

**SYLLABUS**  
**Anderson Graduate School of Management, UCLA**

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Course Title	<b>Financial Statement Analysis</b>
Course Number	Management 126
Quarter	Summer 2012
Instructor	Danny S. Litt
Meeting Times	Monday and Wednesday, 8:30am-10:50am
Meeting Dates	June 25, 2012 – August 1, 2012
Final Exam Date	Wednesday, August 1, 2012, 8:30am – 10:50am
Class Location	Royce 190
UCLA Office	Anderson D406
UCLA Office Phone Number	310-825-8828 (message)
UCLA Office Hours	Monday - Thursday, 7:30am or by appointment
E-mail address	<a href="mailto:dlitt@ucla.edu">dlitt@ucla.edu</a> ( <i>reference Management 126</i> )

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### **COURSE DESCRIPTION**

Lecture, two hours and twenty minutes. Requisite: course 120B. Letter grade or P/NP.

Comprehensive study of concepts and procedures used to interpret and analyze balance sheet, income statement, and statement of cash flows. Calculation and interpretation of financial ratios and credit analysis. Valuation theory using both discounted cash flows and residual income model.

### **COURSE GOALS AND OBJECTIVES**

This course is designed to prepare you to effectively interpret and analyze financial statements. The purpose of this analysis is to assist you (the investor, the banker, the shareholder, the company's CEO or CFO) in your investment and credit granting decisions. The course extends your knowledge in financial reporting by introducing you to the "quality" of financial information and the factors that affect this quality, such as the flexibility that companies have in applying existing accounting principles and the incentives of management to "manage" earnings.

We will examine in detail methods of fundamental analysis of business entities and the various approaches for valuation. The analysis will be carried out from the perspective of both the outside security analyst and corporate financial analyst.

The course is of interest to those contemplating careers in investment banking, security analysis, consulting, public accounting, and corporate finance. It will also help in personal investing. The course will be in the form of lectures, discussions, cases, and exams.

### **TOPICS INCLUDE**

- Structure and analysis of the three major accounting financial statements: balance sheet, income statement and cash flow statement.
- Computation and interpretation of financial ratios with a view towards using them to build a financial planning model of the firm.
- Effect of typical strategic objectives including such financial targets as sales increases, capital asset additions, working capital needs, return on investment, profitability, etc., on the structure of the firm's financial statements.

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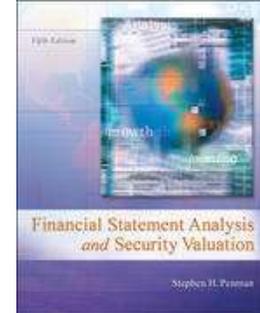
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- How to integrate accounting, finance, and economics into the strategic management process.

Prior to each class, you should read the assigned chapter(s) and course reader material, review the exercises and prepare the case. The cases and exercises can be submitted on an individual or group basis. The title page must list the case name, the student's name(s), and ID(s).

### REQUIRED COURSE TEXT

*Financial Statement Analysis and Security Valuation*, 5<sup>th</sup> Edition  
Stephen H. Penman  
McGraw-Hill Irwin, 2012  
ISBN: 0-07-802531-1 / 978-0-07-802531-0



### REQUIRED COURSE READER

The course reader is available now and will be essential for every class. Be sure to bring it to all the class meetings:

#### COURSE READER MATERIAL

310.443.3303

1081 Westwood Blvd. ENTRANCE on Broxton Ave.  
South of Wayburn & City of LA Parking on Broxton Ave.

### RECOMMENDED READING

Current daily issues of the *Wall Street Journal*.  
Current issues of *Business Week Magazine*.

### PREREQUISITES

The completion of Management 120A, 120B and 130A and the acceptance into the accounting minor is required for admission to the class. The instructor must approve exceptions.

### GRADING

	Points	Percentage (%)
Exam 1	100	20
Exam 2	100	20
Participation	100	20
Homework Assignments (9)	100	20
Cases (7)	100	20
Total	500	100%

Exam 1 and 2 will cover the material preceding each exam and are anticipated to last two hours. Exam 2 is cumulative, with emphasis on the later chapters. **There will be no makeup exams.**

Each student is expected to attend regularly and be prepared to discuss the material covered that day. Each student is individually responsible for completing the required assignments prior to the beginning of class and for bringing the assignment to class. Students will be asked to explain their solutions of the homework assignments to the class. These homework assignments will not be submitted. There may be "pop" quizzes.

### GRADING SCALE

The grades are indicators of the relative knowledge and skill of a student as compared to the performance of other students in the course. The grades in the course will be adjusted so that the mean or average in the class will be a B; a grade of approximately 3.00 or higher.

