

VNIVERSITAT  VALÈNCIA

DEPARTAMENT DE COMPTABILITAT

LICENCIATURA EN A.D.E.

FACULTAT D'ECONOMIA

PROGRAMA DE

FINANCIAL STATEMENT
ANALYSIS
(ANALISIS CONTABLE)

ASIGNATURA SEMESTRAL
CUARTO CURSO - 4.5 CRÉDITOS

CURSO ACADÉMICO 2008-09

1. OBJECTIVE OF THE COURSE

Financial Statement Analysis is an advanced accounting course designed for students registered for the *International Programme de la Licenciatura en Administración y Dirección de Empresas*. The course is designed for students who have knowledge in financial accounting, as well as finance and business strategy. It is structured in three parts with eight units:

Part 1 introduces the topic and outlines a comprehensive framework for business analysis and valuation using financial statement analysis.

Part 2 describes the main tools to be used for business analysis.

Part 3 applies the previous tools in a variety of decision contexts.

The course will take both a practical and theoretical approach to understanding the use of financial statements mainly by external users in a variety of business analysis and valuation contexts. It is expected that at the conclusion of the course, students will

- have a good understanding of the constraints and limitations of the financial statements, and
- be able to use the financial statements to make economic decisions in a wide range of business analysis.

II. EVALUATION SYSTEM

There will be a final exam at the end of the course (June or July) covering all the subjects listed in the outline. The exam will take into consideration the **theoretical as well as the practical** knowledge of the students. In order to **pass** the exam it is necessary to achieve 5 points out of 10 points. Students that do not pass the exam will have another chance in September.

Additionally students have the possibility to realise a **case study**, which will be monitored by the academic staff. This coursework will be taken into account in order to obtain the final mark. In that case the final mark will be formed adding the one obtained in the case study (20%) and the final exam (80%). For those that do not realise the case study the final mark will be the one obtained in the exam (100%). This option is only available for the June/July mark, but not for the September one.

II. ABBREVIATED OUTLINE OF THE COURSE

Part One: INTRODUCTION

1: The framework for doing business analysis using financial statement analysis

Part Two: BUSINESS ANALYSIS TOOLS

2: Accounting analysis
3: Financial analysis I
4: Financial analysis II
5: Financial analysis III
6: Prospective analysis

Part Three: BUSINESS ANALYSIS DECISIONS

7: Equity security analysis
8: Credit analysis and distress prediction

III. DETAILED OUTLINE OF THE COURSE

Part One: INTRODUCTION

1: The framework for doing business analysis using financial statement analysis

How to approach financial analysis: from business activities to financial statements and from financial statements to business analysis

Business strategy analysis

The users of financial statement analysis and their decisions

Ref. PHB Chapter 1-2

BW Chapter 2

Part Two: BUSINESS ANALYSIS TOOLS

2: Accounting analysis

2.1. The annual accounts or the financial statements

2.2. The accrual accounting vs. cash accounting: balance sheet and income statement vs. cash flow statement

2.3. The role of accounting standards

2.4. Checking the accounting quality

Ref. PHB Chapter 3-4

BW Chapter 1

3: Financial analysis I

3.1 Introduction

3.2. Return on equity

3.3. Decomposing ROE: profit drivers

3.3.1. The impact of financial leverage

3.4. Operating management: decomposing profit margin

Ref. PHB Chapter 5

BW Chapter 11

4: Financial analysis II

4.1. Investment management

4.1.1. Analysing working capital

4.1.2 Management of non-current assets

4.2. Financial management

4.2.1. Short-term analysis: liquidity

4.2.2. Long-term analysis solvency

4.3. A complete picture: growth analysis

Ref. PHB Chapter 5

BW Chapters 8 and 10

5: Financial analysis III

5.1 Cash flow and funds flow statements

5.2. Cash flow analysis

Ref. PHB Chapter 5

BW Chapter 9

6: Prospective analysis

6.1 Short-term forecasting

6.2. Long-term forecasting

6.3. Break-even analysis

Ref. PHB Chapter 6

BW Chapter 12

Part Three: BUSINESS ANALYSIS DECISIONS

7: Equity security analysis

7.1. Market efficiency and the pricing of equity

- 7.2. Fundamental analysis vs. technical analysis
- 7.3. Accounting-based valuation
- 7.4. Mergers and acquisitions

Ref. PHB Chapter 7-9 and 11
BW Chapter 13

8: Other financing decisions based on the financial statement analysis

- 8.1. Credit analysis process
- 8.2. Prediction of distress
- 8.3. Corporate financing policies: debt and dividend decisions

Ref. PHB Chapter 10 and 12

V. REFERENCES

BERNSTEIN, L.A. and J.J. WILD (1998) *Financial Statement Analysis: Theory, Application and Interpretation*, McGraw-Hill International

PALEPU, K.G., P.M. HEALY, and V.L. BERNARD (2004) *Business Analysis and Valuation Using Financial Statements*, South-Western Thomson.

PENDELBURY, M. and R. GROVES (2004) *Company Accounts. Analysis, interpretation and understanding*, Thomson.

PENMAN, S. (2001) *Financial Statement Analysis and Security Valuation*, McGraw-Hill Higher Education.

VI. FACULTY

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**VII. PLAN OF THE SESSIONS
(CRONOGRAMA)**

<i>Session</i>	<i>Topic of theory</i>	<i>Exercises</i>	<i>Case study</i>
1	1		
2	2	1	
3	3	2	
4	3	3	
5	3	4	
6	4	5	
7	4	6	
8	5	7	
9	5	8	
10	6	9	
11	6	10	
12	7		Class presentation
13	8		Class presentation