I. CONTACT DETAILS

Prof. Doron Nissim
Email: dn75@columbia.edu
Office hours (604 Uris): By appointment – please send me an email to request an in-person or a Zoom meeting. In your email, please provide info re your availability.

Teaching assistant: Chen, Yue <YChen24@gsb.columbia.edu>

II. COURSE DESCRIPTION

Financial reporting provides a window into the operational and financial workings of a company. However, translating this information into actionable insights is anything but straightforward. It requires an understanding of Generally Accepted Accounting Principles (GAAP), the quality of financial information, and the adjustments and analyses required to accurately measure and evaluate profitability, risk, growth prospects, and value.

The course starts with a review of financial reporting and then focuses on various modules of fundamental analysis, including earnings quality, performance evaluation, risk assessment, forecasting, and valuation. The remainder of the course is devoted to a deeper dive into the reporting and analysis of selected transactions and line items from the financial statements (e.g., income taxes, leases, pension, business combinations).

To allow for dynamic progress, the class schedule is flexible:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Approximate # of class meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting</td>
<td>5</td>
</tr>
<tr>
<td>Earnings quality</td>
<td>4</td>
</tr>
<tr>
<td>Non-GAAP reporting</td>
<td>0.5</td>
</tr>
<tr>
<td>Reformulated financial statements and profitability analysis</td>
<td>1.5</td>
</tr>
<tr>
<td>Fundamental risk analysis</td>
<td>1</td>
</tr>
<tr>
<td>Information for forecasting</td>
<td>0.5</td>
</tr>
<tr>
<td>Forecasting financial statements</td>
<td>1</td>
</tr>
<tr>
<td>Relative valuation</td>
<td>1</td>
</tr>
<tr>
<td>Fundamental valuation</td>
<td>1.5</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1.5</td>
</tr>
<tr>
<td>Leases</td>
<td>1</td>
</tr>
<tr>
<td>Pension and OPRB</td>
<td>1.25</td>
</tr>
</tbody>
</table>
The following figure presents the framework:

While the course covers the theoretical underpinning of the various analyses, it focuses on implementation and practical uses. Many real-world examples will be analyzed, including using Excel tools that will be provided to the students.

The primary objective of the course is to acquire a deep understanding of accounting information and how to intelligently use it in making investment, credit, and similar resource allocation decisions. Such knowledge is required of executives, consultants, bankers, analysts, investment managers, and other users of financial information.

In a review conducted in 2011, the committee for evaluating elective courses concluded that “this is an excellent, carefully constructed course which provides students with valuable insights and lasting concepts.” In the same year, Professor Nissim won the “Dean’s Award for Teaching Excellence” for developing and teaching this course.

The following is a recent email from an alumnus that audited the class: “I really want to Thank You for letting me audit your course. I don’t understand why this is not a mandatory course in the Value Investing program. All of us learn lessons that you are teaching the hard way – by losing money, because no one taught us all this. Every single mistake I made, you covered in the class. It is very important for people in the Value Investing Program to know all this. The capital they lose in their initial years (when they are young and learning all this), if not lost, will make its way into the business school endowment eventually, after compounding. ... Thank you for your dedication. You are also the only professor who covered as much material as possible and was really dedicated with the content of the course.”

The following is a recent email from a student: “I just wanted to thank you again for the great semester ... I loved my internship and I’ve already accepted my offer to return to .... Your class was the best preparation I had for investment banking. All of the normalizing adjustments and
deep dives into line items really helped me succeed because several times during the internship I was called on to make considerable accounting adjustments to make companies more comparable for comparison and had I not taken Earnings Quality I would not have been as prepared to handle the assignments. I was better at my job because of your course so I really wanted to express my gratitude for all the time you took creating your presentations and answering questions.”

III. COURSE ADMINISTRATION

Class Material

The course material consists of

- Detailed presentations (listed in Section V)
- A monograph titled “Earnings Quality,” which effectively serves as the text book. It is available for download both on Canvas and at the bottom of the webpage http://www.columbia.edu/~dn75/.
- Two excel workbooks (“Ratio Analysis” and “Project Analysis and Simple DCF”)
- Practice exercises and problem sets.

