ACCY 6106
FINANCIAL STATEMENT ANALYSIS
Spring 2016

ADMINISTRATION

Instructor
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Office Hours: Wed. 3-4 and by appointment

COURSE OBJECTIVES

This course helps you learn basic tools in analyzing financial statements. We cover the following four topics.

1. Financial analysis using ratios
2. Enterprise/Equity valuation techniques
3. Accounting analysis
4. Credit analysis and distress prediction

COURSE MATERIALS

Required Course Material:
A course packet (hereafter denoted “CP”).

Recommended (but not required) textbook:

PREREQUISITE
Financial Accounting (ACCY 6101, MBAD 6211 or equivalent)

STRONGLY RECOMMENDED
Introductory Finance (MBAD 6234 or equivalent)

REQUIRED SKILL SET

1. Familiarity with present value, cost of capital, and basic corporate finance theory.
2. Familiarity with elementary statistics (regression) and spreadsheet (MS Excel).
REFERENCE MATERIALS & ADDITIONAL READINGS  
(not required for the course)

- *Quest for Value*, by Bennett Stewart III. HarperBusiness.

BLACKBOARD

Various course materials will be available through the Blackboard.

COPY OF THE OVERHEAD

In each session, I will provide a copy of the overhead to help minimize note-taking. The overhead is not self-contained or self-explanatory.

CASE DATA

Download the following files to be used in problem sets: WAG2014v0.xls, Cashflow.xls, DebtRate.xls, AOL.xls; 10K reports of Walgreens and CVS.

CELL PHONES, TABLETS

This course is not for public viewing. Cell phone use and videotaping are prohibited unless approved in advance. You can use your laptop or tablets in class, but please do so without distracting other students. Those who intend to use tablets or laptops are encouraged to take back row seats.

PERFORMANCE EVALUATION

Final course grade will be based on (a) class participation, (b) homework, (c) a midterm and a pop quiz, and (d) a final case assignment. Grade allocations are as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Participation</td>
<td>15%</td>
</tr>
<tr>
<td>Homework</td>
<td>15%</td>
</tr>
<tr>
<td>Midterm</td>
<td>25%</td>
</tr>
<tr>
<td>Pop Quiz (1)</td>
<td>5%</td>
</tr>
<tr>
<td>Final case report</td>
<td>40%</td>
</tr>
</tbody>
</table>

Target final grade distribution is as follows (margin of error ±5%):

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>A</td>
<td>10%</td>
</tr>
<tr>
<td>A-</td>
<td>25%</td>
</tr>
<tr>
<td>B+</td>
<td>25%</td>
</tr>
<tr>
<td>B</td>
<td>25%</td>
</tr>
<tr>
<td>B-/C or below</td>
<td>15%</td>
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Mastery of financial analysis requires hands-on experience. Please familiarize yourself with the weekly assignments and perform computations on your own, before coming to the class. You will learn very little unless you prepare in advance.

1. **Homework**

Submit short reports of several problem sets to accumulate 9-point credit (points are indicated in the Class Schedule). The reports need not be typed, but should be legible. Choose any combination of 11 exercises (totaling 13 points) to complete the requirement. The reports should be submitted as a solo-authored product. You can discuss your work with other students but your reports cannot be identical to others’.

The purpose of the homework is to ensure that you make a significant effort to understand and resolve the case questions. As a result, homework will be graded on a pass-fail, and partial credit basis. About two or three-page write-up of your response to the assigned questions usually suffices. The homework is due at the beginning of the class session indicated in the Class Schedule.

- Due Dates for the homework are in the Class Schedule (indicated below), not the Course Packet.
- A paper copy should be submitted or faxed to me. E-mail submissions will be ignored.

2. **Exam**

An in-class, closed-book, closed-notes midterm exam will be held on March 8 (Tuesday section) & 9 (Wednesday section). You can bring one-page (8.5”x 11”) double-side note of your own. The exam will contain mostly multiple choice and short-Q&A type questions.

3. **Pop Quiz**

An in-class, open-book, open-notes pop quiz MAY BE administered during sessions 11-14. If you miss the quiz due to absence, you will get the lowest score among the students who took the quiz.

4. **Participation**

Offering insightful comments and questions and actively participating in discussions are positive factors. Conspicuous or sustained absence or disrupting class discussions is a negative factor. If you attend classes faithfully, but do not
participate in class discussions in a meaningful way, you will get a median grade.

