

# 45-802 Financial Statement Analysis

## Tepper School of Business

### Carnegie Mellon University

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Spring 2011 Mini 4  
Section 45-802 A  
Tuesdays and Thursdays 3:30 to 5:20pm  
Posner Room 152

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

#### 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) accounting-based 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 accounting-based equity valuation is theory-consistent fundamental valuation benchmarks. These benchmarks provide important guidance to further, more detailed firm valuation.

#### Course Material

##### Main Textbook:

Stephen Penman, *Financial Statement Analysis and Security Valuation*, fourth edition, New York, NY: McGraw-Hill/Irwin, 2010. ISBN-13 = 978-0-07-337966-1

##### Course website

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

##### Cisco Systems, Inc.

2010 Annual Report (Available for download from company website and blackboard)

#### Office Hours

Fixed: Tuesdays and Thursdays 12:30 to 1:30pm  
Variable: By appointment.

## Evaluation and Grading

Two Case Reports (team)	50%
Problem Sets (individual)	20%
Take-home Final Exam (individual)	20%
Class Participation	10%

**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 (The FSA Case) and the other on equity valuation (The Equity Valuation Case). The case reports are graded on rigor, creativity, demonstration of depth of knowledge, and clarity in communication.

**Problem sets and Take Home 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

**Class Participation** Each team will be asked make two presentations:

- Week 4 Presentation: short (~ 10 minutes) presentation on FSA Case progress (reformulation of the company's financial statements: shareholders' equity, balance-sheet, income statements and cash flow statements).
- Week 7 Presentation: longer (~ 15-18 minutes) presentation on findings of both the FSA Case and the Equity Valuation Case.

Additionally, students are encouraged to participate in and contribute to our class discussions on concepts, techniques, and real-world companies used as class examples. Also good citizenship in your teamwork is a part of your class participation.

## Course Policies

University and Tepper School rules regarding student conduct are strictly enforced.

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

**45-802 Financial Statement Analysis  
Spring 2011 Mini 4 Tentative Class Schedule**

Week	Dates	Topics	Readings	<i>Due the following Sunday</i>
<b>Financial Statement Analysis</b>				
1	Tue 3/15	Introduction	Ch 3 and 4	
	Thu 3/17	Business Activities and Financial Statements	Ch 7	
2	Tue 3/22	Statement of Shareholders' Equity	Ch 8	
	Thu 3/24	Balance Sheet and Income Statement	Ch 9	<b>Problem Set 1</b>
3	Tue 3/29	Balance Sheet and Income Statement (continued)	Ch 9	
	Thu 3/31	Statement of Cash Flows	Ch 10	<b>Case 1 update</b>
4	Tue 4/5	Analysis of Profitability and Growth / <b>FSA update presentations</b>	Ch 11 & 12	
	Thu 4/7	Analysis of Profitability and Growth / <b>FSA update presentations</b> (continued)	Ch 11 & 12	<b>Problem Set 2</b>
<b>Accounting-Based Equity Valuation</b>				
5	Tue 4/12	Introduction to Valuation	Ch 3 and 4	
	Thu 4/14	Accounting-based valuation model	Ch 5	<b>Case 1</b>
6	Tue 4/19	Analysis of Price-to-Book Ratios	Ch 13	
	Thu 4/21	Simple Forecasting and Simple Valuation	Ch 14	<b>Problem Set 3</b>
7	Tue 4/26	<b>FSA and Equity Valuation Presentations</b>		
	Thu 4/28	<b>FSA and Equity Valuation Presentations</b>		<b>Case 2</b>
<b>8</b>	<b>TBD</b>	<b>Take-home Final Exam</b>		