



AC410 Financial Statement Analysis (Online)

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| Instructor Information | Yan Zhang Home Institution: Shanghai Maritime University Email: yzhang@shmtu.edu.cn | | |
| Term | December 13, 2021 - January 7, 2022 | Credits | 4 units |
| Course Delivery | The class will be delivered in the format of online. Other than recorded lecture videos, the instructor will arrange 1-2 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 12 hours per week. | | |
| Required Texts (with ISBN) | Financial Statement Analysis and Security Valuation, 5th edition, by Stephen Penman, ISBN: 978-0078025310 | | |
| Prerequisite | ACC311 Financial Accounting or equivalent (Recommended) | | |



Course Overview

This course helps you understand how businesses work, how they generate value, and how the value they generate is captured (or not captured) in financial statements. The course helps you translate your knowledge of a business into a valuation. The course helps you interpret what you see in financial statements. It gives you answers to the many important questions facing analysts. What "fundamentals" should the analyst focus on---dividends, cash flows, or earnings? How is an analyst's earnings forecast converted into a valuation? How can an investor rely on earnings when earnings are sometimes measured with doubtful accounting methods? What role does the balance sheet play? What is a growth company and how is growth valued? What does a firm's price-earnings (P/E) ratio tell you? What does its price-to-book ratio tell you? How does one determine what the P/E or price-to-book should be?

Most important, the course gives you the security that your analysis is a sound one. The framework is built block by block from "first principles" so that you see clearly where the analysis comes from and, by the end of the course, have a firm understanding of the principles of fundamental analysis. You will also be able to distinguish good analysis from poor analysis.

The course is designed by two parts.

1. Part One (Chapter 1-6)

The Part one develops the thinking that is necessary to perform fundamental analysis. It integrates finance concepts with accounting concepts and shows you how the structure of accounting can be exploited for valuation analysis. Good thinking about valuation is captured in a valuation model, so this part of the course introduces accrual accounting valuation models that provide the framework for the practical analysis. Alternative models are discussed as competing technologies, so you develop an appreciation of the strength and weaknesses of alternative approaches. Part One ends with an application of these models to active investing.

2. Part Two (Chapter 7-14)

The Part two lays out the financial statement analysis that identifies value generation in a business and provides information for forecasting. In this part, you will see the lens being focused on the business.

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

1. The students will have a comprehensive analysis and valuation product that they can apply to almost any firm and use for active investing.
2. The students will have the ability to write a persuasive, state-of-the-art equity research report.
3. The students will understand that earnings, appropriately measured, give a better indication of the value generation in a business, so the analysis of earnings prospects leads to a firmer understanding of fundamental value.
4. The students will recognize the defects in financial statements that are issued by firms and will have developed a critique of the "generally accepted accounting principles" and disclosure rules that determine what is in the statements. The students will also understand how the accounting in reports can be distorted, as well as discover tools that detect the distortion and give an indication of the quality of the accounting that a firm uses.

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 investment and valuation | 1 | 120 minutes watching video lectures. |
| Day 2 | Introduction to financial statements | 2 | 120 minutes watching video lectures. |
| Day 3 | How Financial Statements Are Used in Valuation | 3 | 120 minutes watching video lectures. |
| Day 4 | Cash vs. Accrual Accounting, and Discounted Cash Flow Variation | 4 | 60 minutes watching video lectures. 60 minutes online interaction via Zoom and WeChat |
| Day 5 | Accrual Accounting and Valuation: Pricing Book Values | 5 | 120 minutes watching video lectures |
| Day 6 | Accrual Accounting and Valuation: Pricing Earnings (1) | 6 | 120 minutes watching video lectures |
| Day 7 | Accrual Accounting and Valuation: Pricing Earnings (2) | 6 | 60 minutes watching video lectures. 60 minutes online interaction via Zoom and WeChat |
| Day 8 | Review from Chapter 1-6 Assignment Review | | 120 minutes watching video lectures |
| Day 9 | Midterm exam | | |
| Day 10 | Valuation and Active Investing | 7 | 120 minutes watching video lectures |
| Day 11 | Viewing the Business Through the Financial Statements | 8 | 120 minutes watching video lectures |
| Day 12 | The Analysis of the Statement of Shareholders' Equity | 9 | 60 minutes watching video lectures. 60 minutes online interaction via Zoom and WeChat |
| Day 13 | The Analysis of the Balance Sheet and Income Statement | 10 | 120 minutes watching video lectures |
| Day 14 | The Analysis of the Cash Flow Statement | 11 | 120 minutes watching video lectures |
| Day 15 | The Analysis of Profitability (1) | 12 | 120 minutes watching video lectures |
| Day 16 | The Analysis of Profitability (2) | 12 | 120 minutes watching video lectures |
| Day 17 | The Analysis of Growth and Sustainable Earnings | 13 | 60 minutes watching video lectures. 60 minutes online interaction via Zoom and WeChat |
| Day 18 | The Value of Operations and the Evaluation of Enterprise Price-to-Book Ratios and Price-Earnings Ratios | 14 | 120 minutes watching video lectures |



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| Day 19 | Review from Chapter 7-14 Assignment Review | | 60 minutes watching video lectures. 60 minutes online interaction via Zoom and WeChat |
| Day 20 | Final exam | | |