



Financial Statement Analysis (AMIS 4210) Spring 2015

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<i>Class Sessions:</i>	Tuesday/Thursday 11:10 AM – 12:30 PM, Schoenbaum Hall 0300
<i>Office Hours:</i>	Wednesday 1:30-2:30pm and by appointment

A. Course Description

This course is designed to improve your ability to use financial statements as part of an overall assessment of a firm's strategy and valuation. The primary focus is on analyzing financial statements with the goal of estimating an equity (share) valuation.

The methods of *fundamental analysis* will be examined in detail and applied in exercises and cases. Topics include, but are not limited to: models of shareholder value, traditional ratio analysis, a comparison of accrual accounting and discounted cash flow approaches to valuation, the analysis of profitability, growth and valuation generation in a firm, diagnosing accounting quality, forecasting earnings and cash flows, pro-forma analysis for strategy and planning, and the determination of price/earnings (P/E) and market-to-book (P/B) ratios.

The course is of interest to those contemplating careers in equity research, security analysis, consulting, public accounting, and corporate finance.

By the end of the course students should have answers to the following questions:

- How are fundamental values (or “intrinsic values”) estimated?
- How are business strategies analyzed in order to understand the value they create?
- What business activities determine value?
- How is “value created for shareholders” identified?
- How does one pull apart the financial statements to get at the relevant information for valuing equities?
- What is the relevance of cash flows? Of dividends? Of earnings? Of book values?
- How does ratio analysis help in valuation?
- How does profitability tie into valuation?
- What is growth? How does one analyze growth? How does one value a growth firm?
- How does one analyze the quality of financial reports?
- How does one deal with the accounting methods used in financial statements?

- How is financial analysis developed for strategy and planning?
- What determines a firm's P/E ratio? How does one calculate what the P/E should be?
- What determines a firm's market-to-book (P/B) ratio? How does one calculate what the P/B should be?
- How does one evaluate risk? For equity? For debt?
- How does one evaluate an equity research report?
- How does one trade on fundamental information?

Required Textbook

Financial Statement Analysis and Security Valuation, 5th edition, by Stephen Penman. The book is available at the bookstore and from online merchants. The Accounting Clinics found on the publisher's website are highly recommended as a refresher.

Publisher's Website: http://highered.mcgraw-hill.com/sites/0078025311/student_view0/

Lecture Notes

The *publisher's lecture notes* will be available via Carmen (carmen.osu.edu) for you to download if you so choose. **I do not distribute my slides.**

Restricted and Permitted Course Materials

Use of inappropriate study materials, including previously prepared solutions and copies of (or files containing) homework and/or test questions used during previous terms compromises the concept of equal opportunity for all students and therefore is prohibited. You may use materials that generally are available to all students provided that they maintain the spirit of the learning objectives. Materials distributed to students via Carmen or in class may be used only by students enrolled in this class this semester. You may not distribute any of these materials to any others at any time, or be subject to disciplinary action.

C. Course Grade

The following are the fundamental principles for grading in this course:

- It is possible to earn any of the official OSU grades, from A to E, in this course.
- Grading will be based on relative rather than absolute standards.
- Graded assignments are to be completed in teams. **You are not permitted to discuss your assignments or share your materials with other teams.** You will be asked at the end of the course to evaluate your teammates' contribution to graded assignments and the valuation project. Contact me directly if issues arise with a team member in the interim.

Course Grade Components

Grades for the course will be determined as follows:

Exam I	20%
Exam II	20%
Exam III	25%
Submitted Assignments	25%
Class Contribution	10%

These items are described below.

Submitted Assignments (25%): There will be 10 assignments to be turned in for grading throughout the term. Assignments must be completed in teams. **Please assemble your own team of up to 5 students during the first week of class.** Some group assignments may involve in-class presentations. The assignments are designed to (1) give you practice applying the related concepts and tools in a team setting and (2) prepare you for class discussion.

If your write-up reflects careful thought and effort, you will generally receive passing credit. If the assignment is partially completed, or not completed on time, or clearly lacks thought and effort, you will receive no credit for the assignment. I will not return graded copies of the assignments. I will post solutions after each assignment for you to review.

