

Financial Statement Analysis

I. General Information

Course Number	GBA 644
Title	Financial Statement Analysis
Units	4.0
Prerequisites	FIN-615; ACCT-615; MBA standing.
Course Coordinator	Praveen Sinha
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II. Catalog Description

This course focuses on the content and analysis of publicly available financial statement data. Students will learn analytical tools to assess a firm's profitability and risk and to value the firm's common stock using valuation models.

III. Curriculum Justifications

Corporate management involves informed decision making in three key areas: investment, financing and operations. Students should be able to evaluate management success in these areas by using a set of crucial financial statement analysis techniques that will eventually culminate into business valuation. This course provides MBA students with the knowledge and skills necessary to read and interpret accounting information and to use that knowledge in estimating a company's financial performance and share valuation. Additionally, students should be able to compare financials of companies within the same industry, understand cash flows, evaluate profitability, and analyze risk levels.

IV. Curriculum and Course Goals and Objectives

The MBA curriculum is designed to provide students with the opportunity to develop knowledge and skills in local and global business practices. The program of study is intended to engage learners in integrative learning experiences across professional personal, content, and skill areas. Courses within the MBA curriculum should include at least one and up to two of the following:

- **Critical Thinking Skills**- students will be able to demonstrate conceptual learning, critical thinking, and problem solving skills.
- **Interpersonal, Leadership, and Team Skills** - students will be able to demonstrate interpersonal communication and leadership skills to work in a dynamic and diverse world, both independently and in a team environment.
- **Social Responsibility Skills** - students will be able to demonstrate awareness and knowledge of social responsibility, ethical leadership, and corporate citizenship in the domestic and global environment.
- **Business functions Skills** - students will be able to demonstrate knowledge of today's dynamic business environment through an understanding of all business functions, practices,

and related theories and be able to integrate this functional knowledge in order to address business problems.

• **Quantitative & Technical Skills** - students will possess quantitative and technical skills enabling them to analyze, interpret, and communicate business data effectively and to improve business performance.

• **Knowledge of the Domestic & Global Environment** – students will be able to demonstrate knowledge of today’s dynamic business environment (e.g. legal, regulatory, political, cultural, and economic) especially the links between our region and the global business world.

Course Goal

The goal of this course is to develop integrative knowledge and skills in addressing the complexity of understanding and applying accounting techniques in making important financial decisions required to meet the goal of sustainable development.

Course Learning Outcomes

Upon completion of this course students are expected to be able to:

1. Understand the financial reporting environment. How the form and content of financial reports is driven by the demand and supply of information arising from the firm’s nexus of contracts.
2. Define the areas in which management makes decisions, and how these decisions get reflected in the primary financial statements.
3. How to understand and isolate elements of Income Statement, Statement of Cash Flows, and the Balance Sheet that are meaningful to decision makers.
4. Describe the use of financial ratios in evaluating profitability and long and short-term risk, and how to compute these ratios using actual financial statements.
5. How to adjust financial ratios when making comparison of firms that use different accounting policies for similar transactions to draw meaningful conclusions from ratio analysis.
6. How to do an in-depth assessment of the financial reporting risk associated with the financial statements filed with the SEC.
7. How to prepare 3/5 year pro forma income statement, balance sheet and the statement of cash flows using historical financial ratios and alternate future scenarios.
8. How to estimate the future free cash flows and/or other valuation relevant data from the pro-forma financial statements. How to compute the associated discount rate i.e. firm risk from publicly available information.
9. How to value the company’s stock using multiple valuation techniques and issuing a buy/sell/hold recommendation on the firm stock.
10. How to effectively communicate financial information to non-technical users.

Curriculum Learning Outcomes

Upon completion of this course students are expected to be able to demonstrate:

1. Critical Thinking Skills:

As evidenced by:

- Demonstrating an understanding of the integrative roles of accounting and finance within an organization.
- Learning to identify accounting discrepancies in financial statements

2. Quantitative & Technical Skills:

As evidenced by:

- Demonstrating an understanding of the components of a financial statement.
- Learning to read financial statements.
- Using the information from financial statements to compute financial ratios in order to make important strategic financial decisions for an organization.

