

An Integrated Approach to Financial Statement Analysis

(Spring 26)

COURSE DESCRIPTIONS AND SYLLABUS

Your instructor

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Consultation hours: Please check our course site on Brightspace

COURSE DESCRIPTIONS

The essence of our course—Financial Statement Analysis—is how accounting choices made by a company will help/hinder our understanding of a business's core *activities*. Financial Statement Analysis builds upon Core Introductory Accounting. It aims to equip you with the skills to read, analyze, and interpret financial statement data to make informed business decisions regarding investment or resource allocation. Such skills are useful for executives, bankers, analysts, investment managers, and other users of financial information.

We typically use financial information to understand a company's operational and economic workings. However, uncovering and translating this information into actionable insights can be complicated. The course is organized into two parts to help you acquire such knowledge and skills:

Part I: Framework uncovering a company's value-creation activities

First, we need to understand the business environment and company-reported accounting information. We focus on accounting choices that will help/hinder our understanding of the business. In addition to reviewing the line items we learned from Core Introductory Accounting, we will also provide an overview of other line items in Part II.

We discuss the need to reformulate financial statements to assess management's value-creation activities. We will reformulate financial statements that are suitable for profitability analysis. We then analyze and interpret our profitability analysis (along with other common ratios) for companies from different industries. We finish part I with predictions of Return on Net Operating Assets (RNOA) for assigned companies of interest.

Part II: Adjusting and assessing specific line items

Part II will apply tools for adjusting and assessing specific line items to identify primary red flags for accounting quality issues and potential abuses. More specifically, what adjustments would an equity analyst make? We will implement tools to assess relative performance when comparable companies utilize different accounting methods (converting LIFO to FIFO, capitalizing R&D, comparing capitalized operating leases with finance leases).

We will explore advanced accounting topics such as revenue under Topic 606, revenue for long-term contracts, accounts receivable factoring, inventory for manufacturing firms, accounting for income taxes, accounting for debt and equity instruments, goodwill impairment test, leases, and others.

We organize the line items as follows:

- i. Revenue and Accounts Receivables
- ii. Operating Capacity
- iii. Fixed Claims
- iv. Estimated Claims
- v. Equity Claims

Throughout the semester, we will translate our knowledge of the business environment and the company's current status to form predictions about future financial performance and conditions. We will apply the tools and concepts via a series of class exercises. You will be assessed based on a mid-term exam, a final exam, online mini-tests, as well as a group project/presentation.

MANDATORY READING MATERIALS

Class notes are your mandatory reading for this course. Class notes are available electronically on LMS Brightspace.

RECOMMENDED OPTIONAL TEXT

Financial Statement Analysis and Valuation, 6th edition, by Peter Easton, Marry Lea McAnally, Gregory Sommers, and Xiao-Jun Zhang, published by Cambridge Business Publishers.

OTHER COURSE MATERIALS

You may access all other course materials, including class exercises, solutions to class exercises, and requirements for your group presentation on LMS Brightspace.

ASSESSMENTS

We calculate your final grade based on

Online Mini Tests	15%
Mid-Term Exam	30%
Group Project/Presentation	25%
Final Exam	30%

Description of Group Project/Presentation

Using our structured ratio analysis approach to assess management performance, identify red flag line items that need further investigation, and uncover meaningful trends that enable us to forecast future management performance.

ACADEMIC INTEGRITY

We take pride in our well-rounded education and approach our academics with honesty and integrity. Indeed, integrity is critical to all that we do here at NYU Stern. As members of our community, all students agree to abide by the [NYU Academic Integrity Policies](#) as well as the NYU Stern Student Code of Conduct, which includes a commitment to:

- Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
- Clearly acknowledge the work and efforts of others when submitting written work as one's own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.
- Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

STERN CODE OF CONDUCT

The Stern Code of Conduct and Judiciary Process applies to all students enrolled in Stern courses. Please see: <https://www.stern.nyu.edu/uc/codeofconduct>.

