

University of Notre Dame

Mendoza College of Business

ACCT 70311- Analysis & Valuation Using Financial Statements

Syllabus – Spring 2020

Contacts

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Course Description

The course has two parts:

Part 1: Valuation of a stock-exchange-listed company using financial statements

Part 2: Fraud Day: April 24, 2020

In Part 1 of the course, we implicitly assume that the financial statements are a good faith genuine attempt to present the financial position of the company. This is, of course, usually the case. In Part 2, we address the fact that financial statement fraud does, indeed, occur.

Part 2 of the course is a one-day event organized especially for students enrolled in ACCT70311. The event is, however, attended by students from other classes at the University of Notre Dame, and is also open to the public.

Part 1: Valuation of a stock-exchange-listed company using financial statements

This part of the course deals with the analysis of financial information, particularly firms' financial statements, with the goal of determining value. The primary focus will be on valuing operating activities, with some attention given to the valuation of debt and equity. Methods to determine value using fundamental analysis and forecasting will be examined in detail. The methods will be applied in the valuation of publicly listed companies.

Emphasis will be given to the discounted cash flow valuation model and two accounting-based valuation models: the residual operating income and the abnormal operating income growth valuation models. The appeal of the accounting-based models is that valuation is based on numbers that are not only available ex-post but, they are also commonly available ex-ante as forecasts. Companies have used accounting information for ex-post performance evaluation for decades but different (generally cash flow) data have been used for ex-ante decision making. Now we have methods, which permit use of the same data for ex-ante decision making and for ex-post performance evaluation.

Topics include a comparison of cash-flow-based and accounting-based approaches to valuation, methods of financial statement analysis, dealing with various accounting methodologies, forecasting firms' future performance, and the analysis of risk.

The valuation models covered in this course are those which accountants use in determining fair value of assets on the Balance Sheet. Perhaps the most important examples of their use are: (1) valuing Level 3 assets under ASC 820 (FAS 157); and (2) determining goodwill impairment under ASC 350 (FAS 142) when market value is unknown.

Student Learning Outcomes and Objectives:

- 1) Students will be able to calculate value using different valuation methodologies including discounted cash flow, residual operating income, and abnormal operating income growth models.
- 2) Students will understand the role of financial statements in determining value as well as how to use financial statements to find and focus on the relevant information.
- 3) Students will be able to perform traditional ratio analysis as well as understand its role in forecasting and valuation.

This class will provide a strong foundation and practical tools for careers in finance and/or accounting. The material you will learn is soundly-based on valuation theory and, at the same time, you will find that it is also quite practical and relevant.

Required Textbook:

Valuation Using Financial Statements, 2e by Sommers, Easton and Drake.

Class Schedule

Date	Topic
1-13-20	Introduction
1-15-20	Chapter 1: The link between valuation and financial statement analysis
1-20-20	Chapter 2: The role of accounting in valuation
1-22-20	Chapter 2: $FCF = NOPAT - \Delta NOA$
1-27-20	Chapter 3: Identifying operating activities
1-29-20	Chapter 4: Digging into the notes (use of additional information to enhance valuation)
2-3-20	Chapter 4 continued
2-5-20	Chapter 5: Adjusting accounting information
2-10-20	Chapter 5 continued
2-12-20	Chapter 6: Analysis of enterprise operations
2-17-20	Chapter 6 continued
2-19-20	Accounting quality
2-24-20	Chapter 7: Full information forecasting for valuation
2-26-20	Chapter 8: Valuation using multiples
3-16-20	Chapter 9: Cost of capital for operations
3-18-20	Chapter 9 continued
3-23-20	Chapter 10: Valuation using forecast of cash flows
	Chapter 11: Valuation using residual operating income
3-25-20	Chapter 14: Steady state and forecast horizon
3-30-20	Chapter 12: Valuation using the abnormal earnings growth valuation model
4-1-20	Chapter 13: Valuing equity and sensitivity analysis
4-6-20	Presentations of Company valuations
4-8-20	Presentations of Company valuations

Presentation & Quiz Schedule

Date	Topic
1-22-20	Chapters 1 & 2
1-29-20	Chapter 3
2-5-20	Chapter 4
2-12-20	Chapter 5
2-19-20	Chapter 6
3-16-20	Chapters 7 & 8
3-25-20	Chapters 9 & 10
4-6-20	Chapters 11 & 12

Homework Due Dates

Date	Topic
1-16-20	Homework 1
2-18-20	Homework 2

Part 2: Financial Statement Fraud

**Friday, April 24 - 9 am to 5 pm
Downes Club Ballroom, East Side Stadium Complex**

Six speakers will present their unique perspectives and experiences of fraud.

