ACCT 5300-01 / FINC 5300-01:
Financial Statement Analysis and Security Valuation

Faculty*:   Professor Carlos A. De Mello e Souza (carlosms@seattleu.edu)
Office: Pigott 426
Class meetings: Wednesdays, 6:00 - 8:40 PM, Pigott 309
Office hours: **-** Wednesdays, 4:30 until 5:45 PM.
                   - By appointment either on Skype ("cmeluza"), or on campus.
                   - Tuesdays and Thursdays, 12:30 until 1:20 PM.

1. Course Description

The objectives of this course are (1) to present a framework for using financial statement data to make investment decisions and (2) to provide hands-on experience using this framework in realistic situations. A significant difference between this course and other accounting and finance courses you may have taken before is the level of realism. We will be using real data to make decisions that professional analysts make under extreme time and competitive pressures. The financial analyst is like a detective, looking for hidden investment opportunities in a mountain of data.

To enjoy and be successful in ACCT 5300 / FINC 5300 you should be curious about why stock prices are as they are, about the relationship between financial statement information and stock prices, and about what may be hidden between the lines of management's communications with investors. To succeed in financial statement analysis, you will need a solid foundation in financial accounting, business sense, and the ability to integrate multiple pieces of quantitative and non-quantitative information. Other key factors for success will be the ability and willingness to learn how to design reliable Excel spreadsheets and to communicate well both verbally and in writing about technical accounting and financial issues.

2. Learning Objectives

At the end of this course students will be able to:
- Obtain financial information from COMPUSTAT and CRSP via WRDS.
- Evaluate a company's performance and financial position using financial ratios.
- Use a financial model to forecast financial statements.
- Use a financial model to estimate the fair value of a business.
- Perform a basic analysis of accounting quality using quantitative models.
- Explain the weaknesses and limitations of financial forecasting models and of the recommendations that can be made based on those models.

This course meets the following among Seattle University's graduate learning outcomes:
- Demonstrate mastery of competencies required in their profession or field.
- Demonstrate effective communication in speech and in writing.

This course also meets learning outcomes of the Albers School's Master's in Professional Accounting, especially, and with highest impact, LO#1, which reads: "recommend a course of action to a prospective client by using a model to analyze financial statements and other relevant data."[1]

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[1] To a lesser extent, the course also addresses learning outcomes 2, 3 and 5 of the MPAC.

3. Prerequisites

There are two prerequisites for ACCT 5300 / FINC 5300: **ACCT 5110** (Intermediate Financial Accounting) and **FINC 5050** (Corporate Financial Management). I assume that students enrolled in this course have a basic understanding of:
- how financial statements are prepared and how they are interconnected;
- the structure of a typical annual report and where to go to find information in it;
- accounting for a set of common transactions for manufacturing, service, and retail businesses.
- the concept of present value of cash flows, and know how to estimate the fair value of an asset as the present value of a stream of expected cash flows at the appropriate discount rate.

If your memory of these topics has faded, but you have known them well before, you should be able to catch-up. But if your knowledge of financial accounting principles is weak or you are unfamiliar with discounted cash flow techniques and basic managerial finance, please come and talk to me as soon as possible. This course may be inappropriate for you at this point.

4. Materials

Required:
- "Equity Valuation and Analysis with eVal" **4th** (**or earlier**) ed., by R. Lundholm and R. Sloan (McGraw-Hill Irwin). Website: http://www.lundholmandsloan.com/index.html
- Microsoft Excel, preferably on a PC. If you own an Apple computer I strongly recommend that you run Excel on Windows or use one of the school's laptops instead.
- A laptop computer is recommended for **every** class and is indispensable for taking the midterm and final exams. If you don't have a laptop computer, or if it is not convenient for you to bring one to class, please let me know and I will attempt to reserve one for you with the IT group.

5. Grades

Grades will be based on in-class team-based activities, two midterm exams, and a final exam. The overall grade on both midterm exams will be the average of the two, or the grade on the second midterm only, whichever is higher. Participation will be a factor only in the extraordinary and extremely unlikely case in which a student impacts learning and class discussions in a negative way (see note below).

There will be six graded in-class team activities. Out of seven in-class activities proposed, you will choose six to turn in. A class activity that is missed (i.e., if you are not in attendance that day) cannot be submitted. For each of the six activities you choose to have graded, you will prepare a report that is due by 6 PM on the day of the following class meeting. Late reports **may** lose (depending on why your report is late) up to 20% of their full score per day or fraction of day late, until reaching zero. Make-ups for midterm and final exams will be given only under extraordinary circumstances, such as documented health problems, family emergencies, and participation in official Seattle University athletic activities.

