

# USC Marshall

School of Business

ACCT 581

Financial Statement Analysis

Fall, 2022

Meets Tue. & Thu., 12:30pm-1:50pm in JKP 104

**Professor Richard Sloan**

**Office: Leventhal 125**

**Office Hours: 3.45pm to 5pm on Tuesdays and Thursdays**

**Zoom Link: (see Blackboard)**

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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 assumes a basic knowledge of topics covered in introductory accounting and finance classes.

## LEARNING OUTCOMES

Upon successful completion of this course, students will be able to:

1. Analyze a business and make sound financial decisions as stakeholders in the business (investor, creditor, officer etc.).
2. Assess how well the accounting methods used by a business reflect its underlying economic performance and quantify any major accounting distortions.
3. Use the information available in the financial statements to conduct a comprehensive ratio analysis of a business and evaluate its financial health.
4. Provide a plausible and internally consistent set of financial statement forecasts for a business through an appropriate forecast horizon and critically evaluate the forecasting models of others.
5. Estimate a plausible valuation for a business and critically evaluate the valuation estimates provided by others.

## COURSE MATERIALS

The textbook for the course is:

Russell Lundholm and Richard Sloan, **Equity Valuation and Analysis**, Fifth Edition, Independently Published (July 11, 2019).

ISBNs: Paperback: 978-1079983357; Digital: 978-1733498005

Paperback available at: <https://www.amazon.com/dp/107998335X>

Digital available at: <https://www.redshelf.com/search/?terms=9781733498005>

The book is 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. I will also place all cases and presentation materials on the course's Blackboard site. If you have any questions or need assistance with the Blackboard Course Pages, please contact the Marshall HelpDesk at 213-740-3000 (option 2) or [HelpDesk@marshall.usc.edu](mailto:HelpDesk@marshall.usc.edu). Alternatively, (213) 740-5555 will get you the USC ITS Help Desk.

We will also use the FactSet integrated data and financial software during the course. I will request access for all enrolled students at the beginning of the course and you should receive an email from FactSet with login instructions. If you join the course late or don't receive the email, you can request an account here: [https://advantage.factset.com/academic\\_idrequest](https://advantage.factset.com/academic_idrequest).

## GRADING

Your grade for the course will be determined as follows:

	Points	Percent
5 Case Write-Ups	25	25%
Exam	45	45%
Final Project	20	20%
Class participation:	10	10%
<u>Total</u>	<u>100</u>	<u>100%</u>

The case write-ups can be done teams 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 the 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. Students select their own teams and cases and we will organize team membership and case selection during our first meeting. Case write-ups should be turned in online via Blackboard before the start of class on their assigned date in a single document (preferably a letter-sized pdf).

The exam is open book and involves answering written questions on a company's financial statements. I will distribute the company's financial statements a week ahead of the exam.

The final project is a comprehensive analysis and valuation of a company. This is a team project

and you will use the same teams as you did for the cases. I will provide you with a list of companies to choose from and a template for this project in session 25. You will make preliminary presentations and receive feedback on your project during our final two sessions and the final project will be due during the final exam period.

Class participation is based on the quantity and quality of your contributions to classroom discussions. It is not anticipated that you should participate in every session, but you should aim to participate in at least 50% of our sessions. Most classroom discussions will center around the assigned cases that should be prepared in advance of their assigned class.

In order to inform the grading process, I will collect a peer evaluation form for group work. A copy of the form is provided at the end of this syllabus.

## **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 in class except when instructed to do so.
5. Show respect for one another by exhibiting patience and courtesy in exchanges. Using appropriate language and restraining from verbal attacks upon those whose perspectives differ from your own is a minimum requirement. Courtesy and respect are the norm for class participation.
6. 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.

## **COURSE OUTLINE AND ASSIGNMENTS**

### **PART I: INTRODUCTION**

#### **Session 1: Tuesday, August 23**

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

Reading: Lundholm and Sloan (LS) Chapter 1

### **PART II: BUSINESS STRATEGY ANALYSIS**

#### **Session 2: Thursday, August 25**

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

Reading: LS Chapters 2 and 3

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

### **PART III: ACCOUNTING ANALYSIS**

#### **Session 3: Tuesday, August 30**

##### **Accounting Analysis (I)**

Reading: LS Chapter 4

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

#### **Session 4: Thursday, September 1**

##### **Accounting Analysis (II)**

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

#### **Session 5: Tuesday, September 6**

##### **Accounting Analysis (III)**

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

#### **Session 6: Thursday, September 8**

##### **Accounting Analysis: (IV)**

Case: Diagnosing Accounting Quality at eHealth (\*) [[LS](#)]

