

Financial Statement Analysis MAC 660-74 (7671) FALL 2021	
I. Professor	
Instructor Contact information	Carolyn M. Callahan, MACC, PhD Email: carolyn.callahan@louisville.edu Office: Harry Frazier Hall, Business School Phone: Office 502 852 4827 Mobile: 901 896 7177
Office hours	At your convenience on campus by prior email notice after class. *Virtual Tuesday 7:00PM-8:30pm and by Student/Group Initiated Zoom/Microsoft Teams Scheduled Appointment Face to face
Classroom	Harry Frazier Hall, Business School Room 226
II. Course Information	
Class time / Room	Ten (10) Class periods from 6:00PM - 9:30PM for the period of 08/11/2021 - 10/13/2021 . All classes meet on Wednesday in Room 226. If unable to meet on campus due to COVID-19 restrictions, you will be notified by the instructor. Please assume responsibility for reading your email (similar to employment scenario). Email from instructors can only be sent to a valid UofL account.
Required text	<p>No Textbook is needed. Also, all UofL Instructor lecture notes and formal typed handouts will be provided by the instructor and be posted to Blackboard after class lecture with a short email summary of the class coverage for your convenience. All enrolled in the course must use the URL: https://hbsp.harvard.edu/import/850884 to obtain and purchase the following Harvard Publications. In this course you must have your own copyrighted materials.</p> <p>With notice via email, the URL is now open. The contents of this course package are listed on page 3 for your convenience. We will use the following items on day 1 to discuss the group project due at the end of our session. Please be advised that the Harvard material must be purchased, may not be copied or shared with anyone in accordance with copyright law:</p> <ol style="list-style-type: none"> 1. Learning by the Case Method Product # 376241-PDF-ENG Helps students fully capitalize on the case method. Succinctly introduces the benefits, format, and process while offering lots of "how-to" advice. Emphasizes the need to identify the real issues and do rigorous objective analysis in the course of reaching a management decision and that there is typically more than one "right" answer. 2. Bruns, William J., Jr. "Introduction to Financial Ratios and Financial Statement Analysis." Harvard Business School Background Note 193-029, August 1992. (Revised September 2004.)

<p>Course description</p>	<p>For many years, business leaders have emphasized the need for universities to enhance business graduates' technical, communication, and critical thinking skills, to ensure that graduates can effectively handle unstructured projects; and learn to make and defend business recommendations. In order to succeed in business, professors should help improve students' understanding of the broader business environment and the drivers of corporate success. These business demanded aims are the goals of this class.</p> <p>These general course goals imply that a financial professional must have the ability to critically analyze and interpret financial information, as well as make accurate recommendations to diverse firm stakeholders (e.g. potential investors, management, labor union leaders and others). They must also communicate with external financial analysts and be able to contribute to the firm's business press releases.</p> <p>In addition to being exposed to these important skills, the skills acquired in this course will also be very helpful for those in preparation for CPA and CFA exam. Professional exams <i>now</i> include unstructured real-world simulations and case analyses to more accurately assess critical thinking skills demanded in the financial professions operating in our complex business environment of today.</p>
<p>Overview</p>	<p>The overall emphasis in this course is on the technical process of reviewing and analyzing a firm's financial statements (inclusive of disclosures, business and SEC regulatory news as well as firm press releases). This allows users to make economic valuation estimates and/or investment decisions. Valuation techniques will be a necessary component of this course. Thus, our course scope is aligned with auditing profession as well as professional investment firms. The course assumes executive level aspirations. The instructor will guide development, however <i>basic critical analyses skills</i> associated with an undergraduate business degree, are assumed and required.</p>
<p>Prerequisites</p>	<p>Appropriate standing in the Masters of Accountancy program.</p>
<p>General Learning Objectives</p>	<p>As required by business executives, upon completion of the course, the graduate student will be able to:</p> <ul style="list-style-type: none"> • To present accounting or finance information in a concise report format that is relevant to complex economic decisions required in your own business or in a corporate environment. • Understand how the overall recognition of the revenue/cost relationships impact business strategy, organizational goals and ultimately "true" firm profitability and cash flows. • Understand the advantages and limitations of financial statement analyses in today's globally competitive environment. • Understand the conflicting roles and objectives of the firm's various stakeholders (e.g. management, CFOs, creditors, investors, board of directors and others)

