

# USC Marshall

School of Business

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**ACC 581**

**Financial Statement Analysis**

**MW 6.30-9.30 pm JFF 239**

**OFFICE HOURS: M 4.00-6.00 pm**

**USC Emergency Info Line: (213)-740-9233**

**USC Emergencies: (213)-740-4321**

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**KUSC Radio (Emergency Info): 91.5 FM**

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## **COURSE DESCRIPTION**

This course primarily deals with analyzing and using information from corporate financial reports for the purpose of business analysis. Specific topics include: analyzing and adjusting financial numbers for the purpose of financial analysis; evaluating earnings quality; profitability analysis; cash flow analysis; credit analysis; and equity valuation.

## **LEARNING OUTCOMES**

1. Provide you a deeper understanding and appreciation of financial statement information and how this information can be used in business analysis.
2. Enable you to assess how well the accounting methods used by a business reflect its underlying economic situation and quantify (and rectify, if possible) any major accounting distortions.
3. Enable you to use the financial statement information to conduct a comprehensive ratio analysis of a business to evaluate its financial health and performance.
4. 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.
5. Enable you to estimate a plausible valuation for a business and to critically evaluate the valuation estimates provided by others.
6. Enable you to assess the credit worthiness of a business and inherent risk in lending.

The coverage of the course is broad and the emphasis of the course is on content. Critical thinking skills and group work will be covered as part of the learning process, but are not the primary course objectives.

## **ORGANIZATIONAL DETAILS**

### **Course Materials**

Required Text Book: Financial Statement Analysis, K.R. Subramanyam, 11<sup>th</sup> Edition, McGraw Hill, 2014.

Blackboard: Study Notes, Class Slides, Cases (subject to copyright), Company Reports, Articles and Research Papers will be put on Blackboard (<https://blackboard.usc.edu/>) as required. Class slides will be put up prior to the relevant session.

Handouts: Select handouts will be provided in class.

### **Prerequisites**

GSBA 510 or equivalent. Knowledge of and some level of comfort with accounting is mandatory. I will assume this. Please brush up your accounting skills prior to the start of the course in case you are rusty. Also some basic knowledge of finance is required.

### **Grading Policy**

Individual Homework	20%
Final Exam	40%
Group Project	25%
Class participation	15%

Eight homework assignments will be assigned, out of which the best five will be counted towards the grade. Homework should be turned in online via Blackboard prior to class on the scheduled date in a single PDF or WORD document that can be printed easily. Please do not turn in Excel worksheets.

Final exam will be open book. Details will be provided later in class.

Project can be done in a group of up to five members. You should form groups on your own. Project details will be given later.

Finally, the class will be interactive and so please come prepared to participate regularly. Attendance is compulsory.

### **Retention of Graded Work**

All graded materials not returned to the student will be retained for one year following the student's receipt of their grade. Returned paperwork, unclaimed by a student, will be discarded after the date of the final examination.

## **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).

## Class Schedule

Date	#	Class Discussion	Readings/Assignments
<b>I. Introduction</b>			
Jan 15	1	<ul style="list-style-type: none"> <li>- Course Introduction</li> <li>- Introduction to FSA                             <ul style="list-style-type: none"> <li>o Accrual Accounting</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT<sup>1</sup> 4-14</li> <li>- <u>Case</u>: “T-Shirt Example” (BB)</li> </ul>
	2	<ul style="list-style-type: none"> <li>- Financial Reporting – I                             <ul style="list-style-type: none"> <li>o 10K &amp; Financial Statements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 15-26, 68-90</li> <li>- <u>Examine</u>: Honeywell 10K (BB)</li> </ul>
Jan 22	3	<ul style="list-style-type: none"> <li>- Financial Reporting – II                             <ul style="list-style-type: none"> <li>o Analyzing Financial Statements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Read</u>: TXT 27-45</li> <li>- <u>Examine</u>: Honeywell 10K (BB)</li> </ul>
	<b>II. Accounting Analysis</b>		
	4	<ul style="list-style-type: none"> <li>- Introduction to Accounting Analysis</li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 106-117</li> <li>- <u>Case</u>: “Boston Chicken” (BB)</li> </ul>
Jan 29	5	<ul style="list-style-type: none"> <li>- Income Statement – I                             <ul style="list-style-type: none"> <li>o Concept of Income</li> <li>o Income Statement Geography</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Read</u>: TXT 91-106, 338-361</li> <li>- <b>HW # 1 Submission</b></li> </ul>
	6	<ul style="list-style-type: none"> <li>- Income Statement – II                             <ul style="list-style-type: none"> <li>o Non-recurring Items</li> <li>o Non-GAAP Income</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Read</u>: Has Non-GAAP Reporting Become an Accounting Chasm? (BB)</li> <li>- <u>Case</u>: “Uber Technologies”</li> </ul>
Feb 5	7	<ul style="list-style-type: none"> <li>- Deferred Taxes – I</li> </ul>	<ul style="list-style-type: none"> <li>- <u>Read</u>: TXT 378-385</li> <li>- <u>Examine</u>: Honeywell 10K (BB)</li> </ul>
	8	<ul style="list-style-type: none"> <li>- Deferred Taxes – II</li> </ul>	<ul style="list-style-type: none"> <li>- <b>HW # 2 Submission</b></li> </ul>
Feb 12	NO CLASS		

