

# USC Marshall

School of Business

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**ACC 581**

**Financial Statement Analysis**

**T Th 2 pm & 3.30 pm JKP 202**

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

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

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**PLEASE NOTE THIS IS LAST YEAR'S SYLLABUS. THE CONTENT FOR SPRING 2024 WILL BE VERY SIMILAR.**

## **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, 11<sup>th</sup> 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 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	15%
Quizzes	15%
Final Exam	25%
Group Project	30%
Class participation	<u>15%</u>
	<u>100%</u>

Homework is to be attempted individually. Five homework assignments will be assigned, out of which the best three 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. These quizzes will be closed-book with multiple-choice questions 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. Suggested group size is 4 members, but some flexibility will be allowed. You should form groups on your own and email me names of group members by Feb 2. Details about the project will be given later. Project should be turned in via Blackboard on the due date in a pdf file. An Excel sheet with supporting computation should be provided in addition.

Class participation is based on the regularity, extent and quality of participation in class.

### Retention of Graded Work

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

## NATURE OF INSTRUCTION AND CLASSROOM ETIQUETTE

- Instruction will be entirely through physical classroom sessions in the assigned venue (JKP 202) and during the assigned times (3.30-4.50 pm Tue & Thu). Student will not be allowed to attend through Zoom.
- Students who are sick should not attend class. I shall make alternative arrangement for these students to cover class material. Please email me if you have missed class due to sickness.
- Office hours and remedial sessions will be through Zoom. Frequency/timings will depend on student need and my availability. For office hours please email me to fix a time.
- Please attend all classes (unless unavoidable). Be on time and stay till the end of class.
- Please bring material specified in the schedule to class (I prefer printout but you could also bring an iPad where you can write notes). This will help you take notes in class.
- Please participate actively in class, especially during case discussions. Please clear doubts on the spot in class. This is the best form of learning.
- Please shut-off phones and other electronic devices during class time as a courtesy to other students.

## Class Schedule

Date	#	Class Discussion	Readings/Assignments
<b>Part I: Introduction</b>			
Jan 10	1	- Course Introduction	- <u>Browse</u> : TXT <sup>1</sup> 4-14 - <u>Slides</u> : Session 1 Class Slides (BB) - <u>Read</u> : Tesla Bears Are Sitting on \$15 Billion in Gains This Year (BB) - <u>Read</u> : Tesla's Record Loss This Year
Jan 12	2	- Understanding Financial Statements	- <u>Slides</u> : Sessions 2-4 Class Slides (BB) - <u>Case</u> : "T-Shirt Example" (BB) - <u>Case</u> : "Articulating Financial Statements" (BB)
Jan 17	3	- Financial Reporting – I o 10K & Financial Statements	- <u>Browse</u> : TXT 15-27 - <u>Slides</u> : Sessions 2-4 Class Slides (BB) - <u>Examine</u> : Honeywell 10K (BB)
Jan 19	4	- Financial Reporting – II o Analyzing Financial Statements	- <u>Slides</u> : Sessions 2-4 Class Slides (BB) - <u>Examine</u> : Honeywell 10K (BB)
<b>Part II: Accounting Analysis</b>			
Jan 24	5	- Introduction to Accounting Analysis – II o Accounting/Earnings Quality - Income Statement Issues - I o Concept of Earnings	- <u>Browse</u> : TXT 91-97, 106-113 - <u>Slides</u> : Sessions 5-7 Class Slides (BB) <b><u>HW # 1 Due By 10pm</u></b>
Jan 26	6	- Income Statement Issues – II o Income Statement Geography o Non-recurring Items	- <u>Browse</u> : TXT 338-361 - <u>Slides</u> : Sessions 5-7 Class Slides (BB)

