

**45-802 Evaluation of Financial Information  
Carnegie Mellon University  
Graduate School of Industrial Administration**

Spring 2003 Mini-semester 4  
Section 45-802 A  
Tue and Thu 1:30pm – 3:20pm  
Cooper Auditorium

Instructor: Pierre Jinghong Liang  
Office: Posner 362  
Telephone: 412-268-3315  
<http://www.cmu.edu/blackboard/>

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### **Course Objective**

This course is designed to improve your ability to analyze financial reports and value companies. After completing this course, you will gain two valuable tools in your skill set: (1) financial statement analysis; and (2) equity valuation principles. The focus of financial statement analysis is a rigorous reformulation of published GAAP statements. The reformulation is needed to highlight the shareholder-value generation and distribution process of the firms. The focus of the equity valuation is theory-consistent valuation benchmarks. These benchmarks provide important guidance to further, more detailed firm valuation. Time permitting, we may cover special topics like accounting quality analysis, etc.

### **Course Material**

Textbook: Penman, Stephen, *Financial Statement Analysis and Security Valuation* first edition, New York, NY: McGraw-Hill/Irwin, 2001.

Textbook website (<http://www.mhhe.com/business/accounting/penman/>) contains additional material (notes, exercises, and excel template etc.) provided by the publisher.

Course website (<http://www.cmu.edu/blackboard/>) contains comprehensive, up-to-date course information, and additional reading material.

Cisco Systems, Inc. 2002 Annual Report  
(available for download from company website and blackboard)

Other suggested texts:

Palepu, K., V. Bernard, and P. Healy *Introduction to Business Analysis & Valuation*, 2<sup>nd</sup> edition, Cincinnati, OH: South-Western Publishing Co, 2000.

Stickney, C. P., and P. Brown *Financial Reporting and Statement Analysis: A Strategic Perspective* Fourth edition, Fort Worth, TX: The Dryden Press, 1998.

## Office Hours

Fixed: Mondays and Wednesdays 3:00pm to 4:00pm  
Variable: By appointment.

## Evaluation and Grading

Two Cases Reports (team)	40%
Problem Sets	30%
Final Exam	20%
Class Participation	10%

*Problem sets and Final Exam* are designed to reinforce your basic understanding of the principles of fundamental analysis. Three Problems sets will be assigned at least a week before the due day and the final exam is scheduled at 9-12noon on Saturday May 3. Students taking the course Pass-Fail may opt out the final exam requirement.

*Two Case Reports* Each team will be assigned two cases. For each case, a written report is required. One case is on financial statement analysis and the other on equity valuation. The case reports are graded on creativity, demonstration of depth of knowledge, rigor, and clarity in communication.

*Class Participation* You are encouraged to participate in and contribute to our class discussions on concepts, techniques, and real-life companies used as class examples. Also good citizenship in your teamwork is a part of your class participation.

## Teaching Assistants

Mike McCaffery

Email: [mmccaffe@andrew.cmu.edu](mailto:mmccaffe@andrew.cmu.edu)

Office hours: TBA

Location: TBA

Teaching assistant is available to answer questions about the lectures and problem sets, to hold review sessions (if necessary) and to provide other assistance to individual students and/or teams.

## Course Policies

University rules regarding student conduct are strictly enforced.

Late submissions of *Problem Sets* and *Case Reports* incur a penalty of one letter grade per day.

**45-802 Evaluation of Financial Information  
Spring 2003 Mini 4 Tentative Class Schedule**

Week	Dates	Topics	Readings	<i>Due</i>
<b>Financial Statement Analysis</b>				
1	Tue 3/11	Introduction Business Activities and Financial Statements	Ch 3, 4 and 7	
	Thu 3/13	Business Activities and Financial Statements (continued)	Ch 7	
2	Tue 3/18	Statement of Shareholders' Equity	Ch 8	
	Thu 3/20	Balance Sheet and Income Statement	Ch 9	
	<b><i>Mar 24-28</i></b>	<b><i>No classes (Spring Break)</i></b>		
3	Tue 4/1	Balance Sheet and Income Statement (continued)	Ch 9	
	Thu 4/3	Statement of Cash Flows	Ch 10	<b><i>Problem Set 1</i></b>
4	Tue 4/8	Analysis of Profitability and Growth	Ch 11 and 12	
	Thu 4/10	Analysis of Profitability and Growth (continued)	Ch 11 and 12	<b><i>Problem Set 2</i></b>
<b>Equity Valuation</b>				
5	Tue 4/15	Introduction to Valuation	Ch 5	
	Thu 4/17	Accounting-based valuation model	Ch 6	<b><i>Case 1</i></b>
6	Tue 4/22	Analysis of Price-to-Book Ratios	Ch 13	
	Thu 4/24	Simple Forecasting and Simple Valuation	Ch 14	<b><i>Problem Set 3</i></b>
7	Tue 4/29	Analysis of Price-Earnings Ratios	Ch 16	
	Thu 5/1	Full-Information Forecasting and/or Accounting Quality Analysis	Ch 15 and 18	<b><i>Case 2</i></b>
8	<b><i>May 3</i></b>	<b><i>Final Exam: 9 – 12noon, Room to be assigned</i></b>		