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### PARTICIPATION

The success of the class depends on participation and therefore class presence is absolutely required. Excessive absences will reduce your grade. If you have a reason to miss class, you must notify me in advance. You must be prepared for each and every class, without exception.

### HOMEWORK ASSIGNMENTS

The homework for each chapter will be discussed during the class. The homework will be submitted at the start of the class. You must make a copy for your class discussion and participation. There are no late submissions. The first four assignments are worth 10 points each. The last four assignments are worth 15 points each. **The homework assignment for Chapter One is due the first session.**

### CASES

There will be seven (7) cases during the quarter; approximately one per session. Cases will be submitted and discussed during the class session; the first four cases are worth 12.5 points and the last three cases are worth 17.5 for a total of 100 points. Grading will be based on the discussion of substantive issues, resolution of any problems, etc. Most cases should utilize spreadsheet analysis. The cases will be turned in at the start of the class. You must make a copy for your class discussion and participation. A group(s) will present their results to the class. There are no late submissions.

The students will organize themselves into groups of three to six during the first class meeting. Each group will submit solutions to the case assignments. Once groups are formed, case write-ups are a group responsibility. High quality is expected, in both content and form. Content includes specificity, completeness, clarity, grasp of significant issues, and originality. Form includes grammar, punctuation, spelling, conciseness, organization, and legibility. Cases may require significant computer analysis, e.g. Excel or Lotus spreadsheets.

Each group must work together jointly, not by dividing the work into parts. If one or more group members do not participate, omit their names from the group paper or as Donald Trump says: "You're fired." Each group's members are urged to study together, assist each other, and learn from each other. This approach generally improves an individuals' learning. Each individual is ultimately responsible for performing, however, so the group must evaluate the members of its group with respect to work, effort and performance.

### POLICY ON INCOMPLETE GRADE

The grade Incomplete ("I") may be assigned only in cases where:

- The student's work is of passing quality at the time the incomplete grade is granted and only a small portion of the coursework remains unfinished.
- The coursework has not been completed due to extraordinary and verifiable circumstances (such as illness, death in the immediate family, or other similar situations).
- The student agrees to complete the coursework as soon as possible within the following quarter. If the coursework is not completed by the following quarter, the incomplete grade will automatically be converted to an "F."
- The instructor agrees to give a grade of "incomplete" and evaluate the remaining coursework if turned in during the following quarter.

The **AGREEMENT FOR ASSIGNMENT OF A GRADE OF "INCOMPLETE"** form must be signed by both the student and the instructor, and approved by the Director of the Undergraduate Accounting Minor Program.

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If a student has not completed the course, does little or no work during the quarter and does not have the appropriate good cause, the student's grade will be posted as F, NP or U as appropriate.

### WEB SITE

The website for our class was created in Moodle, an open source Course Management System (CMS). Moodle is the new CMS that was chosen by UCLA to replace the different systems that are used across the school.

Our course can be accessed via the following methods:

- CCCLE website, <http://ccle.ucla.edu> - look under the Management category, Summer 12 folder for our class (<https://pilot.ccle.ucla.edu/course/view/121A-MGMT126-1> )
- Registrar website, [www.registrar.ucla.edu](http://www.registrar.ucla.edu) – look under Schedule of Classes. In the course detail there is a link to our class.
- Students who have enrolled in the class can find the course website under My UCLA, <http://my.ucla.edu/>

### INFORMATIVE WEB SITES

<http://www.accountantsworld.com>  
<http://moneycentral.msn.com>  
<http://finance.yahoo.com/>  
<http://www.cpaclass.com/>

### EMAIL POLICIES

Emails are a useful and expeditious communication tool. I attempt to respond to all emails within 24 hours, including on weekends. I firmly believe that it is proper etiquette for me to respond to all emails promptly. However, a few individuals view email as an around-the-clock substitute for attending class or interacting with classmates. As such, before sending an email, please consider:

1. Administrative issues and topics discussed in a class you missed should be directed to a fellow classmate.
2. Unless a matter is urgent, please save your inquiry for our next class session or for office hours. Personal conversations allow me to give you a thorough answer, gain an insight into your conceptual struggles, understand any faulty underlying assumptions, and diagnose your problem more accurately.
3. There are many subjects that are too sensitive to discuss over email mainly because misinterpretation could have serious consequences. Some topics that should generally be resolved outside of email are:
  - Disciplinary action
  - Conflicts about grades or personal information. I am happy to discuss your grades in person. Privacy laws prevent me from using email.
  - Concerns about fellow classmates/workmates
  - Complaints
4. If your email concerns grading records or the textbook, please assume that I may not have these items with me when I receive your email.
5. Be concise and to the point. Do not make an e-mail longer than it needs to be. Remember that reading an e-mail is harder than reading printed communications and a long e-mail can be very discouraging to read.
6. Please state discrete questions that call for succinct answers. If you pose more than one question, please number your questions, so they can be referred to them by number.

