



PHBS

北京大学汇丰商学院



FIN 560 Financial Statement Analysis Module 3, 2019-2020

Course Information

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Classes:

Lectures: Tuesday and Friday, 10:30-12:20

Course Website:

All course materials will be posted on the CMS platform. For a greener campus, hard copy of the course materials will not be distributed in the class.

1. Course Description

1.1 Context

This course introduces the fundamental concepts and techniques used in financial statement analysis and security valuation which will provide you with:

- i) a good understanding of the financial reporting system;
- ii) a comprehensive overview of the reasons behind accounting distortions;
- iii) a critical analysis of the tricks to manipulate key figures on the balance sheet, income statement, and cash flow statement;
- iv) a framework for business valuation using adjusted financial statement data.

Prerequisites: Financial Accounting

1.2 Reference Books and Reading Materials

Business Analysis and Valuation: IFRS Edition. 5th Edition, 2019, by Palepu, Healy, and Peek (PHP). Cengage Learning EMEA.

Financial Statement Analysis: A Practitioner's Guide. 4th Edition, 2011, by Fridson and Alvarez. John Wiley & Sons, Inc.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	YES
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	YES
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	YES
	2.2. Students will be able to apply leadership theories and related skills.	YES
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyse business problems and identify the ethical aspects, provide a solution and defend it.	YES
	3.2. Our students will practice ethics in the duration of the program.	YES
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	YES
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	YES
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	YES
	5.3. Our students will demonstrate competency in critical thinking.	YES

2.2 Course specific objectives

On completion of this course, you are expected to be able to:

- i) explain how accounting information is prepared and disclosed;
- ii) have an understanding of how incentives facing the producers affect financial reporting and common financial shenanigans in practice;
- iii) critically interpret the accounting information and develop a questioning mind;
- iv) identify potential red flags and make necessary adjustments to enhance the time-series and cross-sectional comparability of financial statements;
- v) make reasonable valuation estimates and apply common valuation techniques.

2.3 Assessment/Grading Details

The assessment is based on assignments, case presentation, term project, and final exam. The weights of the various components in determining the final grade are:

Assignments	10%
Case Presentation*	15%
Term Project	25%
<u>Final Exam</u>	<u>50%</u>
Total	100%

Assignments (10%)

Students need to submit five assignments to the teaching assistant, who will randomly choose copies to mark. Assignments submitted after the deadline will not be accepted and will receive no points.

Case Presentation (15%)

Each student will be assigned into groups of approximately equal size to work on an accounting fraud case (voluntary formation of the groups is encouraged). See Appendix A for more details on the cases and guidelines for the case presentation.

- Each group gives a *(maximum) 12-minutes presentation*;
- All group members are required to participate in the presentation;
- Presentation, which *accounts for 10% of your final grade*, is evaluated on a group basis by the instructor;
- The rubrics for assessing presentations are provided in Appendix C.
- Each group will also be evaluated for *the question-handling during the Q&A session, which accounts for 5% of your final grade*.

*Note: We will have the case presentation in the last two weeks of the module. Hopefully, by then everything will be back to normal and we can have the presentation in the classroom. In the worst case where we have the whole-module teaching on Dingtalk, due to technical challenges, the presentation will be replaced by a written report (still on a group basis).

Term Project (25%)

- Each group (the same as that for the presentation) needs to submit a written report for the term project at the end of the module. See Appendix B for more details.
- The term project is evaluated on a group basis by the instructor.

Final Exam (50%)

The final exam is closed-book and comprehensive. No make-up exam will be given except for medical or other emergency reasons supported by proper documents.

2.4 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, honours, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized

document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

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*.

3. Teaching Schedule

	Coverage	Assignments
Topic #1	Framework for Analysis and Valuation	-
Topic #2	Overview of Financial Statements	Assignment #1
Topic #3	Analysis of Balance Sheet (Part I)	Assignment #2
Topic #4	Analysis of Balance Sheet (Part II)	Assignment #3
Topic #5	Analysis of Income Statement	Assignment #4
Topic #6	Analysis of Cash Flow Statement	Assignment #5
Topic #7	Accounting Adjustments and Ratio Analysis	-
Topic #8	Forecasting Financial Statements	-
Topic #9	Valuation Theory	-