	<ul style="list-style-type: none"> • As a senior executive, you will be able understand the key questions to propose to others to evaluate presented forecasted analyses relevant to economic decisions, auditing engagements and investment decisions. • Evaluate firm valuation proposals proposed cost and revenue projections from divestiture or merger.
Final drop date	See: http://louisville.edu/calendars/academic/
Expectations of outside time required for class	To be successful you should allow 2 to 3 hours (at a minimum) for reading assignments, research and reviewing the guided lecture notes for each class session generally organized around learning an accounting/finance technique applicable to analyzing real investor techniques and decisions. <i>It is expected that you will meet with your full team to prepare group materials for the final group project and grade.</i> Do come to class prepared to learn but also to enjoy learning for the day! The goal is to get beyond accounting or finance calculations and develop executive skills that demonstrate industry knowledge and the various (and sometimes) conflicting goals of the firm's stakeholders. This business development will definitely enhance your career.

Contents Harvard Business School Pkg.	Author	File	Copyright
Learning by the Case Method John S. Hammond	John S. Hammond	PDF	Harvard
An Overview of Financial Statement Analysis: The Mechanics	Brandt Allen, Paul Simko	PDF	Harvard
Introduction to Financial Ratios and Financial Statement Analysis	William J. Bruns Jr.	PDF	Harvard
Costco Wholesale Corp. Financial Statement Analysis (A)	M. McNichols, Brian Tayan	PDF	Harvard
Solving the Puzzle of the Cash Flow Statement	J. H. Hertenstein, Sharon M. McKinnon	PDF	Harvard
Ford Motor Company: Basic Financial Ratios Individual Project	Li et al.	PDF	Harvard

III. Evaluation			
Grades will be based on the <u>percentage</u> of total points earned during the course, as follows and will be rounded up:			
Grading scale	A+ = 97 to 100 B+ = 87 to < 90 Below 70 = F	A = 93 to < 97 B = 83 to < 87	A- = 90 to < 93 B - = 80 to < 83
Comment	There are no exams in this course. The two (2) Projects (one individual and one group) required are designed to develop the desired executive abilities discussed above, and give students a richer understanding of the importance of the linkage of finance and accounting techniques as well as the usefulness of accounting disclosures in the valuation and investment decision-making process.	However, a portion of participation points will be earned by handing in the short assignments (related to our projects) required with instructions given one week in advance. No late assignments will be accepted (please see below).	
Grading scheme	<i>Grading component</i>	<i>Weighted percentage points</i>	
	Class attendance, Assigned Exercises and Oral Participation	10%	
	Harvard: Ford Motor Company: Basic Financial Ratios Due 9/28/2020 by 9pm	40%	
	The Group Final Financial Analyst Project* requires students to analyze trends in corporate performance, to evaluate corporate financial decisions, to discuss non-financial statement issues that would be important to potential investors by comparing two companies within an industry, and to make recommendations. A complete report is required for each group and is due October 12 by 9pm.	50%	

***The group project write-up is the final exam.**

IMPORTANT DATES:

1. **Individual Case Write up: Electronic Version due by 9 pm September 29, 2020**
2. **Final Group Project: Electronic Version due by 9 pm on October 12, 2020**
3. Similar to the business environment, no changes to this work will be accepted after submission on the due date. Please save time to carefully proof the final product.

More details will follow but you will send both deliverables via email or I will create an upload on Blackboard: carolyn.callahan@louisville.edu

STRUCTURE OF THE COURSE

This class will start with review and lecture of each concept and technique necessary to understand financial statement analyses. We will proceed in logical steps, so it is important to be in attendance for each class. The instructor will illustrate numerical problems and concepts on the board. It is important to take notes that enhance personal understanding.

