Financial Statement Analysis: ACCT-UB.0003

Fall 2015– Tuesday and Thursday 9:30 A.M. – 10:45 A.M.

Professor April Klein OFFICE HOURS:

K-MEC 10-93 Monday 11 AM - 1 PM;

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Course TA: Teri Tan [teri.tan@stern.nyu](mailto:teri.tan@stern.nyu) Monday 5-6 PM

**Course Objectives**

This course is designed to prepare you to interpret and analyze financial statements effectively. This course explores in greater depth financial reporting topics introduced in the core course in financial accounting and also examines additional topics not covered in that course. The viewpoint is that of the user of financial statements. This course is designed primarily for students who expect to be intensive users of financial statements as part of their professional responsibilities.

The pre-requisites for this course are the core course in financial accounting. We will do a quick review of financial accounting in the first 2 classes, but I will assume you have a strong working knowledge of this class. If not, I suggest you go back to your class notes (hopefully you kept them) and do a review on your own.

**Course Materials**

* Please pick up your booklet with all of the power point slides. The slides are printed with 2 on a page. If you prefer a different format, the slides will be on NYUclasses and you may print them out.
* I do not use a textbook. NYUClasses contains (1) power point slides, (2) homework problem sets, and (3) other handouts that will be used throughout the term. Please see this syllabus for details on these handouts.
* The syllabus also contains links to materials that you may find useful.
* If you would like a book, I can recommend two:
  + Easton, McAnally, Sommers, and Zhang, “Financial Statement Analysis & Valuation,” Cambridge Business Publishers, 3rd Edition.
  + Wahlen, Baginski, and Bradshaw, “Financial Reporting, Financial Statement Analysis, and Valuation,” Southwestern Publishing, 7th Edition.
* Note, these two books are not required, but you might find them helpful. I used the Wahlen, Baginski, and Bradshaw in the past.

**Important!!!**

* **Other course materials will be on NYUClasses. We will be looking at different companies. The materials we will be covering will be under “Resources.” You need to print out these documents and to bring them to class.**
* **The solutions to all cases that we do in class will be in NYUClasses – however, they will not “pop up” until class.**
* **There will also be some homework problems and solutions on line that you might want to try as we move along.**

**Grading**

Grading will be based on the following weights:

Midterm 40%

Group Project on Amazon vs. Wal-mart 10%

Final Exam 40%

\*\*\*Preparation for Class 10%

All exams are open book and open note. All exams are cumulative, but there will be an emphasis on the more recent material covered in class. You may bring a calculator to class as well. No phones or computers or other electronics may be used. The final exam will be based on an actual 10-K report that I will hand out in class on December 9th. You may bring that report into the final exam room.

The Brief Group Project will be an analysis of Amazon vs. Wal-Mart. You will self select into groups of 4-5 (depending on class size). There will be different modules to the analysis. Each group will be responsible for one module, which will be presented in class on December 8 & 10.

\*\*\*Preparation for Class means bringing in the printed materials requested in the syllabus for every class. Phones and other electronics do not count. At the end of each class, I will ask you to leave the printed materials (with your name on it) on my desk and the TA will enter them in a spreadsheet. You can write on them, of course. At the beginning of the next class, you can pick them up. So, it should be an easy 10 points to get.

**Course Policies**

***Attendance***

I do not take attendance. However, under the guidelines of the Stern School, class attendance is part of a student’s grade. If you miss a class, it is your responsibility to make it up.

***Late Arrivals and Leaving Early***

I would appreciate it if you could arrive in class on time. If you are late, please enter the class w/o disrupting the other students. Similarly, if you need to leave class early, please do it as quietly and inconspicuously as possible.

***Computers in Class***

I allow computers in class only to access the documents that we will be using. Otherwise, please put them away.

***Cell Phones and Text Messaging***

Unless you are expecting an urgent message, please turn off your cell phones and other messaging devices.

***Requests for Re-grading***

If you would like me to look over your exam, please do the following. On the cover page of the exam, please write down the question(s) you would like for me to look over. Hand in the exam to me. I will look it over and give it back to you in another class.

**Stern Honor Code**

You must abide by the Stern honor code. I take cheating on exams very seriously, and have called out students in the past for suspected cheating.