There are two grading schemes, I and II, as shown below. Your final grade in the course will be based on the scheme that produces the highest overall score.

	Scheme I	Scheme II
In-class projects	20%	20%
First Midterm	30%	15%
Second Midterm	30%	15%
Final Exam	20%	50%

The correspondence of numerical scores and letter grades is as follows:

< 50	≥ 50	≥ 60	≥ 70	≥ 75	≥ 85	≥ 90
F	D	C-,C,C+	B-	B	B+	A-, A

The default split between A- and A is 95, but this may change depending on the distribution of grades above 90, as I look for significant gaps in the distribution of grades to establish this cutoff point. The splits between C-, and C, and then C and C+ are at 6.33 and 6.67 respectively.

 (*) Note on class participation: I hope that every student will actively participate and contribute to class discussions. However, I do not assign a grade to good class participation, because I expect that good participation will be strongly correlated with grades in the in-class activities and the exams. However, I do deduct points for negative participation. Negative participation includes, for example, instances of non-professional behavior during office hours, class, exams, and in any communications with classmates or the instructor. I will discuss any observed instance of negative participation with the student(s) involved as soon as possible and will also send to the student(s) involved an email message about it. The first instance of negative participation will reduce the final grade in the course by anywhere between 0 and 10 points, depending on severity. The second instance will reduce the grade in the course by an additional 10-20 points, depending on severity.

6. Honesty

I expect that all students will abide by the University's Academic Honesty Policy. "Seattle University is committed to the principle that academic honesty and integrity are important values in the educational process. Academic dishonesty in any form is a serious offense against the academic community." (See link to policies below.) If you are not sure about whether an action is acceptable per the Academic Honesty Code, you should check with me before engaging in it.

As required by University regulations I must report to the department's chair all verified instances of plagiarism, cheating and usage of unauthorized sources in exams, papers, projects, homework, or any other academic assignment. Depending on the severity and circumstances of the violation I may recommend that the student receive a grade of D or F in the course.

7. Class Conduct

I always expect the highest level of professional conduct. Reading of non-class materials must stop once class begins. Cell phones must on silent mode during class. Laptops, netbooks, iPads, and similar devices may be used for class-related activities, but please ask before video or audio recording class. All electronic devices, except laptop computers, must be turned off during exams. Emailing, texting, or engaging in any type of communication with third parties is of course forbidden during exams.

8. On Assignments

I will not grade assignments that show an elevated level of carelessness in presentation quality. Assignments that I do not grade for this reason cannot be resubmitted. Written assignments should be submitted through Canvas by their due dates.

Please observe the following guidelines for any written assignments you submit to me:
(1) Type your paper, and number its pages.
(2) Submit all work related to an assignment as a single file.
(3) Give credit when quoting or using the work of others. Not doing so is a violation of Seattle University's Academic Honesty Policies.

9. Scheduling

I have prepared a tentative distribution of topics throughout the quarter. Please check the schedule for assignment deadlines, exam dates, and topics that we will cover in class each time we meet. I may adjust the schedule from time to time as the course progresses due to variations in the time needed to explain each topic. I will announce any scheduling changes by email and in class with enough time for you to adjust.

My office hours are posted in the header of the syllabus. Office hours are opportunities for you and me to discuss the course, financial accounting concepts, career choices, or any other topic that you think I may be able to help you with. It is best to come to office hours regularly throughout the course, rather than just before an important deadline, because at that time many of your classmates may want to see me as well. Office hour meetings are on a first-come first-served basis. There is no need to make an appointment to meet with me during regularly scheduled office hours.

10. Notice for Students Concerning Disabilities

If you have, or think you may have, a disability (including an 'invisible disability' such as a learning disability, a chronic health problem, or a mental health condition) that interferes with your performance as a student in this class, you are encouraged to arrange support services and/or accommodations through Disabilities Services staff located in Loyola 100, (206) 296-5740. Disability-based adjustments to course expectations can be arranged only through this process.

11. Office of Institutional Equity (Title IX)

Title IX of the Education Amendments of 1972 (Title IX) prohibits discrimination based on sex in educational programs or activities that receive Federal financial assistance. This prohibition includes sexual misconduct, which encompasses sexual harassment and sexual violence. Seattle University remains committed to providing a safe and equitable learning,

living, and working environment. Seattle University offers emergency, medical, and other support resources, as well as assistance with safety and support measures, to community members who have experienced or been impacted by sexual misconduct.

