FINANCIAL STATEMENT ANALYSIS

**Instructor:** James M. Austin, CPA

Please note that the class will meet for only three hours instead of three and one half, but the three tests will be given on-line on Saturdays. See Class Schedule at the end of the Syllabus.

**Office:** New BA 456-G

**Phone:** Office (803) 777-4933   Cell (864) - 313-0821 - for emergency only. Please first email me with a request for me to call you and provide times that you will be available. Please include your phone number. I will make every reasonable effort to contact you as soon as possible.

**E-mail** jaustincpa@charter.net (please use this email)

**Office Hours:** I am generally available after lunch on Wednesdays and Thursdays until 12:00. It is recommended, but not required that you email me prior to stopping by to insure that I will be available when you arrive. I strongly encourage student to meet with me. In the past most all of my PMBA students utilized email when asking questions.

**Class Web Site:** [http://blackboard.sc.edu](http://blackboard.sc.edu)

**Objective**

This course focuses on the analysis of financial statements for profitability, cash flow and risk assessment and for firm and segment valuation.

Financial statement analysis is the application of analytical tools and techniques to financial statements and related data to derive a systematic and effective foundation useful in business analysis.

The following financial concepts will be utilized in the course:

- Time Value of Money
- Present Value
- Future Value
- Annuity Calculations
- Amortizations
- Bond Valuations
- Stock Valuations
- Weighted Average Cost of Capital Calculations
Class Approach to Learning

Over the summer, I "working" various portions of the course. My overall objective is to make the class time more interactive and enjoyable. The course material has been deemed by prior students to not be overly complex, but covers a lot of material.

My goal is to include more of the “pure” lecturer material in smaller taped modular sections. This should allow more time for class exercises and discussions.

Various students learn differently. I recommend and require viewing the tapings prior to the class where the material will be discussed. The goal is that it should enhance the student’s ability to discuss and contribute their ideas during class. At the end of this document is the time line with dates of when tests, the modular tapes are to reviewed and projects are due.

At the end of most of the taped presentations is one or more objective questions to be completed by the students. This is a quick way to test your understanding of the material.

The students’ answers to these questions will be linked to blackboard grading system. The results are part of the student’s overall grade. (5%). I may choose to not count any answers as correct if the student did not complete the questions prior to the class where material is to be discussed. The answers to the various question “embedded” in the tapes will be 5% of your final grade. I do reserve the right to elect not to include the results in your final grade, and to reallocate the 5% to other projects.

I welcome feedback related to this issue. The goal is to motivate students to learn the material prior to the class where the material is to be discussed and not to be overwhelmed by the amount of information to be learned days before the exams.

In the past, I would introduce a subject and provide examples and work through problems, etc. and then utilized the power point presentations as a review of the material discussed.

While some students may prefer this approach, I believe that it hampered class participation. On the other hand, by presenting the material first utilizing the modular and then working various problems, I have been able to discuss and answer specific questions that a student may have.

My goal with the new “tapings” is to introduce the material, but only cover in the taped lectures easy examples, while saving the more complex issues for the live presentations.

The material in the book is “Dry”. My goal is to cover the majority of the material in the book either in live or taped presentations. Therefore, some students may only use the book to strengthen their understanding or to clarify an issue that is unclear to them. All test material will only come from information that is presented in either taped or live presentation or specifically assigned projects.
I will also provide the “slide only” power point slides, so a student may opt to review the material prior to exams at a more rapid pace, without the instructor’s comments.

I have added slides to the presentations, that “ask questions” that should help students focus on what is the key information or answer to be learned from the following slides.

It is strongly recommended that you not only attend class but perform the study problems. **At the end of many classes a short test will be given.** The primary purpose of the test will be for you to see how much of the material that was covered that day you were able to retain. The actual test results will be reviewed to assist me in determining the level of understanding that was obtained for that day. **Your specific score will not affect your final grade.** The test will also provide you with an idea of the type of material that will be on the four exams. You can expect that at least some of the questions will be on the next exam. There will be questions on the exams that were not on the quizzes.

**Lecture Notes:**

The lecture slides provided with the text will be available on Blackboard. They comprise a compressed view of each chapter’s contents. In order to reduce your note-taking, lecture notes will be available on the class web-site. These lecture notes are a very poor substitute for actually attending class. I will use the power point slides primarily as a way to introduce material to be discussed in future classes. My lectures will sometimes be supported with slides and sometimes I will simply explain things to you.