**Syllabus**

**September 3: Introduction to Course: What is Financial Statement Analysis?**

Learning Objectives:

1. Overview of financial reporting and financial statement analysis
2. Understand most effective means of mastering course

Read: I hope you kept your financial accounting book and notes. Peruse through this book and remind yourself how the accounting system works and how the financial statements look like.

*Homework: Introduction to the Annual Report: Target Corporation*

This is an overview Homework. I will answer questionsabout it on Tuesday*.* See how much you can do. Don’t worry (too much) if you forgot the details, as we will be covering a lot of this material throughout the term.

**September 8: Overview of Financial Reporting**

**\*\*\**In Class: Bring in: You Be the Detective Case***

**September 10 & 15: Balance Sheet Analysis**

Homework: Starbucks Case

**September 17 & 22: Income Statement Analysis**

Homework: Insulet Corporation

**September 24 & September 29: Income Taxes**

**\*\*\**In Class (9/24 & 9/29) Bring to Class: Print out from the Apple 10-K these pages (Note they are not numbered): consolidated statements of operations, consolidated balance sheets, Note 5 – Income Taxes (the entire note please).***

For those interested in all of the nuts and bolts, <http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/USEng/Documents/Deloitte%20Periodicals/Roadmap%20Series/Roadmap_AccountingForIncomeTaxes.pdf> is a handy guide. It is way beyond what we will do in this class, however.

Homework: Amazon Tax Case

**October 1 & 6: Pro-forma Earnings**

***\*\*\*In class (10/1) Bring to Class: Facebook 8-K Report. Here is the link. You need to print out the section called Exhibit 99.1***

***\*\*\*In class (10/6) Bring to Class: Print out from the Best Buy 10-K these two pages: p. 57 [Income Statement] and p. 86 [FN 10 Income Taxes, first page only]***

Homework: Brown Shoe Pro-Forma Case

**October 8 & 15 & 20: Profitability Analysis - Using ROA and ROCE**

Read: <http://en.wikipedia.org/wiki/Financial_ratio>; the one exception is ROA in which the numerator should read [Net Income from Continuing Operations + (1-T)\*Interest Expense]. Use this for the ROA DuPont equation as well.

***\*\*\*In class (10/8 & 15): Bring to Class: Print out from the Best Buy 10-K these pages: pp. 1-6 (CEO’s letter), p. 23 (Item 6), pp. 32-33 (from the MD&A), p. 57 (Income statement).***

***Note that NYUClasses has the ROCE ratios that we will be calculating in class. If you want the raw numbers, you will need to find the last 10-K reports for IBM and Hewlett-Packard. Go into their websites, find investors or investor relations, and locate the reports.***

***\*\*\*In class (10/20): Bring to Class: Lehman Brothers Case and financial statements (3 documents in all). This is a great illustration of why Lehman went bust.***

**October 22: Midterm 1**

**October 27 & 29 & November 3: Statement of Cash Flows**

**\*\*\**In class (11/3): Analyzing several cash flow statements***

**November 5 through November 19: Specific Accounting Rules**

**November 5: Changing LIFO to FIFO**

Read: Handout on Changing LIFO to FIFO on NYUClasses

***\*\*\*In class: Bring to class: ConocoPhillips vs. Exxon Mobil: We will do Exxon Mobil***

Homework: ConocoPhillips

**November 10 & 12: Investments in Other Companies**

***\*\*\*In class: CocaCola - Bring to class – from the Coca Cola 10-K pages: 73-76; 90-91; 99***

Homework: Homework on Investments

PepsiCo

**November 17 & 19: Off-balance sheet financing – Operating vs. Capital Leases**.

**November 24: Conference Calls – What are they? Hard vs. Soft Information**

**\*\*\**In Class: We will go over a conference call. The transcript of the call is in***

***NYUClasses. Please bring in.***

**December 1 & 3: Risk Analysis - Assessing Liquidity and Using Leverage Ratios**

Read: <http://en.wikipedia.org/wiki/Financial_ratio>;

***\*\*\*In class: Clorox - Bring to Class: Clorox 2008 and Clorox 2010 financial statements – on NYUClasses)***

**December 8 & 10: Class Presentations on Amazon vs. Wal-Mart**

December 10: I will hand out the 10-K report for the final exam

**December 15: Questions on 10-K Report and Review for Final Exam**

**Final Exam: December 22: 8 AM - 9:50 AM**