

Spring 1- 2019

FINA 756

Wednesday  
All Sections 6 PM to 9 PM

## 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. 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](mailto:jaustincpa@charter.net) (please use this email) Please put FINA 756 in heading.

**Office Hours:** I am available on Wednesdays from 10:30 to 4:30. Limited time on Tuesday and Thursdays from 10:30 until 12:00. It is recommended, but not required that you email me prior to stopping by to ensure that I will be available when you arrive. I strongly encourage student to meet with me. In the past most of my PMBA students utilized email when asking questions. Other hours may be arranged if requested.

**Class Web Site:** <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**

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 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%). 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.

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 over-whelmed 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 “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 the key information is 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 three 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.

### **Discussion questions**

Selected discussion questions and answers for each chapter will be posted on blackboard. I will include certain questions from these lists on each exam. The questions on the exam will require you to provide your opinion on the issue asked. Simply copying the provided answer will not be acceptable.

### **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 26 and the second one will be available on Saturday Feb 16.** 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 **March 2, 2019.** 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 yours 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 means related to your company and its performance. These are just ideas to be considered, you can include other information and data. But remember, four 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:**

#### **I. 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

### **Materials**

*Financial Statement Analysis, 10th or 11<sup>th</sup> editions, K. R. Subramanyam and John J. Wild, McGraw-Hill Irwin, ISBN 13: 978-07-337943-2; ISBN-10: 0-07-337943-3.*

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

*Some students in the past, choose not to buy a book, since the material is discussed in detail in the various modular. The decision as to whether to purchase a book is the sole responsibility of the student.*

### **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.

### **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/>  
 Teach Me Finance <http://www.teachmefinance.com>  
 TI BII Plus Calculator <http://www.studyfinance.com/lectures/fincalc/index.mv>  
 Money 101 <http://money.cnn.com/pf/101/index.html>

FINA 756  
**Professors Detail Syllabus**

Jan16, 2019

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

Jan 16-23, 2019

**Outside of class Modules**  
**(Ideally modular 1 and 2 prior to Jan.16, 2019)**

	<b>Time</b>
<b>Module 1</b>	
A Users of Financial Statements	14
B Process to Determine Intrinsic Value	8
C Business Activities to Consider	10
D Data Available to Analyst	21
E Analyst Preview, Efficiency of Market and Book Organization	14
	67
<b>Module 2</b>	
A Environmental Factors	27
B Attributions and Limitations to Statements	6
C Key Accounting Concepts	26
D Accounting Analysis	23
	82



**Module 3**

A	Liabilities	8
B	Stockholders' Equity	28
C	Off Balance sheet items	14
D	Commitments and Contingencies	11
		<hr/>
		61
		<hr/>
E	Leases	
E-1	Overview	9
E-2	Illustration	6
E-3	Operating Compared to Capital	7
E-4	Converting Operating to Capital	9
E-5	Financial Analysis of Operating vs Capital	10
		<hr/>
		41
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**Module 4**

A	Asset introduction	15
B	Inventories	32
C	Long-Lived Asset	24
D	Intangible Assets	11
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		82
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Jan 23, 2019

**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  
Leases

Jan 25, 2019

**Project 1 Due**

Jan 26, 2019

**Test**

Jan 28-30, 2019

**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

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62

Jan 30, 2019

**Class three**

Cash flow presentation – HG  
Exercise 1  
Cash flow exercise – Direct to indirect

Feb 3, 2019

**Delta Project**

Feb 4-6, 2019

**Module 5**

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

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89

Feb 6, 2019

**Class Four**

Questions on deferred tax  
Debt method – review  
Equity accounting  
Consolidation  
Business combinations  
Goodwill  
Derivative securities  
Foreign Currency transactions  
Fair value option

Feb 9, 2019

**Project 2 Due**

Feb 10-12, 2019

**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
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		81

Feb 13, 2019

**Class Five**

Income measures  
Stock options  
Nonrecurring  
Revenue recognition  
Deferred charges  
Interest  
SFAB 160  
Expensing options  
Break  
Practice test 6  
Formulas

Feb 16, 2019

**Test**

Feb 17-19, 2019

**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
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Feb 20, 2019	<b>Class Six</b>		
	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 26, 2019	<b>Project 3 Due</b>		
Feb 26-27, 2019	<b>Outside Modules – 3-F</b>		
	Pension		
	F Pensions		
	F-1 Overview		15
	F-2 Basic Elements in Defined Pension Plan Expenses		14
	F-3 Pension Plan Costs		27
	F-4 Changes in Plan Assumptions		16
	F-5 Practice Example		7
	F-6 Other Employee Benefits		5
	F_7 Pension Plan Accounting and Analysis		7
			<hr/> 91 <hr/>
Feb 27, 2019	<b>Class Seven</b>		
	Pension		
	What if problem		
	Review for exam		
March 2, 2019	<b>Final exam</b>		