

Accounting-Based Valuation (BSMS) - Fall 24

Course Descriptions and Syllabus

This course examines accounting issues that are related to the valuation of a business, business ownership interest, security, and intangible assets. These issues are pertinent to the valuation services provided by the accounting profession. The course is divided into two parts. In the first part, we explore various valuation methods. In the second part, we examine issues related to valuation engagements provided by accounting professionals.

The course's learning objectives are:

- Distinguish among the three primary approaches to value (and related hybrid approaches), identify and apply various valuation adjustments, and reconcile value estimates.
- Able to synthesize/compare/contrast commonly used valuation methods
- Able to conduct more advanced accounting-based income statement approach to valuation (Residual Income Valuation Model, Abnormal Earnings Growth Valuation Model)
- Identify valuation-related professional standards and guidelines (VS Section 100).
- Identify key areas related to valuation in the conceptual framework of fair value accounting, accounting for business combinations, goodwill impairment, and intangibles.

Key topics covered in this course include:

Part I: Valuation Methods

- Valuation approaches
 - Income approach
 - Capitalized economic income/cash flow method (including Gordon Growth Model)
 - Discounted economic income/cash flow method (DCF)
 - Excess Earnings method
 - Market approach
 - Selecting comparable firms
 - Statistics related to valuation analysis
 - Selecting and adjusting appropriate multiples
 - Asset approach
 - Adjusted (net) asset method
 - Considerations in liquidation

- Issues in valuing intangible assets
 - More advanced valuation approaches (within income approach)
 - Residual Income valuation method
 - Abnormal Earnings Growth valuation method
 - Cost of capital
 - Intellectual property and other intangible assets
 - Valuation approaches and methods
 - Valuing specific intangible assets
 - Discounts, premiums, and other adjustments
 - Control strategic, minority, control liquid, control standalone, minority non-marketable
 - Discount for lack of control and control premium
 - Discount for lack of marketability
 - Voting vs non-voting
 - Conclusion of value
 - Reconciliation of indicated values
 - Reasonableness of conclusion

Part II: Valuation Engagements by Accounting Professionals

- Professional standards
 - AICPA VS Section 100 Valuation of a Business, Business Ownership Interest, Security or Intangible asset
 - AICPA Code of Professional Conduct ET 1.200.001 “Independence rule” and interpretations of the “non-attest services” subtopic [1.295]
- Financial Reporting
 - Fair value measurements FASB ASC 820
 - Business combinations and contingent considerations (FASB ASC 805)
 - Goodwill, Intangibles, Long-lived Assets, and measuring impairment (FASB ASC 350 & 360)
 - Compensation – stock compensation (FASB ASC 718)
 - AICPA Statement on Auditing Standards AU-C Sec.620 (using the work of an auditor’s specialist) and AU-C Sec. 540 (Auditing Accounting Estimates and Related Disclosures)
- Defining the engagement
 - Standards of value
 - Premise of value
 - Engagement letters
- Sources of economic and industry data
- Macro-economic and environmental analysis
- Industry analysis
 - Industry structure and life-cycle analysis
 - Competitive strategies and analysis
- Subject entity analysis
 - Entity documents
 - SWOT analysis
 - Firm economics analysis
 - Historical and forecast financial statements
 - Common size, trend analysis, financial ratios, Dupont analysis
 - Adjustments to historical and forecast financial statements

- Normalizing
- Control vs. non-control
- Separation of operating vs. non-operating items
- Off-balance sheet items
 - Other adjustments, implied tax adjustments, unusual items, GAAP-based adjustments.

Readings and Materials

You can also access all course-related materials on LMS Brightspace.

Assessments

Your final grade is calculated based on the following:

Mini Tests	20%
Mid-Term Exam (11/7 & 11/9)	30%
Individual Project & Presentation	50%

ACADEMIC INTEGRITY

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

To help ensure the integrity of our learning community, the prose assignments you submit to LMS Brightspace 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 regarding 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

New York University is committed to providing equal educational opportunity and participation for students with disabilities. Students who are interested in applying for academic accommodations are advised to reach out to the Moses Center for Student Accessibility (CSA) as early as possible in the semester. If you already receive accommodations through CSA, you are encouraged to request your accommodation letters through the Moses portal as soon as possible.

Moses Center for Student Accessibility (CSA), 212-998-4980, mosescsa@nyu.edu, www.nyu.edu/csa

Suppose you require academic accommodation of any kind during this course. In that case, you must 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. If you need to take an exam at the Moses Center for Student Accessibility, you must submit a completed Exam Accommodations Form to them at least one week before the scheduled exam time to be guaranteed accommodation. For more information, visit the CSA website: <https://www.nyu.edu/students/communities-and-groups/student-accessibility.html>

STUDENT WELLNESS

Classes can get stressful. Please 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>

DIVERSITY & INCLUSION

This course strives to support and cultivate diversity of thought, perspectives, and experiences. The intent is to present materials and activities that will challenge your current perspectives to understand how others might see situations differently. To support this approach, this syllabus has been reviewed by NYU Stern's Office for Diversity and Inclusion to ensure inclusivity and a representative pedagogical approach to learning. By participating in this course, everyone is expected to commit to making this an inclusive learning environment for all.

Grading Guidelines

Stern Elective Courses

At NYU Stern, we strive to create courses that challenge students intellectually and meet the Stern academic excellence standards. To ensure fairness and clarity of grading, the Stern faculty has agreed that the individual instructor or department is responsible for determining reasonable grading guidelines for elective courses.

