Professor Paul R. Brown  
E-mail: pbrown@stern.nyu.edu

Course Objectives  
This course is designed to prepare you to interpret and analyze financial statements effectively. This course explores in greater depth financial reporting topics introduced in the core course in financial accounting and also examines additional topics not covered in that course. The viewpoint is that of the user of financial statements. However, we develop sufficient understanding of the concepts and recording procedures to enable you to interpret various disclosures in an informed manner. We discuss each financial reporting issue in terms of its effect on assessments of a firm’s profitability and risk. We then apply the analytical tools and concepts in competitor analysis, credit decisions, bankruptcy prediction, and valuation. This course is designed primarily for students who expect to be intensive users of financial statements as part of their professional responsibilities.

Course Materials

The readings, problems, and cases for the course are taken from


The following internet sites may prove useful to you at some point in the course:


Assignments

Readings, cases and/or problems are assigned for most classes. You should come to class prepared to discuss your analysis of the cases and problems. Regular class participation is important to the learning process for you and your classmates. Absences from class will affect your class participation grade.

If collected, assignments are due at the end of the class assigned. No late assignments are accepted, nor are faxed or e-mailed assignments.

All assignments should be prepared using word processing software with type size no smaller that 12 point. During class discussions, please feel free to make changes to your solutions, but do so in a way that clearly indicates that they are the result of class discussion (e.g., using a different color of ink).

You may work in groups to discuss homework assignments. However, each person should prepare his/her own individual homework solutions to be submitted. Ideally you should work
through each day’s assignment on your own before discussing it with anyone. You can then make
changes to your solution based on your learning in any discussion. Interpretations of the analysis
should be in your own words.

Examinations

There will be three examinations given in the course. You must take all three exams. No
make-up exams will be given, with the weight attached to the missed exam assigned to the other
exams. The exams will be given in class and are open book and notes. The exams will generally
cover material studied in the course since the previous exam.

Grading

Grades will be based on the following weights:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Examination</td>
<td>30%</td>
</tr>
<tr>
<td>Second Examination</td>
<td>30%</td>
</tr>
<tr>
<td>Third Examination</td>
<td>30%</td>
</tr>
<tr>
<td>Class Participation and</td>
<td></td>
</tr>
<tr>
<td>Problem/Case Preparation</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Class Session

Class 1 – 24 January 2005
Introduction to Course and Financial Statement Analysis

Class 2 – 26 January 2005
Overview of Financial Reporting and Financial Statement Analysis
FRSA, Chapter 1
Complete Problem 1.1 (page 40)

Class 3 & 4 – 31 January 2005 and 2 February 2005
Asset and Liability Valuation and Income Measurement
FRSA, Chapter 2
Complete Problem 2.9 (page 109) for 31 January
Complete Problem 2.5 (page 103) for 2 February

Class 5 & 6 – 7 February 2005 and 9 February 2005
Income Flows versus Cash Flows
FRSA, Chapter 3
Complete Problems 3.8 and 3.9 (pages 147 and 149) for 7 February
Complete Problem 3.6 (page 144) for 9 February

Class 7 – 14 February 2005
Earnings management
FRSA, Chapter 6 (pages 342-348)

Class 8 – 16 February 2005
First Exam
Class 9 and 10 – 23 February 2005 and 28 February 2005  
FRSA, Chapters 4  
Complete Problem 4.9 (page 227) for 23 February  
Complete Case 4.2 (parts a. through c.) (page 252) and Calculate financial ratios listed in Exhibit 4.61 (page 260) for Gap Inc, for the reporting period ended 1 February 2003 (available on FFSA CD) for 28 February

Class 11 and 12 – 2 March 2005 and 7 March 2005  
FRSA, Chapter 5  
Complete Case 4.2 (parts d. through f.) for 2 March  
Complete Problem 5.1 (page 305) for 7 March

Class 13 and 14 – 9 March 2005 and 21 March 2005  
FRSA, Chapter 6  
Complete Problem 6.5 (page 392) for 9 March  
Complete Case 6.1 (page 406) from 21 March

Class 15 – 23 March 2005  
Comprehensive profitability and risk analysis case  
FRSA, Chapters 4-6  
Complete Case 4.1 (page 244)

Class 16 – 28 March 2005  
Readings, TBD  
Financial Reporting Worldwide  
IFRS Reporting

Class 17 – 30 March 2005  
Second Exam
Class 18 and 19 – 4 April 2005 and 6 April 2005
FRSA, Chapter 7
Complete Problem 7.2 (page 483) and Problem 7.3 (page 483) for 4 April
Complete Case 7.1, parts b. through h. ONLY (page 501) for 6 April

Class 20, 21 and 22 - 11 April 2005, 13 April 2005 and 18 April 2005
FRSA, Chapter 8
Complete Problem 8.1 (page 599) for 11 April
Complete Problem 8.4 (page 603) for 13 April
Complete Problem 8.12 (page 615) for 18 April

Class 23 and 24 – 20 April 2005 and 25 April 2005
FRSA, Chapter 9
Complete Problem 9.1 (page 689) and Problem 9.2 (page 690) for 20 April
Complete Problem 9.10 part a. ONLY (page 702) for 25 April

Class 25 – 27 April 2004
FRSA, Chapter 10
FFSA, Topics 15-16
Complete Problem 10.6 (page 790)

Class 26 – 2 May 2005
Third Examination

Note that there is no final examination in this course