Your job, then, becomes processing information ‘real-time’ and deciding which things are important enough to include in your hand-written notes. You cannot possibly write down all that I say. To succeed at this task, you must remain engaged during the class. Being able to sustain your focus on the matter at hand and process information as it arrives is a life skill that is extremely important to your career success. The process is part of your education in FINA 756.

**Homework**

I will suggest end-of-chapter problems and questions for you to work. We will review answers to most of the exercises. After a brief delay, solutions will be posted on Blackboard. You are not required to hand these problem sets in. Exam performance will make it obvious who among you approached the problems seriously.

**Exams**

All exams will be given **on line.** There will be 2 mid-term exams and one final. The first two will be available to be taken on Saturday – Jan 21 and the second one will be available on Saturday – Feb 11. Once you start the exam you will be expected to complete in one sitting. The exam will be available for at least 12 hours. Generally, I will allow students to take the exam starting on the prior Friday and also on the following Sunday. Other arrangements may be allowed, if requested. You should plan on allowing approximately two hours to take the exam. The final exam will be given on **February 25, 2017.** It is your responsibility to take the exams during the allocated times.
unless previous permission has been granted. Make-up exams are at my discretion. If I decide not to allow a make-up exam, then those points will be moved to the comprehensive final exam.

My prior class stated that they thought the exams were difficult. Generally, they did well on the discussion questions, average on the objective questions and poorly on the problems. I make a very strong effort to let you know what will be covered on each exam. I will provide you with a list of discussion questions and the respective answers. The discussion question on the exam will be select by me from the list you were given. As noted some, but not all of the objective questions will be covered on the practice test. I will specifically tell you what type of problems will be on each exam. I make every effort possibly for you to know what material to study for each exam. You are then expected to learn and know the information. Therefore, having a complete working knowledge of the material is critical to your success. Also, each chapter is approximately 60 pages and we will generally cover a chapter per class. There is a lot of information to study for each exam. As previously discussed, during class I will provide a strong insight into the type of problems that you can expect to see on the test. Students that simply memorized the approach to the specific problems discussed in class did not perform well on the test when the information provided was not exactly the same as the problem solved in class. Although the tests are online, you will need to know the material, because you will not have enough time to look up answers.

If you have questions during classes, you are strongly encouraged to ask them... Asking questions not only benefits you, but makes the class more enjoyable then just hearing me speak.

Please do not hesitate to stop by my office, if you need assistance or just so that I can put a name with a face. I enjoy meeting and getting to know my students.

Student projects:

There will be four projects/ exercises that you are expected to complete.

The first project is a budget problem that will require you to utilize your excel skills. This project will represent 5% of your final grade.

The Delta exercise /test is an exercise requiring you to answer on-line 20 questions related to Delta Airlines. The questions are in the content section on Blackboard and the answers will be submitted in the form of answers to the questions in an online test. This project will represent 5% of your final grade.

The second project involves preparing a budget and statement of cash flow. This project will represent 7% of your final grade.

The third project will be much more serious. This project will represent 15% of your final grade.

This project will involve you selecting a company and preparing a four-page report double spaced no smaller type than 11 fonts, including a recommendation to either buy the company’s stock or not to buy. (This semester it has been expanded from three pages to four pages, based on prior students’ feed-back.)
You will be expected to include the various concepts that we have discussed in class. For example, what are the major differences between their earnings and their cash flow from operations? How is the company financed? Are there any differences between net income and comprehensive income and what are the implications? What do you consider to be reoccurring earnings? How does your company compare with other companies in their industry? Are there any regulatory concerns? How do you expect the company to perform given the current economic environment? How will the company perform if interest rates rise? You may want to include various key ratios that you consider to be important measurements for your company, explaining what the ratio mean related to your company and its performance. These are just ideas to be considered, you can include other information and data. But remember, three pages of text is the maximum with a font size no less than 11. You are expected to include an excel worksheet as an attachment that shows how the various ratio that you used are computed. Also you are expected to include as a second attachment a copy of the balance sheet, income statement, statement of change, and statement of shareholder equity so that I can review. The attachments are not considered to be part of the four-page text. If you can summarize your review in less than three pages and cover the needed information then that is not only acceptable, but if comprehensive, will be rewarded.

