

## Course Description

The objective of this half semester class is to provide you with a framework for analyzing a business. 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 2021

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

**Class times 14105:** T/TH: 12:00-1:50pm

**Office Hours:** T/Th 4:00 – 5:00pm

**Class times 14106:** T/TH: 2:00-3:50pm

**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:** Suzanne Burzillo: [suzanne.burzillo@marshall.usc.edu](mailto:suzanne.burzillo@marshall.usc.edu)

**Course Duration:** *Tuesday August 24 to Tuesday October 12*

**Final Exam Date:** *Thursday, October 7, 2021*

**Presentations:** *Tuesday, September 28, 2021*

**Course Materials:** Available on **Blackboard**

**Zoom Meeting Link:** : Available on **Blackboard**

**Online Learning Platform:**

**Top Hat:** *12pm code 653379: 2pm code: 782501*

**Book:** Lundholm and Sloan, *Equity Valuation and Analysis*, 5<sup>th</sup> edition

## Prerequisites

As stated on USC's Schedule of classes, this course requires an introductory level knowledge of finance: 1 course from Foundations of Business Finance or Business Finance (BAUD 215 or BUAD 306); and knowledge of financial accounting: one course from External Financial Reporting Issues or Intermediate Accounting for Non-Accounting Majors (ACCT 370 or ACCT370B or ACCT 415).

## WHAT YOU WILL HAVE LEARNED BY THE END OF THE COURSE

1. Have a framework for analyzing a business.
2. Be familiar with the organization and disclosure of information reported in 10-K filings and the notes to the financial statements.
3. Understand the advantages and disadvantages of standardized data versus data reported by the company in their financial statements. You will know where to find financial statement data and analyst reports and have used FactSet.
4. Know how to adjust income for accounting distortions so that you can better understand the true earnings power of the company.
5. Understand the advantages and disadvantages of GAAP and non-GAAP earnings.
6. Be proficient at calculating and interpreting financial ratios. You will know how to use ratios to compare a firm to its competitors and to evaluate changes in ratios over time.
7. Be familiar with a financial analyst's company report and have produced your own forecast of future earnings.

## COURSE MATERIALS & REQUIREMENTS

**BOOK:** 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](http://amazon.com) or [createspace.com](http://createspace.com).



**Note:** The 5<sup>th</sup> Edition is the version I will refer to in class and in the syllabus.

**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 help analyze the firm for your group project.

## TEACHING & LEARNING ACTIVITIES

This is a half semester class so we will be moving quickly through material. Reading and understanding financial statements is contextual. You know how to record transactions (debits and credits) from prior accounting classes and in this class you use this skill in

reverse: to backward engineer what debits and credits took place to create the financial statements.

The class is case-orientated with the cases providing you with the financial statements of a company and you answering questions about the firm. It can be intimidating to be given a 70 page 10-K and told to answer questions with little or no guidance, but the objective of the class is for you to learn how to do this. Cases and homeworks help you practice this skill.

The Lundholm and Sloan website has **Webcasts** that are 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 and listen to them before and after class.

## ASSESSMENT

1. Participation via Top Hat and class discussion	15%
2. Individual Homework (2% each of 7)	14%
3. Group Cases (3 cases x 8% each)	24%
4. Group Forecasting Case and Presentation	12%
5. Final Exam (Thursday, October 7)	<u>35%</u>
Total	100%

## 1. PARTICIPATION VIA TOP HAT

We will be using **Top Hat Pro** ([www.tophat.com](http://www.tophat.com)) for class participation. You will be able to submit answers to in-class questions using Apple or Android smartphones and tablets, laptops, or through text message. When you register for your Top Hat account, you will be prompted to choose a subscription type. Top Hat is \$30 per semester or \$48 for the year. If you are enrolled in multiple courses that use Top Hat, you only need to purchase one subscription to access all of your courses for the semester/year. You have a two-week free trial period.

For instructions on how to create a Top Hat account and enroll in our Top Hat Pro course, please refer to one of the following resources:

- 1) The invitation sent to your school email address OR
- 2) Consult [Top Hat's Getting Started Guide](#) OR
- 3) Get started with this [2 minute video walkthrough](#)

If you already have a Top Hat account, then to be taken directly to our course:

12 pm class go to <https://app.tophat.com/e/653379>

2 pm class go to <https://app.tophat.com/e/782501>

If you are new to Top Hat, follow the link in the email invitation you received or

Go to <https://app.tophat.com/register/student>

Click "Search by school" and input the name of our school

Search for our course with the following join code:

12pm Class: 653379, 2pm Class: 782501

Should you require assistance with Top Hat at any time please contact their Support Team directly by way of email ([support@tophat.com](mailto:support@tophat.com)), the in-app support button, or by calling 1-888-

663-5491. Specific user information may be required by their technical support team when troubleshooting issues.

Top Hat is used to check class attendance and participation. There are 15 class sessions, class 1 (the first class) and class 14 (the exam) will not be scored in top hat. This leaves 13 sessions. You can miss two classes (or approximately 8 questions throughout the course) with no penalty to your score. This leaves 11 classes and if you attend and participate in these classes you will receive 11%.

The additional 4% of class participation will be based on:

- Putting a reasonable effort into answering discussion questions in Top Hat.
- Answering questions I ask during class and participating in case discussion.
- 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).

## 2. INDIVIDUAL HOMEWORKS

These are shorter exercises that I would like everyone to try. They are marked on the syllabus as (HW). These are graded 0 for not handing it in, 1 for incomplete work or shoddy work, or 2 for a good effort. There are two additional home works that can be used to improve your grade or make up for a missed homework.

## 3. GROUP CASES

You will be part of a group of students. The syllabus marks the group cases. All cases should be attempted and there is one make up case for groups who want to replace the lowest scoring case. 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 before class.

