

ACCT 581 – Financial Statement Analysis
PRELIMINARY Syllabus – Spring 2011

USC Marshall School of Business
Leventhal School of Accounting

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| MONDAY / WEDNESDAY Lectures: 8:00 – 9:20 a.m.; 11:00 – 12:20 p.m. in JKP 112 5:00 – 6:20 p.m. in 202 Office Hours: M/W 2:00 p.m. – 4:00 p.m. | Yuri Loktionov Office: HOH 822 Email: loktiono@usc.edu |
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Course Description and Objectives

This course is about analyzing and using information from corporate financial reports for the purpose of financial analysis and valuation. The goal of this course is to learn how to use financial statement information to evaluate the firm's past and present performance and to predict likely future outcomes. We will learn to evaluate how well (or poorly) the financial statements depict the firm's economics and how we can use additional information, especially from footnote disclosures, to better understand and analyze financial statement information.

The learning objectives of this course are:

- develop an understanding of financial statement information from a decision maker's perspective, including an appreciation of the usefulness and limitations of this information
- Develop skills in reading and interpreting corporate financial statements
- Develop skills in using financial accounting information for enterprise and project valuation, credit analysis, and performance evaluation.

The course will be valuable to students seeking a career in investment management, consulting, investment / corporate banking, public accounting, as well as in venture capital and private equity. The course will be delivered as a mix of lectures and cases. I will try to bring one or two guest speakers to class as well.

Prerequisites

GSBA 510 or Acc 525X

Grading Policy

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| Attendance / Participation | 10% |
| Case Write-ups (4) | 30% |
| Midterm Exam | 20% |
| Final Exam | <u>40%</u> |
| | <u>100%</u> |

I will adhere to the USC Leventhal School of Accounting and Marshall School of Business grading standards for graduate programs. For elective courses, the class average is usually around 3.5, which is between a B+ and an A-. You must receive a C or better to pass this course and you must have an overall B average (3.0 minimum) in order to graduate from USC.

Important Points

- Final grades for the course will be assigned based on a curve.
- All questions on the midterm and the final exams will be based on **real-life** financial statements of well-known companies. I will post / indicate the specific parts of the financial statements over which you will be examined approximately 7 – 10 days before the exam. You will need to bring a hard copy of the financial statements with you to the exam. More information about the exams will be subsequently provided.
- While it is perfectly OK to prepare for exams in groups, the actual tests are to be **individually attempted**. Exams will **not** be returned to students. Those who wish to review the answers can sign up for an appointment.
- There will be **no make-up exams**. A student who misses a mid-term exam for a satisfactory reason (e.g., medical emergency) will have the final exam count for 60% of the grade. Scheduling a job interview during the mid-term is **not** a satisfactory reason for missing the exam. Please arrange your interview schedule appropriately.
- Case write-ups are to be done in teams of 5 people. Part of the grade for cases will be based on the evaluation by your team members of your contribution to write-ups.
- Class participation grade will be based both on attendance and constructive participation.
- Students **must come adequately prepared for class**. In particular, students should prepare the readings and cases listed under “*Readings and Assignments*” **prior to class**.

| List of Companies Discussed (2010 – 2011) | | |
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| Amazon (2009) | ExxonMobil (2009) | Proctor & Gamble (2009) |
| Apple (2010) | General Motors (2007) | Royal Dutch Shell (2010) |
| Bank of America (2010) | Goldman Sachs (2010) | Sprint (2007) |
| Bristol-Myers-Squibb (2009) | Google (2010) | State Street (2009) |
| British Petroleum (2010) | Intel (2009) | Target (2010) |
| Chevron (2009) | Johnson & Johnson (2009) | Time Warner (2008) |
| China Mobile (2009) | Merck (2009) | United Airlines (2006) |
| Cisco (2009) | New Century Financial (2006) | US Steel (2009) |
| Citigroup (2009) | News Corp (2009) | Walgreens (2010) |
| ConocoPhillips (2009) | Pfizer (2010) | Wal-Mart (2010) |

Required Course Materials

Course reader (CR) – cases and technical notes. Available at the University Bookstore.
 There is NO required textbook for this course. I will recommend some background readings.

Reference Text Books (not required)

- *Financial Statement Analysis & Valuation* by P. Easton, M. McAnally, P. Fairfield, X. Zhang, and R. Halsey (2rd edition, 2010)
- *Financial Statement Analysis* by K.R. Subramanyam and J. Wild, (10th edition, 2009).
- *Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective* by J. Wahlen, S. Baginski, and M. Bradshaw (7th edition, 2011)

Retention of Graded Work

All graded materials not returned to the student will be retained for one year following the student's receipt of their grade. Returned paperwork, unclaimed by a student, will be discarded one month after the date of the final examination.

