

### Course Description

The objective of this half semester class is to provide you with a framework for analyzing a firm's past performance to provide information that is useful for estimating its future performance. The course integrates key concepts from accounting, finance, economics, and business strategy and applies them to financial decision-making. The course focuses on teaching you to interpret numbers in the financial statements. You should leave the course with the ability to be able to read a set of financial statements and interpret financial ratios.

The class is case-oriented. You are responsible for preparing cases in advance of the class session, including familiarizing yourself with the relevant accounting issue. The course is practical and focusses on enabling you to apply many of the theories that you have learned in other courses in the setting of understanding a business. Students planning a career in accounting, the financial industry, consulting, or general management, will find the knowledge acquired in this course relevant.

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### COURSE INFORMATION

**Instructor: Patricia M. Dechow**

**Term/period: Fall 2017**

**Phone: (213) 740-9585**

**Class times 14105R: M/W: 10:00-11:50**

**Office Hours: Monday 3:00 - 4:30**  
**or by appointment**

**Class times 14106R: M/W: 12:00-1:50**

**Location of My Office: ACC 117**

**Classroom: Accounting Building: ACC 201**

**Units: 2.0**

**Email: [patricia.dechow@marshall.usc.edu](mailto:patricia.dechow@marshall.usc.edu)**

**Course Duration: *Monday August 21 to Friday October 13***

**Final Exam Date: *October 11***

### Prerequisites

As stated on USC's Schedule of classes, this course requires an introductory level knowledge of finance (Foundations of Business Finance **BUAD 215** or Business Finance **BUAD 306**); and knowledge of financial accounting: External Financial Reporting Issues **ACCT 370** or Intermediate Accounting for Non-Accounting Majors **ACCT 415**)

**Course website: blackboard**

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## **WHAT YOU WILL HAVE LEARNED BY THE END OF THE COURSE**

By the end of the class you will:

- Have a framework for analyzing a business. We will incorporate key elements that you have learned in your other classes and apply this knowledge systematically to value a business.
- Become familiar with the organization and disclosure of information reported in 10-K filings and the notes to the financial statements. You will have a detailed understanding of assets and liabilities reported on the balance sheet. You will also understand what assets and liabilities are NOT reported under accounting rules and determine the importance of these off-balance sheet items for understanding the value of a business.
- You will understand how accounting errors (either intentional manipulation by management or unintentional mistakes) impact reported income and the book value of equity in a particular year and over time.
- Be proficient at calculating and interpreting financial ratios. You will understand how to use ratios to compare a firm to its competitors and to evaluate changes in ratios over time. You will also know how to use these ratios to help forecast the future.
- Learn about earnings announcements and the reporting of GAAP and non-GAAP earnings numbers.

## **COURSE MATERIALS & REQUIREMENTS**

Lundholm and Sloan, *Equity Valuation and Analysis*, 4<sup>th</sup> edition. This book is available at the USC bookstore or online at: [amazon.com](http://amazon.com) or [createspace.com](http://createspace.com).

Note: I have placed a copy of the book on reserve at the Library.

**Online Cases: Available on Blackboard or**

<http://www.lundholmandsloan.com/index.html>

**Online Software: eVal: <http://www.lundholmandsloan.com/software.html>**

**FactSet:** You will receive an account so that you can access FACTSET during the semester. You will use Factset in your projects.

## **OFFICE HOURS**

You can talk to me immediately after class. I have also scheduled office hours for Monday from 3:00pm – 4:30pm at my office. Feel free to make an appointment if you would like to meet at another time. I also check my email regularly so if you have a question you can email me.

## **TEACHING & LEARNING ACTIVITIES**

Reading and understanding financial statements is very contextual. There is only so far theory (e.g., knowing accounting rules) can take us. It is a bit like learning how to drive a car, where you can learn the road rules but the only way you become a good driver is by driving a lot, encountering different road conditions, making mistakes, and learning from your mistakes. Financial Statement Analysis is similar, the best way to learn is by actually engaging in the task.

