Course objective

Financial statement information is widely used to evaluate companies’ current performance and future prospects. This course will provide students with the tools and techniques to employ this information effectively. The first learning objective of the course is the strategic, financial, and accounting analysis of a company by means of historical financial statement data. A second, related learning objective is financial statement forecasting along with a specific application of forecasting – valuation. By the end of the course, students should be comfortable using firms' financial statements (along with other information) to assess firm performance and make reasonable valuation estimates.

Course content and organization

Throughout the course, we will develop a financial statement analysis and valuation framework that integrates a firm’s strategy, its financial performance, and the credibility of its accounting. The framework consists of the following steps:

(i) **Understand the firm’s strategy.** We will assess the firm’s value proposition, and identify its key value drivers and risks.
(ii) **Accounting Analysis.** We will assess earnings quality, and evaluate whether the firm's accounting policies capture the underlying business reality. If not, we will adjust the accounting to eliminate GAAP issues and management biases.
(iii) **Financial Analysis.** We will evaluate current performance with accounting data and financial ratios.
(iv) **Prospective Analysis: Forecasting.** We will assess whether current firm performance is sustainable, and we will forecast future performance. In our forecasts, we will consider growth, profitability, and future competitive advantage.
(v) **Prospective Analysis: Valuation.** We will convert our forecasts of future earnings and book values into an estimate of the firm’s current value.

With several real-world cases, we will apply the above framework to a variety of business valuation contexts.
Connection to the core

The learning in this course will utilize, build on, and extend concepts covered in the following core courses:

<table>
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<tr>
<th>Core Course</th>
<th>Concepts</th>
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| Financial Accounting | • The accounting equation (\(A = L + OE\)), and the different financial statements (BS, IS, OE and CF)  
                         • Accrual accounting concepts (e.g., realization, matching, conservatism) and cash versus accrual accounting 
                         • Revenue recognition – rules and judgment 
                         • Individual line items (e.g., AR, PPE, Investments, Bonds, Leases, Tax)  
                         • Basic financial statement analysis (e.g., ratios) |
| Corporate Finance | • Firm valuation models 
                         • Risk and cost of capital (WACC, CAPM)  
                         • Time value of money 
                         • Excel modeling |
| Strategy Formulation | • Sources of economic value |

Students are expected to have mastered these concepts and to be able to apply them in different settings.

Who should take this course?

Students should take this course if they expect to use financial statements to evaluate a business’s performance, prospects, and value. This is relevant for students who want to pursue careers in investment banking (particularly in equity research), security analysis, private equity analysis, or corporate finance.

Please note that this is not a course on “forensic accounting.” We will focus on accounting issues so that we can “cleanse” the financial statements before we carry out any analysis. Please look through the session-by-session outline to get a better feel for what this course entails.

Use of cases

We will include cases in both class-sessions and assignments. The rest of class time will consist of lectures to introduce new concepts. Outside of class, there will be exercises and a project to practice the skills we cover.

Course Materials
Required textbook: TBA.

I will post other course materials on Canvas. These will include cases, handouts, and presentation slides. I will also use Canvas to post assignments and make announcements.

**Evaluation Method**

Your grade will be determined by the following items.

*Grading:*

- Class Assignments 25%
- Quizzes 25%
- Team Project 30%
- Class Contribution 20%

*Class Assignments:*

There will be five case assignments and related discussions during the semester. They will be group work. Teams of up to five students must submit a single write-up to each case assignment electronically on Canvas by the beginning of class on the due date. Details on expectations for the case assignments and related discussions will be outlined in class.

There will also be five homework assignments and related discussions during the semester. They are to be completed individually. Students must submit their solution to each homework assignment electronically on Canvas by the beginning of class on the due date. Details on expectations for the homework assignments and related discussions will be outlined in class.

*Quizzes:*

There will be two take-home quizzes during the semester. They will not be cumulative. Details on expectations for the quizzes will be outlined in class.

*Team Project:*

In keeping with the learning objectives of the course (strategic, financial, and accounting analysis as well as forecasting and valuation), each team will be required to prepare a report containing all of these elements for a selected public company.

1. An analysis of the competitive and economic environment of the company, and an analysis of the company’s strategy. Your team will need to learn about the economy as it affects the company, and to understand the company’s ability to take advantage of those opportunities.

2. An analysis of the company’s financial reports for profitability and risk, using techniques such as ratios, scores, and accruals.
3. An analysis of the company’s financial reports for special items, quality of earnings, and evaluation of potential red flags.

4. Forecasts of financial statements for at least the next five years.

5. An overall valuation of the company’s equity as of the selected valuation date using techniques such as multiples, free cash flows, and residual income.

Final reports must be submitted electronically on Canvas by the last day of class. Each team should select a public company and inform me on or before class on [TBA]. Acceptable companies should meet the following criteria:

1. Financial statements based on US generally accepted accounting principles.
2. Sales in most recent year greater than $200 million and less than $200 billion.
3. Have at least three year operating history, hopefully with positive earnings in one or two of those years.
4. No major mergers or divestitures in the last three years that dramatically changed the size of the company or its strategic direction.
5. Avoid companies in banking, insurance, or financial services.
6. I strongly recommend not selecting a company where one of your team members has worked or is currently working. It is important to analyze companies in an objective, neutral, yet aggressive manner.

You should review your company’s financial statements and other disclosures to verify that it satisfies the above criteria. You can use any publicly available information for your analysis, including annual reports, news articles, and analyst reports. However, remember that the objective in this course is to learn to do financial statement analysis and valuation oneself rather than be able to cite someone else’s work.

There will be one optional opportunity during the semester to submit partial draft reports for feedback. They must be emailed to me by [TBA]. Details on expectations for the draft reports will be outlined in class.

Class Contribution:

I do not track attendance. Your class contribution grade is strictly a function of how much you add to class learning. There are many avenues for contributing, including presenting one’s own work, providing constructive feedback on others’ work, helping to facilitate discussions, and asking/answering clarifying questions during discussions.

At the end of the course, you will have the option of completing a Peer Evaluation Form to evaluate your study group members’ participation in group work. I will use this optional input when assigning grades to individual students.

If you believe an error has been made in grading, you may request a re-grade by doing the following: write a brief note explaining why you think there is an error and submit both the note
and the graded material to which it pertains. All re-grade requests must occur within three (3) calendar days of the day graded material is returned to the class. Please note that I reserve the right to re-grade the entire contents of any material submitted for re-grading.

In accordance with Columbia Business School’s policy, all grade appeals should be made in writing.

**Inclusion, Accommodations, and Support for Students**

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University’s Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University’s Office of Disability Services online at [www.health.columbia.edu/docs/services/ods/index.html](http://www.health.columbia.edu/docs/services/ods/index.html) or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. “Gender-based misconduct” includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see [http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students](http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students)