RUTGERS UNIVERSITY
Rutgers School of Business—Camden

Financial Statement Analysis
Accounting 565 – Section 01
Spring 2016

Instructor          Professor Edward M. Werner
Email:         emw131@rutgers.edu
Office:        Business & Science Building (BSB) 215
Phone:        (856) 225-6978
Hours:        TH 5:00 - 6:00pm or by appointment

Lecture Schedule
6:00pm – 8:40pm Thursdays in BSB 117

Required Text

You are strongly encouraged to read The Wall Street Journal (and/or similar business publications) to assist in acquainting yourself with financial markets topics.

Course Content and Objectives

The focus of this course is on analysis and interpretation of financial statements. This includes, among other topics, profitability and returns analysis, operating versus non-operating performance evaluation, credit analysis (liquidity and solvency), reformulation of financial statements, forecasting of financial statements, analysis of off-balance-sheet financing, equity valuation techniques, assessing earnings quality and earnings management, and credit ratings of debt securities.

The major emphasis of this course is on evaluation, interpretation, and use of accounting data for decision making, yet explicit focus is on the analysis of accounting measurements and disclosures. This entails a focus on current financial accounting reporting requirements, with consideration of their strengths and weaknesses. Such knowledge will enable you to participate in and manage important business decisions drawing on (reformulated) financial statements and footnote disclosures.

Key objectives of this course are: (1) to provide an understanding (including limitations) of accounting measurement and reporting for analysis purposes, (2) to instill an appreciation for the crucial separation of operating and non-operating activities and their implications, (3) to reformulate GAAP-based financial statements and adjust financial statement amounts for more effective financial statement analysis and valuation, (4) to forecast financial statements over multiple years, and (5) to consider equity valuation modeling techniques.

Method of Instruction

Class sessions entail a mixture of lecture, as well as class and team problem analysis and discussion. The content of each class presumes and expects that each student has carefully studied the assigned reading and completed all assignments. Completing, or at least attempting, all assignments by their due dates is essential for complete success in the course. Lectures emphasize major topics and readings, yet each
student is responsible for all assigned materials. Students are encouraged to ask questions and to stimulate discussion on topics that are difficult to understand. It is important that each student be able to effectively articulate their understanding from analyses of financial statements.

This approach should be key to your continuous learning goals generally as well as to your achievement of our course objectives. To get the most out of our course (and life, generally), you must be active participants in your learning process.

**Class Attendance**

Regular class attendance is important. You are expected to attend class and contribute to a quality discussion. Individual and team discussions of the materials (such as readings and assignments) are a significant part of the learning process. If unforeseen circumstances prevent attendance at a class meeting, please recognize that each student is responsible for all materials discussed, handouts distributed, assignments covered, and announcements made.

**Coursework and Grading**

Grades are determined on the basis of your relative class performance over a cumulative point total. The allocation of point totals consists of the following components:

- Participation: 10%
- Quizzes: 10%
- Project: 25%
- Midterm Exam: 25%
- Final Exam: 30%

Total: 100%

It is a simple fact that your success in this course is highly correlated with your critical thinking and problem solving ability, your familiarity with the terminology, and your ability to communicate both effectively. Therefore, I strongly suggest that you work through all of the homework assignments early and often to gain mastery over the topics we will cover even though I will not collect assignments for grading. If you have questions about the homework, you should come see me during my office hours. I will post solutions to the homework on Sakai. The solutions, if used properly, should facilitate your learning process by serving as feedback on your assignment attempts. As a general guideline, you can expect to spend 3-4 hours outside of class for each class hour. Do not let yourself get behind. The pace of this course is fast, and you will find that each concept tends to build upon previous concepts.

**Participation:** I expect each student to express opinions on our course material in a manner so as to contribute to a penetrating and insightful classroom discussion. Performance on this dimension is based on the quality of your input to class discussion.

Successful completion of this class will require extensive class participation. You are required to read all of the assigned exercises/problems/cases/requirements and to prepare the material as directed in the syllabus prior to our coverage each day. I expect you all to prepare yourselves for class such that you can participate actively, whether you are listening, taking notes, or communicating respectfully with the class. You will earn a high participation score for making insightful comments or questions that relate to and add substantively to class activities.
Quizzes: Four quizzes will serve as a basis for determining whether students are preparing themselves for course success by completing the required chapter readings and homework and keeping up generally. You must attend class to take the quizzes. Depending on the schedule, one or more quizzes might be distributed at the end of class for completion at home. Students can prepare and refer to a hand-written 8½ x 11 formula sheet for quizzes.