To help ensure the integrity of our learning community, prose assignments you submit to NYU Brightspace will be submitted to Turnitin. Turnitin will compare your submission to a database of prior submissions to Turnitin, current and archived Web pages, periodicals, journals, and publications. Additionally, your document will become part of the Turnitin database.

INTEGRITY OF CREDIT

All course syllabi must demonstrate compliance with the University's policy on assigning course credit hours. This course will meet 2x a week for 80 minutes for 13 weeks.

GENERAL CONDUCT & BEHAVIOR

Students are also expected to maintain and abide by the highest standards of professional conduct and behavior. Please familiarize yourself with Stern's Policy in Regard to In-Class Behavior & Expectations for Graduate and Undergraduate students.

(<https://www.stern.nyu.edu/portal-partners/registrar/policies-procedures/general-policies/code-conduct>)

(<http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>) and the NYU Student Conduct Policy

(<https://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/university-student-conduct-policy.html>).

GRADING GUIDELINES

Grading Information for Stern Core Courses

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty have adopted a grading guideline for core courses with enrollments of more than 25 students in which approximately 35% of students will receive an "A" or "A-" grade. In core classes of less than 25 students, the instructor is at liberty to give whatever grades they think the students deserve, while maintaining rigorous academic standards.

Grading Information for Stern Elective Courses

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty have agreed that for elective courses the individual instructor or department is responsible for determining reasonable grading guidelines.

STUDENT ACCESSIBILITY

If you will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Student Accessibility ([212-998-4980](tel:212-998-4980), mosescsa@nyu.edu) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the Moses Center for Student Accessibility, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation. For more information, visit the CSA website:

<https://www.nyu.edu/students/communities-and-groups/student-accessibility.html>

STUDENT WELLNESS

Our aim is for students to be as successful academically as they can, and to help them overcome any impediments to that. Any student who may be struggling and believes this may affect their performance in this course is urged to contact the Moses Center for Student Accessibility (see also the Student Accessibility section of this syllabus) at 212-998-4980 to discuss academic accommodations. If mental health assistance is needed, call the NYU's 24/7 Wellness Exchange hotline 212-443-9999. Furthermore, please approach me if you feel comfortable doing so. This will enable me to provide relevant resources or referrals. There are also drop in hours and appointments. Find out more at

<http://www.nyu.edu/students/health-and-wellness/counseling-services.html>

Graduate students can also reach out to the Academic Advising team at academicaffairs@stern.nyu.edu if you would like to receive more information or further support.

NAME PRONUNCIATION AND PRONOUNS

NYU Stern students now have the ability to include their pronouns and name pronunciation in Albert. I encourage you to share your name pronunciation and preferred pronouns this way. Please utilize this link for additional information: [Pronouns & Name Pronunciation](#)

RELIGIOUS OBSERVANCES AND OTHER ABSENCES

NYU's [Calendar Policy on Religious Holidays](#) states that members of any religious group may, without penalty, absent themselves from classes when required in compliance with their religious obligations. You must notify me in advance of religious holidays or observances that might coincide with exams, assignments, or class times to schedule mutually acceptable alternatives. Students may also contact religiousaccommodations@nyu.edu for assistance.

NYU Stern is committed to ensuring an equitable educational experience for all students regardless of identity or circumstances and strives to recognize the obligations its students have outside of Stern. Please review all class dates at the start of the semester and review all course requirements to identify any foreseeable conflicts with exams, course assignments, projects, or other items required for participation and attendance. If you are aware of a potential conflict, please contact me as soon as possible to discuss any potential conflicts to determine whether/how they can be accommodated.

LAPTOPS, CELL PHONES & OTHER ELECTRONIC DEVICES

The use of electronic devices (e.g., tablets or laptops), for the purpose of note-taking only, is permitted. However, students should make every effort to avoid distracting their classmates or disrupting the class, including arriving early and choosing a seat that is less distracting for peers.