End-of-Chapter Problems: For each chapter, there is a set of recommended exercises that highlight the course material. These problems will not be collected or graded. They will, however, help you prepare for your assignments, exams and project. We will solve some of these problems in class. I highly encourage you to attempt the problems first and then review the solutions, which will be posted on Carmen following class.

Exams I and II (20% each): These exams will be held during regular class sessions. See the schedule below.

Exam III (25%): This exam will be held during the University’s final exam week in the regular classroom, as follows: Monday, May 4, 10:00-11:45AM. This exam will be comprehensive. No electronic devices, other than “simple” calculators, are permitted.

Class Contribution (10%): Class contribution will be based on how much you contribute to the classroom experience. Some ways in which you can contribute positively to class: Answering questions in class, asking thoughtful questions, relating relevant personal experience or current events to the day’s topic, participating in a group presentation. Some ways in which you can contribute negatively to class: not attending class, distracting me or other students, failing to be prepared for class, arriving late, repeatedly dominating class discussion.

To facilitate grading for class contribution, you should choose a seat for the entire term early in the term, and you should **display your namecard for each class.**

D. Standards of Conduct

Standards of Integrity and Conduct

Each student in this course is expected to be familiar with and abide by the principles and standards set forth in The Ohio State University's code of student conduct and code of academic conduct. You can view these documents or download pdf versions at:

http://studentaffairs.osu.edu/resource_csc.asp

<http://www.gradsch.ohio-state.edu/academic-and-research-misconduct.html>

It is also expected that each student will behave in a manner that is consistent with the Fisher Honor Statement, which reads as follows:

As a member of the Fisher College of Business Community, I am personally committed to the highest standards of behavior. Honesty and integrity are the foundations from which I will measure my actions. I will hold myself accountable to adhere to these standards. As a future leader in the community and business environment, I pledge to live by these principles and celebrate those who share these ideals.

Academic Misconduct

While most students have high standards and behave honorably, like every academic institution we sometimes encounter cases of academic misconduct. Academic misconduct will not be tolerated. It is the obligation of students and faculty to report suspected cases of academic and student misconduct. Students can report suspected violations of academic integrity or student misconduct to faculty or to a program's leadership. All reported cases of academic misconduct are actively pursued and confidentiality is maintained. According to University Rule 3335-31-02, all suspected cases of academic misconduct will be reported to the Committee on Academic Misconduct. **This includes receiving assistance on ANY graded assignment from any outside source or individual other than your teammates or instructor.**

F. Other Course Policies

Class preparation: Students are expected to read the assigned reading before class and attempt to solve the end-of-chapter exercises after class. Generally, my lectures will not cover all the assigned issues or go over all of the assignments in full detail. **You are responsible for all assigned reading, classroom discussion, and assigned exercises.**

First class assignment: No graded assignments are due. However, I expect that you will have read the assigned readings (Chapters 1 and 2).

Cold calling: On occasions, I will "cold call" students at random, especially when discussing cases. This is not intended to put you on the spot but to encourage class discussion and participation. Note that rewards are not given for the quantity of comments. It is the attempt to thoughtfully reason or to ask a pertinent question that is valued and adds to the classroom experience for everyone.

Classroom Etiquette: I expect you to be ready to start class on time and to remain in the classroom for the duration of the class. If you must come to class late or leave early due to extenuating circumstances, please inform me in advance and do your best to not be disruptive when you arrive/leave.

Please refrain from distracting behavior, such as cell phone usage (including texting), side conversations, eating, or using laptops. See “Ditch the Laptop.”

Re-grade policy: Grades are intended to reflect the overall quality of your performance. If you think your grade on an exam or assignment does not reflect the quality of your performance, notify me within one week after receiving a grade for your exam or assignment to set up an appointment to discuss your concerns in person. **I do not discuss grades over e-mail.** If a re-grade is requested in person, I reserve the right to review the entire project or exam; thus your grade could go up or down. For group work, every member of the group must agree to the re-grade request. There will be no grading appeals after the one-week deadline has passed.

Office Appointments: I am available to discuss issues of concern with you on an individual basis either after class or in my office. E-mail me to make an appointment for an office visit. So that I can be better prepared for your visit, please give me a general idea of the topic you’d like to discuss. I typically schedule 15 minute appointments; if you believe you will require more time, request a longer appointment.