VALUE OF THE COURSE

With a focus on developing a *hands-on approach* to understanding how financial statement analyses leads to *business and capital market valuation*, you will enhance your understanding the integration of finance, accounting and economics as research tools. This requires dealing with unstructured business problems.

After the course, you will:

- Have a framework for analyzing a business project. We will incorporate key elements that you have learned in your other classes and apply this knowledge systematically to value a business.
- Become familiar with the organization and disclosure of information reported in 10--K filings and the notes to the financial statements.
- You will have a detailed understanding of assets and liabilities reported on the balance sheet. You will also understand what assets and liabilities are **NOT** reported under accounting rules and determine the importance of these **off--balance sheet items** for understanding the value of a business.
- Be proficient at calculating and interpreting financial ratios. You will understand how to use ratios to compare a firm to its competitors and to evaluate changes in ratios over time. You will also know how to use these ratios to help forecast future profitability and firm resources.
- You will understand how accounting errors (either intentional manipulation by management or unintentional mistakes) impact reported income and the book value of equity.
- Learn about earnings announcements and the reporting of GAAP vs non--GAAP earnings numbers.
- Have a framework for forecasting future earnings and predicting the stock market's response.
- Be able to read and critically evaluate financial analyst reports of publicly listed companies.
- Understand major valuation models and how investor's make decisions.

COVID-19 GUIDELINES INSERT BY UNIVERSITY DEMAND Subject to change as this virus emerges.

As a Community of Care, all Cardinals are expected to abide by public health guidelines and regulations as published by the University. For Fall 2020, this includes:

- 1) wearing of cloth/paper masks (covering nose and mouth) when in shared indoor spaces like classrooms, or when appropriate physical distancing cannot be maintained. (Per the Code of Student Conduct, a student who refuses to follow these guidelines may be asked to leave a classroom)
- 2) staying home when sick—any UofL community member experiencing fever, consistent dry cough, or other symptoms of contagious disease should remain at home until symptoms subside or advised that it is safe to return by a medical professional.
- 3) practicing good hygiene and responsibility for one's own surrounding.
 - a. Cover sneezes and coughs
 - b. Wash hands frequently with soap and water when possible, use hand sanitizer when soap and water are not available
 - c. Wipe down frequently touched surfaces
 - d. Maintain 6 feet physical distancing when possible

Faculty have the responsibility to help students meet these recommendations by:

- 1) allowing for remote participation in class when necessary and practicable
- 2) allowing students absent for reason of illness to make up missed work and not penalize students for these absences
- 3) Notifying Physical Plant when classrooms are not adequately stocked with cleaning supplies and arranging classroom furniture or seating charts to maximize physical distancing where possible.