Statement for Students with Disabilities

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me or the TA as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m. – 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

Emergency Information

USC Emergencies (213) 740 – 4321 USC Emergency Information Line (213) 740 – 9233
USC Information Line (213) 740 – 2311 KUSC Radio 91.5

Student Learning Outcomes - USC Leventhal Masters Programs

1. Technical, Conceptual, Problem-Solving Requirement

Students will be competent in and be able to apply discipline-specific knowledge and skills in the fields of accounting or taxation. This learning outcome includes the development of critical thinking and problem solving skills, as well as an understanding of the strategic role of accounting in business organizations and society.

2. Professional Development Requirement

Students will be able to communicate clearly, and strategically, after considering the relevant audience, situation, and purpose of the communication. Students will develop the ability to work productively with others to accomplish established goals.

3. Research/Life-Long Learning Requirement

Students will be able to use relevant research databases and academic/professional literature to gain new knowledge and analyze business situations.

4. Ethical Principles and Professional Standards Requirement

Students will be able to apply ethical principles and professional standards in analyzing situations and making informed decisions.

5. Globalization Requirement

Students will be able to demonstrate an international perspective and appreciation for diversity and cultural differences, along with their significance in global business.

| | DATE / DAY | TOPIC | READINGS AND ASSIGNMENTS |
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| | | SECTION I: Introduction | |
| L1 | 1/9 Monday | Course Introduction / FSA Applications | SW: 15-39, 44-46 |
| L2 | 1/16 Wednesday | Introduction to Valuation | SW: 40-43, 613-616 |
| | 1/16 Monday | NO CLASS – Martin Luther King’s Day | |
| L3 | 1/18 Wednesday | Accrual Accounting | SW: 68-70, 79-91, 106-108 |
| | | SECTION II: Accounting Analysis | |
| L4 | 1/23 Monday | Income Measurement | SW: 91-97, 330-336 |
| L5 | 1/25 Wednesday | Non-Recurring Items | CR: Pro Forma Earnings: What’s Wrong with GAAP? SW: 336-350 |
| L6 | 1/30 Monday | Accounting for Leases | SW: 142-153, 237-250 |
| L7 | 2/1 Wednesday | Revenue Recognition | SW: 350-355 |
| C1 | 2/6 Monday | <u>Case 1</u> : Leasing Computers at Persistent Learning | Case report is due by 8 a.m. on February 6, 2012 CR: Leasing Computers at Persistent Learning |
| L8 | 2/8 Wednesday | Accounting for Mergers and Acquisitions | SW: 276-290 |
| L9 | 2/13 Monday | Accounting for Intangibles | CR: Accounting for Business Combos SW: 248-250, 280-281, 345-346, 355-358 |
| L10 | 2/15 Wednesday | Earnings Quality | SW: 108-113, 118-121, 602-611 |
| | 2/20 Monday | NO CLASS – Presidents’ Day | |
| L11 | 2/22 Wednesday | <u>Case 2</u> : AOL Time Warner (A & B) | Case report is due by 8 a.m. on February 22, 2012 CR: AOL Time Warner (A & B) |

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| L12 | 2/27 Monday | Deferred Taxes | SW: 366-373 |
| C2 | 2/29 Wednesday | Deferred Taxes | SW: 366-373 |
| | 3/5 Monday | Midterm Review Session | |
| | 3/7 Wednesday | MIDTERM EXAM | |
| | 3/12 Monday | NO CLASS – Spring Break | |
| | 3/14 Wednesday | NO CLASS – Spring Break | |
| L13 | 3/19 Monday | Marketable Securities | SW: 264-275, 311-313 |
| L14 | 3/21 Wednesday | Fair Value Accounting | CR: Subprime Crisis and Fair-Value Accounting SW: 97-106, 298-302 |
| L15 | 3/26 Monday | Accounting for Receivables & Securitization | CR: Accounting for Securitization SW: 176-183, 224-228 |
| L16 | 3/28 Wednesday | Employee Stock Options / Diluted EPS | SW: 359-365, 374-379 |
| C3 | 4/2 Monday | <u>Case 3</u> : New Century Financial Corporation | Case report is due by <u>8 a.m.</u> on April 2, 2012 CR: New Century Financial case Corporation |
| | | SECTION III: Financial Analysis | |
| L17 | 4/4 Wednesday | Profitability Analysis | SW: 446-469 |
| L18 | 4/9 Monday | Credit Analysis | SW: 528-569 |
| L19 | 4/11 Wednesday | Cash Flow Analysis | SW: 402-419 |
| C4 | 4/16 Monday | <u>Case 4</u> : BP vs. Shell – Profitability and Credit | Case report is due by <u>8 a.m.</u> on April 16, 2012 Relevant materials will be distributed in advance |

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| L20 | 4/18 Wednesday | Accounting-based Valuation | SW: 40-43, 613-616 |
| | 4/23 Monday | Guest Speaker – TBA | |
| | 4/25 Wednesday | Final Review Session | |
| | TBA | Final Exam | |