Appendix A: Case Presentation

Case #1	<i>Sunbeam scandal 2002</i>
Case #2	<i>Enron scandal 2002</i>
Case #3	<i>AIG scandal 2005</i>
Case #4	<i>Lehman Brothers scandal 2008</i>
Case #5	<i>Sino-Forest fraud 2011</i>
Case #6	<i>Obsidian Energy (formerly Penn West) accounting fraud 2012-2014</i>
Case #7	<i>Tesco accounting scandal 2014</i>
Case #8	<i>Toshiba scandal 2015</i>
Case #9	<i>Valeant Pharmaceuticals scandal 2015</i>
Case #10	<i>Disney accounting scandal 2019</i>
Case #11	<i>GE accounting scandal 2019</i>
Case #12	<i>Kangdexin Composite Material Group fraud 2019</i>
Case #13	<i>Kangmei Pharmaceutical scandal 2019</i>

Guidelines for preparing your presentation:

1. Provide a brief introduction of the company;
2. Describe the major pressure that the company was facing or the major incentive behind the fraud (job security, prevent performance deterioration, avoid debt covenants violation, meet earnings benchmark, industry competition, macroeconomic and market conditions, etc.);
3. Who are the major players?
4. Identify the major improper accounting tricks and other improper practice.
5. Explain how the accounting tricks work to improve performance metrics.
6. How did they get caught (who was the first whistle blower, if any)?
7. Who was the auditor? Comment on the role of the auditor in the case.
8. Discuss the consequences of the scandal (destiny of the major players, penalty, stock price nosedive, bankruptcy, downgrade of credit ratings, subsequent regulation, etc.)
9. Share any other fun and unique facts about the case.

Appendix B: Term Project

Company: Delta Air Line Inc.

Obtain the most recent annual report of the company from the Internet. You can simply Google the annual report, or download it from the company's website under investor relations. The term project should cover the following aspects:

- 1) Strategy analysis
 - Competitive analysis (apply the 5-competitive-force analysis in Session 1)
 - Corporate strategy for competitive advantage

- 2) Reporting practice

Identify the company's major accounting policies. Critically evaluate the reporting practice.

- Revenue and expense recognition
- Inventory accounting
- Capitalization versus expensing
- Leases
- Asset depreciation and impairment
- Business combinations, goodwill, and acquired intangible assets
- Contingency
- Off-balance-sheet arrangements, etc.

- 3) Suggested adjustments of reported financial data (B/S, I/S, CF/S)

Identify possible adjustments that are needed from an analyst's perspective. Briefly explain the rationale of your suggested adjustments (Note: actual adjustments are not required, given time and information constraint).

- Balance sheet distortions and suggested adjustments;
- Income statement distortions and suggested adjustments;
- Cash flow statement analysis and suggested adjustments.

- 4) Ratio analysis (profitability, asset management, liquidity, and insolvency)

- Selectively calculate the frequently used financial ratios;
- For time-series comparison purpose, you need to have the ratios for two years;
- Briefly summarize your ratio analysis.

- 5) Investment recommendations and summary

- Apply the PE multiple technique to derive the target price (justify your selection of peer firms; consider the exclusion of non-recurring items of earnings, etc.);
- Provide investment recommendation: strong buy / buy / hold / sell / strong sell;
- Summarize all the risk factors (e.g., strategic/operational/financial/legal/regulatory risks)
- Highlight red flags and cautionary notes to the investors.

Format and Requirements:

- The report should be of a maximum of eight pages (excluding appendix and tables), single-spaced, using #12 font size.
- The written report must not plagiarize material from any sources or other teams. Any reports with plagiarism are marked **zero!**
- To address "free riding" concerns, each group has to declare whether everybody in the group has contributed equally to the project. The group member's name and such declaration should be stated on the first page of the report.

Appendix C: Rubrics for Assessing Presentation

Date _____ Presenting Group _____

Total Presentation Time: _____ Minutes

Content (3)	Qualitatively comprehensive: Mastering of knowledge; Evidence provided for arguments; Avoids simplistic description or summary of information; Ideas flow logically; Free of reasoning fallacies; Creates appropriate college level, academic tone.	
	Quantitatively correct: Correctly answer assignment questions; Raise feasible business solutions.	
Delivery (4)	Vocal delivery: <ul style="list-style-type: none"> ■ Dynamic and active tone and appropriate pitch? ■ Enunciation? ■ “I think” vs. “Our analysis shows”? ■ Meaningless utterance, e.g., “Uhs”, “you know”? ■ Appropriate speed? Build connections: <ul style="list-style-type: none"> ■ Natural gestures? ■ Appropriate eye contact? Appropriate use of visual aids.	
Organization (3)	Structure: Overall organization; Introduction/attention-getter; Central idea; The use of internal summery, forecast, or signpost; Conclusion.	
	Integration: Rigorously organized and logically integrated as a final product of teamwork; No evidence that team members simply put together the different pieces of individual work.	
Handling Questions (5)	Are questions well handled?	

Any other comments:
