

### 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 2019

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

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

**Office Hours:** Monday 4:20 – 6:10

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

**After class, or by appointment**

**Classroom:** Leventhal: ACC 201

**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 26 to Wednesday October 16*

**Final Exam Date:** *Wednesday, October 7, 2019*

**Project Presentations:** *Wednesday, October 16, 2019*

### 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

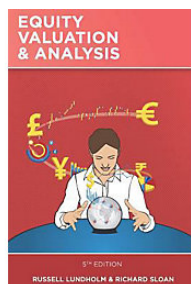
By the end of the class you will:

- 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*, 5<sup>th</sup> edition.

This book is available at the USC bookstore or online at: amazon.com or createspace.com.



**Note:** The 5<sup>th</sup> Edition is the version I will refer to in class and in the syllabus. You can use the 4<sup>th</sup> edition but page numbers have changed, there are few typos, and not all weblinks are up to date, so the 5<sup>th</sup> edition is preferable.

**The authors have a website:**

<https://www.lundholmandsloan.com/home>

**Software (excel): eVal:** <https://www.lundholmandsloan.com/software>

**FactSet:** This is a powerful research tool for analyzing companies and the stock market. You will receive an account so that you can access FactSet during the semester. You will use Factset to identify your project firms.

## TEACHING & LEARNING ACTIVITIES

This class is 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 less 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>	11%
<i>Individual Homework (2% each)</i>	16%
<i>Participating in Class Discussion</i>	4%
<i>Group Cases (8% each)</i>	24%
<i>Group Project (Wednesday, October 16)</i>	15%
<i>Final Exam (Monday, October 7)</i>	30%

## 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 in 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

These are shorter exercises that I would like everyone to try. These will be handed in individually. They are marked on the syllabus as (HW). These are graded between 0 and 2. There are two additional home works that can be used to improve your grade or make up for a missed homework.

## **GROUP CASES**

The Group Cases are handed in as a group, with groups ranging from 3-5 students. The syllabus marks the cases. All cases should be attempted and there is one make up case that can be used to replace the lowest scoring case.

The case 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. You should be ready to answer questions and get involved in class. One team member can upload case answers to Blackboard.

## **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 (a seating chart will be set 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.

**ADD AND DROP DATES (half semester classes)**

The last day to add or drop without a "W" is Friday, September 4.

The last day to drop with a "W" is Monday, October 7.

**DUE DATES (Blackboard due dates are most up to date)**

*HW1 and HW2 August 28,*

*HW3 September 4*

*HW4 and HW5: September 9*

*HW6: September 11*

*HW7: September 18*

*HW8 September 23*

*Make-up HW9 September 23*

*Make-up HW10: October 14*

*Case 1: Zynga Questions 1 – 7: Sept. 11*

*Case 2: Boston Chicken: September 16*

*Case 3: Apple Questions 8 -13: September 25*

*Make-up Case 4: Activision Blizzard: Sept. 30*

*Final Exam: October 7*

*Project Presentations: October 16*

## USC Statement on Academic Conduct and Support Systems

### 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.

### Support Systems

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

[engemannshc.usc.edu/counseling](http://engemannshc.usc.edu/counseling)

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

*National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call*

[suicidepreventionlifeline.org](http://suicidepreventionlifeline.org)

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

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

[engemannshc.usc.edu/rsvp](http://engemannshc.usc.edu/rsvp)

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

*Office of Equity and Diversity (OED) | Title IX - (213) 740-5086*

[equity.usc.edu](http://equity.usc.edu), [titleix.usc.edu](http://titleix.usc.edu)

Information about how to get help or help a survivor of harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants. The university prohibits discrimination or harassment based on the following protected characteristics: race, color, national origin, ancestry, religion, sex, gender, gender identity, gender expression, sexual orientation, age, physical disability, medical condition, mental disability, marital status, pregnancy, veteran status, genetic information, and any other characteristic which may be specified in applicable laws and governmental regulations.

*Bias Assessment Response and Support - (213) 740-2421*

[studentaffairs.usc.edu/bias-assessment-response-support](http://studentaffairs.usc.edu/bias-assessment-response-support)

Avenue to report incidents of bias, hate crimes, and microaggressions for appropriate investigation and response.

