

USC Marshall

School of Business

ACCT 581

Financial Statement Analysis

Fall, 2018

Meets Mon. & Wed., 2:00-3:20 or 3:30-4:50 in JKP 202

Professor Richard Sloan
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COURSE DESCRIPTION

This course (i) provides you with a framework for business analysis and valuation using financial statement data; and (ii) shows you how to apply this framework to a variety of business decisions. The course integrates key elements from accounting, finance, economics and business strategy and applies them to financial decision-making.

The course is case-oriented. You are responsible for preparing for case discussions in advance of the class sessions, including familiarizing yourself with the relevant accounting issues.

LEARNING OUTCOMES

The course is designed to achieve the following learning outcomes:

1. Provide you with systematic framework that allows you analyze a business and make sound financial decisions as a stakeholder in the business (investor, creditor, officer etc.).
2. Enable you to identify the key elements of a business strategy and evaluate its ability to generate sustainable competitive advantage.
3. Enable you to assess how well the accounting methods used by a business reflect its underlying economic performance and quantify any major accounting distortions.
4. Enable you to use the information available in the financial statements to conduct a comprehensive ratio analysis of a business and evaluate its financial health.
5. Enable you to provide a plausible and internally consistent set of financial statement forecasts for a business through an appropriate forecast horizon and to critically evaluate the forecasting models of others.
6. Enable you to estimate a plausible valuation for a business and to critically evaluate the valuation estimates provided by others.

ORGANIZATIONAL DETAILS

1. Course Materials:

The textbook for the course is:

[Russell Lundholm and Richard Sloan, *Equity Valuation and Analysis*, CreateSpace Independent Publishing Platform; Fourth Edition \(July 17, 2017\).](#)

ISBN/EAN13: 1548118923 / 9781548118921

I have placed copies of the book on reserve at the Marshall School and Leventhal School libraries. The book is to be used in conjunction with materials that are freely available on the associated website: <http://www.lundholmandsloan.com/>. This website provides links to software, cases, quizzes, webcasts and other materials related to the course.

2. Prerequisites and Recommended Preparation

I will assume a basic knowledge of topics covered in introductory accounting and finance classes.

3. Course Evaluation:

Your grade for the course will be determined as follows:

5 Case Write-Ups	25%
Exam	45%
Final Project	20%
Class participation:	10%

I will describe the exam and project in more detail during the course.

The case write-ups and project can be done in a team of up to 5 people. Each team must turn in five of the cases from the course outline marked with an asterisk (*), with one case selected from each of PART III through PART VII of the course outline. Each of these five cases will carry a weight of 5% toward your course grade. Case write-ups should be no longer than three typed pages, with no more than four supporting pages of tables or calculations. We will organize team membership and case selection during our first meeting. Case write-ups should be turned in online via Blackboard by 2:00pm on the due date in a single document (preferably a letter-sized pdf).

Finally, because this is a case course, class participation is requested regardless of whether or not we are covering one of your selected cases.

4. Course Outline:

The course outline is provided on the following pages. We may deviate slightly from this

schedule and I will keep you updated as the course progresses. You should do the assigned readings and cases before coming to class. The cases are generally quite involved and you are unlikely to be able to keep up with case discussions if you come to class unprepared.

5. Blackboard:

Copies of all cases and associated materials will be available on the course's Blackboard site (<https://blackboard.usc.edu/>). As the course progresses, I will place copies of session slides and other course materials on Blackboard.

6. Office Hours:

I have scheduled office hours from 10am-12pm on Monday's and 5pm-6pm on Wednesdays. Please feel free to make an appointment if you would like to meet at another time. I check email regularly, so if you have a quick question, I encourage you to email me at <mailto:sloanr@marshall.usc.edu>.

CLASS ETIQUETTE

In order to maintain a class environment that is conducive to learning, I suggest the following code of class etiquette:

1. Arrive at class on time and avoid leaving early.
2. Bring a name tent to each class and try to sit in the same location.
3. Turn off cellphones and other audible electronics.
4. Do not use laptops or phones, except in classes where we build and analyze financial models.
5. If you feel that another class member is negatively impacting the classroom environment, let me know, and where appropriate, I will anonymously communicate your feedback.

STATEMENT ON ACADEMIC CONDUCT AND SUPPORT SYSTEMS

Academic Conduct:

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 Part B, Section 11, “Behavior Violating University Standards” policy.usc.edu/scampus-part-b. 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>.

