FIN560
FINANCIAL STATEMENT ANALYSIS
Module 2, Winter 2015

Course Information

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Office Hour: Monday and Thursday 10:00~10:20 am

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Classes:
Lectures: Monday and Thursday 10:30 am ~ 12:20 pm
Venue: PHBS Building, Room 313

Course Objectives

This course is an introduction to financial statement analysis (FSA) that will provide you with:

- Financial statement analysis skills and techniques for deriving inferences from financial statements and related information. These skills include fundamental analysis, forecasting, preparation of pro-forma financial statements, and estimation of future cash flows.
- A framework for business valuation using financial statement data and other information.
- Insights into the usefulness, and the limitations of Financial Statement Analysis as applied in different decision contexts (e.g., investment decisions, lending decisions, performance evaluation, etc.).
- An understanding of how incentives facing the producers and users of financial statement disclosures affect the content of these disclosures and the inferences they convey.

This course is intended for students with little or no background in security analysis. Students with work experience in security analysis or related fields will probably find this course redundant, but still useful.

These objectives are ambitious, requiring a synthesis of: (1) traditional financial analysis techniques (ratio analysis, common size statements, forecasting, etc.), (2) knowledge of generally accepted accounting principles and their applications, and (3) the application of valuation frameworks from economics and finance.

Prerequisites: Financial Accounting

Course Materials

Financial Reporting, Financial Statement Analysis, and Valuation: A Strategic Perspective, Sixth Edition by Stickney/Brown/Wahlen (SBW) ISBN-10: 0324302959 ISBN-13: 9780324302950

Grading

Exam I	100 points (20%)	
Exam II	100 points (20%)	
Class participation	50 points (10%)	
Homework	50 points (10%)	
Team project	100 points (20%)	Total 500 points

Exams

The exams will consist of multiple choices and essays. The exam will be designed to measure your knowledge and understanding of the material presented in the class lectures. You may bring a non-programmable calculator to the exams.

Class Participation

Class participation includes, but not limited to, attending class regularly and on time, taking active part in class discussions, preparing well in advance for class, etc.

Because of the complexity of the material and pace of the class, it is imperative that you attend every class. Laptop and cell phone use are not allowed in the classroom. A name card should be displayed during the class to facilitate the class discussion. If you have to miss a class, please notify me in advance through email, call or your classmates. If a class has to be canceled due to an emergency, I will attempt to notify you by e-mail or phone. If you miss a class it is your responsibility to keep yourself apprised of what occurred during your absence.

Homework

The homework assignments will emphasize the comprehension of these principles and concepts, problem solving, and applications to business situations.

Team Project

You are required to choose two companies in an industry and to analyze the prospects of the companies' future performance and condition and recommend whether investors should purchase their stocks. Your analysis should be based on the **2014** annual report of the companies and other published sources. The write-up should:

• Calculate ratios from the following categories:

- Liquidity (current ratio, quick ratio)
- Capital structure (debt-equity ratio, interest coverage ratio)
- Asset management (A/R turnover, inventory turnover, average collection period)
  Profitability (return on assets, return on equity, profit margin)
- Market value (price-earnings ratio, price-to-book value ratio). But, I strongly recommend you to follow the structure of financial ratio analyses presented in class.

• Estimate the value of equity for the firms, employing one of valuation models we learned. Make assumptions to make this problem easier.

• Evaluate the major strengths and major weaknesses of the firms based on the accounting (financial) ratios above (consider competing firms or industry norms for analysis).

• Discuss the other strengths and weaknesses of the firm based on non-accounting information.

Course project is intended to give you an appreciation of the accounting information published by corporations. I recommend you to write a project report in a PPT file, which is expected to be about 20 slides (including tables and exhibits). You should design the report so that students in an introductory financial accounting course can understand it.

Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

Class Schedule

Week	Class Date	Subject	Learning Objectives	HW
1	Nov 12	Ch. 1 Financial Reporting, Financial Statement Analysis, and Valuation	Introduce six steps in financial statement analysis and discuss sources of financial statement information	1.11
2	Nov 16	Ch. 2 Asset and Liability Valuation and Income Measurement	Discuss asset and liability valuation income recognition with cases and understand the analytical framework	2.4, 2.5, 2.6
	Nov 19	Ch. 3 Income Flows versus Cash Flows: Key Relationships in the Dynamics of a Business	Explain the relationship between operating cash flows and net income and learn the statement of cash flows	3.6, 3.7, 3.8
3	Nov 23	Ch. 4 Profitability Analysis	Understand the ROE decomposition and other financial ratios as a building block	4.6~9, 4.14 a, d
	Nov 26	Ch. 4 Profitability Analysis		
4	Nov 30	Ch. 5 Risk Analysis	Discuss the framework for risk analysis and introduce the bankruptcy prediction model	5.16
	Dec 2	Ch. 6 Quality of Accounting Information	Explain quality of accounting information and discuss details of income statement items plus earnings management	6.10 a, b, d, 6.11
5	Dec 7	Ch. 7 Revenue Recognition and Related Expenses	Discuss criteria and forms of revenue and expense recognition and explain fixed assets and intangible assets	7.13~14
	Dec 10	Ch. 8 Liability Recognition and Related Expenses	Discuss liability recognition and discuss hybrid securities, off-balance-sheet, leases, and pension liabilities	8.9, 8.13
6	Dec 14	Ch. 9 Intercorporate Entities Ch. 10 Forecasting Financial Statements	Discuss accounting methods for various types of intercorporate entities and introduce the forecasting principles	9.14, 9.18, 10.1
	Dec 17	**Exam I**	Ch. 1 ~ Ch. 9	
7	Dec 21	Ch. 11 Expected Rates of Return and the Dividends Valuation Approach	Discuss valuing the firm using the dividends valuation approach	11.3
	Dec 24	Ch. 12 Valuation: Cash Flow-based Approaches	Discuss valuing the firm using the cash flow-based valuation approach	12.3
8	Dec 28	Ch. 13 Valuation: Earnings-based Approaches	Discuss valuing the firm using the earnings-based valuation approach	13.3
	Dec 31	Ch. 14 Valuation: Market-based Approaches	Discuss the use of market multiples in valuing the firm	14.4
9	Jan 4	Group project presentation		**Project Due**
	Jan 7	Group project presentation		
10	Jan 11	**Exam II**	Ch. 10 ~ Ch. 14	