Draft COURSE SPECIFIC ASSIGNMENT SCHEDULE

DATE	DISCUSSION TOPIC	ASSIGNMENT DUE
<p>August 11</p> <p>CAMPUS</p> <p>ROOM 226</p>	<p>Introduction and Orientation Lecture -Course Overview by Instructor</p> <p>The first objective of this session is to set expectations for all other sessions inclusive of the individual project and the end of the term group project (write up and delivery). There are no exams in this course. It is a “hands on” real company approach to financial statement analysis—guided step by step with an instructor.</p> <p>A second objective is to answer questions AND provide any student information needed.</p>	<ul style="list-style-type: none"> • We will form teams in this class. • Starting this session, the instructor will provide topical background and spend 10-20 minutes each session briefly illustrating the technique or analyses that will be helpful to the next step in the learning process and completing your group project. • IDENTIFYING AND ASSESSING ANNUAL REPORTS AND SEC FILINGS from EDGAR • During the term, you will be allowed time at the end of each class period to meet with your team on the group project due at the end of the term. • The instructor will be available to answer general questions but the team is responsible for THE FINAL PROJECT and all team members will receive the same grade.
<p>August 18</p> <p>CAMPUS</p> <p>ROOM 216</p>	<p>Overview of Financial Statement Analysis</p> <p>Review: Articulation of financial statements and Project Work</p>	<p><i>Please read the syllabus carefully. It is our roadmap.</i></p> <p>Read and Study Lecture Notes #1 (BB)</p> <p>Assignment 1 Due During class (team Roster) in Format: WORD FILE WITH PROPER HEADING</p> <p>Indicate Teams (2) United States based publicly traded comparable companies (same industry) FOR END OF THE SEMESTER GROUP PROJECT</p> <p>*Final approval of selected firms by instructor to avoid duplicates and complicated firms that cannot be analyzed in ten class periods.</p> <p>Assignment 2: Read carefully pages 1-7 <i>Costco Wholesale</i> from course Pkg.</p>
<p>August 25</p>	<p>Focus on the Income Statement: Sustainable Earnings: Which portions of earnings are recurring vs. nonrecurring? Operating vs. non-operating? Continuing vs. discontinued?</p>	<p>Where do revenues, expenses, and other changes in value appear in the Financial statements? Does it matter?</p> <p>Comprehensive Income – What is it? How does it affect earnings “quality” and equity? What is the effect of discontinuing operations?</p>

		Assignment: Group Project Step 1 After Approval, before class --pull down 10ks and company reports for Group Project
September 1	Organization of Information in income statement and Cash Flow Financial Statements Income versus Cash Flows	<ul style="list-style-type: none"> • Cash Flow Statement – How is it laid out? How is it related to the income statement and to the balance sheet? • Analysis of Cash Flows – What measures are informative? Assessing cash availability. • Comprehensive Income – What is it? How does it affect earnings and equity? Assignment: Read <i>Solving the Puzzle of the Cash Flow Statement</i> from Course Pkg.
	Cash Flow Statement	How do changes in balance sheet accounts and income affect cash and cash equivalents? Cash flow from operations Cash flow from investments Cash flow from financing How do we use a cash flow statement?
September 8	Comparative Statements Common Size: Income Statement Balance Sheet	Read pages 1-4: <i>An Overview of Financial Statement Analysis</i> from Course Pkg. Assignment: Read pages 8-12 and Study <i>Financial statement on pages 15-16-Cosco Wholesale</i> from Course Pkg. In Class Exercise: Costco
	Historic Perspective: Comparative Statements Percentage Change Income Statement Balance Sheet	Assignment: Read Introduction to Financial Ratios and Financial Statement Analysis William J. Bruns Jr. again.
September 15	Core Financial Ratio Analysis: Liquidity Solvency Efficiency Profitability, Forecasting Introduction: Residual Income Model	Assignment: Read pages 8-10: Complete Costco exercise with group. Be prepared to discuss this case in class. In Class Exercise with Costco: Pro forma Forecasting and Valuation What is the residual income Model?
September 22	Valuation Models (cont'd) Discounted Cash Flow -Forecast of Future Cash Flows and the Weighted Average Cost of Capital Capitalization of Earnings:	When valuing a company as a going concern there are three main valuation methods used by industry practitioners: (1) DCF analysis, (2) comparable company analysis, and (3) precedent transactions. These are the most common methods of valuation used in investment banking, equity research, private equity, corporate

		development, mergers & acquisitions (M&A), leveraged buyouts (LBO) and most areas of finance
September 28	Individual Ford Case Due	Due 9/28/2020 by 9pm
September 29	Valuation Models and Comparable Multiples	Review: Residual income valuation (RIV) which is also known as residual income method or residual income model (RIM) is an approach to or method of equity valuation which properly accounts for the cost of equity capital. IndusInd Bank: Residual Income Valuation Case Due Electronically 9/30/2010 by 9pm: Carolyn.callahan@louisville.edu
October 6	Other Considerations MD & A and Earnings Quality Footnote Disclosures Governance	Reconciliation of Footnotes to the Statements Work on Wrap up of Group Project!
October 12	Group Project Due	Final Electronic Team Project Due by 9p on 10/12.
October 13 CAMPUS ROOM 226	Project Presentation Day Class Celebration	Team Presentations will require formal PowerPoint slides, though it is not necessary to dress for business on your presentation date. Hardcopy of Group Project and PowerPoint Due at beginning of class.



