I. CONTACT DETAILS

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II. COURSE DESCRIPTION

Financial reporting provides a window into the operational and financial workings of a company. However, translating this information into actionable insights is anything but straightforward. It requires an understanding of Generally Accepted Accounting Principles (GAAP), the quality of financial information, and the adjustments and analyses required to accurately measure and evaluate profitability, exposures, growth prospects, and value.

The course starts with a review of financial reporting and then focuses on various modules of fundamental analysis, including performance evaluation, earnings quality, risk assessment, forecasting, and valuation. The final part of the course is devoted to a deeper dive into the reporting and analysis of selected line items from the financial statements (e.g., income taxes, leases, pension, business combinations).

To allow for dynamic progress, the class schedule is flexible:

<table>
<thead>
<tr>
<th>Topic</th>
<th># of class meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting</td>
<td>4-6</td>
</tr>
<tr>
<td>Ratio analysis</td>
<td>4-6</td>
</tr>
<tr>
<td>Relative valuation</td>
<td>1</td>
</tr>
<tr>
<td>Forecasting and DCF</td>
<td>3-4</td>
</tr>
<tr>
<td>Line-item analysis</td>
<td>8-10</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
</tr>
</tbody>
</table>

While the course covers the theoretical underpinning of the various analyses, it focuses on implementation and practical uses. Many real-world examples will be analyzed, including using Excel tools that will be provided to the students.

The primary objective of the course is to acquire a deep understanding of accounting information and how to intelligently use it in making investment, credit, and similar resource allocation...
decisions. Such knowledge is required of executives, consultants, bankers, analysts, investment managers, and other users of financial information.

In a review conducted in 2011, the committee for evaluating elective courses concluded that “this is an excellent, carefully constructed course which provides students with valuable insights and lasting concepts.” In the same year, Professor Nissim won the “Dean’s Award for Teaching Excellence” for developing and teaching this course.

A recent email from a student (with permission, of course): “I just wanted to thank you again for the great semester ... I loved my internship and I’ve already accepted my offer to return to .... Your class was the best preparation I had for investment banking. All of the normalizing adjustments and deep dives into line items really helped me succeed because several times during the internship I was called on to make considerable accounting adjustments to make companies more comparable for comparison and had I not taken Earnings Quality I would not have been as prepared to handle the assignments. I was better at my job because of your course so I really wanted to express my gratitude for all the time you took creating your presentations and answering questions.”

III. COURSE ADMINISTRATION

Class Material

The course material consists of detailed presentations, excel workbooks, practice exercises, and problem sets. These items cover all the course content. For those interested in additional readings, Section VI provides a categorized list of optional readings, and Section V provides a textbook recommendation. Skimming through the presentations prior to class, and reviewing them carefully after class, as well as solving the practice exercises and problem sets, would help reinforce the material. This is important especially because for some topics we will not have sufficient class time to discuss all the points and examples contained in the presentations.

All items (except the textbook) will be made available electronically before class. You may use a laptop or tablet during class to help you follow the discussion, to take notes, or to add comments to the electronic documents as needed (please use the laptop/tablet for those purposes only – otherwise, it may negatively impact your learning experience and that of your peers). One objective of the class is that you will each obtain a detailed, familiar, and customized (through your additions) set of notes that you will be able to use in your careers.

There will be four assigned problem sets to be handed in:

<table>
<thead>
<tr>
<th>Problem Set</th>
<th>Due date</th>
</tr>
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<tbody>
<tr>
<td>1. Financial reporting</td>
<td>February 18</td>
</tr>
<tr>
<td>2. Ratio analysis</td>
<td>March 6</td>
</tr>
<tr>
<td>3. Valuation</td>
<td>April 8</td>
</tr>
<tr>
<td>4. Earnings quality</td>
<td>May 1</td>
</tr>
</tbody>
</table>
Class Meetings

<table>
<thead>
<tr>
<th>Section</th>
<th>Days</th>
<th>Time</th>
<th>Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>B8008-01</td>
<td>M, W</td>
<td>9:00-10:30</td>
<td>Uris 142</td>
</tr>
<tr>
<td>B8008-02</td>
<td>M, W</td>
<td>10:45-12:15</td>
<td>Uris 142</td>
</tr>
</tbody>
</table>

First class: January 30; Additional class: February 1 (Friday); last class: May 1. Final exam: May 9, 9:00-12:00pm. Per CBS policy, students are expected to attend the class meetings.

Grade

The course grade will be based on attendance (10 points), problem sets (40 points; 4 problem sets, 10% each), and a Final exam (50%). Problem sets should be submitted to Canvas before the beginning of class on the respective due dates (one late submission is allowed). Grading of the problem sets is based on effort. The final will be open books: including laptop, but laptop use is restricted to accessing electronic copies of course material (no communication or listening devices). Finals from previous years are available on Canvas.

IV. CONNECTION WITH THE CORE AND OTHER ELECTIVES

This course builds on knowledge from the core courses Financial Accounting (B6000) and Corporate Finance (B6300), which introduce students to basic concepts of financial reporting and analysis. In particular, B8008 requires a basic understanding of the following:

- Financial statements, including the balance sheet, income statement, and cash flow statement
- How accrual accounting differs from cash accounting, including revenue recognition, expense recognition (matching principle), and the basic principles of asset and liability recognition and measurement.
- Time value of money and present value calculations

In B8008, students acquire a deep understanding of accounting information and how to intelligently use it in making investment, credit, and similar resource allocation decisions.

V. RECOMMENDED TEXT


VI. OPTIONAL READINGS

The studies (listed below) are generally available either in the “Files” directory on Canvas or through a link to SSRN. Some of the papers are also available on my webpage (http://www.columbia.edu/~dn75/).

Profitability


**Earnings Quality**


**Risk**


**Relative valuation**


**Forecasting and DCF**