As you work on your project, if you would like for you to meet with me that is fine. Please schedule a time for us to meet.

Once again, your report should not exceed more than four pages (no smaller than font size 11), excluding attachments. Part of the purpose of the project is for you to be able to summarize the results of your research. Neither I nor anyone else wants to read every fact that you may have discovered. I expect a well written report that is supported with only the most relevant information.

**Grading:**

1. **Exams**
   
   A. First mid-term 18%
   
   B. Second mid-term 18%
   
   C. Comprehensive Final Exam 27%
   
   (Remember the class projects are worth 37%.)

On the tests, being able to explain the results of your financial analysis is a key objective. There will be certain questions where there is no specific correct answer. You will be expected to take a position and then support your answers.

In addition, you are expected to participate in class. Also be prepared to answer any question that I may ask. If you end the semester with a grade that is border line as to receiving the next highest grade, then I will review your level of participation and then make a final decision on whether to reward you with the higher grade.
I assign letter grades according to the following scale:

90-100 = A
88-89  = B+
80-87  = B
78-79  = C+
70-77  = C
68-69  = D+
65-67  = D
0-64   = F

Required Materials


The book will supplement the information discussed in class and on the various slide modular.

Work Environment and Attendance Policy

Behavior Norms:
- Endeavor to arrive on time.
- Turn cell phones, beepers, etc off.
- In deference to those around you, refrain from talking.
- I will never end late on purpose, thus, don't pack up early.
- Remove trash and garbage at the end of class.

Attendance: Consistent with University Policy as stated in the Student Handbook.

Students are obligated to complete all assigned work promptly, to attend class regularly, and to participate in whatever class discussion may occur.

Absence from more than 10 percent of the scheduled class sessions, whether excused or unexcused, is excessive and the instructor may choose to exact a grade penalty for such absences.

The instructor's attendance policy should be ascertained by the student at the beginning of the semester. It is of particular importance that a student who anticipates absences in excess of 10 percent of the scheduled class sessions receives prior approval from the instructor before the last day to change schedule as published in the Master Schedule of Classes.

My goal is to have an effective way to monitor class attendance, given that many of you are "travel warriors", specific circumstance will be considered.

It must be emphasized that the "10 percent rule" stated above applies to both excused and unexcused absences.
**Academic Honesty**

An attempt to pass any examination by improper means is a most serious offense and will be treated with extreme prejudice. The aiding and abetting of a student in any dishonesty is likewise held to be a great breach of discipline.

**Rule of Academic Responsibility (Directly from the Student Handbook)**

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this rule or who knowingly assists another to violate this rule shall be subject to discipline.

This Rule is intended to prohibit all forms of academic dishonesty and should be interpreted broadly to carry out that purpose. The following examples illustrate conduct that violates this Rule, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Rule.

1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.

2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.

3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.

4. Unauthorized use of another person’s work without proper acknowledgment of source.

5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).

6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.

7. Conduct intended to interfere with an instructor’s ability to evaluate accurately a student’s competency or performance in an academic program.

An academic program includes any graduate and undergraduate course, independent study or research for academic credit, laboratory, internship, externship, clinical program, practicum, field placement, or other form of study or work offered in furtherance of the academic mission of the University. Academic work includes any work performed or assigned to be performed in connection with any academic program.

This Rule applies to all students of the University of South Carolina Columbia whether full-time or part-time.

A person’s knowledge or intent may be inferred from the circumstances of an alleged violation.
Whenever a student is uncertain as to whether conduct would violate this Rule, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor prior to engaging in such conduct.

**Some helpful web sites:**

- **Study Finance**  [http://www.studyfinance.com/](http://www.studyfinance.com/)
- **Teach Me Finance**  [http://www.teachmefinance.com](http://www.teachmefinance.com)

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**FINA 756**  
**Professors Detail Syllabus**

**Jan 11, 2017**  
**Class one**  
Professor Bio  
Syllabus & dates  
Anglostar presentation  
Asset / Liability exercise  
Financial problem 1-6  
Project 1

**Jan 12-17, 2017**  
**Outside of class Modules**

**Module 1**

<table>
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<tbody>
<tr>
<td>A Users of Financial Statements</td>
<td>14</td>
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<tr>
<td>B Process to Determine Intrinsic Value</td>
<td>8</td>
</tr>
<tr>
<td>C Business Activities to Consider</td>
<td>10</td>
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<tr>
<td>D Data Available to Analyst</td>
<td>21</td>
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<tr>
<td>E Analyst Preview, Efficiency of Market and Book Organization</td>
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**Module 2**

