Financial Statement Analysis: ACCT-UB.0003

Fall 2015– Tuesday and Thursday 11:00 A.M. – 12:15 P.M.

**First half of the course:**

Professor April Klein OFFICE HOURS:

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

E-mail: [aklein@stern.nyu.edu](mailto:aklein@stern.nyu.edu)

Teaching Assistant: Teri Tan, [teri.tan@stern.nyu.edu](mailto:teri.tan@stern.nyu.edu)

**Second half of the course:**

Professor Christine Cuny OFFICE HOURS:

K-MEC 10-91 Tue & Thurs 12:45 PM – 1:45 PM;

E-mail: [ccuny@stern.nyu.edu](mailto:ccuny@stern.nyu.edu)

Teaching Assistant: Barclay Stephens, [bs1908@stern.nyu.edu](mailto:bs1908@stern.nyu.edu)

**Course Objectives**

This course is designed to prepare you to read, 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. Toward the end of the semester, we will learn to use accounting disclosures to forecast future earnings and use these forecasts to value firms.

The pre-requisite for this course is 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**

* You will receive course packs in class 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.
* The first half of course does not use a textbook.
* For the second half of the course, you need select chapters from Easton, McAnally, Sommers, and Zhang, “Financial Statement Analysis & Valuation,” Cambridge Business Publishers. These chapters can be purchased at the bookstore.
* NYUClasses contains (1) power point slides, (2) homework problem sets, and (3) other handouts that will be used throughout the term.
* 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:

|  |  |
| --- | --- |
| Exam I | 40% |
| Preparation for Class (1st Half) | 10% |
| Target Assignments | 20% |
| Exam II | 30% |

Exam I is open book and open note.

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.

There are three graded assignments in the second half of 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. You will have a minimum of a week after we have covered 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). In order to receive credit for the assignments, they need to be submitted in hard-copy before class begins. If you cannot attend class on an assignment due date, you may submit the assignment before the specified due date.

For exam II, you will be allowed a self-prepared, double-sided formula sheet. The exam is cumulative, but there will be an emphasis on the more recent material covered in class.

**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.

***Cell Phones and Text Messaging***

Unless otherwise specified, no phones, computers, or other electronics may be used during class or exams.

***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 within one calendar week of the posting of the grades. 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.

**Preliminary Course Schedule – Subject to Change**

**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 – Asset Analysis**

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

**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: Exam 1**

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| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Before Class** | **After Class** | **Bring to Class** | |  |
|  |  | **Textbook** | **Textbook** | **Course** |  | **Assignment** |
| **Date** | **Topic** | **Readings 4e (3e)** | **Practice Problems 4e (3e)** | **Pack** | **Supplement** | **Due** |
| 10/27/15 | Overview of Target Corp. |  |  |  | 1 |  |
| 10/29/15 | Profitability analysis, cont. | Module 3 | Q3-2, 3, 5, 6, M3-21 | 1 | 2 |  |
| Q3-10, 14, M3-23, 27 |  |
| P3-36, 37, 38, 48 |  |
| 11/3/15 | Risk analysis | Module 4; 7-22 to 7-27 | Q4-3, 10, 12, 13, M4-16, 17, 21 | 1 | 2 |  |
| E4-22, 26(27), P4-29(30), 32(33) |  |
| 11/5/15 | Present Value | 12-6 to 12-9 |  | 1 | 2 |  |
| 11/10/15 | Leases | 10-3 to 10-11 | Q10-1, 2, 3, M10-10, 11, 16 | 1 | 2 |  |
| Southwest 10K (Item 1) | E10-19, 22, P10-28 |  |
| 11/12/15 | Conference Call | Starbucks Press Release |  | 1 | 3 | 1 |
| Starbucks MD&A |  |
| 11/17/15 | Forecasting Revenues | Mod. 11 | Q11-7, 9 | 1 | 3 |  |
| 11/19/15 | Forecasting Financial Statements | Mod. 11 | Q11-2, 3, M11-13, 16 | 1 | 3 |  |
| 11/24/15 | Forecast Reasonableness | Mod. 11 | E11-22, E11-28 | 1 | 3 |  |
| 11/26/15 | No Class - Thanksgiving |  |  |  |  |  |
| 12/1/15 | Cost of Capital | 12-10 to 12-16 | Q12-3, 6, 7, M12-15, 20, |  |  | 2 |
| 21, E12-30, 31, | 1 | 3 |
| P12-39, 40, D12-46 |  |  |
| 12/3/15 | Discounted Cash Flow | 14-2 to 14-13 | Q14-5, M14-8, E14-11, 15, | 1 | 3 |  |
| (14-2 to 14-12) | P14-18 |  |
| Residual Income Model | 13-5 to 13-10 | Q13-3, M13-8, E13-10, 14, |  |
| & Appendix 13C | P13-15 |  |
| 12/8/15 | Market-Based Valuation | 15-3 to 15-12 | Q15-1, 2, M15-8, 11, 13, 16, | 1 | 3 |  |
| E15-23, 24, 27, 33, P15-37 |  |
| 12/10/15 | Exam II Review |  |  | 1 |  | 3 |
| 12/13/15 | Optional Q&A Session |  |  |  |  |  |
| 12/15/15 | Exam II |  |  |  |  |  |