

## Financial Statement Analysis

Global Green MBA 209.8120 / International MBA 209.4965

Period 5 (July-August, 2017)

**Time:** Fridays 08:00-11:00, Room 205

**Instructor:** Amos Baranes PhD, CPA

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**Pre-Requisites:** Introduction to accounting

### **Course Overview:**

Financial Reporting and Statement Analysis is designed to prepare you to analyze, interpret and use financial statements effectively, both from a general manager and investor perspective. A central theme is “value creation” – how a manager may use financial statements to guide value creating behavior and how investors use financial statements to identify value-creating opportunities.

The course will review and extend some of the financial accounting topics introduced in Introduction to Accounting, the core course, and examine additional topics not covered in that course. It will also consider extensions and modifications to the accounting and financial (ratio) analyses developed in that course to achieve a value creation emphasis.

The course will utilize a framework for financial statement analysis consisting of four key components, (1) business strategy analysis, (2) accounting analysis, (3) financial (ratio and cash flow) analysis and (4) prospective (forecasting and valuation) analysis. Primary emphasis will be placed on financial and prospective analysis.

The framework will be applied to a number of specific situations, including young, high growth, high tech, mature, and troubled businesses, among others. Cases will be used to develop hands-on experience in applying business analysis concepts.

We, also, will go one extra mile; we will introduce the relatively new reporting format of financial information based on well-developed format of transferring information over the internet - XBRL. This format not only brings a common taxonomy to accounting reporting but also provides the framework to use search engines to find and process financial information.

### **Topics:**

- Sources of Information:
  1. Financial Statements (Balance sheet, Income statement, Statement of cash flow).
  2. Directors' Report.
  3. Auditor's Report.
  4. Prospective.
  5. Public announcements.
  6. Internet
- Financial Information vs. Non-Financial Information. We will emphasis special topics including:
  1. Accounting Statement of Cash Flow vs. Financial Statement of cash flow.
  2. Annual Financial Report vs. Quarterly Financial Report.
  3. Consolidated Financial Statements vs. the company financial statements
  4. Local currency vs. reporting currency.
  5. Local subsidiary vs. foreign subsidiary.
  6. Quantitative vs. Qualitative analysis.
- Ratio Analysis and Trend Analysis (vertical and horizontal analysis). We focus on the following categories:
  1. Profitability analysis.
  2. Liquidity analysis.
  3. Operational analysis.
  4. Cash flow analysis.
  5. Solvency analysis.
- Special accounting topics including topic such as nonrecurring and extraordinary items.
- The limitations in using accounting information with a global perspective.
- Financial Distress Analysis.
- Introduction to Financial Reporting on the Internet – XBRL.

### **At the end of the course students will be able to:**

1. Tools of Financial Statement Analysis: We will learn how to apply a set of tools to analyze financial statement data in order to assess the firm's financial profitability, risk, growth, and performance.
2. Forecasting and Valuation Techniques: We will learn to use the insights we obtain from our analysis of the financial statements to forecast the future business activities, profitability, risk, growth, financial position, and cash flows of the firm.
3. We will learn to develop a set of prospective analysis techniques to build a model of a firm's pro forma financial statements and to estimate the value of a firm. These tools will include forecasting financial statements, and valuing firms based on expected

future dividends, free cash flows, abnormal earnings, and various market-based valuation multiples.

4. We learn modern techniques to gather financial and industry information to assess the financial stability and prospective profitability of a company.

### **Requirements**

Attendance (80%), Exam, Homework Submission.

### **Grading:**

Final exam – 100%

**Website:** [Financial Statement Analysis](#)

### **Recommended Reading List:**

1. Koller, Goedhart and Wessels (McKinsey & Company): Valuation: Measuring and Managing the Value of Companies, John Wiley & Sons, 2010, 5th edition (or 6<sup>th</sup> edition 2015)
2. [Damodaran, Aswath, Investment Valuation, 3rd edition](#), John Wiley & Sons, Inc. 2014.
3. Geoff Black (2013), Accounting and Finance for Business
4. James M. Wahlen (2014) Financial Reporting, Financial Statement Analysis, and Valuation: A Strategic Perspective. 8th Edition, South-Western Publishing.
5. Elliott, B. and Elliott, J., Financial Accounting and Reporting, 17th edition (2015), Prentice Hall
6. Horngren, Sundem, Elliott, & Philbrick Introduction to Financial Accounting, 11/E Edition, Prentice Hall, 2014.