Overview of Topic Outline and Descriptions

Part I. The Set-up: Choosing a Valuation Model

1. Stock price - a black-box mystery

We may know what financial metrics are important in determining how much an investment is worth; however, we cannot pinpoint the exact relation between accounting variables and stock price. Without understanding the relationship between accounting variables and stock prices, we may mistakenly see a relationship between that accounting variable and stock price upon seeing a correlation between certain factors and the stock price. How many times have you heard "I am willing to buy a stock at P/E below X or P/EBITDE of X times? Such thinking often leads to an ill-conceived valuation model that leads you to pay too much for your investment. A natural edge comes only when you demystify the black box and truly understand how things work.

2. Our benchmarks for performance – accounting metrics

To employ accounting metrics in valuing our investment, we must first be introduced to various accounting metrics and how we can use them in quantifying the company's performance.

3. Show me the money – unraveling the BlackBox

You can talk as much as you want, but if you can't deliver what you've promised, stop talking. This premise—the expectation that we'll receive what we've been promised—is the basis for our thinking when we determine how much we are willing to pay for an investment. In unraveling the black box, we quantify what we need to see from our investments—tangible and measurable payoffs. We develop a framework to begin appreciating how equity valuation can be conducted.

4. What to bet on – choosing an anchor to gain an edge

We explore various commonly cited valuation models, such as the dividend discount model, the discounted cash flows model, the residual income model, and the abnormal earnings growth valuation model. Given our constraints, we compare, contrast, and synthesize the various models and choose the most likely to produce the best value estimate.

Part II: How to Apply the "Edge"

5. Quantifying your bet – building blocks

We quantify price into building blocks to decipher price information into digestible chunks. We learn how to quantify the stock price we are paying into (i) stockholders' claim of asset value, (ii) earnings power, and (iii) speculative growth. We also better understand P/B and P/E ratios and their implication for future financial metrics.

6. Know your odds – inferring expectations from your bet (from the stock price you are willing to pay)

Rather than speculating on future performance, we'll apply the art of reverse engineering, using what's available, to quantify future performance into measurable benchmarks. We learn

a simple three-step procedure to infer future performance from a stock's current price. We also further appreciate the expected earnings we are paying for each building block from topic 5.

7. What worked in the past? Assessing your odds – benchmarking against past performance

How do we assess management performance? We learn how to separate management's operating activities from the company's financing activities. We also focus on ratios of management performance (RNOA, PM, and ATO) that directly impact stock price. After we infer future performance monetized in terms of expected financial metrics that we need to observe from the company, we ask whether the implied metrics based on our price and expected rate of return are attainable based on past performance.

8. Let it all hang out – constructing future statements and how each metric is mapped into the stock price

We will construct what future financial statements would look like as implied by the stock price. We further focus on the implied future sales and earnings we expect from the company.

9. Potential roadblocks – analysis of quality of financial statements

We examine how specific accounting issues enhance/distort our ability to understand the fundamentals of businesses.

10. Sharpening my new "edge"

We examine the information contained in SEC filings, including the qualitative information. We will identify, examine, and quantify how changes in particular factors (e.g., business risk factors, business outlook, or affiliation with related companies) will impact a company's stock price.

11. Aware of valuation-related professional standards and guidelines

We distinguish among the three primary approaches to value (and related hybrid approaches), identify and apply various valuation adjustments, and reconcile value estimates. We can synthesize/compare/contrast commonly used valuation methods. We know valuation-related professional standards and guidelines (VS Section 100) and identify areas related to valuation in accounting standards.

12. Presentation – Buy/Sell/Hold

The course has given you the edge to understand the moving variables that determine stock price and quantify these variables into observable financial metrics. You are able to do your own diligence on the stock tips you receive and articulate the future financial metrics you can expect to see from the company. More importantly, you are now able to substantiate your investment decision using financial metrics.

Tentative Class Schedule

Session	Topics	Readings - Class Notes
1. 9/4	Introduction Framework for Valuation Accounting-based Valuation Common mistakes in Valuation	CN1
2. 9/9	Business activities and accounting metrics ΔCash vs Net Income Free Cash Flows and Accounting Information	CN2
3. 9/11	Valuation of a Savings Account Valuation Fundamentals	CN3
4. 9/16	Articulation of Financial Statements & Valuation	
5. 9/18	Comparable Firm Approach Asset-based Valuation Approach Investments with Finite Time Horizon	CN3
6. 9/23	Discounted Cash Flow Model	CN4
7. 9/25	Residual Income Valuation Model	CN5
8. 9/30	Residual Income Valuation Model (cont.)	CN5
9. 10/2	Residual Income Valuation Model (cont.)	CN5
10. 10/7	Residual Income Valuation Model (cont.)	CN5
11. 10/9	Residual Income Valuation Model (cont.)	CN5
12. 10/15 (Legislative day)	Abnormal Earnings Growth Valuation Model	CN6
13. 10/16	Abnormal Earnings Growth Valuation Model (cont.)	CN6
14. 10/21	Abnormal Earnings Growth Valuation Model (cont.)	CN6
15. 10/23	Mid-Term Review	
16. 10/28	Mid-Term Review (cont.)	
17. 10/30	Mid-Term I (part I)	
18. 11/4	Mid-Term I (part II)	

Session	Topics	Readings - Class Notes
19. 11/6	Reformulation and Ratio Decomposition	CN7
20.11/11	More on Reformulation and Ratio Decomposition	
21. 11/13	Accounting Relations and Forecasting Implied Forecasts from Reverse Engineering	CN8
22. 11/18	Comprehensive Example	CN9
23. 11/20	Comprehensive Example (cont.)	
24. 11/25	Comprehensive Example (cont.)	CN10
25. 12/2	Individual Final Project – Buy/Sell/Hold	
26. 12/4	Individual Final Project – Buy/Sell/Hold	
27. 12/9	Individual Final Project – Buy/Sell/Hold	
28. 12/11	Individual Final Project – Buy/Sell/Hold	