

# Financial Statement Analysis (Fall 2019)

## COURSE DESCRIPTIONS AND SYLLABUS

### *Your instructor*

Professor: Julian Yeo  
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Consultation hours: Tuesday, Thursday 1.00pm – 1.30pm

## COURSE DESCRIPTIONS

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/hinder 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. 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, capitalizing operating leases).

We will also examine more advanced accounting topics such as revenue recognition for long-term contracts, accounts receivable factoring, inventory for manufacturing firms, accounting for income taxes, derivatives, pension benefits, debt and equity instruments.

The line items are organized as follows:

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

Throughout the semester, 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. You will be assessed based on a mid-term exam, a final exam, on-line mini tests, pop quizzes as well as a group project/presentation.

### **MANDATORY READING MATERIALS**

Class notes will be made available electronically on NYU Classes.

### **RECOMMENDED OPTIONAL TEXT**

*Financial Statement Analysis and Valuation*, 4<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 group presentation on NYU Classes. No hard copies of handouts will be distributed in class.

### **ASSESSMENTS**

Your final grade is calculated based on:

On-line Mini Tests	10%
Pop Quizzes	5%
Mid-Term Exam	20%
Final	40%
Group Project/Presentation (CE3.5)	10%
Group Project	15%

## ACADEMIC INTEGRITY

Integrity is critical to the learning process and to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:

- Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
- Clearly acknowledge the work and efforts of others when submitting written work as one's own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.
- Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

The entire Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here: [www.stern.nyu.edu/uc/codeofconduct](http://www.stern.nyu.edu/uc/codeofconduct)

To help ensure the integrity of our learning community, prose assignments you submit to NYU Classes will be submitted to Turnitin. Turnitin will compare your submission to a database of prior submissions to Turnitin, current and archived Web pages, periodicals, journals, and publications. Additionally, your document will become part of the Turnitin database.

## GENERAL CONDUCT & BEHAVIOR

Students are also expected to maintain and abide by the highest standards of professional conduct and behavior. Please familiarize yourself with 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>).

## GRADING GUIDELINES

### Grading Information for Stern Core Courses

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty have adopted a grading guideline for core courses with enrollments of more than 25 students in which approximately 35% of students will receive an "A" or "A-" grade. In core classes of less than 25 students, the instructor is at liberty to give whatever grades they think the students deserve, while maintaining rigorous academic standards.

### Grading Information for Stern Elective Courses

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of

grading, the Stern faculty have agreed that for elective courses the individual instructor or department is responsible for determining reasonable grading guidelines.

### **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	Topics	Mandatory Readings - Class Notes	Class Exercises
<b>Part I - Framework to uncover a company's value-creation activities</b>			
1. 9/3 2. 9/5 3. 9/10	<b>Introduction – Earnings Quality &amp; Financial Statement Analysis</b> <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
4. 9/12 5. 9/17 6. 9/19 7. 9/24	<b>Review of Financial Statements</b> <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
<b>Due</b>	<b>On-line Mini Test I due 9/26 at 6pm</b>		
8. 9/26 9. 10/1 10.10/3 11.10/8	<b>Reformulation of Financial Statements</b> <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
12. 10/10 13. 10/17	<b>Profitability Analysis (cont.)</b> <ul style="list-style-type: none"> <li>- Profitability analysis for a specific company</li> </ul> <b>Mid-Term Review</b>	CN3 (cont.)	CE3.4 Sample Mid-Term
<b>Due</b>	<b>On-line Mini Test II due 10/22 at 6pm</b>		
14. 10/22 15. 10/24	<b>Revenue Recognition (Intro)</b> <ul style="list-style-type: none"> <li>- When/what/how much to recognize</li> <li>- Percentage of Completion</li> <li>- Financial Statements for Construction Companies</li> </ul>	CN4	CE4.0 CE4.1 CE4.2

Session	Topics	Class Notes	Class Exercises
16. 10/29 17. 10/31	<b>Group Presentations (Round I)</b>		CE3.5
18. 11/5	<b>In-Class Mid-Term Exam</b>		
<b>Part II - Adjusting and assessing specific line items</b>			
19. 11/7 20. 11/12 21. 11/14	Revenue and Accounts Receivables <ul style="list-style-type: none"> <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	CE4.3 CE4.4 CE4.5 CE4.6 CE4.7 CE4.8
<b>Due</b>	<b>Online Mini Test III due 11/19 at 6pm</b>		
22. 11/19 23. 11/21 24. 11/26	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
25. 12/3 26. 12/5	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
27. 12/10	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> </ul>	CN7	CE7.1
<b>Due</b>	<b>Online Mini Test IV due 12/12 at 6pm</b>		

Session	Topics	Class Notes	Class Exercises
28. 12/12	Profitability analysis for different industries		CE9.1
<b>Final Project Due 12/12 at 6pm</b>			
<b>Final Exam</b> <b>2pm section</b> <b>12/17 2-3.30pm</b> <b>3.30pm section</b> <b>12/19 4-5.30pm</b>			