 2 out of 3)	35%
Group Project	<u>30%</u>
Participation	<u>05%</u>
	100%

Quiz Policy

You are expected to take all quizzes at the scheduled times. There will be no make-up quizzes given. I will use the best two out of three quiz grades to compute your course grade.

The format of the quizzes will be discussed in class. Students who believe that a quiz has been incorrectly scored should submit a written request for re-grading within two class days from the time the exam is returned to you.

Quiz 1: February 27th

Quiz 2: April 3rd

Quiz 3: April 17th

Honor Code

Upon enrollment in this course, you agree to adhere to the Stern MBA Honor Code. Any instances of academic misconduct will be immediately reported to the appropriate University authorities.

Group Project

The purpose of the group project is to synthesize the various analytical skills discussed in class by applying those skills to analyze the current financial statements of a publicly traded company. Groups will select one company in the retail, manufacturing, or service industry (avoid financial institutions and regulated utilities). The analysis will include a presentation to the class and a 3-5 page written report. The presentation will be 25 minutes long with an additional 5 minutes for questions. More details about the content of the presentation and the written report will be provided in class.

You will self-select into groups of 3-4 students, presentation dates will be chosen and announced by the TA.

Course Outline

1. February 6th

TOPIC: Overview

LEARNING OBJECTIVES:

- 1) Steps employed by financial statement analysts to conduct their analysis.
- 2) The role of financial statements analysis in efficient capital markets.
- 3) Sources of financial statements information.

READ: FSA, Chapter 1.

Problem 1.11

2. February 13th

TOPIC: Asset and Liability Valuation and Income Recognition

LEARNING OBJECTIVES:

- 1) The mixed attribute accounting model
- 2) asset and liability valuation and the trade-off between relevance and representational faithfulness
- 3) Income Recognition
- 4) income taxes
- 5) analyzing effects of transactions on the financial statements

READ: FSA, Chapter 2

PREPARE and submit: Case 1.2 a-i, v-ee; 2-15

3. February 20th

Topic: Income Taxes

PREPARE and submit: Problem 2.19

4. February 27th

TOPIC: Statement of Cash Flows

LEARNING OBJECTIVES:

- 1) purpose of the cash flows statement
- 2) relations among cash flow activities
- 3) cash flows and a firm's lifecycle
- 4) relation between net income, balance sheet, and cash flows
- 5) preparing the cash flow statement
- 6) usefulness of the cash flow statement for accounting and risk analysis

Quiz 1 on February 27th

READ: FSA, Chapter 3

PREPARE and submit: 3.15, 3.20, 3.24 & 3.27; Case 3.3

5. February 27th

Quiz 1

TOPIC: Profitability Analysis

LEARNING OBJECTIVES:

- 1) various measures of income
- 2) return on assets (ROA)
- 3) return on common shareholders equity (ROCE)
- 4) interpretation of ROA and ROCE
- 5) benefits and limitations of using financial statement ratios

READ: FSA, Chapter 4

PREPARE and submit: Case 4.2; 4.15, 4.19, and 4.24

6. March 6th

TOPIC: Risk Analysis

LEARNING OBJECTIVES:

- 1) Disclosures regarding risk and risk management
- 2) analyzing financial flexibility by disaggregating ROCE
- 3) short-term liquidity risk
- 4) long-term solvency risk
- 5) bankruptcy risk
- 6) systematic risk

READ: FSA, Chapter 5

PREPARE and submit: Case 5.2; 5.13, 5.16

SPRING BREAK

7. March 20th

TOPIC: Accounting Quality

LEARNING OBJECTIVES:

- 1) Accounting quality
- 2) earnings management
- 3) liability recognition and measurement
- 4) asset recognition and measurement
- 5) specific events that affect Earnings persistence
- 6) tools in the assessment of accounting quality
- 7) Financial reporting worldwide

READ: FSA, Chapter 6:

PREPARE and submit: Case 6.3; 6.16, 6.19

8. March 27th

TOPIC: Financing Activities:

LEARNING OBJECTIVES:

- 1) equity financing
- 2) retained earnings, accumulated other comprehensive income, and reserves
- 3) debt financing
- 4) leases

Quiz 2 on April 3rd

READ: FSA, Ch. 7

PREPARE: Case 7.3; 7.16, 7.18, 7.22

9. April 3rd

Quiz 2

TOPIC Investing Activities

LEARNING OBJECTIVES:

- 1) Long-lived operating assets
- 2) allocating acquisition costs to periods benefited
- 3) relation between book values and market values of long-lived assets
- 4) investments in securities
- 5) primary beneficiary of a Variable-Interest entity

READ: FSA, Chapter 8 (pgs. 592-642)

PREPARE and submit: Case 8.2; 8.21, 8.22, 8.24

10. April 10th

TOPICS: Operating Activities

LEARNING OBJECTIVES:

- 1) revenue recognition
- 2) expense recognition
- 3) income taxes

READ: FSA, Chapter 9 (pgs. 682-717)

PREPARE and submit: Case 9.2; 9.14, 9.20, 9.21, and 9.25

11. April 17th

TOPIC: Forecasting Financial Statements

LEARNING OBJECTIVES:

- 1) preparing financial statement forecasts
- 2) project revenues

- 3) project operating expenses
- 4) project operating assets and liabilities
- 5) project financial leverage, financial assets, equity, and financial income items
- 6) project provisions for taxes, net income, dividends, and retained earnings
- 7) balance the balance sheet
- 8) project the statement of cash flows
- 9) shortcuts to forecasting
- 10) testing the validity of assumptions and sensitivity analysis

Quiz 3 on April 17th

READ: FSA, Chapter 10

PREPARE and submit: Case 10.2

12. April 24th

Quiz 3

GROUP PRESENTATIONS on May 1st

READ: Ch. 10

PREPARE and submit: Problem 10.15

13. May 1st

GROUP PRESENTATIONS