Syllabus is subject to change: Please note that this syllabus is preliminary and that the timing of topics and the reading assignments are subject to change. Changes are made at my discretion but intended to optimize the quality and flow of the content. The most up-to-date version of the syllabus can be found on Carmen.

G. Course Outline

On the following page(s) is a tentative schedule of the topics and assignments to be covered for each week.

Unless otherwise noted:

- Textbook readings do not include the continuing case.
- The Accounting Clinics referred to throughout the text (found on the publisher’s website) are highly recommended as a refresher.
- Textbook readings do not include the end-of-chapter cases unless assigned.
- Recommended exercises will not be graded and do not need to be turned in. Solutions to recommended exercises will be posted after class.
- Graded assignments for the week, when assigned, are **due each Sunday by 11:59pm via Carmen’s Dropbox.** Please be sure to include the names of all team members on each submission. Submit **one file per group in PDF** (not Word) format that contains your legible, clear, and concise *summary* calculations and any qualitative responses. You should also submit your full set of *detailed* calculations in Excel. If I cannot follow your calculations, I cannot give you credit.

Financial Statement Analysis (AMIS 4210) – Syllabus, Spring 2015

Week	Chapter	Topics	Recommended Exercises	Graded Assignments	
1	January	13	1-2 Introduction to FSA	C1.9, E1.1-E1.3, E1.5, E1.6	M1.1
		15	1-2 FSA / Disclosure Environment	C2.4, E2.1, E2.2, E2.4, E2.6, E2.10	M2.1
2	January	20	3 Valuation Uses of Financial Statements	C3.9-C3.12, E3.1-E3.3, E3.5-E3.8	M3.1
		22	4 Simple Models	C4.2, E4.1-E4.4, E4.7, E4.8, E4.10, E4.12	
3	January	27	5 Pricing Book Values	C5.8, E5.1-E5.4	M5.3
		29	5 Finish Chapter 5	E5.7, E5.10	
4	February	3	Exam I (through Chapter 5)		
		5	6 Pricing Earnings	C6.1, C6.4-C6.7, C6.13, E6.1, E6.3-E6.4	
5	February	10	6-7 Finish Chapter 6; <i>skim</i> Chapter 7	E6.7-E6.10, E7.1-E7.4	E6.11, E6.12, M6.1, M7.2
		12	8 The Financial Statements	C8.1-C8.10, E8.1, E8.4-E8.6	
6	February	17	9 Shareholder's Equity	C9.1, C9.2, C9.6, E9.1-E9.3, E9.5	M9.1
		19	9 Finish Chapter 9	E9.7, E9.12	
7	February	24	10 Balance Sheet and Income Statement	C10.1-C10.4, E10.1, E10.5, E10.6, E10.8, E10.9	M10.1
		26	10-11 Finish Chapter 10; Cash Flow Statement	E11.1-E11.3, E11.7, E11.8, E11.11	
8	March	3	Exam II (Comprehensive)		

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Week	Chapter	Topics	Recommended Exercises	Graded Assignments
8	March 5	12 Analysis of Profitability	C12.3, E12.1-E12.3, E12.6	
9	March 10 12	12 Continue Chapter 12 12-13 Finish Chapter 12; Analysis of Growth and Sustainable Earnings	C13.1, C13.2, C13.6	E12.7, E12.9
10	March 17 19	Spring Break Spring Break		
11	March 24 26	13 Continue Chapter 13 13 Finish Chapter 13	E13.3-E13.7	E13.8, <u>M13.2</u>
12	March 31 April 2	14 The Value of Operations Minicase 13.2 Presentations	E14.1-E14.8, E14.11 C14.1, C14.3, C14.6	
13	April 7 9	14 Finish Chapter 14; <i>skim</i> Chapter 15 16 Full Information Forecasting and Valuation	E15.1-E15.2, E15.6-E15.7 E16.1-E16.3	E14.15-E14.17
14	April 14 16	16 Continue Chapter 16 16 Finish Chapter 16	E16.10-E16.12	M16.2
15	April 21 23	Wrap-Up / Review No Class		
May	4	Exam III (Comprehensive)		