

RUTGERS UNIVERSITY

RUTGERS BUSINESS SCHOOL

FINANCIAL STATEMENT ANALYSIS

22:390:613:40

SUMMER 2018

Instructor: Prof. Arthur S. Guarino, MBA, MSSc, JD
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By appointment
Meeting time: 6:00 PM to 9:30 PM Tuesdays
Classroom: Room 402 at 1 WP

I. COURSE OBJECTIVES: To provide a practical, useful, and intelligent methodology for understanding and analyzing the financial performance of a business entity or division for professional or personal investments. To recognize the key components of financial and investment activities that marks the difference between successful and failed businesses. To understand and analyze cash flow, credit situation, and equity structure of a business.

II. ASSIGNED TEXTS:

Textbook: Financial Statement Analysis and Valuation by P. Easton, M. McAnally, G. Sommers, X. Zhang, Cambridge Business Publishers, LLC, 5th edition, 2018, ISBN # 978-1-61853-233-6

Readings posted on Blackboard: I will place articles on Blackboard that will supplement the textbook and discussions in class. The student should check Blackboard regularly for the posting of new articles.

Daily reading: The Wall Street Journal. To apply the concepts and ideas discussed in class to current trends and developments.

III. DETAILED PROGRAM OF INSTRUCTION:

<u>DATE</u>	<u>TOPIC</u>	<u>TEXT MODULE</u>
May 29	Framework for analysis and valuation	Introduction, 1
June 5	Profitability analysis and interpretation	3
June 12	Credit risk analysis and interpretation	4
June 19	Revenue recognition and operating income	5
June 26	Asset recognition and operating assets	Quiz, 6
July 3	Liability recognition and non-owner financing	7
July 10	Equity recognition and owner financing	8, Case study presentations
July 17	Inter-corporate entities	9
July 24	Analyzing Leases, Pensions, and Taxes	10
	Forecasting financial statements	11
July 31	Operating income-based valuation	14
	Market-based valuation	15
August 7	Presentations and Project due	
August 14	Final Exam	

IV. METHODS and PROCEDURES: Lectures, discussions, problems, and readings. You must attend class in order to be aware of any material not covered in the textbook, any changes in the class program, and material covered on the quiz and the Final Exam. Homework problems will be assigned during class. The homework problems will greatly assist you on the exam and quiz. You must complete the homework problems which will be reviewed in class and have an effect on your final grade.

V. GRADING: There will be one (1) thirty-minute quiz given during the course (see below for date). The Final Exam will take up the entire period. The exam will consist of a combination of problems, multiple choice, short answer, and true or false questions.

Grading is broken down as follows:

Case study	30%
Final Exam	30%
Quiz	10%
Homework	10%
Course project	20%
TOTAL	<u>100%</u>

Key dates for course:

- Quiz June 26
- Case study presentation July 10
- Course Project August 7
- Final Exam August 14: 6:00 PM to 9:30 PM at 1 WP in Room 402

GRADING SCALE

<u>Letter Grade</u>	<u>Numerical Grade</u>
A	100-95
A-	94-90
B+	89-86
B	85-83
B-	82-80
C+	79-76
C	75-73
C-	72-70
D	69-60
F	59-00

VI. COURSE POLICIES: All college and departmental policies concerning attendance, incompletes, missed exams, etc., will be observed. For example, excused absences, make-up exams, or incompletes will be given for normally *acceptable* reasons. **THERE WILL BE NO EXCEPTIONS.** Unexcused absences from the quiz and exams will result in a grade of *zero (0)*.

