Financial Statement Analysis

Fall 2018

Instructor Information

- Dr. Irene Kim, CPA
- Email: ik50@nyu.edu
- Lecturer Office 210 or 214
- Office Hours: After Class & By Appt

Schedule: Monday, 1:15 - 4:15PM

Classroom: B101

Course Objective

- Prerequisite: the course assumes you have a solid grasp of financial accounting concepts and principles
- 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 publicly-traded companies. 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; and
  - Value a firm using forecasts

Course Materials

Required Textbooks & Materials

- Business Analysis and Valuation Using Financial Statements, 5th Edition (No Cases) by Palepu and Healy - Published by Southwestern Cengage Learning
- There are many financial statement analysis and valuation textbooks that cover the main topics we are discussing this semester. I strongly encourage students to explore additional textbooks which they may find more helpful or more understandable to them.
Resources

- **Access your course materials:** NYU Classes (nyu.edu/its/classes)
- **Databases, journal articles, and more:** Bobst Library (library.nyu.edu)
- **Assistance with strengthening your writing:** NYU Writing Center (nyu.mywconline.com)
- **Obtain 24/7 technology assistance:** IT Help Desk (nyu.edu/it/servicedesk)

**Course Evaluation**

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. I have elected to use the following grading guidelines for this course:

<table>
<thead>
<tr>
<th>Assignments/Activities</th>
<th>% of Course Grade</th>
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<tbody>
<tr>
<td>Presentation of homework and participation in class practice problems</td>
<td>[10%]</td>
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<tr>
<td>Quiz #1 (topics from classes 1-4), 01 Oct</td>
<td>[15%]</td>
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<tr>
<td>Quiz #2 (topics from classes 5-8), 11 Nov</td>
<td>[15%]</td>
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<tr>
<td>Quiz #3 (topics from classes 9-11), 26 Nov</td>
<td>[15%]</td>
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<tr>
<td>One-page summary of stock pitch company, due 22 Oct</td>
<td>[5%]</td>
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<tr>
<td>Final Project Write-Up and Forecast, due 02 Dec</td>
<td>[20%]</td>
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<tr>
<td>Final Project Presentation, on 03 Dec</td>
<td>[20%]</td>
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<tr>
<td>Total</td>
<td>[100%]</td>
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**Course Policies**

Please bring your textbook to every class. **Cell phones/laptops/tablets are not permitted in class** (with the exception of the pro forma class and the exercise portion of the class). This includes texting or browsing the web on any kind of mobile device (including tablets).

**Attendance and Tardiness**

Study abroad at Global Academic Centers is an academically intensive and immersive experience, in which students from a wide range of backgrounds exchange ideas in discussion-based seminars. Learning in such an environment depends on the active participation of all students. And since classes typically meet once or twice a week, even a single absence can cause a student to miss a significant portion of a course. To ensure the integrity of this academic experience, class attendance at the centers is mandatory, and unexcused absences will affect students’ semester grades. Students are responsible for making up any work missed due to absence. Repeated absences in
a course may result in failure. At all Global Academic Centers, unexcused absences will be penalized with a two percent deduction from the student’s final course grade (for courses that meet once per week; for courses that meet twice per week, it is a one percent reduction per missed class).

To seek an excused absence for medical reasons, students must use the online absence reporting form within 24 hours of their first missed class. Students may be required to produce a doctor’s note with that day’s date, especially if the student has missed any classes already that semester or if exams/presentations/papers occurred in the missed class.

Non-medical absences must be discussed with the Academic Staff at least 7 days before the missed date(s) in question. If faculty members do not receive notification of an excused absence, the student has not procured an excused absence.

NYU Washington, DC expects students to arrive to class promptly (both at the beginning and after any breaks), to be attentive, and to remain for the duration of the class. If full class attendance and participation becomes a problem, it is the prerogative of each professor to apply the rule for unexcused absences, which may include a two percent deduction from the student’s final course grade.

Students are responsible for making up any work missed due to absence. This means they should initiate email and/ or office hour discussions to discuss any missed lectures and assignments and arrange a timeline for submitting missed work.

Late Assignment

1) Written work due in class must be submitted during the class time to the professor.
2) Late work will be reduced for a fraction of a letter grade (e.g., A to A-, A- to B+, etc.) for every day it is late, including weekends.
3) Written work during the semester that is submitted 5 days after the submission date (including weekends) without an agreed extension fails and is given a zero.
4) Students who arrive to class late for a quiz are not permitted to have extra time to complete the quiz/exam.
5) Students who miss a quiz (including the final) without previously arranged permission will receive a zero on that quiz.

Academic Honesty/Plagiarism

As the University’s policy on "Academic Integrity for Students at NYU" states: "At NYU, a commitment to excellence, fairness, honesty, and respect within and outside the classroom is essential to maintaining the integrity of our community. By accepting membership in this community, students take responsibility for
demonstrating these values in their own conduct and for recognizing and supporting these values in others.” Students at Global Academic Centers must follow the University and school policies.

The presentation of another person’s words, ideas, judgment, images, or data as though they were your own, whether intentionally or unintentionally, constitutes an act of plagiarism.

NYU Washington, DC takes plagiarism very seriously; penalties follow and may exceed those set out by your home school. All your written work must be submitted as a hard copy AND in electronic form to the professor. Your professor may ask you to sign a declaration of authorship form.

