

USC Marshall

School of Business

ACC 581
Financial Statement Analysis
T Th 2.00-3.20pm; 3.30-4.50pm Online

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COURSE DESCRIPTION

Financial Statement Analysis primarily deals with analyzing and using information from corporate financial reports for the purpose of business analysis and decision making. You will learn to assess earnings (and accounting) quality and reconstruct financial statements for the purpose of financial decisions. You will learn financial analysis tools and techniques such as analyzing profitability and return on investment, cash flow analysis, and forecasting pro-forma financial statements. Finally, you will learn to apply financial analysis techniques in full blown exercises of credit analysis and equity valuation. The course will cover many cases from companies in a variety of different industries. This course will also provide an important integration of accounting and finance concepts. This course is useful for those seeking careers in finance (securities analysis, banking, investment banking, corporate finance and real estate finance).

LEARNING OBJECTIVES

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 accounting/earnings quality, i.e., how well the accounting methods used by a business reflect its underlying economic situation and quantify any major accounting distortions. Also make necessary adjustments to reported numbers to suit your analysis objectives.
3. Enable you to use the financial statement information to conduct a comprehensive ratio analysis of a business to evaluate its profitability, financial health and financial 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

Recommended Text Book: Financial Statement Analysis, K.R. Subramanyam, 11th Edition, McGraw Hill, 2014. This text is not required.

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 and recordings will be put up prior to, or after, the relevant session.

Prerequisites

GSBA 510 or equivalent. Basic knowledge of financial accounting is necessary. Also some basic knowledge of finance is required.

Grading Policy

Homework	10%
Quizzes	15%
Final Exam	25%
Group Project	40%
Class participation	<u>10%</u>
	<u>100%</u>

Homework is to be attempted individually. Four homework assignments will be assigned, out of which the best two 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.

Three in-class quizzes will be given during the semester (5% X 3). These quizzes will be closed-book (with five multiple-choice questions each) and should be individually attempted.

Final exam will be open book with comprehensive coverage. To be individually attempted. Details of the final exam will be provided later.

Project should be attempted in groups of five members. You should form groups on your own and email me names of group members by March 18. Details about the project will be given later. Project should be turned in online via Blackboard on the due date which is May 6 in a pdf file. An Excel sheet with supporting computation should be provided in addition. I will gather peer feedback from all group members, which can have a bearing on the project score received by an individual student.

Zoom attendance is compulsory. Also Zoom participation is essential. Please “raise your hand” in Zoom often and have your doubts cleared. This is an essential element of online learning. Also I may be forced to cold-call those who do not participate on Zoom.

Retention of Graded Work

All graded materials will be retained on Blackboard for one year following the student’s receipt of their grade.

Zoom Class Etiquette

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

1. All Zoom sessions need access code which is provided in the Blackboard. Please do not share the access code without anyone.
2. Login on time for all synchronous class meetings. Stay logged in till the end of class.
3. Turn off your microphones except when participating. But keep the video on at all times.
4. Display both your first and last name during video conferencing and synchronous class meetings.
5. Try to be in a room without other people or other distractions.
6. Please participate actively. Speak up if you have a doubt. You can use the “Raise your hand” feature on Zoom if you wish.
7. Class attendance and participation is important in developing a coherent view of the materials covered in the course. Unless accommodated as described in (B) and (C) below, attendance and active participation is expected at the synchronous Zoom class sessions.
 - A. Students are expected to have cameras on throughout the synchronous Zoom sessions, and preferably use headsets or earphones to ensure the best audio quality. Please advise me if you have circumstances under which you will not be able to meet these expectations.
 - B. For students located in a time zone where the synchronous class sessions or exams fall outside the window of 7 a.m. to 10 p.m. in your local time zone, please contact me. You will not be penalized for not attending the live Zoom class sessions. The Zoom sessions will be recorded and posted on Blackboard, and you will be responsible for watching the recorded sessions. Exams and other synchronous assessments will be scheduled for students to be able to complete the assessment between 7 a.m. and 10 p.m. in your local time zone.
 - C. In addition, for any student who is unable to attend one or more of the synchronous Zoom sessions live, please notify the professor in advance. You may be required to complete a supplementary assignment as an alternate method of contribution to the class, if the instructor feels it is necessary for your understanding of the material covered.

