

DRAFT SUBJECT TO CHANGE

**NEW YORK UNIVERSITY
Stern School of Business**

Financial Statement Analysis (ACCT-UB.0003)

SPRING 2015

Professor:

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Office Hours: KMC 10-97:

Tuesday and Thursday. 5:00pm – 06:00pm,

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Course Overview and Objectives

This course explores the tools you will need to analyze and exploit information in corporate financial statements. The *main objective* of the course is to equip you with the knowledge to read, interpret and analyze financial statement data in order to make informed business decisions regarding investment, credit, or resource allocation. Such skills are required for equity and credit analysts, executives, bankers, auditors, consultants and other users of financial information.

The course addresses questions such as 1) How do operating and financial decisions contribute to a firm's return? 2) Why does a firm's performance differ from their competitors? 3) Has the firm distorted their accounting numbers and how will this influence their reported performance? 4) How does the financial performance today predict future events, such as credit default or equity valuation? 5) How can a firm forecast financial statements over multiple years? 6) How to derive the "right cash flow" for DCF valuation?

The course consists of three integrated parts:

1. Understanding the business environment and financial information. We need to understand the business environment and company-reported accounting information, in particular:
 - a. Understand the economic characteristics of the industry in which a firm competes
 - b. Understand the business strategy a firm executes to be competitive
 - c. Understand the quality of accounting information
2. Adjusting and assessing financial information. We will apply tools for adjusting and assessing financial statement information for profitability and credit risk analysis.
 - a. Assess accounting choices and the need for adjustment
 - b. Reformulate GAAP-based financial statements to reflect business activities (i.e. operating, investing, financing)
 - c. Build a system of ratios which are useful in analyzing profitability and credit risk (liquidity and solvency)
3. Forecasting financial information and using it for valuation: We will translate our knowledge of the business environment and a company's current status to form

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predictions about future financial performance and conditions. We apply the forecasted information in a discounted valuation model.

- a. Develop a set of hypotheses on the future evolution of Operating, Investing and Financing activities
- b. Derive a cash flow statement, income statement and balance sheet
- c. Describe and apply the Discounted Cash Flow (DCF) model to value equity securities

Prerequisites

The course assumes you have a solid grasp of general accounting concepts and principles

Class Meetings

The course is developed around a theoretical framework and analytical tools. In each class, we will review the framework and apply the analytical tools in real time to conduct an extensive fundamental analysis of real companies using their current financial statements. To prepare for class, you should go through the readings and prepare the case questions (this applies only to classes where we discuss cases).

I have found that a mix of lectures, cases, and discussions provides an interactive learning environment, allowing for greater understanding of the managerial implications of information-system design and use.

Students will be active participants in case discussions, providing summaries of issues, analyses, and recommendations. This involves the preparation of the case and reading assignments before class and the active sharing of your insights during class.

Note that many of the financial statement analysis problems I will address through cases will not have clear-cut or "correct" solutions; do not let this discourage you.

Each student should carefully prepare the assigned case and be ready to be called on to present their analysis or to comment on others' analyses. You are encouraged to prepare for cases in teams. I will randomly call on students when discussing cases. This practice is not intended to put you on the spot, but it is intended to encourage everyone to participate in the class discussion.

Syllabus updates – Please note that the timing of topics and reading assignments in this syllabus are subject to change. Changes are at my discretion with the intention of optimizing the quality and flow of the course content.

Study Teams:

I encourage you to form study teams of no more than five people. I hope that team discussions will enable each of you to more fully and efficiently understand the assignments, cases, readings and lectures. I will leave it up to you to form your own teams.

Teaching Materials

The *required* textbook is Financial Statement Analysis and Valuation, 4th edition, by Peter Easton, Marry Lea McAnally, Gregory Sommers and Xiao-Jun Zhang, published by Cambridge Business Publishers. Additional readings and cases are posted on NYU Classes. I will provide extensive lecture notes.

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Feedback

I encourage you to provide feedback on class topics, content, and cases. I appreciate any concerns, questions, or opinions regarding the course. I would like to continue to improve this course; participants' feedback is critical.

Grading

The course grade will be based on class participation, assignment, final case analyses and exams:

- Exam I (midterm) 25%
- Exam II (final) 25%
- Assignments 20%
- Group Project 20%
- Professionalism 10%

Exams (50%)

There are two exams that are aimed at assessing your grasp of the learning objectives for each section. The content of the exams will closely reflect the content of the course. Exams are closed-book, you may use a single sheet of (**hand written**) notes. The final exam will be cumulative. Sample questions (and solutions) will be posted to the course website for help in reviewing and preparing for the exam. No laptops or electronic devices other than standard calculators will be permitted during the exam.

Assignments (20%)

There are six assignments throughout the semester that are aimed at solidifying your understanding of the concepts covered in class by applying them to the financial statements of **Starbucks**. 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 both in hard-copy and online via NYU Classes before class begins. The electronic copy will only be used in the event of a grade dispute. If you cannot attend class on an assignment due date, you may submit the assignment before the specified due date. Each assignment is worth 2.5% of the total course grade and graded on a scale from 0-10. The detailed point breakdown for each assignment is as follows:

<i>Assignment</i>	<i>Topic</i>	<i>Due Date</i>	<i>Point Value</i>
1	<i>Industry and Strategy Analysis</i>	<i>5-Feb</i>	<i>2.50%</i>
2	<i>Reformulation of financial statements Common size & percentage change analysis</i>	<i>26-Feb</i>	<i>2.50%</i>
3	<i>Profitability Analysis</i>	<i>10-Mar</i>	<i>5.00%</i>
4	<i>Risk Analysis</i>	<i>24-Mar</i>	<i>2.50%</i>
5	<i>Accounting Quality Analysis</i>	<i>16-Apr</i>	<i>2.50%</i>
6	<i>Forecast analyses</i>	<i>28-Apr</i>	<i>5.00%</i>
Total Assignments			20%