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<td>A Environmental Factors</td>
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<tr>
<td>B Attributions and Limitations to Statements</td>
<td>6</td>
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<tr>
<td>C Key Accounting Concepts</td>
<td>26</td>
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<tr>
<td>D Accounting Analysis</td>
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### Module 3

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<tbody>
<tr>
<td>A</td>
<td>Liabilities</td>
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<tr>
<td>B</td>
<td>Stockholders’ Equity</td>
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<td>C</td>
<td>Off Balance sheet items</td>
<td>14</td>
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<td>D</td>
<td>Commitments and Contingencies</td>
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<td>Operating Compared to Capital</td>
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<td>Converting Operating to Capital</td>
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<td>Financial Analysis of Operating vs Capital</td>
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### Module 4

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<td>Asset introduction</td>
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<td>B</td>
<td>Inventories</td>
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<td>C</td>
<td>Long-Lived Asset</td>
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<td>D</td>
<td>Intangible Assets</td>
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**Jan 18, 2017**  
**Class two**
- Project 1 class assistance
- Discussion of chapter 1 – 4
- Stock dividends
- Par value
- Reverse splits
- Contingencies – law suites
- Trust preferred securities
- Lifo / Fifo conversion
- 10-K exercise
- Break
- Leases

**Jan 20, 2017**  
**Project 1 Due**

**Jan 21, 2017**  
**Test**
Jan 22-24, 2017  **Outside of class Modules 7**

**Module 7**
- A  Relevance of Cashflow  4
- B  Cashflow by Activity  6
- C  Preparing a Cashflow Statement  12
- D  Constructing a Cashflow Statement  9
- E  Direct Method of Cashflow  6
- F  Interpreting Cashflow  8
- G  Alternative to Cashflow  5
- H  Free Cashflow  4
- I  Cashflow Limitations and Validations  8

Jan 24, 2017  **Delta Project – Test**

Jan 25, 2017  **Class three**
- Cash flow presentation - HG
- Exercise 1
- Cash flow exer,2 -in direct
- Discuss project 2

Jan 26-31  **Outside Modular - 5**

**Module 5**
- A  Investment Securities  30
- B  Equity Method of Accounting  14
- C  Business Combinations  32
- D  Derivative Securities  13

Feb 1, 2017  **Class Four**
- Questions on deferred tax
- Debt method – review
- Equity accounting
- Consolidation
- Business combinations
- Goodwill
- Derivative securities
- Foreign Currency transactions
- Fair value option
Feb 5, 2017  Project 2 Due

Feb 6-7, 2017  Module – 6 income measures

Module 6
A  Income Measures     16
B  Non-recurring items  26
C  Revenue Recognition  9
D  Deferred Charges     7
E  Employee Benefits    11
F  Interest Expense     1
G  Income Taxes         11
                        81

Feb 8, 2017  Class Five
Income measures
Stock options
Nonrecurring
Revenue recognition
Deferred charges
Interest
SFAB 160
Expensing options
Break
Practice test 6
Formulas

Feb 11, 2017  Test

Feb 12-14, 2017  Outside Modules

Module 8
A  Return on investment - Overview     13
B  Return on Operating Assets          33
C  Return on Common Equity             6
D  Profit Margin and Turnover          5
Feb 15, 2017  **Class Six**
Review operating / financing  
Ratio exercise  
Ratio interruption  
Discuss project 3  
Return on invested capital  
Net trade cycle  
Return on common equity  
Peg ratio  
Break  
Market valuation

Feb 19, 2017  **Project 3 Due**

Feb 20-21, 2017  **Outside Modules – 3-F**
Pension

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<th>Overview</th>
<th>Basic Elements in Defined Pension Plan Expenses</th>
<th>Pension Plan Costs</th>
<th>Changes in Plan Assumptions</th>
<th>Practice Example</th>
<th>Other Employee Benefits</th>
<th>Pension Plan Accounting and Analysis</th>
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Feb 22, 2017  **Class Seven**
Pension  
What if problem  
Review for exam

Feb 25, 2017  **Final exam**