INCLUSION STATEMENT

This course strives to support and cultivate diversity of thought, perspectives, and experiences. The intent is to present materials and activities that will challenge your current perspectives with a goal of understanding how others might see situations differently. By participating in this course, it is the expectation that everyone commits to making this an inclusive learning environment for all.

Tentative Class Schedule

Session/ Week	Topics	Mandatory Readings - Class Notes	Class Exercises
Part I - Framework to uncover a company's value-creation activities			
1. 2. 1/27 1/29	Introduction – Earnings Quality & Financial Statement Analysis <ul style="list-style-type: none"> - Business Activities and Articulation of Financial Statements - Earnings vs ΔCash and the concept of accrual accounting - Overview of Earnings Quality and Earnings Management - How accounting choices help/hinder our understanding of the business 	CN1	CE1.1 CE1.2 CE1.3
3. 4. 2/3 5. 2/5 6. 2/10 2/12	Review of Financial Statements <ul style="list-style-type: none"> - Review of line items from Core Introductory accounting and their earnings quality issues and common abuses - Overview of other line items to be covered in Part II 	CN2	CE2.1
7. 8. 9. 2/19 10. 2/24 2/26 3/3	Reformulation of Financial Statements <ul style="list-style-type: none"> - Why is there a need to reformulate the statements? - Implementation issues when reformulating statements - Profitability Analysis - Other ratio analysis (growth prospects and risk) 	CN3	CE3.1 CE3.2 CE3.3
11. 3/5 12. 3/10 13. 3/12 14. 3/24	Profitability Analysis and Interpretation (cont.) <ul style="list-style-type: none"> - Profitability analysis for a specific company 	CN3 (cont.)	CE3.4 CE3.5 CE3.6
15. 3/26 16. 3/31	Mid-Term Review & Take-Home Mid-Term (available to download on 3/26 after class)		
17. 4/2 18. 4/7 19. 4/9	Group Presentations Take-home mid-term due 4/14 before class		

Session/ Week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
Part II - Adjusting and assessing specific line items			
20. 4/14	Revenue and Accounts Receivable <ul style="list-style-type: none"> - When/what/how much to recognize - Percentage of Completion - Financial Statements for Construction Companies - Revenue Arrangements with multiple obligations - Quality of Reported Revenue - Gross vs Net Revenue - Accounts Receivable & Accounts Receivable Factoring - Change in Accounting Estimate vs Accounting Principle 	CN4	CE4.0 CE4.1 CE4.2 CE4.3 CE4.4 CE4.5 CE4.6 CE4.7 CE4.8
21. 22. 23. 4/16 4/21 4/23	Operating Capacity <ul style="list-style-type: none"> - Capitalize vs Expense - Inventory for Manufacturing Companies - Converting LIFO to FIFO - Property, Plant, and Equipment - Asset Impairment - Intangible Assets - Goodwill Impairment - Quality of Reported PP&E and Depreciation - Capitalizing R&D 	CN5	CE5.1 CE5.2 CE5.3 CE5.4 CE5.5 CE5.6 CE5.7
24. 25. 4/28 4/30	Fixed Claims <ul style="list-style-type: none"> - Investments in Debt Securities - Leases (lessee's perspective) - Capitalized Operating Leases vs Finance Leases 	CN6	CE6.0 CE6.1 CE6.2

Session/ Week	Topics	Mandatory Readings - Class Notes	Background Readings from Recommended Text
26. 5/5	Estimated Claims <ul style="list-style-type: none"> - Income Taxes - Permanent vs Temporary Difference - Deferred Tax Assets/Deferred Tax Liabilities - ETR vs Statutory Tax rate - Valuation Allowance - PRE Equity-related matters Forecasting Ratios from different industries	CN7 CN8	CE7.1 CE8.1 CE8.2
	Take Home Final Exam Available after class on 5/5 on Brightspace under Quizzes Due: 5/11 (Monday) at 11.59pm No extension will be granted.		