<sup>1</sup> TXT refers to required text book. BB = Blackboard

<b>Date</b>	<b>#</b>	<b>Class Discussion</b>	<b>Readings/Assignments</b>
Jan 31	7	<ul style="list-style-type: none"> <li>- Income Statement Issues – III <ul style="list-style-type: none"> <li>o Non-GAAP Earnings</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Sessions 5-7 Class Slides (BB)</li> <li>- <u>Read</u>: Has Non-GAAP Reporting Become an Accounting Chasm? (BB)</li> <li>- <u>Case</u>: “Uber Technologies” (BB)</li> </ul>
Feb 2	8	<ul style="list-style-type: none"> <li>- Income Statement Issues – IV <ul style="list-style-type: none"> <li>o Recap</li> </ul> </li> </ul> <p><b><u>Last day to submit group names</u></b></p>	<ul style="list-style-type: none"> <li>- <u>Case</u>: Pfizer Non-Recurring Items (BB)</li> </ul>
Feb 7	9	<ul style="list-style-type: none"> <li>- Deferred Taxes</li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 378-385</li> <li>- <u>Slides</u>: Sessions 8 Class Slides (BB)</li> <li>- <u>Examine</u>: Honeywell 10K (BB)</li> </ul> <p><b><u>HW # 2 Due By 10pm</u></b></p>
Feb 9	10	<ul style="list-style-type: none"> <li>- Balance Sheet Issues – I <ul style="list-style-type: none"> <li>o Assets &amp; Intangibles</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 243-256</li> <li>- <u>Slides</u>: Sessions 9-11 Class Slides (BB)</li> <li>-</li> </ul>
Feb 14	11	<ul style="list-style-type: none"> <li>- Balance Sheet Issues – II <ul style="list-style-type: none"> <li>o Intercorporate Investments</li> <li>o Consolidation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 274-293</li> <li>- <u>Slides</u>: Session 9-11 Class Slides (BB)</li> </ul>
Feb 16	12	<ul style="list-style-type: none"> <li>- Balance Sheet Issues – III <ul style="list-style-type: none"> <li>o Liabilities</li> <li>o Shareholders Equity</li> </ul> </li> </ul> <p><b><u>Quiz # 1</u></b></p>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 166-177, 370-377</li> <li>- <u>Slides</u>: Session 9-11 Class Slides (BB)</li> </ul>
Feb 21	13	<ul style="list-style-type: none"> <li>- Accounting Analysis Wrap Up – I</li> </ul>	<ul style="list-style-type: none"> <li>- <u>Case</u>: “Boston Chicken” (BB)</li> </ul>
Feb 23	14	Accounting Analysis Wrap Up– II	<ul style="list-style-type: none"> <li>- <u>Case</u>: MakeBelieve Corporation (BB)</li> </ul>
<b>Part III: Financial Analysis</b>			
Feb 28	15	<ul style="list-style-type: none"> <li>- Overview of Financial Analysis</li> <li>- Analyzing Profitability – I <ul style="list-style-type: none"> <li>o Rearranging Financial Statements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 27-39, 460-485</li> <li>- <u>Slides</u>: Sessions 15-16 Slides</li> <li>- <u>Case</u>: “Costco vs Walmart” (BB)</li> </ul>

Date	#	Class Discussion	Readings/Assignments
Mar 2	16	<ul style="list-style-type: none"> <li>- Analyzing Profitability – II <ul style="list-style-type: none"> <li>o Three stage break-up of ROE</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Sessions 15-16 Slides</li> <li>- <u>Case</u>: “Costco vs Walmart” (BB)</li> </ul>
Mar 7	17	<ul style="list-style-type: none"> <li>- Analyzing Cash Flows – I <ul style="list-style-type: none"> <li>o Understanding Cash Flows</li> <li>o Analyzing Cash Flows</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 417-437</li> <li>- <u>Slides</u>: Sessions 17-18 Slides</li> <li>- <u>Case</u>: “Pfizer’s Cash Flows” (BB)</li> <li>-</li> </ul>
Mar 9	18	<ul style="list-style-type: none"> <li>- Analyzing Cash Flows – II <ul style="list-style-type: none"> <li>o Analyzing Cash Flows</li> </ul> </li> </ul> <p><b><u>Quiz # 2</u></b></p>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Sessions 17-18 Slides</li> <li>- <u>Case</u>: “Pfizer’s Cash Flows” (BB)</li> </ul>
Mar 14		SPRING BREAK	
Mar 16		SPRING BREAK	
Mar 21	19	<ul style="list-style-type: none"> <li>- Profitability &amp; Cash Flow Analysis- Recap I <ul style="list-style-type: none"> <li>o Recap Case</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Case</u>: TBD (BB)</li> <li><b><u>HW # 3 Due By 10 pm</u></b></li> </ul>
Mar 23	20	<ul style="list-style-type: none"> <li>- Profitability &amp; Cash Flow Analysis- Recap II <ul style="list-style-type: none"> <li>o Recap Case</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Case</u>: TBD (BB)</li> </ul>
Mar 28	21	<ul style="list-style-type: none"> <li>- Forecasting Financial Statements – I</li> </ul>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Session 21-22 Slides</li> <li>- <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)</li> </ul>
Mar 30	22	<ul style="list-style-type: none"> <li>- Forecasting Financial Statements - II</li> </ul>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Session 21-22 Slides</li> <li>- <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)</li> </ul>
<b>Part IV: Equity Analysis</b>			
Apr 4	23	<ul style="list-style-type: none"> <li>- Equity Valuation – I <ul style="list-style-type: none"> <li>o Theoretical Discussion</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Sessions 23-25 Slides</li> <li><b><u>HW # 4 Due by 10pm</u></b></li> </ul>
Apr 6	24	<ul style="list-style-type: none"> <li>- Equity Valuation – II <ul style="list-style-type: none"> <li>o Applying Valuation Models</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Sessions 23-25 Slides</li> <li>- <u>Case</u>: “Dell Inc.: Forecasting and Equity Valuation” (BB)</li> </ul>

