

USC Marshall

School of Business

ACCT 581

Financial Statement Analysis

Fall, 2019

Meets Mon. & Wed., 12:30-1:50pm or 2:00-3:20pm 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 assess how well the accounting methods used by a business reflect its underlying economic performance and quantify any major accounting distortions.
3. 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.
4. Make you proficient in the use of technology to screen large financial databases for actionable information.
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**, Fifth Edition, Independently Published (July 11, 2019).

ISBN: 978-1079983357. Available at: <https://www.amazon.com/dp/107998335X>

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, videos 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 12:30pm 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 3.45pm-5pm on Monday's and 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 (I will identify these classes in advance).
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:

Students are expected to make themselves aware of and abide by the University community's standards of behavior as articulated in the [Student Conduct Code](#). 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" <https://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>.

Support Systems

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

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

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

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, 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

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

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/ssu

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

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, 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

Non-emergency assistance or information.

COURSE OUTLINE

PART I: INTRODUCTION

Session 1: Monday, August 26

Course Introduction and Overview

Reading: Lundholm and Sloan (LS) Chapter 1

PART II: BUSINESS STRATEGY ANALYSIS

Session 2: Wednesday, August 28

Business Strategy Analysis

Reading: LS Chapters 2 and 3

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

(Labor Day: Monday, September 2)

PART III: ACCOUNTING ANALYSIS

Session 3: Wednesday, September 4

Accounting Analysis (I)

Reading: LS Chapter 4

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

Session 4: Monday, September 9

Accounting Analysis (II)

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

Session 5: Wednesday, September 11

Accounting Analysis (III)

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

Session 6: Monday, September 16

Accounting Analysis: (IV)

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

PART IV: FINANCIAL ANALYSIS

Session 7: Wednesday, September 18

Financial Analysis (I)

Reading: LS Chapters 5 and 6

Sessions 8: Monday, September 23

Financial Analysis (II)

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

Session 9: Wednesday, September 25

Financial Analysis (III)

Reading: FactSet Tipsheet on Equity Screening (available on FactSet)

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

Session 10: Monday, September 30

Financial Analysis (IV)

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

Session 11: Wednesday, October 2

Identifying Accounting Distortions: Case Presentations

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

PART V: FORECASTING

Session 12: Monday October 7

Forecasting (I)

Reading: LS Chapters 7 and 8

Sessions 13: Wednesday, October 9

Forecasting (II)

Case: Workshop on Forecasting for Apple

Session 14: Monday, October 14

Forecasting (III)

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

PART VI: VALUATION

Session 15: Wednesday, October 16

Valuation (I)

Reading: LS Chapters 9 and 10

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

Session 16: Monday, October 21

Valuation (II)

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

Session 17: Wednesday, October 23

Valuation (III)

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

Session 18: Monday, October 28

Valuation (IV)

Reading: LS Chapter 11

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

Session 19: Wednesday, October 30

Valuation (V)

Reading: LS Chapter 12

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

PART VII: SYNTHESIS, REVIEW AND APPLICATION

Session 20: Monday, November 4

Comprehensive Case

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

Session 21: Wednesday, November 6

Exam Review Session

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

Session 22: Monday, November 11

Analysis of Apple's 4th Quarter Results

Session 23: Wednesday, November 13

MID-TERM EXAM

Session 24: Monday, November 18

Project Overview

Session 25: Wednesday, November 20

Guest Speaker

Session 26: Monday, November 25

Project Workshop

(Thanksgiving Break: Wednesday November 27)

Session 27: Monday, December 2

Project Presentations

Session 28: Wednesday, December 4

Project Presentations