

University of Southern California
Marshall School of Business
Leventhal School of Accounting
ACCT 581 Financial Statement Analysis
Fall 2016 (T/Th at 11:00 a.m.)
Section # 14278
Room JKP 202
August 23 – December 1, 2016
Faculty: John Owens

Administrative Information

Office: Leventhal School of Accounting 108
Office Telephone Number (and Voice-Mail): 310-498-1679
Email: johndowe@marshall.usc.edu
Office Hours: Thursdays 1:30 – 3:30 p.m. or by appointment (generally Tuesday afternoons or Wednesday or Friday mornings)

For Campus-Wide Emergencies:

Emergency Info Line 213-740-9233
USC Emergencies 213-740-4321
USC Public Safety—Non Emergencies: 213-740-6000
Information Tune KUSC Radio at 91.5 (FM)
USC Info Line 213-740-2311

Prerequisites: None

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 as early in the semester as possible. DSP is located in STU 301 and is open from 8:30 a.m. to 5:00 p.m., Monday through Friday. The phone number for DSP is 213-740-0776.

Students are expected to adhere to, and will be bound by, the University and school policies governing academic integrity.

Course Description

This course is about analyzing and using information from corporate financial reports for the purpose of financial analysis and valuation. The goal is to learn how to use financial statement information to evaluate the firm's past and present performance as well as to predict likely future performance. We will learn to evaluate how effectively the financial statements depict the economics of an entity and how to use additional information, such as footnote disclosures, to better understand and analyze financial statement information.

Upon completion of the course, students should be able to:

- Demonstrate understanding of financial statement information from a decision maker's perspective, including appreciation of the usefulness and limitations of the information by comparing and contrasting financial information as prepared in accordance with US GAAP to the economics of an entity's operations
- Use accounting information for financial analysis, including credit analysis and equity valuation, in order to evaluate an entity's past and present performance and predict likely future performance

Graduate Programs Student Learning Outcomes

The five *Student Learning Outcomes* developed for this program by the USC Leventhal faculty and administration and filed with the AACSB, the accrediting body for accounting and business schools are shown below. This course will deal primarily with outcomes 1 through 4; outcome 5 will be covered in less depth.

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.

Course Materials

The textbook is **Financial Statement Analysis** by K.R. Subramanyam and J. Wild, (11th edition, 2014) and is available at the University Bookstore. All readings in the syllabus are from this book unless otherwise noted. We are also using a course reader that is available on line. We will discuss access to the course reader in class.

Assignments and Grading

4 team case assignments	30%
Individual homework assignments	10%
Class participation	10%
Midterm exam	25%
Final exam	<u>25%</u>
	<u>100%</u>

Team Case Assignments

Four team case assignments are included in the course schedule. Instructions will be posted on Blackboard. They will be graded on correctness or effectiveness of answers and underlying rationale, evidence of effort and general quality of the written presentation. The written assignment is due at the beginning of the class period.

Peer evaluations will be distributed so that each member of a group will evaluate the participation of the other group members in the work of the group. Completion of the peer assessment is required and will be considered when determining the class participation grade.

Individual Homework Assignments

We will have several homework assignments throughout the semester. The primary purpose of these assignments is to help the students to focus on key questions or issues prior to the class session in which they will be discussed. These will be graded on completeness, effort and quality. I typically expect your answers to be included on a single page.

All assignments must be turned in on time in order to receive any credit. No late materials will be accepted.

Class Participation

Class participation will be graded based on active, constructive participation in class. Please note that this is a significant part of your grade. I am looking primarily for high quality participation that reflects preparation as well as for consistent participation throughout the semester. I am also looking for collaboration and courtesy by all class members and not for dominance of a few students. We will have class sign-in sheets on occasion.

Midterm and Final Exams

The midterm exam will be held in our normal class session on October 11. The final exam will be held on December 13 from 8:30 to 9:50 a.m., the required final exam time and date. The midterm and final exams must be completed on the scheduled dates. There will not be a make-up exam and neither can be taken early. If you have a conflict for either exam, please discuss it with me immediately. Scheduling a job interview during the exam is **not** a satisfactory reason for missing the exam. Please arrange your interview schedule appropriately. Both exams are cumulative and are to be done individually.

Grading

We 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 3.4, 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.

The policy of the Marshall School of Business applies to the retention of graded material. University policy requires that final exams and all other grade work which affected the course grade be kept for one year. Other papers or work that instructors hand back but that students fail to pick up can be held for one month, as long as this policy is specified in the syllabus.

Academic Conduct

Students enrolled in any class offered by the Leventhal School of Accounting are expected to uphold and adhere to the standards of academic integrity established by the Leventhal School of Accounting Student Honor Code. Students are responsible for obtaining, reading, and understanding the Honor Code System handbook. Students who are found to have violated the Code will be subject to disciplinary action as described in the handbook. For more specific information, please refer to the Student Honor Code System handbook, available in class or from the receptionist in ACC 101.