VII. DISABILITY POLICY: Rutgers University welcomes students with disabilities into all of the University's educational programs. In order to receive consideration for reasonable accommodations, a student with a disability must contact the appropriate disability services office at the campus where you are officially enrolled, participate in an intake interview, and provide documentation: <https://ods.rutgers.edu/students/documentation-guidelines>. If the documentation supports your request for reasonable accommodations, your campus's disability services office will provide you with a Letter of Accommodations. Please share this letter with your instructors and discuss the accommodations with them as early in your courses as possible. To begin this process, complete the Registration form on the ODS web site at: <https://ods.rutgers.edu/students/registration-form>

VIII. ACADEMIC INTEGRITY: I do **NOT** tolerate cheating. Students are responsible for understanding the RU Academic Integrity Policy https://slwordpress.rutgers.edu/academicintegrity/wpcontent/uploads/sites/41/2014/11/AI_Policy_2013.pdf 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.”*** Do not let cheating destroy your hard-earned opportunity to learn. See business.rutgers.edu/ai/ for more details.

IX. 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: <https://ods.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: <https://veterans.rutgers.edu/>

If you are in need of mental health services, please use our readily available services through 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 through 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>

COURSE PROJECT FORMAT

The course project is designed to analyze the financial statements and situation of major corporations and use the material covered in the course. The goal behind the course project is to develop, enhance, and utilize the student's ability to analyze a corporation's financial situation.

The students must form groups of maximum six (6) students. A team leader must be chosen by each team. The team leader will meet with the professor on a periodic basis regarding the progress of the project, the performance of the team members, and any problems, questions or concerns that may arise.

The course projects must:

- be typed with a maximum font size of 12
- be a maximum of 30 pages
- be double-spaced
- have citations when needed
- graphs and charts must be in the body of the analysis: Any charts or graphs that take up an entire page will not constitute a typed page
- have a cover page with the name of the assigned corporation, the names of the team members, date submitted, the professor's name, course name and number
- each section of the course project must state its author
- have a one-inch margin (top, bottom, right and left) on each page
- contain a bibliography page of outside research done and used in the course project
- a blank end page for my comments

Each student will be graded on their writing, analysis, research, organization of the material, and insights.

The course project must be broken down into the following sections:

- ⇒ **Company background and history** = must state the history of the corporation in a clear and concise format.
- ⇒ **Macroeconomic outlook** = This must be an analysis of the U.S. and global economy in the short term (1 year) and long term (5 years). The analysis must show how the U.S. and global economy affects the corporation your group is researching. Among the points to discuss are: What is the current state of the economy and what do economists, business and political leaders feel the situation will be in the short and long term? Does the economy have a strong impact on your firm's financial situation?
- ⇒ **Industry outlook** = an analysis of the industry that the corporation is in. This section must analyze how the state of the industry affects the corporation being analyzed, who the competition is, the threats and opportunities the competition presents to the corporation under analysis, and the current and future state of the industry. Also, where does your firm fit in the marketplace: is it a major player, in the middle of the pack, a new player, or falling behind and why? Are there new challenges for the industry, new issues that must be addressed, great growth opportunities in the U.S. and abroad and how are they being met? What do industry watchers and analysts have to say and what do you think will happen in the long and short term and the affects it will have on your firm?
- ⇒ **Firm's strong points** = an in-depth financial analysis of the firm's strong points. An analysis of the firm's current and past financial statements for the past five (5) years. The analysis must also state why the corporation enjoys these strong financial points.
- ⇒ **Firm's weak points** = an in-depth financial analysis of the firm's weak points. This section must show the firm's weak points that could affect it in the long and short term. The analysis must state how these weak points came about and how they could be corrected, if possible.
- ⇒ **Conclusion and outlook** = must state the group's conclusion regarding the firm's current and future financial situation. For example, the conclusion and outlook must state whether the firm is a good candidate for a merger and acquisition, a hostile takeover, if it will enjoy solid future profitability and growth, if it will be an industry leader, or is headed toward financial disaster. Does the group think this firm is a good investment prospect? Given the state of the economy, the industry, and the firm itself, if you were a portfolio manager or analysts, would you recommend this firm and why? What are the group's long, short and medium-term recommendations for this firm?

Each of the previous sections must be a maximum of five (5) pages and a minimum of four (4) pages.

Grading:

Individual grade = 50 points maximum
+Group grade = 50 points maximum
Total grade = 100 points maximum

If you have any questions, concerns or problems while working on the course project, please feel free to see me before or after class, or during my office hours.