

Accounting
Course Number: 22:010:645
Course Title: Decoding of Corporate Financial Communications

COURSE DESCRIPTION

This course is designed to give you skills that will help you to use a firm's financial statements to evaluate the firm's strategy, compare its equity value to its market value, assess its liquidation risk, and explore its potential as either a target or an acquirer in a merger or acquisition. To enhance your communication and teamwork skills, most activities in this course will be organized around working in groups. The course is divided into two parts:

1) Concepts and Skills:

- Key topics in this course include analysis of firm strategy, accounting choices, ratios, estimated underlying value, equity, debt, and governance structure.
- Lecture material for each topic will be presented through Canvas as narrated PowerPoint slides
 - Read each chapter before you watch the related lecture(s).
 - After watching each week's lectures, your group will prepare written answers to assigned discussion questions (due the following Wednesday).
 - There will be an on-line exam after all material is covered.

2) Applications:

- Each group will select a different firm and evaluate that firm's performance and valuation using the concepts discussed in class from several viewpoints:
 - As bank loan officers and/or bond fund managers evaluating the firm's creditworthiness
 - As equity analysts preparing a buy/sell/neutral recommendation for the firm
 - As investors who wants to determine whether the firm is overvalued, undervalued, or fairly valued, based on the fundamental analysis techniques covered in this class and the stock price on the date the report is prepared
 - As either an acquirer or a target in a potential merger/acquisition
 - The results of your group's analyses will submitted as a report at the end of the semester.
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COURSE MATERIALS

Business Analysis Valuation: Using Financial Statements (2013) 5th Edition Krishna Palepu and John M. Healy, Cengage

- eText: ISBN-10 1285613090, ISBN-13 9781285613093
- Print: ISBN-10 1111972303, ISBN-13 9781111972301
- Note: Do not buy the more expensive version with cases since we will create our own project case. An older version of the text would also be fine.

Canvas: <https://canvas.rutgers.edu>

- Announcements
- Narrated PowerPoint lectures and lecture notes
- Class meetings, office hours, and exam
- Grades

LEARNING GOALS AND OBJECTIVES

The goal of this course is to provide you with an understanding of:

- The use of financial statements to evaluate a business entity
- The concepts and methods used by financial analysts, investment managers, and corporate strategists in the valuation of potential mergers
- The use of accounting information for business decisions and performance evaluation

At the end of this course, you should understand how financial statement data can be used to evaluate the fundamental equity value of a business entity, including ratio analysis, cash flow and residual income analysis, and other investment techniques that rely on fundamental analysis and strategic analysis.

PREREQUISITES

This course is open only to MACCY students

ACADEMIC INTEGRITY

I do NOT tolerate cheating. Students are responsible for understanding the RU Academic Integrity Policy (<http://academicintegrity.rutgers.edu/>).

I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must sign the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” I will screen all written assignments through *SafeAssign* or *Turnitin*, plagiarism detection services that compare the work against a large database of past work. Don’t let cheating destroy your hard-earned opportunity to learn. See business.rutgers.edu/ai for more details.

CLASS POLICIES

- There will be an introductory class meeting to talk about the general structure and expectations for this course and answer any questions.
- Expect this course to take a considerable amount of time. Plan on at least three hours to read the material each week, four to six hours to watch the lectures and take notes, plus time to do each week's homework and work on your group project. In addition, there will be three on-line team meetings to check on your group's progress with your project. Other team meetings can be scheduled as needed.
- Your group's answers to each week's discussion questions are due to be submitted via e-mail on the Wednesday after that material is covered.
- There is one open-note exam for this course. The exam will be held on-line
- Your group project report takes the place of a final exam. This report must be submitted via e-mail.

GRADING POLICY

- Computation of grades:

Team meetings	10%
Answers to discussion questions	30%
Exam	30%
Project report	<u>30%</u>
Total	100%

A	95-100%	C+	77-79%
A-	90-94%	C	73-76%
B+	87-89%	C-	70-72%
B	83-86%	D	60-69%
B-	80-82%	F	< 60%

- I will send you feedback on the grading of your exam at the end of the semester. You can also review your exam by making an appointment with me after the semester ends. Your exam will be kept on file for one year.
- There is no "extra credit" for this course.

COURSE SCHEDULE

WEEK 1:

Chapter 1 Framework for Business Analysis

- Role of financial statements for capital markets and business analysts

- Use of financial statements by external stakeholders and company insiders

Chapter 2 Strategy Analysis

- Importance of industry-level analysis
- Porter's 5 forces framework
- Competitive strategy analysis of the firm
- Strategy analysis for multi-business firms

Chapter 3 Overview of Accounting Analysis

- Factors affecting quality of financial reports
- Managers' discretion in accounting choices
- Managers' incentives for accounting choices

Homework: Questions for Week 1 (due via e-mail ())

Project:

- Choose your group and notify me of your group members
- Select your industry and firm, and register your choice with me
- Do a Porter 5 Forces analysis for your firm's industry
- Gather relevant news and analyze the firm's business strategy within its industry
- Start accounting analysis for your firm

WEEK 2:

Chapter 4 Implementing Accounting Analysis

- Using a template with standard terminology
- Analyzing elements of the balance sheet for possible distortions

