Financial Statement Analysis (AMIS 4210)  
Spring 2016

Instructor: Professor Bozanic, Ph.D.
Office: Fisher Hall 456
E-mail: bozanic.1@fisher.osu.edu
Class Sessions: Tues/Thurs 11:10 AM - 12:30 PM, Schoenbaum Hall 0300
Office Hours: Wed/Fri 1:30 - 3:00 PM and by appointment

A. Course Description
This course is designed to improve your ability to use financial statements as part of an overall assessment of a firm’s strategy and valuation. The primary focus is on analyzing financial statements with the goal of estimating an equity (share) valuation.

The methods of fundamental analysis will be examined in detail. Topics include, but are not limited to: models of shareholder value, traditional ratio analysis, a comparison of accrual accounting and discounted cash flow approaches to valuation, the analysis of profitability, growth and valuation generation in a firm, diagnosing accounting quality, forecasting earnings and cash flows, pro-forma analysis for strategy and planning, and the determination of price/earnings (P/E) and market-to-book (P/B) ratios.

The course is of interest to those contemplating careers in equity research, security analysis, consulting, public accounting, auditing, and corporate finance.

By the end of the course students should have answers to the following questions:

- How are fundamental values (or “intrinsic values”) estimated?
- How are business strategies analyzed in order to understand the value they create?
- Which business activities determine value?
- How is “value created for shareholders” identified?
- How does one pull apart the financial statements to get at the relevant information for valuing equities?
- How does ratio analysis help in valuation?
- How does profitability tie into valuation?
- What is growth? How does one analyze growth? How does one value a growth firm?
- How does one analyze the quality of financial reports?
- How does one deal with the accounting methods used in financial statements?
- How is financial analysis developed for strategy and planning?
- What determines a firm’s P/E ratio? How does one calculate what the P/E should be?
• What determines a firm’s market-to-book (P/B) ratio? How does one calculate what the P/B should be?
• How does one evaluate risk? For equity? For debt?
• How does one evaluate an equity research report?
• How does one trade on fundamental information?

B. Course Materials

Textbook
Financial Statement Analysis and Security Valuation, 5th edition, by Stephen Penman. The book is available at the bookstore and from online merchants. The Accounting Clinics found on the publisher’s website are highly recommended as a refresher.

Publisher’s Website: http://highered.mcgraw-hill.com/sites/0078025311/student_view0

Lecture Notes
The publisher’s notes will be available via Carmen (carmen.osu.edu) for you to download if you so choose. To encourage attendance and active participation, I do not distribute my slides. At times, my slides will mirror those of the publisher, while in other cases I will deviate completely. Though we will rely heavily on the framework of the textbook throughout the course, the content of my slides will deviate from those of the publisher more as the semester progresses.

Restricted and Permitted Course Materials
Use of inappropriate study materials, including previously prepared solutions and copies of (or files containing) homework and/or test questions used during previous terms compromises the concept of equal opportunity for all students and therefore is prohibited. You may use materials that generally are available to all students provided that they maintain the spirit of the learning objectives. Materials distributed to students via Carmen or in class may be used only by students enrolled in this class this semester. You may not distribute any of these materials to any others at any time. Violation will subject you to disciplinary action.

C. Course Grade

The following are the fundamental principles for grading in this course:

• It is possible to earn any of the official OSU grades, from A to E, in this course.

• Grading will be based on relative rather than absolute standards.

• Preparation for paper, mini-case, and project presentations is to be completed in teams. You are not permitted to discuss your work or share your materials with other teams. You may be asked at the end of the course to evaluate your teammates’ contributions to presentations and the project. Contact me directly if issues arise with a team member during the term.
Course Grade Components

Grades for the course will be determined as follows:

- Exam I: 15%
- Exam II: 20%
- Exam III: 25%
- Project: 20%
- Class Contribution: 20%

These items are described below.

Supplemental Readings: You are expected to read assigned papers the weekend before each week’s class. As such, the Altman 1968 paper should be read at the end of the first week for presentation the second week. I will draw two random teams to present, which means all teams are expected to both have read the paper and be prepared to present the paper the second week of class. Going forward, I will select two teams to present in advance of class.

Even if you have presented, you still must read the assigned papers and be prepared for active discussion. In addition to presenting a paper at least once, all teams will present the mini-case. We will vote each class on the best presentation where the winning team will receive bonus points at my discretion.

Teams: Please assemble your team of up to 5 individuals during the first week of class. The only constraint I have on your choice is that the team must have at least one domestic student and at least one international student in its composition. Please email me the names of your group members along with your team’s name (be creative!) by Saturday.