Class Schedule

Date	#	Class Discussion	Readings/Assignments
Part I: Introduction			
Jan 21	1	<ul style="list-style-type: none"> - Course Introduction - Understanding Financial Statements - I 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT¹ 4-14 - <u>Slides</u>: Session 1 Class Slides (BB) - <u>Case</u>: “T-Shirt Example” (BB)
	2	<ul style="list-style-type: none"> - Understanding Financial Statements - II - Financial Reporting – I <ul style="list-style-type: none"> o 10K & Financial Statements 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 15-27 - <u>Slides</u>: Sessions 2-3 Class Slides (BB) - <u>Case</u>: “Articulating Financial Statements” (BB) - <u>Examine</u>: Honeywell 10K (BB)
Jan 28	3	<ul style="list-style-type: none"> - Financial Reporting – II <ul style="list-style-type: none"> o Analyzing Financial Statements 	<ul style="list-style-type: none"> - <u>Examine</u>: Honeywell 10K (BB)
	Part II: Accounting Analysis		
	4	<ul style="list-style-type: none"> - Introduction to Accounting Analysis - Income Statement Issues - I <ul style="list-style-type: none"> o Understanding Earnings & Earning Quality 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 91-97, 106-113 - <u>Slides</u>: Sessions 4-5 Class Slides (BB)
Feb 4	5	<ul style="list-style-type: none"> - Income Statement Issues – II <ul style="list-style-type: none"> o Non-recurring Items o Non-GAAP Earnings 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 338-361 - <u>Read</u>: Has Non-GAAP Reporting Become an Accounting Chasm? (BB) - <u>Case</u>: “Uber Technologies” (BB) - <u>HW # 1 Due Before Class</u>
	6	<ul style="list-style-type: none"> - Income Statement Issues - III - Deferred Taxes 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 378-385 - <u>Slides</u>: Sessions 6 Class Slides - <u>Examine</u>: Honeywell 10K (BB)
Feb 11	7	<ul style="list-style-type: none"> - Balance Sheet Issues – I <ul style="list-style-type: none"> o Liabilities 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 7-8 Class Slides
	8	<ul style="list-style-type: none"> - Balance Sheet Issues – II <ul style="list-style-type: none"> o Assets & Intangibles 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 7-8 Class Slides

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

Date	#	Class Discussion	Readings/Assignments
Feb 18	9	<ul style="list-style-type: none"> - Balance Sheet Issues – III <ul style="list-style-type: none"> o Consolidation 	<ul style="list-style-type: none"> - <u>Slides</u>: Session 9 Slides
	10	<ul style="list-style-type: none"> - Overview of Accounting Analysis – I - <u>Quiz # I</u> 	<ul style="list-style-type: none"> - <u>Case</u>: Apple Inc (BB)
Feb 25	11	<ul style="list-style-type: none"> - Overview of Accounting Analysis – II 	<ul style="list-style-type: none"> - <u>Case</u>: “Boston Chicken” (BB)
	Part III: Financial Analysis		
	12	<ul style="list-style-type: none"> - Overview of Financial Analysis - Analyzing Profitability – I <ul style="list-style-type: none"> o Rearranging Financial Statements 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 27-39, 460-485 - <u>Slides</u>: Sessions 12-13 Slides - <u>Case</u>: “Costco vs Walmart” (BB) - <u>HW # 2 Due Before Class</u>
Mar 4	13	<ul style="list-style-type: none"> - Analyzing Profitability – I <ul style="list-style-type: none"> o Three stage break-up of ROE 	<ul style="list-style-type: none"> - <u>Case</u>: “Costco vs Walmart” (BB)
	14	<ul style="list-style-type: none"> - Analyzing Profitability – II <ul style="list-style-type: none"> o Recap Case 	<ul style="list-style-type: none"> - <u>Case</u>: “Profitability Analysis in Different Industries” (BB)
Mar 11	15	<ul style="list-style-type: none"> - Analyzing Cash Flows – I <ul style="list-style-type: none"> o Understanding Cash Flows o Analyzing Cash Flows 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 417-437 - <u>Slides</u>: Sessions 15-16 Slides - <u>Case</u>: “Pfizer’s Cash Flows”
	16	<ul style="list-style-type: none"> - Analyzing Cash Flows – II <ul style="list-style-type: none"> o Analyzing Cash Flows 	<ul style="list-style-type: none"> - <u>Case</u>: “Pfizer’s Cash Flows”
Mar 18	17	<ul style="list-style-type: none"> - Analyzing Cash Flows – III <ul style="list-style-type: none"> o Recap Case - <u>Quiz # 2</u> 	<ul style="list-style-type: none"> - <u>Case</u>: “Cash Flow Analysis in Different Industries” (BB) - <u>HW # 3 Due Before Class</u>
	Part IV: Equity Valuation		
	18	<ul style="list-style-type: none"> - Equity Valuation – I <ul style="list-style-type: none"> o Theoretical Discussion 	<ul style="list-style-type: none"> - <u>Slides</u>: Sessions 18 Slides - <u>Group Names Due (Email Ayushi)</u>