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Section 11, *Behavior Violating University Standards* <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Support Systems

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the *Office of Equity and Diversity* <http://equity.usc.edu/> or to the *Department of Public Safety* <http://capsnet.usc.edu/departement/departement-public-safety/online-forms/contact-us>. This is important for the safety whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. *The Center for Women and Men* <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage sarc@usc.edu describes reporting options and other resources.

Students whose primary language is not English should check with the American Language Institute <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students.

The Office of Disability Services and Programs -

http://sait.usc.edu/academicsupport/centerprograms/dsp/home_index.html provides certification for students with disabilities and helps arrange the relevant accommodations.

If an officially declared emergency makes travel to campus infeasible, USC Emergency Information <http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

Course Schedule, Readings and Projects

The following schedule is subject to revision based on the progress we make and opportunities that arise to pursue other material.

Aug 23	Introduction (financial statement users and purposes) Read: pp. 4-27
Aug 25	Business and ratio analysis Read: pp. 68-79, 27-46 Prepare: Exercises 1-3, 1-5
Aug 30	Accrual accounting, income concept, relative importance of cash Read: pp. 79-97, 106-113, 340-347 Prepare: Exercises 2-9, 2-12
Sept 1	Quality of earnings Read: pp. 347-361 Read <i>Tailored Accounting at IPOs Raises Flags</i> , Wall Street Journal, January 2, 2015 (posted on Blackboard) Prepare: Find an article discussing “non-recurring” or “special” charges in a public company earnings release. Write a paragraph discussing the validity of those items from the standpoint of a financial statement user
Sept 6	Working capital components and operations Read: pp. 234-242, 544-562 Prepare: Problem 10-1

- Sept 8 Long-term assets, valuation concepts
 Read: pp 243-258, 366-370
 Read: *'Tis No Season for Goodwill to Investors*, Wall Street Journal, November 23, 2012 (posted on Blackboard); *How Does Goodwill Affect Stock Prices?* (posted on Blackboard)
 Prepare: Problem on intangible assets valuation (to be posted on Blackboard)
- Sept 13 Revenue recognition, quality of sales
 Read: pp. 361-366, *The SEC wants to know if Diageo used the oldest – and worst – trick to fudge its numbers*, July 24, 2015 (posted on Blackboard)
 Prepare: Find an article on misleading revenue recognition. Print it and attach a two paragraph paper summarizing the alleged facts and your interpretation of the significance of the issue to a financial statement user.
- Sept 15 Profitability analysis and earnings management
 Prepare: Nuware case (group assignment – Course Reader)
 Read: pp. 462-485
- Sept 20 Credit, leverage, risk, covenants, time horizons
 Read: pp. 132-145, 156-159
 Prepare: Exercise 3-1
- Sept 22 Gil Luria – Wedbush Securities
 Read: TBA
 Prepare: Questions for speaker
- Sept 27 Credit topics, off balance sheet financing (including leases)
 Read: pp. 146-166, 563-581
 Prepare: Polar Sports case – part 1 (group assignment – Course Reader)
- Sept 29 Credit analysis
 Prepare: Polar Sports case – part 2 (group assignment – Course Reader)
- Oct 4 Midterm review
- Oct 6 Bob Iritani, Executive Vice President, Specialty Banking – City National Bank
 Read: TBA
 Prepare: Questions for speaker
- Oct 11 Midterm exam
- Oct 13 Management/board focus
 Read: *Guest Voices: Managing Supply Chains is Intertwined With Financial Management* (posted on Blackboard)
 Read: *Last Gasp for Stock Options?* (posted on Blackboard)
- Oct 18 Review of midterm
- Oct 20 Cash flow analysis
 Read: pp. 418-436

- Oct 25 Cash flow analysis, continued
Prepare: BNL case (group assignment – Course Reader)
- Oct 27 Practice on financial statement analysis (consumer products)
- Nov 1 Regulatory focus
Read: *Wall Street Adapts to New Regulatory Regime*, (posted on Blackboard)
Read: *As Regulators Focus on Culture, Wall Street Struggles to Define It*, (posted on Blackboard)
- Nov 3 Karla Lewis, CFO – Reliance Steel & Aluminum
Read: Reliance Steel & Aluminum 2015 Form 10-K (Business section and Financial statements)
Prepare: Questions for speaker
- Nov 8 Marianne Wisner, SEC
Read: *SEC Gets Busy With Accounting Investigations*, (posted on Blackboard)
Read: *Five Accounting Red Flags the SEC is Watching*, (posted on Blackboard)
Prepare: Questions for speaker
- Nov 10 Diversified financial statement analysis
Prepare: California Choppers case study – (group assignment – Course Reader)
- Nov 15 Mergers and acquisitions – financial due diligence
Assignment: Analyst calls
- Nov 17 Mark Hughes, KPMG LLP
Reading: TBA
Prepare: Questions for speaker
- Nov 22 Tom Reitz, FBI
Read: *FBI Forensic Accountants – Following the Money* (posted on Blackboard)
Read: *FBI Struggles to Handle Financial Fraud Cases* (posted on Blackboard)
Prepare: Questions for speaker
- Nov 29 Practice on financial statement analysis (technology)
- Dec 1 Final review
- Dec 13 Final exam (8:30 a.m.)