Chapter 5 Financial Analysis

- Ratio analysis
- Cash flow analysis

Chapter 6 Prospective Analysis: Forecasting

- Effect of strategy and performance analysis on forecast assumptions
- Using time series behavior of key measures

Homework: Questions for Week 2 (due via e-mail)

Project:

- Do accounting analysis for your firm
- Do ratio and cash flow analysis for your firm
- Start prospective analysis for your firm
- **Team meeting:** () on-line

WEEK 3:

Chapter 7 Prospective Analysis: Valuation Theory and Concepts

- Converting forecasts into estimates of value
- Using discounted future dividends, cash flows, abnormal earnings to estimate value
- Using price-based multiples to estimate value

Chapter 8 Prospective Analysis: Valuation Implementation

- Choosing a discount rate for valuation models
- Forecasting financial performance

Chapter 9 Equity Security Analysis

- Investors' goals and concerns
- Creating a security analysis framework
- Buy-side v. sell-side analysts

Homework: Questions for Week 3 (due via e-mail)

Project:

- Do prospective analysis for your firm
- Do equity analysis for your firm
- **Team meeting:** () on-line

WEEK 4:

Chapter 10 Credit Analysis and Distress Prediction

- Financial distress and firm risk
- Stakeholders in a firm's creditworthiness
- Factors in debt financing
- Predicting financial distress and turnaround

Chapter 11 Mergers and Acquisitions

- Motivations for mergers
- Assessing whether a merger creates value

Chapter 12 Communications and Governance

- Transparency, corporate governance, and accountability issues
- Role of management communication with analysts and investors
- Role of the external auditor

Project:

- Do a credit analysis for your firm
- Consider your firm as a target or an acquirer in a possible merger or acquisition
- Consider corporate governance issues for your firm
- **Team meeting:** () on-line

WEEK 5:

- **Exam** (on-line) from () to ()

WEEK 6:

- **Project report** due by ()

SUPPORT SERVICES

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the

Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. More information can be found at ods.rutgers.edu.

[Rutgers University-New Brunswick ODS phone (848)445-6800 or email dsoffice@echo.rutgers.edu]

[Rutgers University-Newark ODS phone (973)353-5375 or email ods@newark.rutgers.edu]

If you are ***pregnant***, the Office of Title IX and ADA Compliance is available to assist with any concerns or potential accommodations related to pregnancy.

[Rutgers University-New Brunswick Title IX Coordinator phone (848)932-8200 or email jackie.moran@rutgers.edu]

[Rutgers University-Newark Office of Title IX and ADA Compliance phone (973)353-1906 or email TitleIX@newark.rutgers.edu]

If you seek ***religious accommodations***, the Office of the Dean of Students is available to verify absences for religious observance, as needed.

[Rutgers University-New Brunswick Dean of Students phone (848)932-2300 or email deanofstudents@echo.rutgers.edu]

[Rutgers University-Newark Dean of Students phone (973)353-5063 or email DeanofStudents@newark.rutgers.edu]

If you have experienced any form of ***gender or sex-based discrimination or harassment***, including sexual assault, sexual harassment, relationship violence, or stalking, the Office for Violence Prevention and Victim Assistance provides help and support. More information can be found at <http://vpva.rutgers.edu/>.

[Rutgers University-New Brunswick incident report link: <http://studentconduct.rutgers.edu/concern/>. You may contact the Office for Violence Prevention and Victim Assistance at (848)932-1181]

[Rutgers University-Newark incident report link: https://cm.maxient.com/reportingform.php?RutgersUniv&layout_id=7 . You may also contact the Office of Title IX and ADA Compliance at (973)353-1906 or email at TitleIX@newark.rutgers.edu. If you wish to speak with a staff member who is confidential and does **not** have a reporting responsibility, you may contact the Office for Violence Prevention and Victim Assistance at (973)353-1918 or email run.vpva@rutgers.edu]

If students who have experienced a temporary condition or injury that is adversely affecting their ability to fully participate, you should submit a request via <https://temporaryconditions.rutgers.edu> .

If you are a military **veteran** or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of **mental health** services, please use our readily available services.

[Rutgers University-Newark Counseling Center: <http://counseling.newark.rutgers.edu/>]

[Rutgers Counseling and Psychological Services–New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of **physical health** services, please use our readily available services.

[Rutgers Health Services – Newark: <http://health.newark.rutgers.edu/>]

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of **legal** services, please use our readily available services: <http://rusls.rutgers.edu/>

Students experiencing difficulty in courses due to **English as a second language (ESL)** should contact the Program in American Language Studies for supports.

[Rutgers–Newark: PALS@newark.rutgers.edu]

[Rutgers–New Brunswick: eslpals@english.rutgers.edu]

If you are in need of additional **academic assistance**, please use our readily available services.

[Rutgers University-Newark Learning Center: <http://www.ncas.rutgers.edu/rlc>

[Rutgers University-Newark Writing Center: <http://www.ncas.rutgers.edu/writingcenter>]

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]

[Optional items that many faculty include:

- Students must sign, date, and return a statement declaring that they understand the RU Academic Integrity Policy.

- Students must sign, date, and return a statement declaring that they understand this syllabus.]