Speakers:

- **Andy Richmond**, a Senior Vice President at Cornerstone Research in Chicago and forensic accounting expert who has led independent forensic accounting investigations for boards, special committees and management. Richmond investigated high-profile fraud schemes including Bernie Madoff, Stanford Financial, and HealthSouth. He will discuss the role of forensic accountants in investigations and how fraudsters cook the books, as well as several fraud case studies.
- **Matt Jacques**, Chief Accountant in Enforcement Division of the Securities and Exchange Commission. Jacques, who for six years served as a senior enforcement accountant in the SEC's Boston Regional Office, rejoins the SEC enforcement staff from AlixPartners, where he has been a managing director since 2013. He has led teams conducting complex forensic investigations in high-profile accounting, securities, anti-corruption and other financial matters. He has nearly two decades of experience as a public accountant, regulator, expert witness and forensic accountant. He is a certified public accountant and certified fraud examiner. Prior to working at the SEC from 2007 to 2013, Mr. Jacques was a forensic accountant at Ernst & Young, where he was engaged by counsel to provide accounting expertise in investigations and litigation. He began his career in public accounting as an auditor at Arthur Andersen.
- **Christopher Norris**, a director at global interrogation training company Wicklander-Zulawski & Associates. Norris, an expert in loss prevention and investigation, and has conducted numerous investigations for both private companies and public agencies. He will present an overview of the WZ Non-Confrontational Method of interview, which is designed to provide the fraud investigator a strategy to address integrity issues and those involved in fraud.
- **Sean Berry**, a prosecutor for the US Department of Justice. Mr. Berry has extensive experience investigating and prosecuting complex financial crimes. He teaches Federal Criminal Practice at the University of Iowa and trial advocacy at the National Advocacy Center, an arm of the US Department of Justice that provides training to Department prosecutors.
- **Weston Smith**, who alerted federal investigators in 2003 to the massive accounting fraud perpetrated at health-care giant HealthSouth. Smith was eventually sentenced to 27 months in prison for his role – one of the longest sentences ordered for any of the HealthSouth defendants.
- **Paul Holderman**, special agent, Federal Bureau of Investigation. Holderman will discuss how the FBI handles whistleblower cases and financial fraud.

Grading Policy:

Although grades are important in the short-run, a true measure of your success comes in how much you learn that will be useful in your future career. Your goal should be to work hard and do the best you can to maximize your learning. I am not looking for you to simply memorize information; in fact, such an approach to learning will lead to much frustration in this class. You will get most from the course if you focus on understanding and connecting the material that is covered. What I expect of you is that you make the effort to make sense of what you read and what we discuss, and enter into a dialogue with me and your peers about it.

Mastering and making sense of the material we cover is the key to maximizing your grade. I am more than happy to help you, in and out of class, achieve this; I strive to be a teacher, after all. However, the discipline, timely study and preparation habits, and simple hard work necessary to do well are matters largely in your own hands. I will not give you grades; you will earn them.

The percentage earned in the class may be adjusted downward due to deficiencies in professionalism. A downward adjustment of up to 10% from student's total may be made at the professor's discretion based upon professionalism in class.

Course and Instructor Policies:

Attendance, Participation, and Professionalism

Class attendance is expected as it will be beneficial to mastering the material. You should be *in your seat and ready* to begin discussion of the material at hand at the beginning of class.

“Ready” means having your notes and text open and on the table before you *at the beginning of class*. Late arrivals should expect to be penalized through determination of the participation adjustment. Your cell phone shall not ring during class and you will neither send nor receive text messages during class. You will focus on the class. If you miss a class, it is your responsibility to get notes from a classmate.

You are expected to read *all* of the required textbook material and related readings in a timely fashion. Part of *taking* a class is being *prepared* for class. This means you will have done your readings *before* we treat them in class. Failure to do so will almost assuredly lead to an incomplete grasp of the material, inability to contribute to and/or learn from class discussions, and yield a lower grade in the course. As the professor will regularly cold call on students, lack of preparation will yield uncomfortable situations for you now just as it would in a meeting with a client or supervisor. The good news is this is avoidable by being prepared to discuss the topic, or at least have questions related to the topic.

Discussion and cold calling allow practice in articulating your positions and defending them verbally, which is a necessary business skill regardless of discipline. You will have to speak publicly, in meetings or groups as a business person. You might as well start the practice now. Please do not hesitate to volunteer when you have something of value to add to the discussion and to raise questions if you are confused. Textbook readings are shown in the attached schedule and additional materials may be made available on Sakai.

Professionalism is measured based on your preparation for class, engagement in class activities, and your conduct in a business-like manner. The possible adjustment of the final grade for professionalism will be evaluated relative to other students in the class. Please bear

in mind that virtually all grading schemes are subjective to some extent, and participation is no exception. You are preparing for positions in business and as such are expected to be acting accordingly.

Honor Code

All students must familiarize themselves with the Honor Code on the University's website and pledge to observe its provisions in all written and oral work, including oral presentations, quizzes and exams, and drafts and final versions of reports.

E-Mail and Sakai

During the semester, e-mail messages will be sent to your nd.edu account. Additionally, the class Sakai page will be updated regularly with useful course information. You are responsible for the content of e-mail messages and the material posted to Sakai. Information on Sakai will include the syllabus, project description, course up-dates, hand-outs, etc.

Assessment:

- Presentations¹
 - Phase of the project 10
 - Final valuation 10
- Questions / suggestions from group with comparable company
 - Phase of the project 5
- Questions / suggestions from other class members
 - Phase and final 5
- Final Valuation Report 20
- Teammate evaluations 5
- Milestone completion 5
- Homework 10
- Quizzes or COVID19 Paper
 - There will be 8 quizzes 10 (best 6 scores)
- Final Exam 20

¹ A detailed discussion of the presentations is provided in the Valuation Project Guide.