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 in class.

Group members may have different skills but it is important for all group members to work on the cases. Later in the course I will ask group members to let me know how the group worked out, so do not shirk on your duties and if you are having a crisis let me and/or your group know.

## 4. GROUP FORECASTING PRESENTATION

All groups will be required to forecast Apple's earnings for the year. Each group will provide a five-minute powerpoint presentation that will walk the class through their approach and decisions made to forecast the income statement, balance sheet, and statement of cash flows.

## 5. 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 ETIQUETTE

1. **Arrive at class on time** and avoid leaving early.
2. **Bring a name tent** to class (when in-person)
3. **On zoom** – please display your full name and keep your camera on, if possible.
4. **Use cellphones** for Top Hat but not to text friends.
5. **Use laptops** for in-class exercises, Top Hat, and to read financial statements, but not for catching up with social media posts or surfing the web.
6. 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.
7. **Sit with your group in class** (when in-person)



## CELL PHONE AND LAPTOP POLICY

Please bring your cell phone and/or laptop to class so that you can participate via Top Hat. Note that 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. Therefore, please be disciplined and stay focused on class materials.

## 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” and receive a refund is Thursday, September 2. The last day to drop with a “W” is Wednesday, October 6.

## 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](http://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, [policy.usc.edu/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](http://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 – 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) 740-9355(WELL), press “0” after hours – 24/7 on call*

[studenthealth.usc.edu/sexual-assault](http://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](http://equity.usc.edu), [titleix.usc.edu](http://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.

*Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298*

[usc-advocate.symplicity.com/care\\_report](http://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.

*The Office of Student Accessibility Services - (213) 740-0776*

[osas.usc.edu](http://osas.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 Campus Support and Intervention - (213) 821-4710*

[campussupport.usc.edu](http://campussupport.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](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, 2021)

**See Blackboard for the most up-to-date information on homework due dates**

### INTRODUCTION

#### WEEK 1

**Session 1: Tuesday, August 24**

**Introduction and navigating the annual report (Form 10-K)**

**READ BEFORE CLASS**

Chapter 1

**HOMEWORK DUE BEFORE CLASS**

None

### PART I: BUSINESS STRATEGY ANALYSIS

**Session 2: Thursday, August 26**

**Understanding the Business: Reading Apple Corporation's – 10-K**

**READ BEFORE CLASS**

Chapter 2

**HOMEWORK DUE BEFORE CLASS**

Analyzing Apple: Accessing Information and Business Strategy Q1-3 (HW 1)

Getting to know you sheet (HW2)

### PART II: ACCOUNTING ANALYSIS

#### WEEK 2

**Session 3: Tuesday, August 31**

**Link between the income statement and balance sheet**

**READ BEFORE CLASS**

Chapter 3

**HOMEWORK DUE BEFORE CLASS**

Analyzing Apple: Accounting Analysis 1: Questions 4-6 (HW 3)

Journal Entry review exercise (HW 4)

**Session 4: Thursday, September 2**

**Accounting Analysis:**

**Understanding the problems with standardized financial statements**

**Understanding how different accounting unravels over time**

**READ BEFORE CLASS**

Chapter 4

**HOMEWORK DUE BEFORE CLASS**

Analyzing Apple Accounting Analysis 2: Question 7 (HW 5)

Encom: Part 1 (HW 6)

**WEEK 3**

**Session 5: Tuesday, September 7**

**Accounting Analysis: Application**

**READ BEFORE CLASS**

Chapter 4

**HOMEWORK DUE BEFORE CLASS**

Zynga Case (Case 1)

**PART III: FINANCIAL RATIO ANALYSIS**

**Session 6: Thursday September 9**

**Ratio Analysis: Introduction to Dupont Framework**

**READ BEFORE CLASS**

Chapter 5

**HOMEWORK DUE BEFORE CLASS**

None

**WEEK 4**

**Session 7: Tuesday, September 14**

**Ratio Analysis: Application of the Advanced Dupont Framework**

**READ BEFORE CLASS**

Chapter 5 and 6

**HOMEWORK DUE BEFORE CLASS**

Analyzing Apple: Questions 8 - 11 (Case 2)

Apple versus Microsoft



**Session 8: Thursday, September 16**

**Ratio Analysis: Application of Margins and Turnover and Cash Flow Analysis**

**READ BEFORE CLASS**

Chapter 5

**HOMEWORK DUE BEFORE CLASS**

Analyzing Apple: Margins and Turns Questions 12 - 14 (Case 3)

*Apple versus Microsoft*

**PART IV: FORECASTING**

**WEEK 5**

**Session 9: Tuesday, September 21**

**Basics of forecast earnings**

**HOMEWORK DUE BEFORE CLASS**

Analyzing Apple: Predicting bankruptcy risk - Question 15 (HW 7)

**Session 10: Thursday, September 23**

**Details on Forecasting Earnings**

**WEEK 6**

**Session 11: Tuesday, September 28**

Case: Analyzing Apple: Questions 16 (Due: Case 4)

**Application: Class Presentations – Apple forecasts of 2020 EPS**

**PART V: Review and Applications**

**Session 12: Thursday, September 30**

**Review of Course and Discussion on Exam Firm's 10-K**

**WEEK 7**

**Session 13: Tuesday, October 5**

**Valuation Ratios: Chapter 11**

*The restaurant Industry (HW 8 – make up)*

**Session 14: Thursday, October 7**

**EXAM**

**WEEK 8**

**Session 15: Tuesday, October 12**

**Emerging Areas of Reporting and Analysis**

*Environmental, Social, and Governance, ESG and Sustainability Reporting*

<b>FALL RECESS OCTOBER 14 – 15</b>
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