

Financial Statement Analysis (ACCT-UB.0003) Spring 2021

KMC 5-50 (11:00 M), Online (11:00 W), Online (2:00 MW), Online (3:30MW)

Syllabus for Textbook Edition 5

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Zoom Office Hours:* Mondays 12:45pm-1:45pm and Wednesdays 12:45pm-1:45pm and by appointment

TA Office Hours:* 5:00-6:30pm the night before assignment due dates and by appointment

***Note:** If you plan to attend office hours with the professor, please reserve a time slot in advance. You will find a link to reserve an appointment within each office hour posted in the schedule on NYU classes.

Course Objective:

The objective of this course is to understand how to read, interpret, and analyze financial statements. Throughout the course, we will use the financial statements of several real companies to illustrate concepts. Specifically, we will:

- Study the interrelationships between financial statement line items
- Use ratio analysis to understand and compare firms
- Understand accounting disclosures
- Use accounting disclosures to adjust financial statements
- Forecast future earnings using accounting disclosures
- Value a firm using forecasts

Prerequisites:

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

Course Materials:

- Throughout the course, you will receive three course packets containing lecture slides, in-class exercises, assignments, and practice exam questions. You will receive four supplements containing select pages from financial statements for illustrative purposes. All of these materials are available through NYU Classes.
- You will need access to Microsoft Excel.
- You will find a financial calculator helpful in the second half of the course. If you plan to go into accounting or finance, this is a worthwhile investment. The Texas Instruments BA II Plus Financial Calculator sells for roughly \$30 on Amazon: [Link](#).
- The optional textbook for the course is "Financial Statement Analysis & Valuation," by Easton, McAnally, Sommers, and Zhang. The book is currently in its sixth edition, but feel free to use an earlier version. You will need the textbook to complete the optional practice problems, which are helpful for solidifying concepts and preparing for exams.

Grading:

Your grade in the course will be determined according to this tentative point distribution:

Exam I	33%
Exam II	33%
Assignments	33%

Exams (66.67%)

There are two exams that are aimed at assessing your grasp of the learning objectives for the course. These exams will be taken online. I will offer the exams during each class meeting time (11 am, 2pm, and 3:30pm) and also at 6am for those in eastern hemisphere time zones. You can take the exam at any of these four times regardless of your section registration. Before the exam, I will hold an in-class review session and a Q&A session. I do not offer make-up exams.

Assignments (33.33%)

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 Target Corporation. Your five highest scores will be included in your course grade (I will drop your lowest assignment score). You will have a minimum of a week after we cover 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). To receive credit for the assignments, they need to be submitted electronically via NYU Classes before 5pm New York time on the due date. The solution is posted at 5pm on the due date of the assignment, therefore I cannot accept late submissions. The assignment due date schedule is as follows:

Assignment	Topic	Due Date
1	Common size & percentage change analysis	2/24
2	Dupont & Penman Profitability Analysis	3/10
3	Risk Analysis	3/17
4	Accounting Analysis	4/14
5	Parsimonious Forecast	5/5
6	Valuation	5/12

Note: The TAs will hold additional office hours the Tuesday before each assignment is due (on Zoom).

Re-Grade Policy:

Grading mistakes happen occasionally. Therefore, you are permitted to submit re-grade requests on exams and assignments *within one calendar week* of the posting of the grades. To have an exam re-graded, you must submit a short *written* description of your argument that explains the grading mistake and why you believe you deserve additional credit. Upon receipt of your written description, I will review the *entire* exam/assignment for grading accuracy; therefore your grade may go up or down as a result of the re-grade request.

Additional Information:

Policy on Class Attendance:

I do not take attendance. However, past semesters have shown a strong correlation between class attendance and overall course performance. The exams are based on our in-class discussions, so participating in class will naturally correlate with your exam performance. I understand that over the course of 28 sessions, personal and religious conflicts come up and you may need to miss a class. You are welcome to attend any of my online sections regardless of which section you are registered for. If you cannot attend any of the online sections, the Zoom recording will be available to you on NYU Classes because I want you to have the opportunity to make up the material you missed on your own. Exercise solutions will also be posted on NYU Classes.