This means the class is very “hands on” – and involves the use of cases that require you to read financial statements and answer questions. This is hard because sometimes you do not know where to start. If you haven’t tried the case before class, the discussion will make little sense and you will have lost the opportunity to learn. The more financial statements you read, the easier it gets to understand what to look for even though the issues or concerns change from one firm to another. You need to dive into the details to learn how to analyze financial statements.

The Lundholm and Sloan website has **Webcasts** that many students find helpful for reviewing concepts discussed in class. Often hearing the same information more than once can help consolidate your understanding. Therefore, if you feel that you did not quite understand something I discussed in class, please check the webcasts.

Periodically we will work on in-class exercises. For these classes, you will want to bring your laptop. In addition, financial statement materials can be very long and you will often want to read them from your computer rather than print them all out.

## ASSESSMENT

<i>Group Cases handed in</i>	<i>20%</i>
<i>Group Project (Monday September 4)</i>	<i>30%</i>
<i>Final Exam (Wednesday October 11)</i>	<i>40%</i>
<i>Participating in Class</i>	<i>10%</i>

## GROUP CASES

The Group Cases are handed in as a group, with groups ranging from 3-5 students. The syllabus marks cases that can be turned in for homework credit with (HW).

The case homework is not graded on accuracy alone. An honest and thoughtful effort will get most of the credit. The homework should not be more than three pages with four supporting pages of tables or calculations.

We will organize team membership and case selection in the second class.

Each group member may have a different set of skills but it is important to work together and all participate. Later in the course I will ask group members to let me know how the group worked out, so please try and make a positive contribution to your group and if you have problems let members know in advance. Remember you have to feel like you are doing more than your fair share of the work for other group members to actually think that you have done your fair share of the work.

Cases are due at the start of class. On days when your team hands in a case you should be ready to answer questions and get involved in class.

## PROJECT AND FINAL EXAM

I will provide more details on the project and final exam later in the course. The project will require your group analyzing a company selected using a FactSet screen.

For the final exam you will receive a 10K and supporting material for a firm at least two days in advance of the test date. The test will involve answering questions about the firm based on information in the 10K. Attending the Final Exam is mandatory.

## CLASS PARTICIPATION

The class participation portion of your grade is based on:

- Class attendance and positive and quality contributions shared in class, made with thought and preparation prior to the class meetings.
- Class attendance and discussion of other team's projects during the project presentation phase of the class.
- A positive attitude that enriches the learning experience of the class (e.g., helping another student struggling to answer a question, looking on the bright side of things if a case is tough, etc.).

I have listed some cases as "in class activities" and for these cases you are not expected to prepare beforehand.

## CLASS ETIQUETTE

1. **Arrive at class on time** and avoid leaving early.
2. **Bring a name tent** to class and sit in the same location.
3. **Turn off cellphones** and other audible electronics.
4. **Do not use laptops** unless required for an in-class exercise.
5. If you feel another member of the class is distracting you, let me know, and where appropriate, I will anonymously communicate your feedback to them.
6. **Sit in the same spot** for all classes (we will establish a seating chart in the third class).

## CELL PHONE AND LAPTOP POLICY

Research has shown that the human brain is not good at multi-tasking. The human brain functions sequentially which means it takes a fraction of a second for your brain to switch from viewing material on your laptop, checking messages on your phone, or listening to the class. Even when you view what is on someone else's laptop your brain has to switch from listening to the class to focusing on the laptop. Thus, every time you switch activities your brain has to go back and remember "where it was" on the other activity. Therefore, **laptops and cell phones are not to be used during class unless I specifically request** you to open up your laptops and do some activity.



## GRADING POLICY

There is no mandated curve or hard target for classes at Marshall. Historically, undergraduate electives at the Marshall School have had an average GPA of around 3.3.

