



AC410 Financial Statement Analysis

Instructor Information	Wanyi Chen Home Institution: Shanghai University Email: rebeccacwy@shu.edu.cn Office Hours: Determined by Instructor		
Term	December 13, 2021 - January 7, 2022	Credits	4 units
Class Hours	Monday through Friday, 120 mins per teaching day		
Discussion Sessions	2.5 hours each week, conducted by teaching assistant(s)		
Total Contact Hours	66 contact hours (1 contact hour = 45 mins, 3000 mins in total)		
Required Texts (with ISBN)	Financial Statement Analysis and Security Valuation, 5th edition, by Stephen Penman, ISBN: 978-0078025310		
Prerequisite	AC311 Financial Accounting or equivalent (Recommended)		



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

Class Attendance	10%
Homework	20%
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
Day 1	Introduction to investment and valuation	1
Day 2	Introduction to financial statements	2
Day 3	How Financial Statements Are Used in Valuation	3
Day 4	Cash vs. Accrual Accounting, and Discounted Cash Flow Variation	4
Day 5	Accrual Accounting and Valuation: Pricing Book Values	5
Day 6	Accrual Accounting and Valuation: Pricing Earnings(1)	6
Day 7	Accrual Accounting and Valuation: Pricing Earnings(2)	6
Day 8	Review	
Day 9	Midterm exam	
Day 10	Valuation and Active Investing	7
Day 11	Viewing the Business Through the Financial Statements	8
Day 12	The Analysis of the Statement of Shareholders' Equity	9
Day 13	The Analysis of the Balance Sheet and Income Statement	10
Day 14	The Analysis of the Cash Flow Statement	11
Day 15	The Analysis of Profitability (1)	12
Day 16	The Analysis of Profitability (2)	12
Day 17	The Analysis of Growth and Sustainable Earnings	13
Day 18	The Value of Operations	14
Day 19	Review	
Day 20	Final exam	

* Fee-paying (non-exchange) program held by School of Continuing Education, SJTU.

* 此课程由上海交通大学继续教育学院开设，所提供课程不包括在上海交通大学与海外高校校级合作的学分互认范畴之内。