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7. Read the email before you send it. A lot of people don't bother to read an email before they send it out, as can be seen from the many spelling and grammar mistakes contained in emails. Apart from this, reading your email through the eyes of the recipient will help you send a more effective message and avoid misunderstandings and inappropriate comments.

If your email meets the above criteria, be sure to type **UCLA and the course number** in the subject heading of your email. Otherwise, it will end up in my “junk” mail folder and go unread.

### LESSON PLAN

The following is our working schedule for the course. If there are any changes, I will announce them in class.

<b>Class</b>	<b>Date</b>	<b>Topic and Assignments Discussed</b>	<b>Cases Due</b>
1	6/25/12	<b><i>Introduction to Investing and Valuation</i></b> Readings: Chapter 1 Exercises: E1.1, E1.2, E1.3, E1.5	
2	6/27/12	<b><i>Introduction to Financial Statements</i></b> Readings: Chapter 2 Exercises: E2.1, E2.2, E2.3, E2.5, E2.10	<b><i>M1.1 America Online, Inc.</i></b>
3	7/2/12	<b><i>How Financial Statements Are Used in Valuation</i></b> Readings: Chapter 3 Exercises: E3.1, E3.2, E3.3, E3.5, E3.6, E3.7	<b><i>M2.1 Kimberly-Clark Corporation</i></b>
4	7/4/12	<b><i>Holiday</i></b>	
5	7/9/12	<b><i>Cash Accounting, Accrual Accounting and Discounted Cash Flow Valuation</i></b> Readings: Chapter 4 Exercises: E4.1, E4.2, E4.3, E4.4, E4.5, E4.6, E4.8, E4.11	<b><i>M3.2 Nifty Stocks?</i></b>
6	7/11/12	<b><i>Accrual Accounting and Valuation: Pricing Book Values</i></b> Readings: Chapter 5 Exercises: E5.1, E5.2, E5.3, E5.4	<b><i>M4.1 Coca-Cola Company</i></b>
7	7/16/12	<b><i>Exam 1 (Chapters 1 – 5)</i></b>	
8	7/18/12	<b><i>Accrual Accounting and Valuation: Pricing Earnings</i></b> Readings: Chapter 6 Exercises: E6.5, E6.6, E6.7, E6.8	<b><i>M5.2 PepsiCo and Coca-Cola</i></b>
8	7/23/12	<b><i>Valuation and Active Investing</i></b> Readings: Chapter 7 Exercises: E7.6, E7-7, E7-8, E7-9	<b><i>M6.1 PepsiCo and Coca-Cola</i></b>

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<b>Class</b>	<b>Date</b>	<b>Topic and Assignments Discussed</b>	<b>Cases Due</b>
10	7/25/12	<i>Viewing the Business Through the Financial Statements</i> Readings: Chapter 8 Exercises: E8.5, E8.6	<i>M7.1 Challenging the Market Price: Cisco Systems</i>
11	7/30/12	<i>The Analysis of the Statement of Shareholders' Equity</i> Readings: Chapter 9 Exercises: E9.5, E9.6, E9.7, E9.8	
12	8/1/12	<i>Exam 2 (Chapters 6 – 9)</i>	

### **CLASS ETIQUETTE**

No cell phones or beepers are allowed in the classroom. Please turn them off!! No food or drink (other than water) is allowed in the classroom.

### **DISCLAIMER**

This syllabus may change from time to time to accommodate changing circumstances. Every effort will be made to alert students to changes that occur in a timely manner. While the material will be covered in the order presented in the schedule the actual timing may change from week to week as the course progresses.

### **FINANCIAL CALCULATOR**

It is *highly* recommended that you use a financial calculator. An HP 10B series, HP 12 series, HP 17 series, Sharp EL-733A or Texas Instruments BA II Plus financial calculator is acceptable.

**You may not use your cell phone or your PDA. You may use a graphing calculator, if the memory has been cleared.** If you have an iPhone, you can download an HP12C calculator but may not use the text messaging feature. Other instructors may have different policies. It is important to realize that **financial calculators are normally required** on the job. The net present value of this investment is extremely positive. If you are interested in finance, real estate, financial services, or accounting you should really consider investing in the HP17 calculator; it is a professional level machine that you may well use for the next decade or more.

Free training for HP calculators: <http://www.hp.com/calculators/segments/students.html>