



Financial Statement Analysis

Course Descriptions and Syllabus

Your instructor

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Consultation hours: By appointments

Your Teaching Assistant

TBA

Course Descriptions

Overview

“Flexibility in accounting allows it to keep pace with business innovations. Abuses such as earnings management occur when people exploit this pliancy. Trickery is employed to obscure actual financial volatility. This in turn, masks the true consequences of management’s decisions.”

Arthur Levitt, SEC Chairman, 1998

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/hiner 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.

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 would an equity analyst make.

The line items are organized as follows:

- i. Revenue and Accounts Receivables
- ii. Operating Capacity
- iii. Fixed Claims
- iv. Estimated Claims
- v. Equity Claims

In addition, we will translate our knowledge of the business environment and company's current status to form predictions about future financial performance and conditions. This will prepare you for Advanced Financial Statement Analysis in which the forecasted information is applied to various valuation models.

The course has a very practical emphasis. We will apply the tools and concepts via a series of class exercises, a mid-term exam (3 hours), and a final group presentation.

Mandatory Reading Materials

Class notes will be made available electronically on NYU Classes.

Recommended Text

Financial Statement Analysis and Valuation, 4th 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:

Class Exercises (only ones that you have been asked to turn in)	20%
Mid-term Exam (3 hours)	40%
Group Presentation	40%

Tentative Class Schedule

Session/ week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part I - Framework to uncover a company's value-creation activities			
1 6/29	Introduction – Earnings Quality & Financial Statement Analysis <ul style="list-style-type: none"> - Business Activities and Articulation of Financial Statements - Earnings vs ΔCash and concept of accrual accounting - Overview of Earnings Quality and Earnings Management - How accounting choices help/hinder our understanding of the business 	CN1	Modules 1 & 2
2 & 3 7/1 & 7/6	Review of Financial Statements <ul style="list-style-type: none"> - Review of line items from Core Introductory accounting and their earnings quality issues and common abuses - Overview of other line items to be covered in Part II 	CN2	Module 2
4 7/8	Reformulation of Financial Statements <ul style="list-style-type: none"> - Why the need to reformulate statement? - Implementation issues when reformulating statements - Profitability Analysis - Other ratio analysis (growth prospects and risk) 	CN3	Module 3
5 7/13	Profitability Analysis and Interpretation (cont.) <ul style="list-style-type: none"> - Profitability analysis for different industries 	CN3 (cont.)	Modules 3 & 4

Session/ week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part II - Adjusting and assessing specific line items			
6 7/15	Revenue and Accounts Receivables <ul style="list-style-type: none"> - Revenue Recognition - Percentage of Completion - Accounts Receivables Factoring 	CN4	Module 5
7 7/20	Mid-Term Exam		
8 7/22	Operating Capacity <ul style="list-style-type: none"> - Inventory - Property, Plant and Equipment - Intangible Assets - “Other Assets” 	CN5	Modules 5 & 6
9 7/27	Fixed Claims <ul style="list-style-type: none"> - Investments in Debt Securities - Debt - Leases (lessee’s perspective) - Derivatives 	CN6	Modules 7 & 10
10 7/29	Estimated Claims <ul style="list-style-type: none"> - Pension and Other Postretirement Benefits - Income Taxes - Contingencies - Accrued Liabilities (related to Restructuring) 	CN7	Modules 5 & 7
11 8/3	Equity Claims <ul style="list-style-type: none"> - Investment in Equity Securities, Business Combinations, and consolidation - Shareholders’ equity, share-based payments and EPS 	CN8	Modules 8 & 9
12 8/5	Group Presentations		