Seattle University requires all faculty and staff to notify the University's Title IX Coordinator if they become aware of any incident of sexual misconduct experienced by a student.

For more information, please visit https://www.seattleu.edu/equity/. If you have any questions or concerns, you may also directly contact the Title IX Coordinator in the Office of Institutional Equity (email: oie@seattleu.edu; phone: 206.296.2824)

12. Academic Resources and Policies

Resources:

▪ Library and Learning Commons (*http://www.seattleu.edu/learningcommons/*)
(This includes: Learning Assistance Programs, Library Research Services, Writing Center, and the Math Lab.)

▪ Academic Integrity Tutorial (found on Canvas and SU Online)

Policies:

You will find the following important policies on the Registrar's website, here:
https://www.seattleu.edu/redhawk-axis/academic-policies/

▪ Academic Integrity Policy

▪ Academic Grading Grievance Policy

▪ Professional Conduct Policies (program-specific)

13. Online Communications

I expect that you will check Seattle University's email frequently. Please use Seattle University email instead of Canvas mail, as it is easier for me to follow the thread of the conversation. Also, avoid communicating with me by means of the multiple text messaging windows available within Canvas, as it becomes very difficult to monitor multiple sources of messages. I cannot guarantee replying to messages sent by any means other than SU email.

Online communications are not meant to substitute for class attendance. Some materials may be distributed only in class, and many course-related announcements will be made only in class. The fact that you did not receive materials by electronic means is not an acceptable reason for failing to meet assignment deadlines if those materials were distributed in class.

I plan to check email daily on weekdays and will reply to your messages within 24 hours except during weekends and holidays. D*o* write to me if you must miss class. *Please include the course title in the subject line of your messages to me.* Due to the threat of viruses, I sometimes delete without reading messages without a subject, or with a subject that I find suspicious.

14. Tentative Class Schedule

(Attached below.)

14. Tentative Class Schedule

Date	Topic	To study	In-class activities (bring laptop)
4/3	Introduction, objectives, assignments, and grading. Sources of information on companies and securities, including Wharton Research Data Services (WRDS).	LS Ch. 1	<u>ICA1</u>: Learn and practice obtaining data for company **X** from COMPUSTAT and CRSP (WRDS) and formatting it for presentation to investors. Sources of data on the web.
4/10	Ratio analysis workbook (Pilot) and valuation software (eVal).	LS Ch. 2, 3	<u>ICA2</u>: Financial statement modeling and Excel practice. Structure, logic, and operation of ratio analysis, forecasting, and valuation workbooks.
4/17	Analysis of performance using the advanced Dupont method. Traditional analysis of financial risk.	LS Ch. 5	<u>ICA3</u>: Perform risk and dupont analysis for company **X** with both cross-sectional and time-series perspectives. Conclude in writing.
4/24	Accounting analysis. Review and analysis of the SoCF.	LS Ch. 4, 6	<u>ICA4</u>: Run eVal for company **X**. Compare forecast of net income for 2017 with the market's expectation.
5/1	**MIDTERM EXAM 1**		<u>Scope</u>: ICA2-4. Apply to co. **Y**.
5/8	Valuation I: Multiple-based valuation (drivers of PE, MB); residual income (RIM) and discounted cash flow (DCF) models.	LS Ch. 9-11	<u>ICA5</u>: Estimate the fair value of company **X** using eVal under various scenarios. Write a recommendation to investors.
5/15	Valuation II: Cost of capital estimation. Reality checks.	LS Ch. 9-11	<u>ICA6</u>: Estimate cost of equity and debt. Perform reality checks.
5/22	Analysis of accounting quality. Models to estimate credit rating, probability of bankruptcy.	LS Ch. 6	<u>ICA7</u>: Perform analysis of AQ and risk of bankruptcy for company **X**. Conclude in writing.
5/29	**MIDTERM EXAM 2**		<u>Scope</u>: ICA2-7. Apply to co. **Z**.
6/5	Financial forecasting: How to design, build, and use a financial forecasting model in Excel. Conclusion and review of the process of FSA and security valuation.	LS Ch. 7-8	
6/12	**FINAL EXAM**		<u>Scope</u>: Comprehensive.

<u>Note</u>: I may assign different "X" companies to students so that we can discuss a variety of situations at the end of each class.