Project: Students will combine into teams to prepare a course project. Your team will create a project objective, collect relevant financial data, conduct accounting and financial analyses, prepare interpretations, and render decisions regarding preferred investor/creditor actions related to your objective. Teams will also present their analyses to the class. A separate handout on this requirement is available on Sakai.

Examinations: Successful performance on examinations is integral to this course. Exams are administered during class (with no notes, books, or calculators). Each student is required to sit for an exam on the day and time it is scheduled. In general, there are no make-up exams. If you are unable to resolve conflicts with scheduled exams, you should withdraw from the course. Exams will be demanding of both one’s efficiency and effectiveness in addressing the course material, so you must prepare yourself accordingly to perform at your intended level. There are two examinations during the semester, a midterm and a final. Exams generally consist of concept-based essay questions. Please see the course schedule for examination dates.

Academic Integrity

Academic integrity is an important part of all of the classes you take at Rutgers University, and this one is no exception. I take charges of academic misconduct very seriously. Suspected violations will be pursued in line with the policy prescriptions, which include course failure. Please read the academic integrity policy at the following link: http://www.camden.rutgers.edu/RUCAM/Academic-Integrity-Policy.php

Disability Accommodation

Students with disabilities who believe that they may need academic adjustments in this class are encouraged to contact me as soon as possible (preferably within the first week of class) to ensure that documented accommodations are implemented in a timely fashion. All discussions will remain confidential.
**Tentative Class Schedule***

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Coverage</th>
<th>Topic</th>
<th>Homework Assignment Due</th>
<th>Also Due</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>1/21</td>
<td>Module 1</td>
<td>Framework for Analysis and Valuation (pp. 1-27)</td>
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<tr>
<td>2</td>
<td>1/28</td>
<td>Module 2</td>
<td>Review of Business Activities and Financial Statements (pp. 1-31)</td>
<td>Module 1: 33, 36 Module 2: 33, 41, 45, 47, 53</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>2/4</td>
<td>Module 3</td>
<td>Profitability Analysis and Interpretation (pp. 1-26)</td>
<td>Module 3: 16, 39, 40, 41</td>
<td>Project Intro and Objective</td>
</tr>
<tr>
<td>4</td>
<td>2/11</td>
<td>Module 4</td>
<td>Credit Risk Analysis and Interpretation (pp. 1-27)</td>
<td>Module 4: 16, 17, 30, 31, 38</td>
<td>Quiz #1</td>
</tr>
<tr>
<td>5</td>
<td>2/18</td>
<td>Module 11</td>
<td>Forecasting Financial Statements (pp. 1-42)</td>
<td>Module 11: 20, 28</td>
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<td>6</td>
<td>2/25</td>
<td>Module 14</td>
<td>OI-Based Valuation (pp. 1-14)</td>
<td>Module 14: 10, 17, 19</td>
<td>Data Progress Report Quiz #2</td>
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<tr>
<td>7</td>
<td>3/3</td>
<td></td>
<td>MIDTERM EXAM</td>
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<tr>
<td>8</td>
<td>3/10</td>
<td>Module 5</td>
<td>Revenue Recognition and Operating Income (pp. 1-30; 34-38)</td>
<td>Module 5: 17, 22, 30, 36, 37, 39</td>
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<tr>
<td>9</td>
<td>3/17</td>
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<td>SPRING BREAK!!</td>
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<tr>
<td>10</td>
<td>3/24</td>
<td>Module 6</td>
<td>Asset Recognition and Operating Assets (pp. 1-39)</td>
<td>Module 6: 24, 30, 38, 40, 41, 43</td>
<td>Writing Progress Report</td>
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<tr>
<td>11</td>
<td>3/31</td>
<td>Module 7</td>
<td>Liability Recognition and Non-owner Financing (pp. 1-27)</td>
<td>Module 7: 10, 25, 33, 35, 37, 38</td>
<td>Quiz #3</td>
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<tr>
<td>12</td>
<td>4/7</td>
<td>Module 8</td>
<td>Equity Recognition and Owner Financing (pp. 1-25)</td>
<td>Module 8: 36, 38, 45, 51, 56</td>
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<tr>
<td>13</td>
<td>4/14</td>
<td>Module 9</td>
<td>Inter-corporate Entities (pp. 1-29)</td>
<td>Module 9: 13, 26, 28, 36, 40</td>
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<td>14</td>
<td>4/21</td>
<td>Module 10</td>
<td>Off-Balance-Sheet Financing (pp. 1-12)</td>
<td>Module 10: 17, 27, 30, 31</td>
<td>Quiz #4</td>
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<td>15</td>
<td>4/28</td>
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<td>Project Presentations</td>
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<td>Final Project</td>
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<tr>
<td>16</td>
<td>5/5</td>
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<td>FINAL EXAM</td>
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* I may make changes to the schedule based on actual progress.