

# **FINANCIAL STATEMENT ANALYSIS**

## **(FALL 2020) Teaching Mode: Online**

### **COURSE DESCRIPTIONS AND SYLLABUS**

#### **Your instructor**

Professor: Julian Yeo  
Email: [jyeo@stern.nyu.edu](mailto:jyeo@stern.nyu.edu)  
Consultation hours: Please check NYU Classes, available on Zoom.

### **COURSE DESCRIPTIONS**

How accounting choices made by a company will help/hinder our understanding of the core activities of a business is the essence of our course – *Financial Statement Analysis*. Financial Statement Analysis builds upon Core Introductory Accounting. It 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 useful for executives, bankers, analysts, investment managers, and other users of financial information.

We typically turn to financial information to understand the operational and economic workings of a company. However, uncovering and translating this information into actionable insights is not always straightforward or easy. The course is organized into two parts to help you acquire such knowledge and skills:

#### *Part I: Framework uncovering a company's value-creation activities*

We need first to 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 that we learned from Core Introductory Accounting, we will also provide an overview of other line items in Part II.

To best assess management's value-creation activities, we discuss the needs to reformulate financial statements. We will implement the 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, comparing operating leases with capital leases).

We will explore advanced accounting topics such as revenue under Topic 606, revenue for long-term contracts, accounts receivable factoring, inventory for manufacturing firms, accounting for income taxes, accounting for debt and equity instruments, new goodwill impairment test, new lease standard, and others.

We organize the line items as follows:

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

Through the semester, we will translate our knowledge of the business environment and the company's current status to form predictions about future financial performance and conditions. We will apply the tools and concepts via a series of class exercises. You will be assessed based on a mid-term exam, a final exam, online 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*, 6<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 your group presentation on NYU Classes.

### **ASSESSMENTS**

We calculate your final grade based on:

On-line Mini Tests	20%
Mid-Term Exam 1	20%
Group Project/Presentation	30%
Final Exam	30%

### **STUDENTS WITH DISABILITIES**

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Henry and Lucy Moses Center for Students with Disabilities (CSD, 998-4980, [www.nyu.edu/csd](http://www.nyu.edu/csd)) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

## Tentative Class Schedule

Session/ Week	Topics	Mandatory Readings - Class Notes	Class Exercises
Part I - Framework to uncover a company's value-creation activities			
1. 9/2, 9/9	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
2-3. 9/14, 9/16, 9/21, 9/23	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
4. 9/30, 10/5, 10/7	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
5. 10/12 & 10/14	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
6. 10/19, 10/21	<b>Take-Home Mid-Term</b>		
7. 10/26, 10/28, 11/2	<b>Group Presentations</b>		<b>CE3.5</b>

Session/ Week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part II - Adjusting and assessing specific line items			
8-9. 11/4, 11/9, 11/11	Revenue and Accounts Receivables <ul style="list-style-type: none"> <li>- When/what/how much to recognize</li> <li>- Percentage of Completion - 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 IV due 11/18 at 6pm		
10. 11/16, 11/18	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 CE5.7
11. 11/23	Fixed Claims <ul style="list-style-type: none"> <li>- Investments in Debt Securities</li> <li>- Leases (lessee's perspective)</li> <li>- Operating Leases vs Capital Leases</li> </ul>	CN6	CE6.0 CE6.1 CE6.2 CE6.3

<b>Session/ Week</b>	<b>Topics</b>	<b>Mandatory Readings - Class Notes</b>	<b>Background Readings from Recommended Text</b>
12. 11/30 & 12/2	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> <li>- Equity Method Investment</li> <li>- Consolidation (overview)</li> </ul>	CN7 CN8	CE7.1 CE8.1
13. 12/7	Profitability analysis for different industries		CE9.1
<b>14. 12/9</b>	<b>Take Home Final Exam</b>		