Please note that the 11:00am Monday section is in-person *only*. It will not be streamed synchronously. If you are enrolled for the in-person section and cannot attend in-person, you are welcome to attend one of the online afternoon sections or watch the recording at your convenience.

Academic Integrity, General Conduct & Behavior:

The Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here: www.stern.nyu.edu/uc/codeofconduct . Students are also expected to maintain and abide by Stern's Policy in Regard to In-Class Behavior & Expectations (<http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>) and the NYU Student Conduct Policy (<https://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/university-student-conduct-policy.html>).

Student Accessibility

If you will require academic accommodation during this course, please notify me at the beginning of the course and provide a letter from the Moses Center for Student Accessibility (212-998-4980, mosescsa@nyu.edu) verifying your registration and outlining the accommodations they recommend.

Student Wellness

These are unusual times. I encourage you to reach out if you need help. The NYU Wellness Exchange offers mental health support. You can reach them 24/7 at 212-443-9999, or via the "NYU Wellness Exchange" app. There are also drop in hours and appointments. Find out more at <http://www.nyu.edu/students/health-and-wellness/counseling-services.html>.

Course Framework:

Specific content and dates are subject to change. The general progression of the course is divided into three sections, as follows:

1. In this section of the course, you will develop the tools to understand and compare firms. We will:

- Review basic financial accounting concepts
- Become familiar with the information available to investors and analysts
- Learn where to find information in real 10-Ks
- Learn how to compute various financial ratios
- Understand the value of common-size financial statements in understanding the nature of a firm's business
- Learn how ratios can be used to identify trends within a company over time and across firms within an industry
- Learn how to use financial ratios to assess a firm's profitability and risk
- Learn how to interpret financial statement ratios
- Learn how operating and financing activities affect inferences of financial statement ratios
- Learn how to adjust the financial statements to allow for cross-sectional comparison
- Understand the discretion management has in classifying revenues, expenses, gains, and losses on the income statement and the implications of this discretion
- Learn how to recast financial statements to undo distortions
- Learn the difference between temporary and permanent income

Date	Topic	Before Class Readings 5e	After Class Practice Problems 5e	Bring to Class		Assignment Due
				Course Pack	Supplement	
2/1 (Mon)	Course Introduction	1-12 to 1-19		1		
2/3 (Wed)	Accounting Refresh	Skim 2-1 to 2-20 Target MD&A	Q1-2, 7, E1-34, Q2-17 M2-23, 24, 28	1	1	
2/8 (Mon)	Intro to financial statements		E2-38, P2-45	1	1	
2/10 (Wed)	Intro to financial statements			1	1	
2/15 (Mon)	No Class (President's Day)					
2/17 (Wed)	Common-size analysis	Pepsi & Coke MD&A	E2-40, 41, 42	1	2	
2/18 (Thurs)	Common-size analysis			1	2	
2/22 (Mon)	Profitability analysis	1-24 to 1-27	E1-37, 38, 40 P1-41, 42, P2-48	1	2	
2/23 (Tue)	Assignment 1 TA Office Hours					
2/24 (Wed)	Profitability analysis	Appendix 3B	Q1-19, P1-47, 48, 49, 50, 51	1	2	1
3/1 (Mon)	Penman Profitability analysis	Module 3	Q3-2, 3, 5, 6, M3-27 Q3-10, 14, M3-33, 37 P3-46, 48, 49, 60	1	2	
3/3 (Wed)	Pro-forma Adjustments	2-13 to 2-14; 5-24 to 5-33 6-24 to 6-26 8-26 to 8-27	Q5-9, E5-37 P6-45 E8-50	1	2	
3/8 (Mon)	Risk analysis I	Module 4	Q4-3, 10, 12, 13, M4-16, 17, 21	1	2	
3/9 (Tue)	Assignment 2 TA Office Hours					
3/10 (Wed)	Risk analysis II	7-22 to 7-27	E4-22, 26, P4-30, 32	1	2	2

2. In this section of the course, you will learn how to understand and analyze accounting disclosures. We will:

- Understand how accounting choices affect cross-sectional and time-series variation in financial ratios
- Learn how to identify and evaluate critical accounting policies contained in the footnotes to the financial statements
- Understand the effects of these choices on the historical and future financial statements
- Learn how to adjust the financial statements to allow for cross-sectional comparison
- Learn how changes in the asset and liability valuations on the balance sheet impact the measurement of net income on the income statement