End-of-Chapter Problems: For each chapter, there is a set of recommended exercises that highlight the course material. These problems will not be collected or graded. They will, however, help you prepare for your exams and project. We will solve some of these problems in class. I highly encourage you to attempt the problems first and then review the solutions.

Exams I and II: These exams will be held during regular class sessions. See the schedule below. Exam II will be comprehensive, with an emphasis on recent material. No electronic devices, other than basic or financial calculators, are permitted.

Exam III: This exam will be held during the University’s final exam week in the regular classroom, as follows: Monday, May 2, 10:00-11:45AM. This exam will also be comprehensive, with an emphasis on recent material. No electronic devices, other than basic or financial calculators, are permitted.

Project: The final project consists of a comprehensive analysis and valuation of a publicly-traded firm, which must be completed with your team. The project will include a historical analysis of the firm, projections of the firm’s future performance, and a valuation of the firm’s
equity. During the last week of class, teams will present their valuation assessment and investment recommendation. Further information on the requirements of the final project will be distributed later in the semester.

**Class Contribution:** Class contribution will be based on group presentations (papers, mini-case, project) and how much you contribute to the classroom experience. Some ways in which you can contribute positively to class: answering questions in class, asking thoughtful questions, relating relevant personal experience or current events to the day’s topic, or being prepared for team presentations and ensuing discussions. Some ways in which you can contribute negatively to class: not attending class (if you don’t attend class, it’s difficult to earn credit for participation), distracting me or other students, failing to be prepared for class, arriving late, repeatedly dominating class discussion, or not coming prepared for team presentations and ensuing discussions.

To facilitate grading for class contribution, you should choose a seat for the entire term early in the term, and you should [display your name card for each class](#).

**D. Standards of Conduct**

**Standards of Integrity and Conduct**
Each student in this course is expected to be familiar with and abide by the principles and standards set forth in The Ohio State University’s code of student conduct and code of academic conduct. You can view these documents or download pdf versions at:

http://studentaffairs.osu.edu/resource_csc.asp
http://www.gradsch.ohio-state.edu/academic-and-research-misconduct.html

It is also expected that each student will behave in a manner that is consistent with the Fisher Honor Statement, which reads as follows:

> As a member of the Fisher College of Business Community, I am personally committed to the highest standards of behavior. Honesty and integrity are the foundations from which I will measure my actions. I will hold myself accountable to adhere to these standards. As a future leader in the community and business environment, I pledge to live by these principles and celebrate those who share these ideals.

**Academic Misconduct**
While most students have high standards and behave honorably, we sometimes encounter cases of academic misconduct. Academic misconduct will not be tolerated. It is the obligation of students and faculty to report suspected cases of academic and student misconduct. Students can report suspected violations of academic integrity or student misconduct to faculty or to a program’s leadership. All reported cases of academic misconduct are actively pursued and confidentiality is maintained. According to University Rule 3335-31-02, all suspected cases of academic misconduct will be reported to the Committee on Academic Misconduct. This includes receiving assistance on ANY assignment from any outside source or individual other than your teammates or instructor.
**Students with Disabilities**
Students with documented disabilities should feel free to inform me in private of your needs and to make arrangements with the Office for Disability Services (292-3307 - 150 Pomerene Hall).

**Campus Safety**
Transportation across campus is offered by the OSU Department of Public Safety. Service is available between 7 PM - 3 AM during all semesters and during academic breaks except holidays. Call 292-3322 to schedule a pickup. You should give at least one hour notice. [http://www.ps.ohio-state.edu/sss/escort_info](http://www.ps.ohio-state.edu/sss/escort_info)

E. Other Course Policies

**Class preparation:** Students are expected to read the assigned readings (both from the text along with the supplemental reading) before class and attempt to solve the end-of-chapter exercises after class. My lectures may not cover all the assigned issues or go over all of the assignments in complete detail. **You are responsible for all assigned reading and classroom discussion.**

**First class assignment:** Before the first class, I expect that you will have read the assigned readings (Chapters 1 and 2). I will also expect that you have reviewed both the syllabus and the text to ensure the course content aligns with your objectives for enrolling.

**Cold calling:** On occasions, I will “cold call” students at random. This is not intended to put you on the spot but to encourage class discussion and participation. Note that rewards are not given for the quantity of comments. It is the attempt to thoughtfully reason or to ask a pertinent question that is valued and adds to the classroom experience for everyone.

**Classroom Etiquette:** I expect you to be ready to start class on time and to remain in the classroom for the duration of the class. If you must come to class late or leave early due to extenuating circumstances, please inform me in advance and do your best to not be disruptive when you arrive/leave.

Please refrain from distracting behavior, such as mobile phone usage (including texting), side conversations, eating, or using laptops. See “Ditch the Laptop.”

