

### Course Description

The objective of this half semester class is to provide you with a framework for analyzing a firm's past performance to help you understand the business and predict 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 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 2018

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

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

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

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

**Classroom:** Fertitta Hall: JFF 241

**Office Location:** ACC 117

**Units:** 2.0

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

**Teaching Assistant:** Ventsi Stamenov: [Ventsislav.Stamenov.2020@marshall.usc.edu](mailto:Ventsislav.Stamenov.2020@marshall.usc.edu)

**Course Duration:** *Monday August 20 to Friday October 12*

**Final Exam Date:** *Wednesday, October 10*

### 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).



The authors have a website:

<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

This class is only a half semester which means we will be moving through material at a fast pace. 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. In other words, knowing accounting rules is very helpful, but if you do not have a strong accounting background you can still be very good at financial statement analysis because it involves seeing the big picture and understanding what is going on beyond the accounting numbers. 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>Class Review/Quiz questions</i>	10%
<i>Individual Homeworks (Grade based on three)</i>	6%
<i>(Due August 22, August 27, August 29, September 17)</i>	
<i>Participating in Class Discussion</i>	4%
<i>Group Cases</i>	15%
<i>(Due September 5, September 10, September 19)</i>	
<i>Group Project (Wednesday, October 3)</i>	30%
<i>Final Exam (Wednesday October 10)</i>	35%

## CLASS REVIEW/QUIZ QUESTIONS

At the start of class, you will have a one page review of material from the previous class. You will hand these end at the end of class or during class. These will be graded either 0, 0.5, or 1, and your grade will be based primarily on effort. You can miss two classes (i.e., not hand in two) with no penalty to your grade.

## INDIVIDUAL HOMEWORKS

There are a few shorter exercises that I would like everyone to try. These will be handed in individually. They are marked on the syllabus as (HW)

## **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 credit (Case).

The cases are not graded on accuracy alone. An honest and thoughtful effort will get most of the credit. The cases 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 third 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 to analyze a company using the skills developed in the course.

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.
- Being prepared to answer questions and participate on days when your group has prepared the case for the day.
- 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.).

## 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, 2018)

### INTRODUCTION

#### WEEK 1

##### **Session 1: Monday, August 20**

##### **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 22**

##### **Business Strategy Analysis**

Reading:

Information Collection Textbook Chapter 2 (skim only)

Understanding the Business Textbook Chapter 3

Analyzing Apple: Questions 1, 2, and 3 (Homework 1 – HW1)

### PART II: ACCOUNTING ANALYSIS

#### WEEK 2

##### **Session 3: Monday, August 27**

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

Reading: Textbook Chapter 4

Analyzing Apple: Questions 4 - 7 (HW2)

##### **Session 4: Wednesday, August 29**

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

Reading: Textbook Chapter 4 (pages 70 – 84)

Case: EnCom Corporation - spreadsheet on Blackboard: Stage 1 and 2 (HW3)



**WEEK 3**

**Session: Monday, September 3**

<p><b>LABOR DAY</b> <b>(No Class)</b></p>
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**Session 5: Wednesday September 5**

**Accounting Analysis: Income Statement: Revenue Recognition**

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

**WEEK 4**

**Session 6: Monday, September 10**

**Accounting Analysis: Balance Sheet and Asset and Liability Recognition**

Case: Boston Chicken in textbook (Case 2)

**PART III: FINANCIAL RATIO ANALYSIS**

**Session 7: Wednesday, September 12**

**Introduction to Ratio Analysis**

**Ratio Analysis: Advanced Dupont Analysis**

Reading: Textbook Chapter 5 and 6

**WEEK 5**

**Session 8: Monday, September 17**

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

Reading: Textbook Chapter 5 and 6

Interpreting Margins and Turnovers (Catch-up / replacement Homework)

**Session 9: Wednesday, September 19**

Reading: Textbook Chapter 5 and 6

Case: Analyzing Apple: Questions 8 - 12 (Case 3)

## ***PART IV: FORECASTING***

### ***WEEK 6***

#### ***Session 10: Monday, September 24***

##### ***Structured Forecasting:***

Reading: Textbook Chapter 7

#### ***Session 11: Wednesday, September 26***

##### ***Forecasting Details:***

Reading: Textbook Chapter 8

Application: *Forecasting Annual and Quarterly EPS*

## ***PART V: SYNTHESIS AND REVIEW***

### ***WEEK 7***

#### ***Session 12: Monday, October 1***

Project Workshop and Catch up Class

#### ***Session 13: Wednesday, October 3***

***PROJECT DUE AND PRESENTATIONS  
(October 3)***

### ***WEEK 8***

#### ***Session 14: Monday, October 8***

*Review for Final Exam*

#### ***Session 15: Wednesday, October 10***

***FINAL EXAM  
(October 10)***