

## An Integrated Approach to Financial Statement Analysis (Fall 24)

### COURSE DESCRIPTIONS AND SYLLABUS

#### Your instructor

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Consultation hours: Please check our course site on Brightspace

### COURSE DESCRIPTIONS

The essence of our course—Financial Statement Analysis—is how accounting choices made by a company will help/hinder our understanding of a business's core *activities*. Financial Statement Analysis builds upon Core Introductory Accounting. It 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 useful for executives, bankers, analysts, investment managers, and other users of financial information.

We typically use financial information to understand a company's operational and economic workings. However, uncovering and translating this information into actionable insights can be complicated. The course is organized into two parts to help you acquire such knowledge and skills:

#### *Part I: Framework uncovering a company's value-creation activities*

First, we need to 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, we will also provide an overview of other line items in Part II.

We discuss the need to reformulate financial statements to assess management's value-creation activities. We will reformulate financial statements that are suitable for profitability analysis. We then analyze and interpret 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*

Part II 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 would an equity analyst make? We will implement tools to assess relative performance when comparable companies utilize different accounting methods (converting LIFO to FIFO, capitalizing R&D, comparing capitalized operating leases with finance leases).

We will explore advanced accounting topics such as revenue under Topic 606, revenue for long-term contracts, accounts receivable factoring, inventory for manufacturing firms, accounting for income taxes, accounting for debt and equity instruments, new goodwill impairment test, new lease standard, and others.

We organize the line items 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 the company's current status to form predictions about future financial performance and conditions. 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, online mini-tests, as well as a group project/presentation.

### **MANDATORY READING MATERIALS**

Class notes are your mandatory reading for this course. Class notes are available electronically on LMS Brightspace.

### **RECOMMENDED OPTIONAL TEXT**

*Financial Statement Analysis and Valuation*, 6<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, and requirements for your group presentation on LMS Brightspace.

### **ASSESSMENTS**

We calculate your final grade based on

Online Mini Tests	20%
Mid-Term Exam 1	20%
Group Project/Presentation	30%
Final Exam	30%

### **ACADEMIC INTEGRITY**

Academic integrity and honesty is central to our mission as an educational institution. [The MBA Code of Conduct](#), which all students sign, therefore places particular emphasis on academic integrity. Notably this includes refraining from any method or means that provides an unfair advantage in exams or papers, and clearly acknowledging the work of others in your own work. As a reminder, the [entire Code of Conduct is available here](#).

To help ensure the integrity of our learning community, 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.

### **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](mailto:mosescsa@nyu.edu), [www.nyu.edu/csa](http://www.nyu.edu/csa)

If you 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 Moses Center for Student Accessibility (212-998-4980, [mosescsa@nyu.edu](mailto:mosescsa@nyu.edu)) verifying your registration and outlining the accommodations they recommend. If you will 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 prior to 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>

## **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 with a goal of understanding 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, it is the expectation that everyone commits to making this an inclusive learning environment for all.

## **STUDENT WELLNESS**

Classes can get stressful. 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>

## Tentative Class Schedule

Session/ Week	Topics	Mandatory Readings - Class Notes	Class Exercises
Part I - Framework to uncover a company's value-creation activities			
1. 9/4 2. 9/9	Introduction – Earnings Quality & Financial Statement Analysis <ul style="list-style-type: none"> <li>- Business Activities and Articulation of Financial Statements</li> <li>- <b>Earnings vs <math>\Delta</math>Cash and the concept of accrual accounting</b></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
3. 9/11 4. 9/16 5. 9/18 6. 9/23	Review of Financial Statements <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
7. 9/25 8. 9/30 9. 10/2 10. 10/7	Reformulation of Financial Statements <ul style="list-style-type: none"> <li>- Why the need to reformulate the statements?</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
11. 10/9 12. 10/16 13. 10/21 14. 10/23	Profitability Analysis and Interpretation (cont.) <ul style="list-style-type: none"> <li>- Profitability analysis for a specific company</li> </ul>	CN3 (cont.)	CE3.4 CE3.5 CE3.6
<b>15. 10/28 16. 10/30</b>	<b>Mid-Term Review &amp; Take-Home Mid-Term (available to download on 10/28)</b>		
17. 11/4 18. 11/6	<b>Group Presentations</b> <b>Take home-mid-term due 11/13</b>		<b>CE3.5</b>

19. 11/11			
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Session/ Week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part II - Adjusting and assessing specific line items			
20. 11/13	Revenue and Accounts Receivables <ul style="list-style-type: none"> <li>- When/what/how much to recognize</li> <li>- Percentage of Completion - Financial Statements for Construction Companies</li> <li>- Revenue Arrangements with multiple obligations</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	CE4.0 CE4.1 CE4.2 CE4.3 CE4.4 CE4.5 CE4.6 CE4.7 CE4.8
21. 11/18 22. 11/20 23. 11/25	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>- Quality of Reported PP&amp;E and Depreciation</li> <li>- Capitalizing R&amp;D</li> </ul>	CN5	CE5.1 CE5.2 CE5.3 CE5.4 CE5.5 CE5.6 CE5.7
24. 12/2 25. 12/4	Fixed Claims <ul style="list-style-type: none"> <li>- Investments in Debt Securities</li> <li>- Leases (lessee's perspective)</li> <li>- Capitalized Operating Leases vs Finance Leases</li> </ul>	CN6	CE6.0 CE6.1 CE6.2

Session/ Week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
26. 12/9	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> Ratios from different industries	CN7 CN8	CE7.1 CE8.1 CE8.2
	<b>Take Home Final Exam</b>		