<sup>1</sup> TXT refers to required text book. BB = Blackboard; HBS = Harvard Business School Case

<b>Date</b>	<b>#</b>	<b>Class Discussion</b>	<b>Readings/Assignments</b>
Feb 19	9	- Operating Assets and Intangibles – I	- <u>Browse</u> : TXT 227-257, 366-370 - <u>Case</u> : “Netflix: Valuing a New Business Model” (HBS)
	10	- Operating Assets and Intangibles – II	- <u>Case</u> : “Apple and IFad” (BB) - <b>HW # 3 Submission</b>
Feb 26	11	- Intercorporate Investments – I o Marketable Securities o Fair Value Accounting o Equity Accounting	- <u>Read</u> : TXT 274-288 - <u>Case</u> : “Fair Value Accounting at Berkshire Hathaway Inc.” (HBS) - <b>HW # 4 Submission</b>
	12	- Intercorporate Investments – II o Marketable Securities o Fair Value Accounting o Equity Accounting	- <u>Examine</u> : City Bank 10K (BB)
Mar 4	13	- Intercorporate Investments – III o Business Combinations	- <u>Read</u> : TXT 288-298
	14	- Shareholder Equity – I	- <u>Read</u> : TXT 166-178
Mar 11	15	- Shareholder Equity – II o Employee Stock Options o Diluted EPS	- <u>Read</u> : TXT 370-376, 385-391
	16	- Overview of Accounting Analysis - Earnings Quality	- <b>HW # 5 Submission</b> - <b>Last date to turn in Project Group names</b>
Mar 18	SPRING BREAK		
<b>III. Financial Analysis</b>			
Mar 25	17	- Analyzing Profitability - I	- <u>Browse</u> : TXT 460-485 - <u>Case</u> : “Costco vs Macys” (BB)
	18	- Analyzing Profitability - II	

<b>Date</b>	<b>#</b>	<b>Class Discussion</b>	<b>Readings/Assignments</b>
Apr 1	19	- Analyzing Cash Flows - I	- Browse: TXT 417-437 - <b>HW # 6 Submission</b>
	20	- Analyzing Cash Flows - II	
Apr 8	21	- Equity Valuation – I o Relative Valuation	- <u>Read</u> : Note on Multiples (BB) - <b>HW # 7 Submission</b>
	22	- Equity Valuation – II o Forecasting	- <u>Read</u> : Note on Forecasting Financial Statement Attributes (BB) - <u>Case</u> : “Dell Inc. A” (BB)
Apr 15	23	- Equity Valuation – III o Cash Flow Based Valuation	- <u>Read</u> : Note on Valuation Models - <u>Case</u> : “Dell Inc. B” (BB)
	24	- Equity Valuation – IV o Earnings Based Valuation	- <u>Case</u> : “Dell Inc. C” (BB)
Apr 22	25	- Credit Analysis – I o Evaluating credit risk	- <u>Browse</u> : TXT 542-585 - <u>Case</u> : Amazon.Bomb (BB) - <b>HW # 8 Submission</b>
	26	- Credit Analysis – II o Evaluating credit protections	- <u>Read</u> : TXT 134-145
Apr 29	27	- Credit Analysis – III o Securitization o Bankruptcy	- <u>Case</u> : “New Century Financial” (HBS)
	28	- Course Wrap Up	

## 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](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.