

Financial Statement Analysis  
FIN3113  
Spring 2021

Instructor: Oliver Li, Musim Mas Chair Professor  
Department: Accounting  
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Office: MRB #07-19  
Class Time: Thursday, 8:30-11:30am  
Classroom: TBA

### Course Outline

We cover essentials of financial statement analysis that link accounting with finance and deal with the capital market implications of accounting. The tools and ideas in this course will help us appreciate accounting numbers and understand their valuation roles in the equity and debt market.

### Book

*Business Analysis and Valuation*, by Palepu, Healy and Peek, Fifth Edition, Cengage

The book is intended rather as a reference for concepts and a way of organizing basic techniques for business analysis and valuation. Many chapters of the book are descriptive and the students should read them by themselves. The professor will cover certain technical chapters more in depth in class. In other words, while the professor's coverage of the book will be selective, students are highly recommended to read the whole book.

### Course Format

The course is intended to be student self-motivated learning and it is research-oriented. Students should be reasonably familiar with the basic financial accounting rules and the functioning of the capital market before taking this course. The course will be a combination of professor's lecturing, student discussion/participation, and student case-writing and presentations. A greater weight is placed on student case-writing and presentation.

### Cases

We apply the principles of business analysis and valuation to generate our own cases!

That is, one important final product of this course is cases (done in groups). There are three kinds of cases, firm-specific, industry-specific and whole-market. Methodology-wise, they can be descriptive or statistical.

I will throw out a few ideas here for students to adopt.

Singapore Airlines  
 Cruise Industry  
 The Delisting of Luckin Coffee  
 Platform-based economy  
 Bitcoin  
 Environmental issues  
 .....

Or, student teams can come up with their own topics.

### Tentative Schedule and Content

Class	Date	Tentative Content
1	14/01	Business analysis and corporate survival in a COVID-19 and post-COVID-19 world – politics, pessimism, businesses, and changes – Relax and enjoy professor’s stories Key points of these stories will be linked to chapters in the textbook Read Chapters 1 and 2 on your own
2	21/01	Screwed up accounting? A tough way from accounting to stock prices – accrual anomaly, post earnings announcement drift (PEAD) Read Chapters 3 and 4 on your own
3	28/01	Essentials of financial statement analysis Statistical tools Ratios and cash flow Chapter 5
4	04/02	Behaviors of accounting attributes Assumptions and forecasting Statistical models Chapter 6
5	11/02	Valuation and the discount rate Valuing what? P/BV versus P/E Chapter 7
6	18/02	Cost of equity, required return, implied return CAPM, beta, history, mis-measurement and it is still Sharpe! The role of taxes and the beauty of corporate tax that we love

		WACC Terminal value Chapter 8  <i>Review for Test 1</i>
Reading		
7	04/03	Test 1
8	11/03	Equity investment Market efficiency – can you beat the market? Eugene Fama Chapter 9  <i>Preparation and logistics of forthcoming presentations</i>
9	18/03	Capital structure – the optimal mix of debt and equity Again, ratios Loan pricing Debt market, public debt rating Predicting financial distress – Can we still use Altman-z? Valuing debt Chapter 10
10	25/03	Mergers and acquisitions Valuing the target – models Losses can be very valuable! Forms of payment Reporting Chapter 11
11	01/04	<i>Review for Test 2</i> <i>Preparations and logistics for forthcoming presentations</i>
12	08/04	Test 2
13	15/04	<i>Presentations</i>
Reading		
		<i>Presentations</i>

#### Evaluation (Continuous assessment)

Participation/Attendance	10%
Unannounced Quizzes	10%
Test 1	20%
Test 2	20%
Cases and Presentations	40%