ACCT-UB.0003.01 Financial Statement Analysis
Summer 2014
Professor Julian Yeo

Financial Statement Analysis

Course Descriptions and Syllabus

Your instructor

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Consultation hours: By appointments

Your Teaching Assistant
TBA

Course Descriptions

Overview

Financial Statement Analysis aims to equip you with the skills to read, analyze and interpret financial statement data to make informed business decisions regarding investment, credit, 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 three parts focusing on the three key steps in Financial Statement Analysis.

1. Understanding the business environment and financial information: We need to understand of the business environment and company-reported accounting information.

2. Adjusting and assessing financial information: We apply tools for adjusting and assessing financial statement information for profitability and credit risk analysis.

3. Forecasting financial information and using it for valuation: We translate our knowledge of the business environment and company's current status to form predictions about future financial performance and conditions.   We then apply the forecasted information in a valuation model.

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

Course Learning Objectives
By the end of the course, you should be able to:

Step 1: Understanding the business environment and financial information
- Identify and discuss the users and suppliers of financial statement information.
- Identify and explain the four financial statements, and define the accounting equation.
- Describe business analysis within the context of a competitive environment.
- Describe the accounting principles and regulations that frame financial statements.
- Describe information conveyed by the financial statements.
- Explain and illustrate linkages among the four financial statements.
- Illustrate use of the financial statement effects template to summarize accounting transactions.

Step 2: Adjusting and assessing financial information
- Compute return on equity (ROE) and disaggregate it into components of operating and non-operating returns.
- Disaggregate operating return (RNOA) into components of profitability and asset turnover.
- Explain non-operating return and compute it from return on equity and the operating return.
- Describe and illustrate traditional DuPont disaggregation of ROE.
- Understand the demand for and supply of credit
- Explain the credit risk analysis process.
- Perform a credit analysis, and compute and interpret measures of credit risk.
- Describe the credit rating process and explain why companies are interested in their credit ratings.
- Explain bankruptcy prediction models and compute and interpret measures of bankruptcy risk.
- Explain revenue recognition criteria and identify transactions of special concern.
- Describe accounting for operating expenses, including research and development, and restructuring.
- Explain and analyze accounting for income taxes.
- Explain how foreign currency fluctuations affect the income statement.
- Compute earnings per share and explain the effect of dilutive securities.
- Explain accounting quality and identify areas for analysis.
- Analyze accounting for accounts receivable and the importance of the allowance for uncollectible accounts in determining profit.
- Explain accounting for inventories and assess the effects on the balance sheet and income statement from different inventory costing methods
- Analyze accounting for property, plant and equipment and explain the impacts on profit and cash flows from different depreciation methods.
- Analyze and describe the accounting for current operating liabilities, including accounts payable and accrued liabilities.
- Analyze and explain the accounting for current and long-term nonoperating liabilities.
- Explain how credit ratings are determined and identify their effect on the cost of debt.
- Describe and analyze accounting for contributed capital, including stock sales and repurchases, and equity based compensation.
- Explain and analyze accounting for earned capital, including cash dividends, stock dividends, and comprehensive income.
- Describe and interpret accounting for equity carve-outs and convertible debt.
- Describe and analyze accounting for passive investments.
- Explain and analyze accounting for equity method investments.
- Describe and illustrate accounting for consolidations.

- Describe and analyze the accounting for capitalized leases.
- Describe and analyze the accounting for pensions.
- Explain and interpret the accounting for special purpose entities (SPEs).

Step 3: Forecasting financial information and using it for valuation
- Explain the process of forecasting financial statements.
- Forecast revenues and the income statement.
- Forecast the balance sheet.
- Prepare multiyear forecasts of financial statements.
- Define equity valuation models and explain the information required to value equity securities.
- Describe and apply the residual operating income model to value equity securities.
- Explain how equity valuation models can aid managerial decisions.
- Explain company valuation using market multiples based on balance sheet measures.
- Explain company valuation using market multiples based on income statement measures.
- Identify comparable companies for use in company valuation with market multiples.
- Interpret and reverse-engineer market multiples to assess the reliability of market expectations.
- Implement a parsimonious method for multiyear forecasting of net operating profit and net operating assets.

Prescribed Text
Financial Statement Analysis and Valuation, 3rd edition, by Peter Easton, Marry Lea McAnally, Gregory Sommers and Xiao-Jun Zhang, published by Cambridge Business Publishers.

Other Materials
You can also access all course-related materials on NYU Classes.

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)	30%
Final Exam (3 hours)	50%

Tentative Class Schedule

Session		Topics	Readings from text
1		Introduction Framework for Analysis and Valuation Overview of Business Activities and Financial Statements	Modules 1 & 2
2		Profitability Analysis and Interpretation Credit Analysis and Interpretation	Modules 3 & 4
3		Revenue Recognition and Operating Income	Module 5
4		Asset Recognition and Operating Assets	Module 6
5		Liability Recognition and Non-owner Financing	Module 7
6		Equity Recognition and Owner Financing	Module 8
7		**Mid-Term Exam**	
8		Incorporate Entities	Module 9
9		Off-Balance Sheet Financing Incorporate Entities	Module 10
10		Forecasting Financial Statements	Module 11
11		Operating Income Based Valuation and Market-Based Valuation Comprehensive Case: Kimberly-Clark	Modules 14 & 15 Appendix C
12		**Final Exam**	