



## Standard Course Outline

### ACCT 603 Financial Statement Analysis

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#### I. General Information

<b>Course Number</b>	ACCT 603
<b>Title</b>	<b>Financial Statement Analysis</b>
<b>Units</b>	4.0
<b>Prerequisites</b>	MSA standing.
<b>Course Coordinator</b>	Praveen Sinha
<b>SCO Prepared by</b>	Praveen Sinha
<b>Date prepared</b>	October 21, 2013.

#### II. Catalog Description

This course focuses on the content and analysis of publicly available financial statement data. Students will learn analytical tools to assess a firm's profitability and risk and to value the firm's common stock using valuation models.

#### III. Curriculum Justifications

Corporate management involves informed decision making in three key areas: investment, financing and operations. Students should be able to evaluate management success in these areas by using a set of crucial financial statement analysis techniques that will eventually culminate into business valuation. This course provides students with the knowledge and skills necessary to read and interpret accounting information and to use that knowledge in estimating a company's financial performance and stock valuation. Additionally, students should be able to compare financials of companies within the same industry, understand cash flows, evaluate profitability, and analyze risk levels.

This course addresses the following CBA graduate learning goals.

- 1. Critical Thinking:** Students will be able to demonstrate learning, critical thinking, and problem-solving skills. More specifically, students will be able to understand:
  - How business organizations report real and estimated information both internally and externally subject to generally accepted accounting principles and regulatory requirements.
  - Develop analytical skills to incorporate the various accounting issues that can confound the conventional analysis.
  - Use the above information to critically assess a company's financial standing and associated risks.
- 2. Interpersonal, Leadership & Team Skills:** Students will be able to demonstrate interpersonal and team skills by working on group project involving analysis of two (or more) companies within the same industry. Students learn how to manage a project with multiple deliverables throughout the semester. By completing a written report and making a formal presentation, they also learn team and communication skills.



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3. **Management-Specific Learning Goals:** Students will be able to use their acquired knowledge of accounting and finance to address complex business problems.
4. **Quantitative and Technological Skills:** Students will possess quantitative and technological skills enabling them to analyze, interpret, and communicate business data effectively and to improve business performance. Specifically,
  - Students will acquire Excel skills to prepare financial statements under alternate accounting policies, and to prepare pro-forma financial statements for stock valuation.
  - Students will acquire skills to apply quantitative models to assess a firm's financial reporting or bankruptcy risk using quantitative models developed in academic research.
5. **Domestic and Global Environment:** Students will be able to demonstrate knowledge of today's dynamic business environment (e.g., legal, regulatory, political, cultural, and economic), especially the links between our region and global business. Specifically,
  - Students will learn how to analyze geographical segment disclosures to better understand changing profits of multi-national corporations.
  - Students will learn how to use geographical segment disclosures to forecast future profits.

#### IV. Course Objectives

Specific course goals are the following:

1. Understand the financial reporting environment. How the form and content of financial reports is driven by the demand and supply of information arising from the firm's nexus of contracts.
2. Define the areas in which management makes decisions, and how these decisions get reflected in the primary financial statements.
3. How to understand and isolate elements of Income Statement, Statement of Cash Flows, and the Balance Sheet that are meaningful to decision makers.
4. Describe the use of financial ratios in evaluating profitability and long and short-term risk, and how to compute these ratios using actual financial statements.
5. How to adjust financial ratios when making comparison of firms that use different accounting policies for similar transactions to draw meaningful conclusions from ratio analysis.
6. How to do an in-depth assessment of the financial reporting risk associated with the financial statements filed with the SEC.
7. How to prepare 3/5 year pro forma income statement, balance sheet and the statement of cash flows using historical financial ratios and alternate future scenarios.
8. How to estimate the future free cash flows and/or other valuation relevant data from the pro-forma financial statements. How to compute the associated

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- discount rate i.e. firm risk from publicly available information.
9. How to value the company's stock using multiple valuation techniques and issuing a buy/sell/hold recommendation on the firm stock.
  10. How to effectively communicate financial information to non-technical users.

**V. Outline of Subject Matter**

Module	Topics/Concepts
1	Overview of financial reporting Environment; Role of Accounting Information in Markets. Preparation of primary financial statements. Accrual versus cash basis of income measurement.
2	Revenue recognition and Income measurement differences across industries. Understanding core versus transitory elements of income statement. Analyze profits of operating and geographical segments using common-size and trend statements to forecast future profits.
3	Preparation and Analysis of Statement of Cash Flows. Develop tools to evaluate data in the statement of cash flows. How to derive various free cash flows from the SCF.
4	Ratio Analysis. Use financial ratios over time to assess firm's changing profitability and risk. Use of DuPont and multi-level decomposition to make an assessment of the factors contributing to the change over time. ROA and ROCE relationship and the role of leverage.
5	Assessment of Financial Reporting (Beneish) risk. Multi-level time-series and cross-sectional evaluation of ratios for two firms belonging to the same industry
6	Impact of accounting policy for inventory, PP&E and leases and Inter-corporate Investments on reported financial ratios. How to correct for distortions caused by the choice of accounting policy.
7	Preparation of Pro-forma income statement, balance sheet and the statement of cash flows for 5 future years using past performance, industry knowledge, and knowledge about the firm.
8	How to value a firm's stock by applying various valuation models to the pro-forma financial statements of any firm. Sensitivity analysis and understanding market valuations.

**VI. Methods of Instruction**

This course is taught through classes conducted using a combination of lecture/discussion format. Lecturing will be limited to a summary of the major valuation, measurement, or disclosure issues related to the topic. Discussion will focus on illustrational examples from



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published reports and cases that are assigned for the meeting. Some lecture and class discussion will involve spreadsheet-based computations. Active interaction between the instructor and students is expected. To this end, students are encouraged to volunteer to be a lead discussant of a problem/case that will be discussed in class.

Instructors in planning the exams, and other grading procedures, should adhere to the relevant University Policy on "[Grades, Grading Procedures, and Final Assessments, Final Course.](#)"

The textbooks for this course should be chosen in accordance with the University Policy on textbooks. There are a number of appropriate textbooks for this course. Following is a suggestion for one accounting and one finance text book based on the content of this specific course:

**Suggested Text:**

Easton, McNally, Sommers and Zhang. Financial Statement Analysis & Valuation. Third Edition, Cambridge Business Publishers, 2013.

Student learning outcomes will be assessed based on student performance on (1) homework assignments, (2) examinations and quizzes, and (3) semester long comprehensive project.

## VII. Instructional Policies Requirements

The students are expected to comply with the universally accepted norms of considerate and courteous behavior, and with all University rules and policies found in the current University Catalog, including the Withdrawal Policy and Policy on Cheating and Plagiarism.

Students are expected to attend classes regularly and be responsible for all materials covered in class. A make-up exam will only be administered in case of a dire emergency and documented proof of such a situation must be provided. Students must refer to the specific university policy on these issues.

The instructors reserve the right to make any changes to this syllabus. The students shall be notified and given sufficient notice about any such changes.

## VIII. Student with Disabilities

Students with disabilities are responsible for notifying their instructor as early as possible of their needs for an accommodation of a verified disability. A student with a disability is urged to consult with Disabled Student Services as soon as possible in order to identify possible accommodations to enhance academic success.