

**University of Alberta**  
**School of Business**  
**Department of Accounting, Operations and Information Systems**  
**Accounting 432 / 630**  
**Financial Statement Analysis I**  
**Syllabus**  
**Fall 2016**

**Instructor:** Adam Esplin

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**Office Hours:** Tues/Thur 10:00 AM – 11:30 AM or by appointment

**Lecture Sections:**

A1	MW	11:00 AM – 12:20 PM	BUS 3 6
A2	MW	12:30 PM – 1:50 PM	BUS 3 6
A3	MW	3:30 PM – 4:50 PM	BUS 2 5

**Course Description:**

This course is designed to introduce students to financial statement analysis and accounting-based valuation. It should be of interest to students in accounting, finance, and business in general. The course focuses on the use of financial information to value and assess equity and debt securities. According to the Financial Accounting Standards Board (FASB) in the U.S., the primary purpose of financial reporting (accounting information) is to assist investors in making investment decisions, both equity investments and lending decisions. The course will introduce material that will strengthen the student's ability to understand and use financial statements. Students will learn contemporary valuation models and how to incorporate financial information into these models to provide valuations of equity securities and make equity investment decisions.

The course is particularly valuable in that the valuation techniques learned here are universal and therefore should serve financial managers throughout their careers. Accounting standards change on a regular basis; however the fundamentals of valuation and the fundamental valuation models themselves will not change. In fact, a strong understanding of valuation should help students to anticipate and adapt to ever-changing accounting standards.

**Corequisites:** ACCTG 415 or 412

**Text:**

**Accounting 432 Penman Selections ISBN: 9781259457661** available at the bookstore. This custom textbook contains selected chapters from:

Financial Statement Analysis and Security Valuation, Fifth Edition, by Stephen H. Penman. McGraw-Hill/Irwin, 2013.

Purchasing the custom textbook is highly recommended. Earlier versions of the textbook may also be used. All material for the course will be provided in PowerPoint notes and will be discussed in class. However, the textbook may be useful as an aid in understanding the material.

### **Required Cases:**

You are required to purchase the following Harvard Business cases:

HurryDate

Harnischfeger Corporation

These can be purchased from Harvard Business Publishing for a total cost of \$8.50 USD at the following link:

<http://cb.hbsp.harvard.edu/cbmp/access/51019441>

### **Additional Course Materials:**

PowerPoint notes as well as sample exams and practice problems will be posted on the course website.

### **Grades:**

Mid-term Exam:	35 %	October 19 <sup>th</sup> in class
Term Project - Deliverable I:	5 %	Due before class on Wednesday, November 2 <sup>nd</sup>
Term Project - Deliverable II:	10 %	Due before class on Wednesday, December 7 <sup>th</sup>
Case Write-ups:	5 %	See schedule for due dates
Final Exam:	35 %	At University scheduled time for Final Exam
Participation/Professionalism:	10 %	Assessed throughout the semester
Total	100 %	

### **Notes:**

Policy about course outlines can be found in §23.4(2) of the University Calendar.

*Attendance:* It is your responsibility to attend class. If you miss class you are responsible for all material covered, announcements made and handouts provided.

*In-class Participation/Professionalism:* In-class instruction will be a combination of lecture and discussion of problems and cases. The concepts and techniques taught in this class are best illustrated and learned through problem solving. In addition to attending class, it is expected that you will read the course notes or textbook before coming to class. Class participation points will be assigned based on the quality and quantity of your in-class participation as well as in-class professionalism. To facilitate the assignment of participation/professionalism points, I will implement a seating chart.

Half of the participation/professionalism mark (5% of total mark) comes from the discussion of the HurryDate and Harnischfeger Corporation cases. If you are unable to attend class for the case discussion, you may turn in a 3 page (single-spaced) case write-up within 24 hours of class in

lieu of the normal 1-page write-up. You will then be awarded participation points based on the quality of your write-up.

*Case write-up:* A one-page (single-spaced) case write-up is due before class on September 26<sup>th</sup>, October 5<sup>th</sup> and November 21<sup>st</sup> for the Residual Income, HurryDate and Harnischfeger cases, respectively.

Late case write-ups will be accepted, however a penalty equal to 5% of the total points possible for the assignment will be applied for each day (24 hour period) the assignment is late.

*Exams:* The mid-term and final exams must be taken at the scheduled times. However, accommodations will be made for those with legitimate and documented absences. The mid-term exam will cover material studied in the first half of the course and the final exam will cover material studied in the second half of the course.

*Term Project:* The term project consists of analysis of financial statement information and the valuation of a company of your choice. The project allows you to dig deeply into the strategies, drivers of profitability and risk, growth opportunities and accounting and valuation issues of a company you are interested in. This project also gives you the opportunity to apply and refine your analysis and valuation tools gained throughout the course.

Additional information on the term project will be provided in class. The term project consists of two deliverables that are due throughout the semester. You must, however, pick only one company that will be the subject of the two deliverables.