**Re-grade policy:** Grades are intended to reflect the overall quality of your performance. If you think your grade on an exam or assignment does not reflect the quality of your performance, notify me within one week after receiving a grade for your exam or assignment to set up an appointment to discuss your concerns in person. **I do not discuss grades over e-mail.** If a re-grade is requested in person, I reserve the right to review the entire project or exam; thus your grade could go up or down. There will be no grading appeals after the one-week deadline has passed.

**Office Appointments:** I am available to discuss issues of concern with you on an individual basis either after class or in my office. Please e-mail me to make an appointment for an office visit. So that I can be better prepared for your visit, please provide a general idea of the topic you’d like to discuss. I typically schedule 15 minute appointments; if you believe you
will require more time, please request a longer appointment.

*Syllabus is subject to change:* Note that this syllabus is preliminary and that the timing of topics and the reading assignments are subject to change. Changes are made at my discretion but intended to optimize the quality and flow of the content. The most up-to-date version of the syllabus can be found on Carmen.

**F. Course Outline**

On the following pages is a tentative schedule of the topics and papers to be covered for each week.

Unless otherwise noted:
- Textbook readings do not include the continuing case.
- The Accounting Clinics referred to throughout the text (found on the publisher’s website) are highly recommended as a refresher.
- Textbook readings do not include the end-of-chapter cases unless assigned.
- Recommended exercises will not be graded and do not need to be turned in. Solutions to recommended exercises are posted on Carmen.
<table>
<thead>
<tr>
<th>Week</th>
<th>Chapter</th>
<th>Topics</th>
<th>Recommended Exercises</th>
<th>Supplemental Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>January</td>
<td>12 Introduction to FSA</td>
<td>C1.9, E1.1-E1.3, E1.5, E1.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>January</td>
<td>14 FSA / Disclosure Environment</td>
<td>C2.4, E2.1, E2.2, E2.4, E2.6, E2.10</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>January</td>
<td>19 Valuation Uses of Financial Statements</td>
<td>C3.9-C3.12, E3.1-E3.3, E3.5-E3.8</td>
<td>Altman 1968</td>
</tr>
<tr>
<td></td>
<td>January</td>
<td>21 No Class</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>January</td>
<td>28 Pricing Book Values</td>
<td>C5.8, E5.1-E5.4, E5.7, E5.10</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>February</td>
<td>2 Finish Chapter 5</td>
<td></td>
<td>Dechow Ge &amp; Schrand 2010</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>4 Exam I (through Chapter 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>11 Finish Chapter 6; skim Chapter 7</td>
<td>E7.1-E7.4</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>February</td>
<td>16 Financial Statements; Shareholder's Equity</td>
<td>C8.1-C8.10, E8.1, E8.4-E8.6</td>
<td>Dechow Ge Larson &amp; Sloan 2011</td>
</tr>
<tr>
<td>7</td>
<td>February</td>
<td>23 Balance Sheet and Income Statement</td>
<td>C10.1-C10.4, E10.1, E10.5, E10.6, E10.8, E10.9</td>
<td>Amiram Bozanic &amp; Rouen 2015</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>25 Finish Chapter 10; Cash Flow Statement</td>
<td>E11.1-E11.3, E11.7, E11.8, E11.11</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>March</td>
<td>1 Exam II</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Recommended Exercises updated to include E numbers.*
<table>
<thead>
<tr>
<th>Week</th>
<th>Chapter</th>
<th>Topics</th>
<th>Recommended Exercises</th>
<th>Supplemental Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>March</td>
<td>8</td>
<td>Continue Chapter 12</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10</td>
<td>Finish Chapter 12; Analysis of Growth and Sustainable Earnings</td>
<td>C13.1, C13.2, C13.6, E13.3-E13.7</td>
</tr>
<tr>
<td>10</td>
<td>March</td>
<td>15</td>
<td>Spring Break</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>17</td>
<td>Spring Break</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>March</td>
<td>22</td>
<td>Continue Chapter 13</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>24</td>
<td>Finish Chapter 13</td>
<td></td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>31</td>
<td>Minicase 13.2 Presentations</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>April</td>
<td>5</td>
<td>Finish Chapter 14; skim Chapter 15</td>
<td>E15.1-E15.2, E15.6-E15.7</td>
</tr>
<tr>
<td>14</td>
<td>April</td>
<td>12</td>
<td>Continue Chapter 16</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>14</td>
<td>Finish Chapter 16</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>April</td>
<td>19</td>
<td>Wrap-Up / Review</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>21</td>
<td>Valuation Project Presentations</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td></td>
<td>2</td>
<td>Exam III</td>
<td></td>
</tr>
</tbody>
</table>

Version: 12/17/2015