

# FIN561

## Financial Statement Analysis

### Module 2, 2022-2023

#### Course Information

**Instructor: Jin XIE (谢覲)**

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Office Hour: M/TH3:30-5:00pm or by appointment

**Teaching Assistant:**

Phone:

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**Classes:**

Lectures: Monday/Thursday 1:30-3:30 pm

Venue: PHBS Building, Room 231

**Course Website:**

[cms.pkusz.edu.cn](http://cms.pkusz.edu.cn)

Course Syllabus and Slides can be found. Please print out slides before each class starts.

## 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 Textbooks and Reading Materials

**Required textbook:**

Harrison, Horngren, Thomas, Tietz, and Suwardy. Financial Accounting: International Financial Reporting Standards, 11<sup>th</sup> Edition. ISBN-13 978-1-292-21114-5

## 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 analyze 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

The perspective and main focus of this course are not for the accountants who prepare financial reports, but rather for the users of the information contained in them: mostly investors and the financial analysts who serve them, creditors and, to some extent, management.

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***

Attendance and Participation	10%
Assignments (Team Work)	30%
Case Presentation (Team Work)	20%
Final Exam	40%
Total	100%

#### ***Attendance and Participation (10%)***

Class attendance shows students' basic commitment to this course. Students are strongly encouraged to participate in in-class exercises and discussions. Each student will be evaluated on the quality and quantity of his/her participation by the instructor individually.

#### ***Assignments (30%)***

Students need to submit assignments to the teaching assistant for marking. Assignments submitted after the deadline will not be accepted and will receive no points.

#### ***Case Presentation (20%)***

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 20% of your final grade*, is evaluated on a group basis by the instructor;
- The rubrics for assessing presentations are provided in Appendix C.

#### ***Final Exam (40%)***

- 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, 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.

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	Revenue Recognition	
Topic #2	Inventories Additional Valuation Issues	
Topic #3	Long-term Liabilities	
Topic #4	Investments	
Topic #5	Accounting for Leases	
Topic #6	Accounting Changes and Error Analysis	
Topic #7	Case Presentation	
Topic #8	Case Presentation	

Date	Topic	Chapter	Homework/Case Assignment and Due Date
	Introduction		
	Introduction		
	Long-term Liabilities	14	
	Long-term Liabilities	14	
	Investments		
	Investments		
	Accounting for leases		
	Accounting for leases		
	Intangible Assets		
	Intangible Assets		
	Inventories for additional Valuations		
	Inventories for additional Valuations		
	Case Presentation		
	Case Presentation		
	Case Presentation		
	Case Presentation		
	Final		

Date	Topic	Assignment
<b>2.22</b>	<b>1.</b> Overview of Financial Reporting, Financial Statement Analysis, and Valuation	
<b>2.25</b>	<b>1.</b> Overview of Financial Reporting, Financial Statement Analysis, and Valuation <b>2.</b> Asset and Liability Valuation and Income Measurement	1.11
<b>2.29</b>	<b>2.</b> Asset and Liability Valuation and Income Measurement	2.4 2.5 2.6
	<b>3.</b> Income Flows versus Cash Flows: Key Relationships in the Dynamics of a Business	
<b>3.3</b>	<b>3.</b> Income Flows versus Cash Flows: Key Relationships in the Dynamics of a Business	3.6, 3.7, 3.8
	<b>4.</b> Profitability Analysis	
<b>3.7</b>	<b>4.</b> Profitability Analysis	4. 6 4.7. 4.8. 4.9 4.14.a.d. 4.15 a
	<b>5.</b> Risk Analysis	
<b>3.10</b>	<b>5.</b> Risk Analysis	5.16
	First exam review	
<b>3.14</b>	<b>Midterm #1 in class –Ch 1-5</b>	

3.17	6. Quality of Accounting Information	6.10 a, b,d, 6.11
3.21	6. Quality of Accounting Information	
	7. Revenue Recognition and Related Expenses	
3.24	7. Revenue Recognition and Related Expenses	7.13 7.14 a,b,c,d 7.15a,b,c,
	8. Liability Recognition and Related Expenses	
3.28	8. Liability Recognition and Related Expenses	
3.31	8. Liability Recognition and Related Expenses	8.9 8.13 a,b,c,d
	9. Intercompany Entities	
4.4	9. Intercompany Entities	9.10 9.14 9.18 9.26 a,b,c,d,e
	Second exam review	
4.7	<b>Midterm #2 Chapters 6-9</b>	
4.11	10.Forecasting Financial Statements	10.11
4.14	10.Forecasting Financial Statements	
4.18	Group Presentation	
4.21	Group Presentation	

### Appendix A: Case Presentation

Case #1	Xingjiang Chalkis Co. (新中基) 2006-201
Case #2	Wanfu Biotechnology (万福生科)2008-201
Case #3	Toshiba scandal
Case #4	Dalian Zhongzidao Fishery Group(獐子岛) 2014-2020
Case #5	Disney accounting scandal 2019
Case #6	GE accounting scandal 2019
Case #7	Kangdexin Composite Material Group fraud 2019
Case #8	Kangmei Pharmaceutical scandal 2019
Case #9	Luckin Coffee(瑞幸咖啡)

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 whistleblower, if any)? What are the ethical issues associated with whistleblowing?
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 C: Rubrics for Assessing Presentation**