

Shanghai Jiao Tong University

AC410 Financial Statement Analysis (Online)

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| Instructor Information | <p>Wanyi Chen Home Institution: Shanghai University Email: rebeccacwy@shu.edu.cn Office Hours: Determined by Instructor</p> | | |
| Term | December 17, 2020 - January 8, 2021 | Credits | 4 units |
| Course Delivery | <p>The class will be delivered in the format of online. Other than recorded lecture videos, the instructor will arrange 3 hours' real-time interactions with students per week (via discussion forum, zoom meeting, and WeChat). The workload students are expected to complete to properly pass this course is about 16 hours per week.</p> | | |
| Required Texts (with ISBN) | <p>Financial Statement Analysis and Security Valuation, 5th edition, by Stephen Penman, ISBN: 978-0078025310</p> | | |
| Prerequisite | <p>ACC311 Financial Accounting or equivalent (Recommended)</p> | | |

Course Overview

This course focus on the analysis of financial statements for evaluating firm performance and risk. The primary emphasis is on equity valuation, with a focus on developing and applying methods for valuing firms using financial statement analysis.

The course has the very practical emphasis. The methods of fundamental analysis will be examined in detail. Topics include, but are not limited to: models of shareholder value, traditional ratio analysis, a comparison of accrual accounting and discounted cash flow approaches to valuation, the analysis of profitability, growth and valuation generation in a firm, diagnosing accounting quality, forecasting earnings and cash flows, pro-forma analysis for strategy and planning, and the determination of price/earnings (P/E) and market-to-book (P/B) ratios. The course is of interest to those contemplating careers in equity research, security analysis, consulting, public accounting, auditing, and corporate finance.

Course Goals

By the end of the course students should have answers to the following questions:

1. How are fundamental values (or “intrinsic values”) estimated?
2. How does one pull apart the financial statements to get at the relevant information for valuing equities?
3. What is the relevance of cash-flows? Of dividends? Of earnings? Of book values? How are these measures treated in a valuation?
4. What is growth? How does one analyze growth? How does one value a growth firm?
5. What are the pitfalls in buying growth?
6. How does one challenge the growth expectations implicit in stock prices?
7. How does ratio analysis help in valuation? • How does profitability tie into valuation?
8. How does one analyze the quality of financial reports? How can the accounting trip you up?
9. How does one deal with the accounting methods used in financial statements?
10. How is financial analysis developed for strategy and planning?
11. What determines a firm's P/E ratio? How does one calculate what the P/E should be?
12. What determines a firm's market-to-book (P/B) ratio? How does one calculate what the P/B should be?
13. How does one evaluate risk? For equity? For debt?
14. How does one evaluate an equity research report? What does a good one look like?
15. How does one trade on fundamental information?

Learning Outcomes

On completion of this subject students should



1. Attend all classes and be responsible for all materials covered in class. Unexcused absence not only hurts your attendance score but also may have a negative impact on your exam performance;
2. Complete and submit homework independently. Students can work together to discuss homework, but submission must be done on an individual basis;
3. No electronics are allowed in class unless permitted by the instructor.

Grading Policy

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| Homework | 30% |
| Midterm Exam | 30% |
| Final Exam | 40% |

Grading Scale is as follows

| Number grade | Letter grade | GPA |
|--------------|--------------|-----|
| 90-100 | A | 4.0 |
| 85-89 | A- | 3.7 |
| 80-84 | B+ | 3.3 |
| 75-79 | B | 3.0 |
| 70-74 | B- | 2.7 |
| 67-69 | C+ | 2.3 |
| 65-66 | C | 2.0 |
| 62-64 | C- | 1.7 |
| 60-61 | D | 1.0 |
| ≤59 | F (Failure) | 0 |



Class Schedule

| Date | Lecture | Readings | Online Schedule |
|--------|---|----------|--|
| Day 1 | Introduction to Investing and Valuation | 1 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 2 | Introduction to Financial Statements | 2 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 3 | How Financial Statements Are Used in Valuation | 3 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 4 | Cash vs. Accrual Accounting, and Discounted Cash Flow Variation | 4 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 5 | Accrual Accounting and Valuation: Pricing Book Values | 5 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 6 | Accrual Accounting and Valuation: Pricing Earnings | 6 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 7 | Review | | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 8 | Midterm exam | | |
| Day 9 | Valuation and Active Investing | 7 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 10 | Viewing the Business Through the Financial Statements | 8 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 11 | The Analysis of the Statement of Shareholders' Equity | 9 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 12 | The Analysis of the Balance Sheet and Income Statement | 10 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |



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| Day 13 | The Analysis of the Cash Flow Statemen | 11 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 14 | The Analysis of Profitability | 12 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 15 | The Analysis of Growth and Sustainable Earnings | 13 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 16 | The Value of Operations | 14 | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 17 | Review | | approximately 90 minutes watching video lectures plus 40 minutes online interaction via Zoom |
| Day 18 | Final exam | | |