All items will be made available electronically before class. These items cover all the course content. For those interested in additional readings, a highly recommended book is *Valuation: Measuring and Managing the Value of Companies*, Wiley Finance, 7th Edition. Reading the related content from the Earning Quality monograph (see Section V), carefully reviewing the presentations after class, and solving the practice exercises and problem sets would help reinforce the material. This is important especially because for some topics we will not have sufficient class time to discuss all the points and examples contained in the presentations.

There will be four assigned problem sets:

<table>
<thead>
<tr>
<th>Problem Set</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial reporting</td>
<td>February 1</td>
</tr>
<tr>
<td>2. Ratio analysis</td>
<td>March 8</td>
</tr>
<tr>
<td>3. Forecasting and valuation</td>
<td>March 22</td>
</tr>
<tr>
<td>4. Line-item analysis</td>
<td>April 14</td>
</tr>
</tbody>
</table>

Class Meetings

<table>
<thead>
<tr>
<th>Section</th>
<th>Days</th>
<th>Time</th>
<th>Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>B8008-01</td>
<td>M, W</td>
<td>8:30-10:00</td>
<td>Warren 207</td>
</tr>
<tr>
<td>B8008-02</td>
<td>M, W</td>
<td>10:20-11:50</td>
<td>Warren 207</td>
</tr>
</tbody>
</table>

First class: January 11; last class: April 14. Make-up class (for MLK): January 22.

Grade

The course grade will be based on problem sets (40 points; 4 problem sets, 10% each), and a Final exam (60%). Problem sets should be submitted to Canvas before the beginning of class on the
respective due dates (one late submission is allowed). Grading of the problem sets is based on effort. The Final will be open books. Finals from previous years are available on Canvas.

IV. CONNECTION WITH THE CORE AND OTHER ELECTIVES

This course builds on knowledge from the core courses Financial Accounting (B6001) and Corporate Finance (B6300), which introduce students to basic concepts of financial reporting and analysis. In particular, B8008 requires a basic understanding of the following:

- Financial statements, including the balance sheet, income statement, and cash flow statement
- How accrual accounting differs from cash accounting, including revenue recognition, expense recognition (matching principle), and the basic principles of asset and liability recognition and measurement.
- Time value of money and present value calculations

In B8008, students acquire a deep understanding of accounting information and how to intelligently use it in making investment, credit, and similar resource allocation decisions.

V. DETAILED COURSE OUTLINE

Topic/presentation: 1. Financial Reporting

Readings:
Nissim, D. 2020. “Earnings Quality” (available on Canvas): Sections 5.1 through 5.7, excluding the earnings quality issues and analysis tables.

Topic/presentation: 2. Earnings Quality

Readings:
Nissim, D. 2020. “Earnings Quality” (available on Canvas): Chapter 1; Sections 2.1 through 2.5; Chapter 3; The earnings quality issues and analysis tables in Sections 5.1 through 5.7.

Excel workbook:
Ratio Analysis (available on Canvas)

Topic/presentation: 3. Non-GAAP Reporting

Topic/presentation: 4. Reformulated Financial Statements and Profitability Analysis

Readings:

Excel workbook:
Ratio Analysis (available on Canvas)
**Topic/presentation: 5. Fundamental Risk Analysis**

**Readings:**

**Excel workbook:**
Ratio Analysis (available on Canvas)

**Topic: 6. Forecasting**

**Presentations:**
6.1 Information for Forecasting
6.2 Forecasting Financial Statements

**Readings:**

**Topic/presentation: 7. Relative Valuation**

**Readings:**

**Topic: 8. Fundamental Valuation**

**Presentations:**
8.1 Fundamental Valuation Models
8.2 Implementing Fundamental Valuation
8.3 Cost of Capital

**Readings:**

**Excel workbook:**
Project Analysis and Simple DCF (available on Canvas)

**Topic/presentation: 9. Income Taxes**

**Readings:**
Nissim, D. 2020. “Earnings Quality” (available on Canvas): Sections 5.8, 2.6 and 2.7.
**Topic/presentation: 10. Leases**

**Readings:**

**Topic/presentation: 11. Pension and OPRB**

**Readings:**

**Topic/presentation: 12. Financial Instruments**

**Readings:**

**Topic/presentation: 13. Active Investments**

**Readings:**

**Topic/presentation: 14. Share-based Payments**

**Readings:**

**Topic/presentation: 15. EPS**

**Readings:**