Financial statement analysis

Academic Year: (2017 / 2018)   **Review date: 10-11-2017**

Department assigned to the subject:

Coordinating teacher: GARCIA OSMA, BEATRIZ

Type: Compulsory ECTS Credits : 3.0

Year : 1 Semester : 1

REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)

Students are expected to have completed previous Accounting courses (during the Master), including Financial
Accounting.
Cases will be solved using Excel.

OBJECTIVES

Learn how to analyze financial statements and to rate and value companies. From the user perspective, the course
develops a framework for business analysis and valuation that can be applied to multiple decision contexts. Two main
parts are identified: (1) Fundamental Analysis (analysis of corporate strategy and industry analysis, analysis of
earnings quality, profitability and ratio analysis, bankruptcy detection, etc.), and (2) Prospective Analysis (forecasting
and valuation).

DESCRIPTION OF CONTENTS: PROGRAMME

1. Framework
1.1. The role of financial reporting in capital markets
1.2. Influence of the accounting system on information quality
1.3. Alternative forms of communication with investors
1.4. From financial statements to business analysis

2. Strategy analysis
2.1. Industry analysis
2.2. Competitive strategy analysis
2.3. Corporate strategy analysis

3. Accounting analysis (Part I)
3.1. Factors influencing accounting quality
(Accounting rules, managers' accounting choices)
3.2. Steps in accounting analysis
3.3. Recasting financial statements
3.4. Accounting analysis pitfalls

4. Accounting Analysis: Implementation (Part II)
4.1. Recognition of assets, liabilities, and equity
4.2. Asset, liability, and equity distortions

5. Financial analysis
5.1. Ratio analysis
(Measuring profitability, decomposing profitability, assessing operating management (profit margins), evaluating
investment and financial management).
5.2. Assessing sustainable growth
5.3. Cash flow analysis

6. Prospective analysis: Forecasting (Part I)
6.1. Structure of the forecast
6.2. Performance behavior
6.3. Forecasting assumptions
6.4. From assumptions to forecasts

7. Prospective analysis: Valuation (Part II)
7.1. Defining value for shareholders

7.2. The DCF model

7.3. Valuation using multiples

7.4. Comparing valuation methods

7.5. Valuation implementation

LEARNING ACTIVITIES AND METHODOLOGY

Learning activities include lectures where both theory and practical cases will be presented and discussed. Lecture notes, readings (chapters from recommended books and articles) and case materials will be posted before class.

Each week has a folder with case materials. After class, students will work in groups on the solution of these cases and submit their solutions through Aula Global (following the lecturer¿s instructions). The solutions will be discussed in class afterwards.

ASSESSMENT SYSTEM

%50 Final exam (a minimum score of 4 above 10 will be required)
%15 Mid-term exam
%35 Assignments
(Group evaluation of assigned cases)

% end-of-term-examination:	50
% of continuous assessment (assigments, laboratory, practicals…):	50

BASIC BIBLIOGRAPHY

- Palepu, K.G., Healy, P.M., and Peek, E. Business Analysis and Valuation: IFRS Edition, Cengage Learning, 2016