

## Financial statement analysis

Academic Year: ( 2023 / 2024 )

Review date: 12-04-2023

Department assigned to the subject: Business Administration Department

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.

Professor:

Juan J. Tenorio, CFA -- Director, Aral Capital Partners

**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**

Because no set of accounting standards has universal acceptance, companies may differ in reporting treatment based on their jurisdiction. For that, FSA is critical in assessing a true company's overall financial position. It requires the ability to analyze a company's reported results with its economic reality, normalize differences in accounting treatment to make valid cross company comparisons, identify quality issues that may exist in reported financial statements, and discern evidence of financial statement manipulation by management.

The introduction of the course covers the main sources of information used to evaluate a firm's financial performance. This includes the three major financial statements: balance sheet, income statement, cash flow statement, and also statement of changes in equity also it will mention notes to these statements and management reporting. In depth, it will be addressing the construction, elements, pertinent ratios, and common-size analysis are studied for each major financial statement. Next, the course will cover financial analysis techniques including the use of ratios to evaluate corporate financial health.

Finally, the course also introduces the concept of financial reporting quality and the financial reporting quality differences that may exist between companies and the means for identifying them. Warning signs of poor- or low-quality reporting are covered.

Program

- Module 1- Overview of Financial Reporting and Financial Statement Analysis.
- Module 2 - Balance Sheet and Profit & Loss: Asset and Liability Valuation and Income Recognition
- Module 3 - Income Flows versus Cash Flows: Understanding the Statement of Cash Flows
- Module 4 - Ratio Analysis: Financing, Investing & Operating Activities
- Module 6 - Accounting Quality
- Module 7 - Forecasting Financial Statements

**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

1. 50% Final Exam.
2. 20% Midterm (multiple choice format)
3. 30% Company Analysis Project. Students in groups will complete a financial analysis project of a publicly traded company. Detailed instructions will be distributed and discussed in class.

<b>% end-of-term-examination:</b>	50
<b>% of continuous assessment (assignments, laboratory, practicals...):</b>	50

#### BASIC BIBLIOGRAPHY

- Fraser and Ormiston Understanding Financial Statements, Pearson Prentice Hall ISBN 13: 978-0-13-387403-7, 2016

#### ADDITIONAL BIBLIOGRAPHY

- Easton, McAnally, Sommers, and Zhang Financial Statement Analysis & Valuation, Cambridge Business Publishers, 2014
- James Wahlen, Stephen Baginski, and Mark Bradshaw Financial Reporting, Financial Statement Analysis, and Valuation: A Strategic Perspective, Cengage Publishing, 9th edition
- Palepu, K.G., Healy, P.M., and Peek, E Business Analysis and Valuation: IFRS Edition, Cengage Learning, 2019