Date	#	Class Discussion	Readings/Assignments
Apr 11	25	<ul style="list-style-type: none"> <li>- Equity Valuation - III               <ul style="list-style-type: none"> <li>o Relative Valuation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: Note on Multiples (BB)</li> <li>- <u>Slides</u>: Sessions 23-25 Slides</li> <li>- <u>Case</u>: “Multiples Based Valuation”</li> </ul>
Apr 13	26	<ul style="list-style-type: none"> <li>- Equity Valuation – IV               <ul style="list-style-type: none"> <li>o Value vs Price</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Slides</u>: Value vs Price</li> </ul>
<b>Part V: Credit Analysis</b>			
Apr 18	27	<ul style="list-style-type: none"> <li>- Credit Analysis – I               <ul style="list-style-type: none"> <li>o Credit Rating</li> <li>o Evaluating credit risk</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Browse</u>: TXT 542-585</li> <li>- <u>Slides</u>: Session 27-28 Slides</li> <li>- <u>Case</u>: Amazon.Bomb (BB)</li> <li><b><u>HW # 5 Due by 10pm</u></b></li> </ul>
Apr 20	28	<ul style="list-style-type: none"> <li>- Credit Analysis – II               <ul style="list-style-type: none"> <li>o Evaluating credit protections</li> <li>o Bankruptcy, Default prediction</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <u>Read</u>: TXT 134-145</li> <li>- <u>Slides</u>: Session 27-28 Slides</li> </ul>
Apr 25	29	<ul style="list-style-type: none"> <li>- Credit Analysis – III               <ul style="list-style-type: none"> <li>o Recap Case</li> </ul> </li> </ul> <p><b><u>Quiz # 3</u></b></p>	<ul style="list-style-type: none"> <li>- Case: “Carvana”</li> </ul>
Apr 27	30	<ul style="list-style-type: none"> <li>- Course Wrap-Up</li> <li>- Final Exam Details</li> </ul>	

## Statement on Academic Conduct and Support Systems

### **Academic Integrity:**

The University of Southern California is a learning community committed to developing successful scholars and researchers dedicated to the pursuit of knowledge and the dissemination of ideas. Academic misconduct, which includes any act of dishonesty in the production or submission of academic work, comprises the integrity of the person who commits the act and can impugn the perceived integrity of the entire university community. It stands in opposition to the university's mission to research, educate, and contribute productively to our community and the world.

All students are expected to submit assignments that represent their own original work, and that have been prepared specifically for the course or section for which they have been submitted. You may not submit work written by others or "recycle" work prepared for other courses without obtaining written permission from the instructor(s).

Other violations of academic integrity include, but are not limited to, cheating, plagiarism, fabrication (e.g., falsifying data), collusion, knowingly assisting others in acts of academic dishonesty, and any act that gains or is intended to gain an unfair academic advantage.

The impact of academic dishonesty is far-reaching and is considered a serious offense against the university. All incidences of academic misconduct will be reported to the Office of Academic Integrity and could result in outcomes such as failure on the assignment, failure in the course, suspension, or even expulsion from the university.

For more information about academic integrity see [the student handbook](#) or the [Office of Academic Integrity's website](#), and university policies on [Research and Scholarship Misconduct](#).

Please ask your instructor if you are unsure what constitutes unauthorized assistance on an exam or assignment, or what information requires citation and/or attribution.

### **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

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

[988 Suicide and Crisis Lifeline](#) - 988 for both calls and text messages – 24/7 on call

The 988 Suicide and Crisis Lifeline (formerly known as the National Suicide Prevention Lifeline) provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week, across the United States. The Lifeline is comprised of a national network of over



200 local crisis centers, combining custom local care and resources with national standards and best practices. The new, shorter phone number makes it easier for people to remember and access mental health crisis services (though the previous 1 (800) 273-8255 number will continue to function indefinitely) and represents a continued commitment to those in crisis.

[Relationship and Sexual Violence Prevention Services \(RSVP\)](#) - (213) 740-9355(WELL) – 24/7 on call  
Free and confidential therapy services, workshops, and training for situations related to gender- and power-based harm (including sexual assault, intimate partner violence, and stalking).

[Office for Equity, Equal Opportunity, and Title IX \(EEO-TIX\)](#) - (213) 740-5086

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

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 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) 740-0411

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

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

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) 442-1200 – 24/7 on call

Non-emergency assistance or information.

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

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) 442-2850 or [otfp@med.usc.edu](mailto:otfp@med.usc.edu)

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