*The Office of Disability Services and Programs - (213) 740-0776*

[dsp.usc.edu](http://dsp.usc.edu)

Support and accommodations for students with disabilities. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs.

*USC Support and Advocacy - (213) 821-4710*

[studentaffairs.usc.edu/ssa](http://studentaffairs.usc.edu/ssa)

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

*Diversity at USC - (213) 740-2101*

[diversity.usc.edu](http://diversity.usc.edu)

Information on events, programs and training, the Provost's Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

*USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call*

[dps.usc.edu](http://dps.usc.edu), [emergency.usc.edu](http://emergency.usc.edu)

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

*USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call*

[dps.usc.edu](http://dps.usc.edu)

Non-emergency assistance or information.





## CLASS SCHEDULE (As of August, 2019)

### INTRODUCTION

#### WEEK 1

##### **Session 1: Monday, August 26**

##### **Course Introduction and Overview**

Reading: Textbook Chapter 1

Handout: Analyzing Apple Case and an Overview of an SEC 10K Filing

### PART I: BUSINESS STRATEGY ANALYSIS

##### **Session 2: Wednesday, August 28**

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

Reading:

Information Collection Textbook Chapter 2

Understanding the Business Textbook Chapter 3

Analyzing Apple: Questions 1, 2 (Due: HW1)

Getting to Know you Form (Due: HW2)

### PART II: ACCOUNTING ANALYSIS

#### WEEK 2

**No Session : Monday, September 2**

<p><b>LABOR DAY</b></p>
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<p><b>(No Class)</b></p>
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##### **Session 3: Wednesday, September 4**

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

Reading: Textbook Chapter 4

Analyzing Apple: Questions 3 – 5 (Due: HW3)

## WEEK 3

### **Session 4: Monday, September 9**

#### **Accounting Analysis: Understanding the link between earnings and cash flows**

Reading: Textbook Chapter 4

Analyzing Apple: Standardization of financial line items for Computers: Questions 6 (Due HW4)

EnCom Corporation - Spreadsheet on Blackboard: Stage 1 (Due HW5)

### **Session 5: Wednesday September 11**

#### **Accounting Analysis: The Impact of Different Accounting Rules on Income over Time**

EnCom Corporation - Spreadsheet on Blackboard: Stage 2 (Due: HW6)

Case: Zynqa (Due: Case 1)

## WEEK 4

### **Session 6: Monday, September 16**

#### **Accounting Analysis: Recognition of Assets and Liabilities**

Case: Boston Chicken (Due: Case 2)

## **PART III: FINANCIAL RATIO ANALYSIS**

### **Session 7: Wednesday, September 18**

#### **Ratio Analysis: Dupont Framework**

Reading: Textbook Chapter 5 and 6

Analyzing Apple: Questions 6 and 7 (Due: HW7)

## WEEK 5

### **Session 8: Monday, September 23**

#### **Ratio Analysis: Advanced Dupont Analysis and Margins and Turnover**

Reading: Textbook Chapter 5 and 6

Case: Analyzing Apple: Questions 8 (Due: HW8)

Case: Margins and Turnovers Questions on Blackboard (Make up HW9)

### **Session 9: Wednesday, September 25**

#### **Ratio Analysis: Advanced Dupont, Margins and Turnover, Cash Flow Analysis continued**

Reading: Textbook Chapter 5 and 6

Case: Analyzing Apple: Questions 8 - 13 (Due: Case 3)

## WEEK 6

### **Session 10: Monday, September 30**

**Comprehensive Case:** Activision Blizzard Questions 1 - 14 (Due: Make up Case 4)

### **Session 11: Wednesday, October 2<sup>nd</sup>**

**Ratio Analysis: Cash Flow and Credit Analysis**

Review of Test Firm

## WEEK 7

### **Session 12: Monday, October 7**

**Final Exam**  
**(October 7)**

### **Session 13: Wednesday, October 9**

Project Workshop: Using “Big Data” from FactSet to Identify Accounting Distortions

Analyzing Apple: Questions 14 (credit analysis – not graded)

## WEEK 8

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

**Valuation Ratios: Chapter 11**

**Interpreting valuation ratios:** The Restaurant Industry (Make up HW10)

### **Session 15: Wednesday, October 16**

Project Case: Accounting Distortions: (Due: Project and Presentation)

**Project Presentations**  
**(October 16)**