Dr. Callahan

Any assignment updates or questions? Please read your UofL email first then check with Blackboard or Dr. Callahan. Your UofL email will contain technical illustrations on a step by step basis as well as class summaries of course materials and information (after each class) that may be helpful. However, feel free to call or contact me if help is needed.

V. Additional Work Details	
Assignments	Please see the class schedule above for reading assignment(s) that need to be completed before each session. Normally we will review first then take on new materials. The class deliverables will be explained in detail in class. Instructor will send reminders via email.
Case Presentations/Final	<p>While more details (and handouts) will follow, see format below: Group Case Report 10-page limit (double spaced) on text with a reasonable number of appendices if needed)—General Basics to include in the project:</p> <p>Executive summary</p> <ul style="list-style-type: none"> • One to two paragraphs in length • On cover page of the report • Identify succinctly the major financial statement issues • Summarize the analyses and provide recommended plan of action for investors and include a brief justification of the recommended plan <p>Report Body:</p> <ul style="list-style-type: none"> • Brief Description of the firms and industry to provide background • Statement or description of the financial issues on a comparative basis • Include Financial Statement Analyses Details • Include Valuation Models and Techniques • Proposed Justification to investors to buy or sell • Summary
Attendance and participation	Attendance and active participation by the students (and instructor) are a critical component of this class . If you are unable to attend a session, please notify the instructor in advance when possible. I will do the same as a courtesy for you.
Blackboard	Blackboard and email will be used to communicate schedule changes, to post assignments and assignment due dates, and for keeping a rolling schedule. Please check your email and Blackboard frequently.

V1. Student Responsibilities / College and University Issues	
University of Louisville student conduct and responsibilities	This course will abide by University of Louisville student conduct and responsibilities with regards to ethics and related issues: http://louisville.edu/dos/students/policies-procedures/student-handbook.html#codeofstudentconduct

College of Business student conduct and responsibilities	This course will abide by College of Business student conduct and responsibilities with regards to ethics and related issues: http://business.louisville.edu/students/college-of-business-academic-dishonesty-policy
Religious holiday conflict policy	http://louisville.edu/diversity/university-policies
University policy on equal access	https://louisville.edu/disability/students
Severe weather	In case of severe weather classes may be cancelled up to a certain time of day. Please check the U of L website or call the University Information Center (852-5555). You can sign up for UofL Alerts at http://louisville.edu/alerts if you wish to receive text messages regarding cancelled or delayed classes.
Classroom policy	No cell phone use in class unless specified by the instructor for instruction.

TITLE IX/CLERY ACT NOTIFICATION (Required note by the University of Louisville to be included on every course syllabus)

Sexual misconduct (including sexual harassment, sexual assault, and any other nonconsensual behavior of a sexual nature) and sex discrimination violate University policies. Students experiencing such behavior may obtain **confidential** support from the PEACC Program (852-2663), Counseling Center (852-6585), and Campus Health Services (852-6479). To report sexual misconduct or sex discrimination, contact the Dean of Students (852-5787) or University of Louisville Police (852-6111).

Disclosure to **University faculty or instructors** of sexual misconduct, domestic violence, dating violence, or sex discrimination occurring on campus, in a University-sponsored program, or involving a campus visitor or University student or employee (whether current or former) is **not confidential** under Title IX. Faculty and instructors must forward such reports, including names and circumstances, to the University's Title IX officer.

For more information, see the Sexual Misconduct Resource Guide (<http://louisville.edu/hr/employeerelations/sexual-misconduct-brochure>).