Students with Disabilities:

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Disability Services and Programs (www.usc.edu/disability). DSP provides certification for students with disabilities and helps arrange the relevant accommodations. 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 to your TA) as early in the semester as possible. DSP is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. Email: ability@usc.edu.

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/>

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

USC Emergency Information

Provides safety and other updates, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible. emergency.usc.edu

USC Department of Public Safety – UPC: (213) 740-4321 – HSC: (323) 442-1000 – 24-hour emergency or to report a crime.

Provides overall safety to USC community. dps.usc.edu

COURSE OUTLINE

PART I: INTRODUCTION

Session 1: Monday, August 20

Course Introduction and Overview

Reading: Lundholm and Sloan (LS) Chapter 1

PART II: BUSINESS STRATEGY ANALYSIS

Session 2: Wednesday, August 22

Business Strategy Analysis

Reading: LS Chapters 2 and 3

Case: Analyzing Apple: Questions 1 and 2 [[LS](#)]

PART III: ACCOUNTING ANALYSIS

Session 3: Monday, August 27

Accounting Analysis (I)

Reading: LS Chapter 4

Case: Analyzing Apple: Questions 3-6 [[LS](#)]

Session 4: Wednesday, August 29

Accounting Analysis (II)

Case: EnCom Corporation: Stage 1 and Stage 2 Questions (*) [[LS](#)]

(Labor Day: Monday, September 3)

Session 5: Wednesday, September 5

Accounting Analysis (III)

Case: Apple and the iPad: Questions 1, 2, 4, 5 and 6 (*) [[LS](#)]

Session 6: Monday, September 10

Accounting Analysis: (IV)

Case: Boston Chicken, Inc. (*) [[LS](#)]

PART IV: FINANCIAL ANALYSIS

Session 7: Wednesday, September 12

Financial Analysis (I)

Reading: LS Chapters 5 and 6

Sessions 8: Monday, September 17

Financial Analysis (II)

Case: Analyzing Apple: Qs. 7-12 (*) [[LS](#)]

Session 9: Wednesday, September 19

Financial Analysis (III)

Reading: Factset Tipsheets ([Company Tab](#), [Comps](#), [Equity Screening](#))

Case: Interpreting Margin and Turnover Ratios [[LS](#)]

Session 10: Monday, September 24

Financial Analysis (IV)

Case: Big Five Sporting Goods (*) [[LS](#)]

Session 11: Wednesday, September 26

Identifying Accounting Distortions: Case Presentations

Case: Identifying Accounting Distortions (*) [[LS](#)]

PART V: FORECASTING

Session 12: Monday October 1

Forecasting (I)

Reading: LS Chapters 7 and 8

Sessions 13: Wednesday, October 3

Forecasting (II)

Case: Workshop on Forecasting for Apple

Session 14: Monday, October 8

Forecasting (III)

Case: Analyzing Apple: Question 13 (*) [[LS](#)]

PART VI: VALUATION

Session 15: Wednesday, October 10

Valuation (I)

Reading: LS Chapters 9 and 10

Case: EnCom Corporation - Stage 3 Questions [[LS](#)]

Session 16: Monday, October 15

Valuation (II)

Case: Analyzing Apple: Qs. 14-16 (*) [[LS](#)]

Session 17: Wednesday, October 17

Valuation (III)

Case: Evaluating Intel's Earnings Torpedo (*) [[LS](#)]

Session 18: Monday, October 22

Valuation (IV)

Reading: LS Chapter 11

Case: Determinants of Valuation Ratios [[LS](#)]

Session 19: Wednesday, October 24

Valuation (V)

Reading: LS Chapter 12

Case: The AOL Time Warner Merger (*) [[LS](#)]

PART VII: SYNTHESIS, REVIEW AND APPLICATION

Session 20: Monday, October 29

Comprehensive Case

Case: Is Tesla's Stock Price in Ludicrous Mode? (*) [[LS](#)]

Session 21: Wednesday, October 31

Exam Review Session

Reading: Financial Statement Packet for Mid-Term Exam (handed out in Session 20)

Session 22: Monday, November 5

Analysis of Apple's 4th Quarter Results

Session 23: Wednesday, November 7

MID-TERM EXAM

Session 24: Monday, November 12

Project Overview

Session 25: Wednesday, November 14

Guest Speaker

Session 26: Monday, November 19

Project Workshop

(Thanksgiving Break: Wednesday November 21)

Session 27: Monday, November 26

PROJECT PRESENTATIONS DUE

Project Presentations

Session 28: Wednesday, November 28

Project Presentations