

Management 126: Financial Statement Analysis Summer 2018 - Instructor: Casey Borman

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Casey Borman
Office: D510

Office Hours: Monday & Wednesday 9:45 – 10:45am
Tuesday 1:15 – 3pm, & By Appointment

Class Detail:

Meeting Times

Monday & Wednesday 11am – 12:15pm

Class Location

Public Affairs 2214

Final Exam Date

Wednesday, June 12, 2019

Prerequisites: Management 1A & B (Principles of Accounting) and Management 120A & 120B (Intermediate Accounting) or Instructor's permission.

Course Description:

This course will develop your ability to think critically about the information in financial statements, your proficiency with tools for analyzing and valuing companies, and communication of your analysis. We will use firms' publicly available financial statements to (1) assess current performance, (2) forecast future performance, and (3) estimate the fundamental value of the firm.

Although we will discuss key accounting issues related to financial reporting, the primary focus of the class is the use of accounting information, rather than learning accounting rules. The course covers the interpretation, use, processing, and presentation of accounting information. Other topics include valuation, revenue recognition, recording of assets and liabilities.

Course Goals and Objectives:

Develop an understanding of how to utilize GAAP accounting to value an equity interest. After completing this course, the student should be able to perform financial analysis using accounting statements and disclosure notes to:

- Assess quality of earnings and previously reported financial results.
- Recognize where financial statements may not be adequate and should be scrutinized.
- Forecast future earnings and cash flow.
- Value a stock using ratios, comparisons to other equities, and discounted cash flow.
- Understand sell-side research and the basic terminology used by financial analysts
- Communicate most relevant information succinctly in a written memo
- Develop skills that will help you get a job in a financial services firm.

Required Course Readings:

- ❑ ***Financial Statement Analysis & Valuation***, Easton, McAnally, Sommers, Zhang **5th Edition**, Cambridge Business Publishers, 2018 It's available at the UCLA bookstore in Ackerman Union. **Do not use an earlier edition.**
- ❑ Articles, financial statements, and analyst reports distributed on class website or via email

Topics Include:

- ❑ Financial Statements & Disclosures Notes
- ❑ Strategy & Industry Analysis
- ❑ Cash Flow and Accruals
- ❑ Assessment of Profitability and Earnings Quality
- ❑ Forecasting and Discounting Future Cash Flow and Earnings
- ❑ Ratios and Valuation using comparable companies

Professionalism:

Please facilitate a positive learning environment. Respect for me and your fellow students is expected at all times. Turn off your cell phones prior to entering class. Computers may be used for taking notes, but do not surf the web. If you enter late, do so unobtrusively. Regular attendance is strongly recommended.

Please communicate with me as you would with a manager at a professional services firm. Email is useful, but it is not a substitute for attending class or an alternative means of me teaching the material. Please adhere to the following email guidelines:

1. Can the question be better handled at our next class session or during office hours? A conversation will generally allow me to gain better insight into your conceptual struggle and thereby provide a more thorough answer.
2. Read your email from beginning to end before hitting send. Is it clear? Does the grammar, spelling, and organization reflect well on you? Are you asking discrete questions that call for succinct answers? I am happy to discuss more complicated questions during office hours, but email is not a method for teaching.
3. Certain questions are better asked of a friend or a fellow classmate.
4. Due to privacy concerns, I cannot address grades via email. It is a UCLA policy.
5. Please anticipate that if you ask a good question (i.e. expose an ambiguity in my lecture, uncover something I missed in class, etc.), then I will likely anonymously share both your question and my answer either via the class website or at our next class.

If your email meets the above criteria, type "UCLA 126" into the subject line.

Grading:

	Points
Homework (3 of 4)	75
Participation	75
Midterm	225
Memo	250
Final Exam	375
Total	1000

There will be four short and simple homework assignments given during the quarter. They will usually be announced 1 – 2 classes in advance and encourage everybody to stay on top of the material. You should be able to complete them in 20 – 30 minutes assuming you've done the reading. Your three best scores will count toward your final grade and your lowest score will be discarded. They must be submitted in person. Most students will get three perfect scores and not need to do the fourth assignment. Similarly, class participation is 50% attendance and 50% engaging in discussion in way that shows understanding of the material. Quality of comments or questions is important. High quantity will make high quality more challenging. Evaluations will be made weekly. If you miss both classes in a week, you will get 0 points regardless of the reason for missing the classes.