Date	#	Class Discussion	Readings/Assignments
Mar 25	19	<ul style="list-style-type: none"> - Equity Valuation – II <ul style="list-style-type: none"> o Forecasting 	<ul style="list-style-type: none"> - <u>Browse</u>: Note on Forecasting Financial Statement Attributes (BB) - <u>Slides</u>: Session 19-20 Slides - <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)
	20	<ul style="list-style-type: none"> - Equity Valuation – III <ul style="list-style-type: none"> o Forecasting 	<ul style="list-style-type: none"> - <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)
Apr 1	21	<ul style="list-style-type: none"> - Equity Valuation – IV <ul style="list-style-type: none"> o Applying Valuation Models 	<ul style="list-style-type: none"> - <u>Slides</u>: Session 21-22 Slides - <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)
	22	<ul style="list-style-type: none"> - Equity Valuation - V <ul style="list-style-type: none"> o Relative Valuation 	<ul style="list-style-type: none"> - <u>Browse</u>: Note on Multiples (BB) - <u>Slides</u>: Session 21-22 Slides - <u>Case</u>: “Multiples Based Valuation”
Apr 8	23	<ul style="list-style-type: none"> - Equity Valuation – VI <ul style="list-style-type: none"> o Recap Case 	<ul style="list-style-type: none"> - Case: TBD
	Part V: Credit Analysis		
	24	<ul style="list-style-type: none"> - Credit Analysis – I <ul style="list-style-type: none"> o Credit Rating o Evaluating credit risk 	<ul style="list-style-type: none"> - <u>Browse</u>: TXT 542-585 - <u>Slides</u>: Session 24-25 Slides - <u>Case</u>: Amazon.Bomb (BB)
Apr 15	25	<ul style="list-style-type: none"> - Credit Analysis – II <ul style="list-style-type: none"> o Evaluating credit protections o Bankruptcy, Default prediction 	<ul style="list-style-type: none"> - <u>Read</u>: TXT 134-145
	26	<ul style="list-style-type: none"> - Credit Analysis – III <ul style="list-style-type: none"> o Recap Case - <u>Quiz # 3</u> 	<ul style="list-style-type: none"> - Case: TBD
Apr 22	WELLNESS DAY		

Date	#	Class Discussion	Readings/Assignments
Apr 29	27	<ul style="list-style-type: none"> - Credit Analysis – IV <ul style="list-style-type: none"> o Securitization 	<ul style="list-style-type: none"> - <u>Case: “New Century Financial” (HBS)</u> - <u>HW # 4 Due Before Class</u>
	Part VI: Course Wrap Up		
	28	<ul style="list-style-type: none"> - Course Wrap-Up - Final Exam Details 	

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:

Counseling and Mental Health - (213) 740-9355 – 24/7 on call
studenthealth.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 suicidepreventionlifeline.org

Provides 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 and Services (RSVP) - (213) 740-9355(WELL), press "0" after hours – 24/7 on call studenthealth.usc.edu/sexual-assault

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

Office of Equity and Diversity (OED)- (213) 740-5086 | *Title IX* – (213) 821-8298 equity.usc.edu, or titleix.usc.edu
Information about how to get help or help someone affected by 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. The university also prohibits sexual assault, non-consensual sexual contact, sexual misconduct, intimate partner violence, stalking, malicious dissuasion, retaliation, and violation of interim measures.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298
usc-advocate.symplicity.com/care_report

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office of Equity and Diversity | Title IX for appropriate investigation, supportive measures, and response.

USC Support and Advocacy - (213) 821-4710 uscса.usc.edu

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, or 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.

Office of Disability Services and Programs - (213) 740-0776 dps.usc.edu, ability@usc.edu.

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. 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. 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 (dsp.usc.edu) 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 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.