#### **Session 7: Tuesday, September 13**

##### **Financial Analysis (I)**

Reading: LS Chapters 5 and 6

### **PART IV: FINANCIAL ANALYSIS**

#### **Session 8: Thursday, September 15**

##### **Financial Analysis (II)**

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

#### **Sessions 9: Tuesday, September 20**

##### **Financial Analysis (III)**

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

**Session 10: Thursday, September 22**

**Financial Analysis (IV)**

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

**Session 11: Tuesday, September 27**

**Financial Analysis (V)**

Case: Charles Schwab and the End of Trading Commissions (\*) [[LS](#)]

**Session 12: Thursday, September 29**

**Forecasting (I)**

Reading: LS Chapters 7 and 8

**PART V: FORECASTING**

**Session 13: Tuesday October 4**

**Forecasting (II)**

Case: Workshop on Forecasting for Apple

**Sessions 14: Thursday, October 6**

**Forecasting (III)**

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

**Session 15: Tuesday, October 11**

**Valuation (I)**

Reading: LS Chapters 9 and 10

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

**(Fall Recess: Thursday, October 13)**

**PART VI: VALUATION**

**Session 16: Tuesday, October 18**

**Valuation (II)**

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

**Session 17: Thursday, October 20**

**Valuation (III)**

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

**Session 18: Tuesday, October 25**

**Valuation (IV)**

Reading: LS Chapter 11

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

**Session 19: Thursday, October 27**

**Valuation (V)**

Reading: LS Chapter 12

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

**PART VII: SYNTHESIS, REVIEW AND APPLICATION**

**Session 20: Tuesday, November 1**

**Comprehensive Case**

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

**Session 21: Thursday, November 3**

**Analysis of Apple's 4<sup>th</sup> Quarter Results**

**Session 22: Tuesday, November 8**

**Exam Review Session**

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

**Session 23: Thursday, November 10**

**EXAM**

**Session 24: Tuesday, November 15**

**Sustainability Reporting and Analysis**

Reading: ESG at Apple ([Link to Apple's ESG Site](#))

**Session 25: Thursday, November 17**

**Project Overview**

**Session 26: Tuesday, November 22**

**Project Workshop**

**(Thanksgiving Break: Thursday November 24)**

**Session 27: Tuesday, November 29**

**Project Preliminary Presentations**

**Session 28: Thursday, December 1**

**Project Preliminary Presentations**

**Final Project Submission Deadline: Tue. Dec. 13**

## **OPEN EXPRESSION AND RESPECT FOR ALL**

An important goal of the educational experience at USC Marshall is to be exposed to and discuss diverse, thought-provoking, and sometimes controversial ideas that challenge one's beliefs. In this course we will support the values articulated in the USC Marshall "[Open Expression Statement](#)."

## **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 [Research and Scholarship Misconduct](#).

### **Students and Disability Accommodations:**

USC welcomes students with disabilities into all of the University's educational programs. The Office of Student Accessibility Services (OSAS) is responsible for the determination of appropriate accommodations for students who encounter disability-related barriers. Once a student has completed the OSAS process (registration, initial appointment, and submitted documentation) and accommodations are determined to be reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. The LOA must be given to each course instructor by the student and followed up with a discussion. This should be done as early in the semester as possible as accommodations are not retroactive. More information can be found at [osas.usc.edu](http://osas.usc.edu). You may contact OSAS at (213) 740-0776 or via email at [osasfrontdesk@usc.edu](mailto:osasfrontdesk@usc.edu).

### **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 for Equity, Equal Opportunity, and Title IX (EEO-TIX) - (213) 740-5086*

[eotix.usc.edu](http://eotix.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](https://usc-advocate.symplicity.com/care_report)

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

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

[osas.usc.edu](https://osas.usc.edu)

OSAS ensures equal access for students with disabilities through providing academic accommodations and auxiliary aids in accordance with federal laws and university policy.

*USC Campus Support and Intervention - (213) 821-4710*

[campussupport.usc.edu](https://campussupport.usc.edu)

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

*Diversity, Equity and Inclusion - (213) 740-2101*

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

Non-emergency assistance or information.

*Office of the Ombuds - (213) 821-9556 (UPC) / (323-442-0382 (HSC)*

[ombuds.usc.edu](https://ombuds.usc.edu)

A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

*Occupational Therapy Faculty Practice - (323) 442-3340 or [otfp@med.usc.edu](mailto:otfp@med.usc.edu)*

[chan.usc.edu/otfp](https://chan.usc.edu/otfp)

Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.



## ACCT 581: PEER EVALUATION FORM

This form seeks feedback on team members contributions to group work on cases and the final project. Please rate each team member (including yourself) as to whether you assess their overall contribution to group work to be **way below average (1)** , below average (2), average (3), above average (4) or **well above average (5)**.

	<b>Name</b>	<b>Rating from 1 to 5</b>
Yourself	_____	_____
Other Team Member 1	_____	_____
Other Team Member 2	_____	_____
Other Team Member 3	_____	_____
Other Team Member 4	_____	_____