Late deliverables will be accepted, however a penalty equal to 5% of the total points possible for the assignment will be applied for each day (24 hour period) the deliverable is late.

*Grades:* All grades in this class will be assigned based on the following scale.

Percentage	Letter Grade	Grade Point Value
90-100	A+	4.0
86-89	A	4.0
82-85	A-	3.7
78-81	B+	3.3
74-77	B	3.0
70-73	B-	2.7
66-69	C+	2.3
62-65	C	2.0
58-61	C-	1.7
54-57	D+	1.3
50-53	D	1.0
0-49	F	0.0

*Code of Student Behaviour:* The University of Alberta is committed to the highest standards of academic integrity and honesty. Students are expected to be familiar with these standards regarding academic honesty and to uphold the policies of the University in this respect. Students are particularly urged to familiarize themselves with the provisions of the Code of Student Behaviour (online at [www.governance.ualberta.ca](http://www.governance.ualberta.ca)) and avoid any behaviour which could potentially result in suspicions of cheating, plagiarism, misrepresentation of facts and/or participation in an offence. Academic dishonesty is a serious offence and can result in suspension or expulsion from the University.

*Classroom Conduct:* Any student who is disruptive during class will be asked to leave. All cell phones should be silenced during the class period and students should refrain from texting or browsing the internet during class as this can be disruptive to fellow students and the instructor.

Audio or video recording, digital or otherwise, of lectures, labs, seminars or any other teaching environment by students is allowed only with the prior written consent of the instructor or as a part of an approved accommodation plan. Student or instructor content, digital or otherwise, created and/or used within the context of the course is to be used solely for personal study, and is not to be used or distributed for any other purpose without prior written consent from the content author.

*Learning Outcomes:* At the end of this course, you will have developed the following course specific skills or knowledge: Value a firm using the comparables method, dividend discount method, discounted cash flow method, residual earnings method, abnormal earnings growth method, and residual operating income method; Reformulate a set of financial statements; Estimate the cost of capital for a firm; Perform a profitability analysis; Forecast a set of financial statements; and Perform an accounting quality analysis.

This course incorporates the Learning Goals of the BCom Program, including *Critical Thinking*, *Quantitative Skills*, *Written Communications* and *Oral Communications Skills*. Final grading in this class is done on the basis of individual student achievement of the course and program outcomes. These outcomes are measured by the following assessments:

Mid-term & Final Exam:	<i>Assesses Quantitative Skills and Critical Thinking</i>
Term Project:	<i>Assesses Quantitative Skills, Critical Thinking and Written Communication Skills</i>
Participation:	<i>Assesses Oral Communications Skills</i>

For complete descriptions of the Learning Goals of the BCom program, see:

<http://business.ualberta.ca/programs/bachelor-of-commerce/prospective-students/about/learning-goals>

## Course Schedule:

Date		Topic	Class	Penman Chapter
9/7	W	Syllabus Review and Intro to Investing and Valuation	1	1
9/12	M	Intro to Financial Statements	2	2
9/14	W	How Financial Statements Are Used in Valuation & Estimating the Equity Cost of Capital	3	3
9/19	M	Cash Accounting, Accrual Accounting and Discounted Cash Flow Valuation	4	4
9/21	W	Accrual Accounting and Valuation: Residual Earnings	5	5
9/26	M	Accrual Accounting and Valuation: Abnormal Earnings Growth. <b>Residual Income Case</b>	6	6
9/28	W	Valuation and Active Investing & Viewing the Business Through the Financial Statements	7	7 & 8
10/3	M	The Analysis of the Statement of Shareholders' Equity.	8	9
10/5	W	<b>HurryDate Case</b>	9	
10/10	M	<b>Thanksgiving - No Class</b>		
10/12	W	The Analysis of the Balance Sheet and Income Statement	10	10
10/17	M	Mid-term Exam Review	11	
10/19	W	<b>Mid-term Exam (in class)</b>	12	
10/24	M	The Analysis of the Cash Flow Statement & the Analysis of Profitability	13	11 & 12
10/26	W	The Analysis of Growth and Sustainable Earnings	14	13
10/31	M	The Value of Operations.	15	14
11/2	W	Simple Forecasting and Valuation & Full-Information Forecasting, Valuation, and Business Strategy Analysis. <b>Term Project Deliverable I due.</b>	16	15 & 16
11/7	M	<b>Fall Break - No Class</b>		
11/9	W	<b>Fall Break - No Class</b>		
11/14	M	Simple Forecasting and Valuation & Full-Information Forecasting, Valuation, and Business Strategy Analysis (Continued)	17	15 & 16
11/16	W	Analysis of the Quality of Financial Statements	18	18
11/21	M	<b>Harnischfeger Corporation Case</b>	19	
11/23	W	Creating Accounting Value and Economic Value	20	17
11/28	M	The Analysis of Equity Risk and Return	21	19
11/30	W	The Analysis of Credit Risk and Return.	22	20
12/5	M	Oil and Gas Valuation	23	
12/7	W	Final Exam Review. <b>Term Project Deliverable II due.</b>	24	