Exams are designed to test your ability to apply course material and will require an understanding of the principles discussed in class. While I anticipate they will be open book, there will be insufficient time to answer all the questions if you have not memorized basic rules or fail to grasp the concepts covered in class. They will be comprised of short questions and longer problems, including some multiple choice. You must bring a calculator and pencils, but most students also utilize a laptop computer. All paper and answer sheets will be provided. While the assigned textbook reading will be helpful preparation, the concepts covered in lectures reflect my view of the most important topics. Therefore, you should expect exams will focus almost exclusively on topics I have covered in my lecture. Attending all classes after having done the assigned reading is the best way to learn as well as prepare for exams. Midterm will cover the material preceding it and is anticipated to last 75 minutes. The Final Exam will be cumulative as the course is cumulative in nature. Later concepts build on the foundation established early in the course. It will last approximately 180 minutes. **There will be no makeup for the final exam or midterm.**

The memo will provide an opportunity to apply textbook and classroom learning to real world investment analysis. I am hoping to see the same quality of work as I expect from a first year associate at an investment bank. You will be evaluated on professionalism of both content and form. Content includes specificity, completeness, clarity, grasp of significant issues, and originality. Form includes grammar, punctuation, spelling, conciseness, and organization. Memos will be limited to one side of a single written page. One page of calculations done in Excel or similar spreadsheet should be attached as an Exhibit. More specific instructions will be distributed with the assignments. These projects are intended both as a way for me to evaluate your learning and to convey the expectations most of you will encounter in the workplace at a financial services firm.

Policies and Rules:

As a new instructor at UCLA Anderson, I feel strictly bound by its rules, including those mandated by the Accounting Minor and the broader university. I expect all students to be familiar with these rules and to strictly adhere to them. Do not ask me to make exceptions.

The exams must be taken during the specified class (see below). The memo must be submitted on time with no exceptions. All course grades are final. Course grades will be curved, using the grade distribution recommended by the Undergraduate Accounting Program of UCLA Anderson. Privacy laws prevent me from discussing grades using email. As such, we can only discuss your grades in person during office hours. Additionally, exceptional effort and engagement may raise your grade by one step (i.e. B to a B+).

Please consult UCLA rules regarding when this class may be dropped or switched to a pass / fail grade. The grade Incomplete ("I") may be assigned only in extremely rare cases and under stringent rules, which include approval by the Director of the Undergraduate Accounting Minor Program. It is your responsibility to be aware of these rules and adhere to them.

While students with documented disabilities will be happily accommodated, such students must contact the Center for Accessible Education (CAE) within the first two weeks of the term to make such arrangements. Lastly, academic dishonesty will not be tolerated, including cheating and plagiarism. Students must adhere to the UCLA Student Conduct Code. The relevant documents are available at:

<https://www.deanofstudents.ucla.edu/studentconductcode>

Lesson Plan:

The lesson plan and syllabus generally may change to allow for classroom discussion and accommodate changing circumstances. The scheduling of guest speakers is complicated and unpredictable. Every effort will be made to alert students to changes in a timely manner. The material will be covered in the order below even if we fall a bit behind schedule.

All reading assignments refer to the required text and should be completed before class. Additionally, I will email news articles and earnings reports that you should also read before class. As we will cover current events, these articles are not specifically named as "Assignments" below.

The dates of midterm, memo, and final exam will not change. Memo assignment will be emailed in the week after Midterm. It will contain the specific instructions required for completing the assignment. I will also give you guidance on writing memo during class and offer times for one-on-one review before the due date. Class # 1 is Monday 4/1/19 and the last class (#20) is Wednesday 6/5/19. **Do not enroll in this class if you cannot attend for exams on both 5/1 & 6/12.**

Class	Topic	Assignments
1	Introducing Valuation & Some Basic MBA Frameworks	Read Chapters 1
2	Articulation of Financial Statements, Book Value & Disclosures	
3	Financial Accounting (i.e. Rev Mgmt 120A & B)	Read Chapters 2
4	Profitability Analysis - Margins, Ratios	Read Chapter 3
5	Credit Analysis, Leverage & Solvency Ratios	Read Ch 4 (4-1 to 18 & 22 - 27)
6	Revenue Recognition	Read Ch 5- Skip Foreign Currency
7	Operating Income	
8	Inventory, COGS & Gross Margins	Ch 6: 6-1 to 9 & 6-13 to 16
9	PP&E, Depreciation & Impairments	Ch 6: 6-17 to 18 & 6-21 to 31
10	Exam on Chapters 1 - 6	<u>Midterm on Wednesday 5/1</u>
11	Equity Financing	Read Chapter 8
12	Accounting Adjustments & Analyst Reports	
13	Forecasting Financial Statements	Read Chapter 11
14	Case Study	
15	Cost of Capital & Discount Rates	Read Chapter 12
16	Guest Speaker	<u>Memo Due at Start of Class on 5/23</u>
17	Cash Flow Based Valuation	Read Chapter 13
18	Net Present Value of Discounted Cash Flow	
19	Market Based Valuation Metrics	Read Chapter 15
20	Picking Comparable Companies	
21	Final Exam	<u>Wednesday 6/12/19 @ 8 - 11am</u>