## Support Systems

### *Student Counseling Services (SCS) - (213) 740-7711 – 24/7 on call*

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

<https://engemannshc.usc.edu/counseling/>

### *National Suicide Prevention Lifeline - 1-800-273-8255*

Provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week. <http://www.suicidepreventionlifeline.org>

### *Relationship & Sexual Violence Prevention Services (RSVP) - (213) 740-4900 - 24/7 on call*

Free and confidential therapy services, workshops, and training for situations related to gender-based harm. <https://engemannshc.usc.edu/rsvp/>

### *Sexual Assault Resource Center*

For more information about how to get help or help a survivor, rights, reporting options, and additional resources, visit the website: <http://sarc.usc.edu/>

### *Office of Equity and Diversity (OED)/Title IX compliance – (213) 740-5086*

Works with faculty, staff, visitors, applicants, and students around issues of protected class. <https://equity.usc.edu/>

### *Bias Assessment Response and Support*

Incidents of bias, hate crimes and microaggressions need to be reported allowing for appropriate investigation and response. <https://studentaffairs.usc.edu/bias-assessment-response-support/>

### *Student Support & Advocacy – (213) 821-4710*

Assists students and families in resolving complex issues adversely affecting their success as a student EX: personal, financial, and academic.

<https://studentaffairs.usc.edu/ssa/>

### *Diversity at USC – <https://diversity.usc.edu/>*

Tab for Events, Programs and Training, Task Force (including representatives for each school), Chronology, Participate, Resources for Students



**CLASS SCHEDULE (As of August, 2017)**

**INTRODUCTION**

**WEEK 1**

**Session 1: Monday, August 21**

**Course Introduction and Overview**

Reading: Textbook Chapter 1

Handout: Analyzing Apple Case and an overview of a 10K

**PART I: BUSINESS STRATEGY ANALYSIS**

**Session 2: Wednesday, August 23**

**Business Strategy Analysis**

Reading:

Information Collection Textbook Chapter 2 (skim only)

Understanding the Business Textbook Chapter 3

Analyzing Apple: Questions 1 and 2

**PART II: ACCOUNTING ANALYSIS**

**WEEK 2**

**Session 3: Monday, August 28**

**Accounting Analysis: Review of Key Accounting Concepts**

Reading: Textbook Chapter 4

Analyzing Apple: Questions 3 - 7 (HW)

**Session 4: Wednesday, August 30**

**Accounting Analysis: Understanding how Different Accounting Rules affects ratios**

Reading: Textbook Chapter 4 (pages 70 – 84)

Case: EnCom Corporation in textbook, spreadsheet on Blackboard: Stage 1 and 2

## WEEK 3

**Session: Monday, September 4**

**LABOR DAY**

**(No Class)**

**Session 5: Wednesday September 6**

**Accounting Analysis: Revenue Recognition**

Case: Apple and the iPad in textbook: Questions 1, 2, 4, 5, and 6 (HW)

## WEEK 4

**Session 6: Monday, September 11**

**Accounting Analysis: Where does the entity start and stop?**

Case: Boston Chicken in textbook (HW)

## **PART III: FINANCIAL ANALYSIS**

**Session 7: Wednesday, September 13**

**Introduction to Ratio Analysis**

**Ratio Analysis: Advanced Dupont Analysis**

Reading: Textbook Chapter 5 and 6

## WEEK 5

**Session 8: Monday, September 18**

**Ratio Analysis: Margins and Turnover and Cash Flow Analysis**

Reading: Textbook Chapter 5 and 6

Understanding Factset Tipsheets

Interpreting Margins and Turnovers (in textbook) (attempt before class - in class exercise)

**Session 9: Wednesday, September 20**

Reading: Textbook Chapter 5 and 6

Case: Analyzing Apple: Questions 8-12 (HW)



**WEEK 6**

**Session 10: Monday, September 25**

**Comprehensive Case: Initial Public Offering**

Case: Zynga: Questions 1 to 11 (HW)

**Session 11: Wednesday, September 27**

Valuation Ratios: Chapter 11

**Case: The Restaurant Industry**

**WEEK 7**

**Session 12: Monday, October 2**

**PROJECT DUE AND PRESENTATIONS**

**Session 13: Wednesday, October 4**

Practice Exam Case: Under Armour: (HW)

**PART IV: REVIEW**

**WEEK 8**

**Session 14: Monday, October 9**

*Catch up Class and Review of Company for Final Exam*

**Session 15: Wednesday, October 11**

**FINAL EXAM**

**(Covers corporate strategy, accounting and ratio analysis)**