Group Project and Presentation (20%)

The final case will consist of the fundamental analysis of financial statement information of a public listed company. The content of the final case will closely reflect the content of the

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assignments. The final case will enable you to apply the skills learned in the course. You may work in teams of no more than five on this project. The analysis will include a presentation to the class and max 5-8 pages of text and supporting tables or figures. The presentation will be 10/15 minutes long. On that day each team will have the opportunity to present a portion of their analysis to the entire class. More details about the content of the presentation and the written report will be provided in class. To encourage full participation by all team members (and to discourage free-riding), each of you will be asked to submit an evaluation of the performance and contribution of each member of your team. Your teammates' evaluations of your contributions will be incorporated in the "professionalism" component of your grade.

Groups will select one company among the following:

<i>Assignment</i>	<i>Topic</i>	<i>Ticker</i>
1	Abercrombie & Fitch Co.	ANF
2	Tiffany & Co. (TIF)	TIF
3	J. C. Penney Company, Inc.	JCP
4	Kohl's Corporation	KSS
5	Hewlett-Packard Company	HPQ
6	IBM	IBM
7	Southwest Airlines	LUV
8	Delta Air Lines	DAL
9	Johnson & Johnson	JNJ
10	Pfizer Inc.	PFE
11	Nike	NKE
12	Cisco	CSCO

Ideally no more than two groups per session should have the same company. The allocation of companies among groups will follow a first-come-first-serve policy.

Professionalism (10%)

I expect you to treat this class as you would treat any professional responsibility.

The grade for professionalism will depend on the quality of your interaction and participation in class discussions, project group activity and effort only assignments. The following factors will be considered:

- Case preparation. You should prepare answers to the case questions. I encourage you to prepare for cases in small groups. *I will randomly call on students to contribute to case discussion.*
- Contributing to the in-class case analysis by making comments to move the discussion toward an understanding of the company and its issues. In evaluating your contribution, I will not emphasize the quantity of comments per se, or on offering the "right" solution. Typically, no single "right" solution exists, and moreover, there is much to be gained if we examine a wide variety of viewpoints. You can provide valuable contribution by posing intelligent questions, raising alternative viewpoints, and providing well-reasoned challenges to expressed views
- Your teammates' evaluations of your contributions will be incorporated in the "professionalism" component of your grade.
- Each effort only assignment has value of 1% in the professionalism score.

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Grading Policy

At NYU Stern we seek to teach challenging courses that allow students to demonstrate differential mastery of the subject matter. Assigning grades that reward excellence and reflect differences in performance is important to ensuring the integrity of our curriculum.

In core classes of 25 or more students, the Stern faculty have adopted a grading guideline in which approximately 35% of students will receive an “A” or “A-“ grade.

Note that while we use this range as a guide, the actual distribution for this course and your own grade will depend upon how well each of you actually performs in this course.

Please see “Teaching and Grading at the NYU Stern Undergraduate College” for more information: <http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>

Please note the following grading-related policies:

- There will be *no make-up* for the *midterm exam* under any circumstances. If you miss the *midterm* because of a medical or family emergency, you will need to provide me with documentation; in this case, the weight of the midterm will be added to the weight of the final (i.e., the course grade will be 50% on the final exam).
- The weights, in “Grading” above, are identical for everyone. *It is not possible to make up for poor performance by doing extra work.*
- *Re-Grading.* In line with Grading Guidelines for the NYU Stern Undergraduate College, the process of assigning of grades is intended be one of unbiased evaluation. This means that students are encouraged to respect the integrity and authority of the professor’s grading system and discouraged from pursuing arbitrary challenges to it.

If a student feels that an inadvertent error has been made in the grading of an individual assignment or in assessing an overall course grade, a request to have that the grade be re-evaluated may be submitted. Students should submit such requests in writing to the professor within 7 days of receiving the grade, including a brief written statement of why he or she believes that an error in grading has been made.

Academic Integrity

Integrity is critical to the learning process and to all that we do here at NYU Stern. All students are expected to abide by the **NYU Stern Student Code of Conduct**. A student’s responsibilities include, but are not limited to:

A duty to acknowledge the work and efforts of others when submitting work as one’s own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.

A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

For more information, please see:

<http://www.stern.nyu.edu/UC/CurrentStudents/Academics/PoliciesAndProcedures/index.htm>

Students with Disabilities

Students whose class performance may be affected due to a disability should notify the professor

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early in the semester so that arrangements can be made, in consultation with the Henry and Lucy Moses Center for Students with Disabilities, to accommodate their needs.

Please see www.nyu.edu/csd for more information.

How to Do Well in this Course

- This will be a challenging course. I strongly advise you to read each assigned text chapter before each lecture.
- Although the solutions to the self-study homework problems will be made available, you should work diligently through each problem before consulting its solution. Do not be misled into thinking that because you understand the solution you have mastered the material.
- The self-study homework assignments are a minimum. I strongly recommend that you work through as many of the exercises and problems at the end of each chapter as possible.

Other

I expect you to come to every class, to arrive on time, and to stay through the entire class. If you miss a class, it is your responsibility to find out what you may have missed from a fellow student. You should turn off your cell phones during class time. Laptop computers, iPads, and iPhones are distracting and are therefore not permitted during class unless specifically instructed otherwise.