Date	Topic	Before Class Readings 5e	After Class Practice Problems 5e	Bring to Class		Assignment Due
				Course Pack	Supplement	
3/10 (Wed)	Accounts Receivable I	5-17 to 5-23	Q5-2, M5-18, 19, 20, 21	2	3	
3/15 (Mon)	Accounts Receivable II	HP 10K (Item 1)	E5-41, P5-54	2	3	
3/16 (Tue)	Assignment 3 TA Office Hours					
3/17 (Wed)	Fixed Assets I	6-17 to 6-23; 6-29 to 6-31	Q6-7, 8, M6-17, 19	2	3	3
3/22 (Mon)	Exam I Review			1 & 2		
3/23 (Tue)	Optional Q&A Session					
3/24 (Wed)	Exam I					
3/29 (Mon)	Fixed Assets II	United Tech. 10K (Item 1)	E6-31, 32, 36, P6-38, 42	2	3	
3/31 (Wed)	Present Value	12-6 to 12-8		2	3	
3/31 (Wed)	Leases	10-3 to 10-10	Q10-1, 2, 3, M10-14, 15, 20	2	3	
4/5 (Mon)		American 10K (Item 1)	E10-28, 31, P10-41	2	3	

3. In this section of the course, you will learn how to use company disclosures to forecast financial statements and value a firm. We will:

- Learn how the various financial statement ratios combine to provide a structured framework from which you can forecast future performance and calibrate its reasonableness
- Understand the importance of sales to forecasting future financial statements
- Learn how to identify the critical forecasting assumptions
- Understand the difference between income flows and cash flows
- Understand equity value is a simple summation of the discounted expected future net distributions of cash to equity holders
- Understand the assumptions of the discounted cash flow (DCF) valuation method
- Understand the principles behind estimating a terminal value and choosing a discount rate
- Learn some valuation heuristics, or shortcuts, to estimate a company's value or to compare it to a peer (e.g., Price-Earnings ratio, Market-to-Book ratio, and PEG ratio)
- Understand the assumptions behind some common valuation heuristics and how to leverage these heuristics when performing macro-level analysis of firms
- Learn how to convert analyst forecasts into a simple valuation heuristic
- Understand the intuition supporting the use of the P/E ratio
- Learn how to “anchor” valuation on current earnings

Date	Topic	Before Class Readings 5e	After Class Practice Problems 5e	Bring to Class		Assignment Due
				Course Pack	Supplement	
4/7 (Wed)	Conference Call	Starbucks Press Release Starbucks MD&A		3	4	
4/12 (Mon)	Forecasting Revenues	Mod. 11	Q11-7, 9	3	4	
4/13 (Tue)	Assignment 4 TA Office Hours					
4/14 (Wed)	Forecasting Financial Stmt's	Appendix 11B	Q11-3, M11-13, 16	3	4	4
4/19 (Mon)	No Class					
4/21 (Wed)	Forecast Reasonableness	Mod. 11	E11-23, E11-30	3	4	
4/26 (Mon)	Cost of Capital	12-10 to 12-17	Q12-3, 6, 7, M12-15, 20, 21, E12-30, 31, P12-39, 40, D12-46	3	4	
4/28 (Wed)	Discounted Cash Flow Residual Income Model	Module 14 13-5 to 13-12	Q14-5, M14-10, E14-18, 22, P14-29 Q13-3, M13-8, E13-13, 14, P13-20	3	4	
5/3 (Mon)	Market-Based Valuation	15-3 to 15-12	Q15-1, 2, M15-8, 11, 13, 16, E15-23, 24, 27, 33, P15-39	3	4	
5/4 (Tue)	Assignment 5 TA Office Hours					
5/5 (Wed)	Exam II Review			2 & 3		5
5/10 (Mon)	In-class Q&A Session			2 & 3		
5/11 (Tue)	Assignment 6 TA Office Hours					
5/12 (Wed)						6
TBD	Exam II (Based on exam schedule)					