It is also an offense to submit work for assignments from two different courses that is substantially the same (be it oral presentations or written work). If there is an overlap of the subject of your assignment with one that you produced for another course (either in the current or any previous semester), you MUST inform your professor.

For guidelines on academic honesty, clarification of the definition of plagiarism, examples of procedures and sanctions, and resources to support proper citation, please see:

NYU Academic Policies and Guidelines

NYU Library Guides

Disability Disclosure Statement
Academic accommodations are available for students with disabilities. Please contact the Moses Center for Students with Disabilities (212-998-4980 or mosescsd@nyu.edu) for further information. Students who are requesting academic accommodations are advised to reach out to the Moses Center as early as possible in the semester for assistance.

Religious Observances
Students observing a religious holiday during regularly scheduled class time are entitled to miss class without any penalty to their grade. This is for the holiday only and does not include the days of travel that may come before and/or after the holiday.

Students must notify their professor and the Washington, DC Academics team in writing via email at least 7 days before being absent for this purpose.
# Course Schedule

<table>
<thead>
<tr>
<th>Session 1</th>
<th>Monday, 27 Aug</th>
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| **Topics** | Course Introduction  
Financial Accounting Review |
| **Reading** | Chapter 1 |
| **Practice Problems** | P2-38 and 2-40 (pdf file) |

**Monday, 03 Sept**  
No Class - Labor Day

<table>
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<tr>
<th>Session 2</th>
<th>Monday, 10 Sept</th>
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| **Topics** | Cash Flow Analysis  
Segment Disclosure  
Industry Analysis |
| **Pre-Reading** | Chapter 2; PP. 5-22 through 5-29 |
| **Case to Discuss in Class** | P2-42 (in pdf file) |
| **Practice Problems** | Statement of Cash Flow Exercise; Chapter 2, #4, #6 (in textbook) |

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<tr>
<th>Session 3</th>
<th>Monday, 17 Sept</th>
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<tr>
<td><strong>Topics</strong></td>
<td>Ratio Analysis I</td>
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<td><strong>Pre-Reading</strong></td>
<td>The remainder of Chapter 5</td>
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<tr>
<th>Session 4</th>
<th>Monday, 24 Sept</th>
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| **Topics** | Ratio Analysis II  
Review for Quiz 1 |
| **Pre-Reading** | PP.10-1 through 10-4; PP. 10-10 through 10-18 |
| **Case to Discuss in Class** | Chipotle Ratios |
| **Practice Problems** | Chapter 5, #1 & 2, (in textbook) |

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<tr>
<th>Session 5</th>
<th>Monday, 01 Oct</th>
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<td><strong>Quiz #1: Topics from Classes 1-4</strong></td>
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<tr>
<td><strong>Topics</strong></td>
<td>Pro Forma Financial Statements I</td>
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**Monday, 08 Oct**  
No Class - Fall Break
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<tr>
<th>Session 6</th>
<th>Monday, 15 Oct</th>
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| **Topics** | Pro Forma Financial Statements II  
Valuation Introduction  
Cost of Capital |
| **Pre-Reading** | Chapter 6  
Chapter 7 (Appendix A)  
PP. 8-8 through 8-11 |
| **Case to Discuss in Class** | Apple Pro Forma Case |

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<tr>
<th>Session 7</th>
<th>Monday, 22 Oct</th>
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| **Topics** | **Homework Due: 1-page summary of your Stock Pitch Firm**  
Dividend Discount Model  
Free Cash Flow Model |
| **Pre-Reading** | PP. 7-1 through 7-4; PP. 7-12 through 7-16 |
| **Case to Discuss in Class** | Valuation Exercise for Dividend Discount and Free Cash Flow Model (in excel file) |

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<tr>
<th>Session 8</th>
<th>Monday, 29 Oct</th>
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| **Topics** | **Begin your Stock Pitch Forecast**  
Residual Income Model  
Review for Quiz 2 |
| **Pre-Reading** | PP. 7-4 through 7-6 and 7-13 through 7-16 |
| **Case to Discuss in Class** | Valuation Exercise for Residual Income Model (in excel file) |

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<tr>
<th>Session 9</th>
<th>Monday, 05 Nov</th>
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| **Topics** | **Quiz #2: Topics from Class 5-8**  
Market-Based Valuation |
| **Pre-Reading** | PP. 7-7 through 7-10 |
| **Practice Problems** | E15-33, P15-36 (in pdf file) |
### Session 10  Monday, 12 Nov

**Topics**  
Earnings Quality I  
Stock Pitch Discussion

**Pre-Reading**  
Chapters 3 and 4

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### Session 11  Monday, 19 Nov

**Topics**  
Earnings Quality II  
Review for Quiz 3

**Practice Problems**  
E5-22, E5-24, E5-30, P6-42 (in pdf file)  
Chapter 5, #10 (in your textbook)

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### Session 12  Monday, 26 Nov

**Topics**  
**Quiz #3: Topics from Class 9-11**  
Stock Pitch Help

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### Session 13  Monday, 30 Nov

**Topics**  
Special Topics/Flex Class

**Pre-Reading**  
Designated make-up day for Monday classes

**Case to Discuss in Class**  
TBD

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### Session 14  Monday, 03 Dec

**Final Project Write Up:**  
email spreadsheet, report, and presentation by 02 Dec, 11:59 PM

**Topics**  
Final Project Presentations