5. **Final Report**

The final case is a comprehensive analysis of a company, to be announced about four weeks ahead of the due date. The task, which will be the same for all students, will be consistent with what we learn in class. The final case may be done *individually or as a group work* consisting of three or fewer students.
# CLASS SCHEDULE

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Topic</th>
<th>Textbook (5th ed.) Reading</th>
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</table>
| 1     | Jan. 12/13 | • Introduction  
        • Steps in financial analysis  
        • Overview                                           | Chapter 1 Skim Ch. 2        |

## Conventional Comparative Financial & Accounting Analysis

| 2     | Jan. 19/20 | • Conventional financial ratio analysis  
        • Income statement ratios  
        Ex. 1 Walgreens #1 (CP p. 37: 1.5 pt) Learn about Walgreens   | Read Chapter 5 Walgreens 10K |
| 3     | Jan. 26/27 | • Financial analysis  
        • Balance sheet/Efficiency ratios  
        Ex. 2 Financial Detective (CP p. 1: 1 pt)                  | Chapter 5 Q1, Q2            |
| 4     | Feb. 2/3   | • Financial analysis  
        • Balance sheet: ROIC – ROE  
        Ex. 3 Walgreens #2 (CP p. 39: 1.5 pts) Rudimentary ratio computation and analysis | Walgreens 10K Chapter 3 Q4 Chapter 5 Q7, 8, 10 |
| 5     | Feb. 9/10  | • Accounting differences/distortions  
        • The importance of EPS  
        • Cash vs. Earnings  
        Ex. 4 Cash Flow vs. Earnings (CP p. 9: 1 pt)              | Chapter 3 Q1 Chapter 5 Q3, 6 |

## Prospective Analysis

| 6     | Feb. 16/17 | Ex. 5 Walgreens #3 (CP p. 40: 1 pt) Adjusting for accounting differences  
        • Sales/EPS forecasting and Preparing multi-year projected financial statements | Skim Chapter 3 Read Chapter 6 |
| 7     | Feb. 23/24 | Ex. 6 Walgreens #4 (CP p. 41: 1.5 pt) Sales and EPS forecasts | Chapter 6 Q5, 6, 7 |
## Enterprise Valuation Techniques

<table>
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<tr>
<th>Date</th>
<th>Description</th>
<th>Details</th>
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| 8          | Mar. 1/2                                         | **Ex. 7**  
Walgreens #5 (CP p. 49: 1 pt)  
Projected financials  
| 9          | Mar. 8/9                                         | Midterm Exam  
(Closed Book: Covers Sessions 1-8)  
|            | Mar. 14-19                                      | Spring Break  
| 10         | March 22/23                                     | Enterprise/Equity valuation  
Conceptual Framework  
Read Chapter 7  
| 11         | March 29/30                                     | Enterprise/Equity valuation  
**Ex. 8**  
Walgreens #6 (CP p. 51: 1 pt)  
Valuation using  
Free cash flow method  
Chapter 7  
Q 1,3,8,9  
Chapter 8  
| 12         | April 5/6                                        | Enterprise/Equity valuation  
**Ex. 9**  
Walgreens #7 (CP p. 52: 1.5 pt)  
Valuation using  
Residual Income method  
Discussion of E.V.A.  
Chapter 8  
| 13         | April 12/13                                      | Accounting Analysis and Earnings Management  
**Ex. 10**  
America Online  
(CP: p 17: 1 pt)  
Chapter 3  
Q4, Q7  
Chapter 4  
| 14         | April 19/20                                      | Credit analysis and distress prediction  
**Ex. 11**  
Debt Rating of Unidentified Companies  
(CP p. 31: 1 pt)  
Chapter 10  
|            | April 25 (Monday 5PM)                            | Final case report due. |

## Accounting Analysis

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Details</th>
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</table>
| 13         | April 12/13                                      | Accounting Analysis and Earnings Management  
**Ex. 10**  
America Online  
(CP: p 17: 1 pt)  
Chapter 3  
Q4, Q7  
Chapter 4  
| 14         | April 19/20                                      | Credit analysis and distress prediction  
**Ex. 11**  
Debt Rating of Unidentified Companies  
(CP p. 31: 1 pt)  
Chapter 10  
| 14         | April 25 (Monday 5PM)                            | Final case report due. |