V. Outline of Subject Matter

Week	Active Teaching Hours per Faculty	Topics/Concepts	Possible Active Learning Tools
1	Accounting: 2 Finance: 2	Overview of financial reporting Environment; Role of Accounting Information in Markets. Preparation of primary financial statements. Accrual versus cash basis of income measurement.	Case
2	Accounting: 2 Finance: 2	Revenue recognition and Income measurement differences across industries. Understanding core versus transitory elements of income statement. Analyze profits of operating and geographical segments using common-size and trend statements to forecast future profits.	Case
3	Accounting: 2 Finance: 2	Preparation and Analysis of Statement of Cash Flows. Develop tools to evaluate data in the statement of cash flows. How to derive various free cash flows from the SCF.	Case
4	Finance: 4	Ratio Analysis. Use financial ratios over time to assess firm's changing profitability and risk. Use of DuPont and multi-level decomposition to make an assessment of the factors contributing to the change over time. ROA and ROCE relationship and the role of leverage.	Cases
5	Finance: 4	Assessment of Financial Reporting (Beneish) risk. Multi-level time-series and cross-sectional evaluation of ratios for two firms belonging to the same industry	Circuit City versus Best Buy <i>(Assessment of critical thinking and quantitative and technical</i>

			<i>skills learning objective)</i>
6 & 7	Accounting: 8	Impact of accounting policy for inventory, PP&E and leases and Inter-corporate Investments on reported financial ratios. How to correct for distortions caused by the choice of accounting policy.	Starbucks; Staples, OfficeMax & Office Depot <i>(Assessment of critical thinking and quantitative and technical skills learning objective)</i>
8	Accounting: 2 Finance: 2	Preparation of Pro-forma income statement, balance sheet and the statement of cash flows for 5 future years using past performance, industry knowledge, and knowledge about the firm.	Coke <i>(Assessment of critical thinking and quantitative and technical skills learning objective)</i>
9	Accounting: 2 Finance: 2	How to value a firm's stock by applying various valuation models to the pro-forma financial statements of any firm. Sensitivity analysis and understanding market valuations.	IBM <i>(Assessment of critical thinking and quantitative and technical skills learning objective)</i>
10	Accounting: 2 Finance: 2	Student Project Presentations	Closing discussion on integration of accounting and finance in strategic decision making

			within an organization
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VI. Methods of Instruction

This course is taught through classes conducted using a combination of lecture/discussion format. Lecturing will be limited to a summary of the major valuation, measurement, or disclosure issues related to the topic. Discussion will focus on illustrational examples from published reports and cases that are assigned for the meeting. Some lecture and class discussion will involve spreadsheet-based computations. Active interaction between the instructor and students is expected. To this end, students are encouraged to volunteer to be a lead discussant of a problem/case that will be discussed in class.

Instructors in planning the exams, and other grading procedures, should adhere to the relevant University Policy on "[Grades, Grading Procedures, and Final Assessments, Final Course.](#)"

The textbooks for this course should be chosen in accordance with the University Policy on textbooks. There are a number of appropriate textbooks for this course. Following is a suggestion for one accounting and one finance text book based on the content of this specific course:

Suggested Texts:

Revsine, Lawrence, Daniel W. Collins, W. Bruce Johnson and H. Fred Mittelstaedt
Financial Reporting and Analysis. Fourth Edition, McGraw-Hill Irwin, 2008.

Financial Management (12thEd.), Brigham/Ehrhardt (Thomson-SouthWestern ISBN-10: 0-324-64908-8)

Student learning outcomes will be assessed based on student performance on (1) homework assignments, (2) examinations and quizzes, and (3) semester long comprehensive project.

VII. Instructional Policies Requirements

The students are expected to comply with the universally accepted norms of considerate and courteous behavior, and with all University rules and policies found in the current University Catalog, including the Withdrawal Policy and Policy on Cheating and Plagiarism.

Students are expected to attend classes regularly and be responsible for all materials covered in class. A make-up exam will only be administered in case of a dire emergency and documented proof of such a situation must be provided. Students must refer to the specific university policy on these issues.

The instructors reserve the right to make any changes to this syllabus. The students shall be notified and given sufficient notice about any such changes.

Students with Disabilities: Students with disabilities are responsible for notifying their instructor as early as possible of their needs for an accommodation of a verified disability.

A student with a disability is urged to consult with Disabled Student Services as soon as possible in order to identify possible accommodations to enhance academic success.