

## FINANCIAL STATEMENT ANALYSIS

### COURSE DETAILS

<b>Code</b>	36263
<b>Degree</b>	Degree in Business Management
<b>Mention</b>	Business creation and management
<b>Character</b>	Basic Training
<b>Year</b>	3rd
<b>ECTS</b>	6

### PROFESSORS

<b>Name</b>	<b>Department</b>	<b>Tutorials</b>
Ferrer Serra, Félix	Accounting	Fridays from 17:30 to 18:30 (with previous appointment)

### SUMMARY

Basic Statistics is a basic course scheduled during the second semester of year 1 with a total workload of 6 ECTS or credits. This introductory course is needed in order to provide the students with the understanding of the descriptive statistics and the fundamentals of probability theory needed for making descriptive reports on the economic environment, for market analysis, for decision taking and for subsequent courses (Inference and Econometrics).

In a degree aimed to academically train future entrepreneurs, administrators and directors of companies, able with their management to contribute to economic and social development, Basic Statistics is an essential matter for the analysis of numerical data coming from measurements, observation or the design and development of new business initiatives that lead these efforts.

This course will introduce the basic concepts of descriptive statistics and probability theory which will form the basis for the study of inference the next course. The subject is also useful for other subjects such as the analysis of financial statements, market research fundamentals, econometrics, quality and environment management, methods for the analysis of business information, prospective, decision making, financing, survey methodology and others.

The course is divided into two basic parts: descriptive and probability. The first part is devoted to descriptive analysis of variables and statistical data, both single- The subject Financial Statement Analysis, located in the Degree of ADE for entrepreneurs,

third year, second semester, intends that the student who has completed the first course in the subject Financial Accounting and in which has learned, among other aspects, to prepare the Financial Statements of a company, conclusion of accounting cycle, is:

First, able to extract and communicate to users, both internal and external, the information contained in them so that they make decisions of economic nature (invest or not to invest, expand the business or not, extend credit or not, finance through debt or through the contribution of funds by owners, whether the company is in financial balance; etc.).

Secondly, it intends that the student is able to apply the tools of analysis acquired, to the Annual Statements or Financial Statements of a company, to judge the economic and financial situation of the same and try to give solutions to possible imbalance situations.

Third, in the development of its activity, the company generates receivables in its favor, which later transform into money by charging thereof; but also it incurs debts and payment obligations to be met by the application of the previous money. Students must be able to identify and manage efficiently the working capital cycle which is vital for the company, because its financial stability and future development depend on it. For this, techniques will be used as the determination of NOF (Working Capital Requirements) and Working Capital, in conjunction with others such as the calculation of the Average Maturity Period.

Fourth, the student will be able to determine, through the Breakeven Point, the volume of production and sales needed to cover the total costs of the economic unit and also determine, in the case of multiproduct, whether it is efficient marketing all products or has to stop production and marketing of any of them.

Finally, students must be able, through appropriate tools, to determine the profitability of the activity, and also decide if the financial structure, in business expansions, has to fund only with its own funds or when it is beneficial for the company, go into debt, or a combination of both. Inevitably, the profitability analysis entails the risk analysis, through appropriate techniques such as financial leverage or economic leverage.

With all of this, it is considered that students are able to approach the analysis and interpretation of the information, economic and financial, provided by companies, both from the point of view of internal and external analyst.

## **PRIOR KNOWLEDGE**

### **Restriction of registration**

There are no specified enrollment restrictions with other subjects of the syllabus.

### **Other requirements**

To understand the concepts of the subject and get the maximum use of their classes, it is necessary that the student has extensive knowledge of Financial Accounting.

## COMPETENCES

### GENERAL COMPETENCES:

- GI.1 -Capacity for analysis and synthesis.
- GI.2 - Capacity to organize and planning.
- GI.3 - Oral and written communication in the native language.
- GI.4 - Capacity to use English in the professional field.
- GI.5 - Capacity to use ICTs in the field of study.
- GI.6 - Capacity to analyze and search for information from various sources.
- GI.8 - Capacity to make decisions.
- GP.1 - Capacity to work as a part of a team.
- GP.3 - Critical capacity and self-criticism.
- GP.5 - Capacity to manage time effectively.

### SPECIFIC COMPETENCES:

- EG.2 - Being able to draw and interpret accounting information, financial, intended for users, and internal, destined for management control and decision making.
- EA.11 - Ability to develop, interpret and analyze the financial statements of the organizations and understand their implications for other decisions and business areas.
- EA.13 - Ability to assess the economic and financial consequences of implementing the Spanish accounting regulations.
- EA.16 - Capacity to implement and introduce procedures for continuous improvement in all areas of the organization.
- EA.18 - Ability to establish a system of indicators of business management.

## LEARNING OUTCOMES

Upon completion of this course, students will be able to:

- Mastering the different methods and techniques of accounting analysis and, to know how to assess their possible limitations.
- Making a diagnosis on the economic, financial and asset situation that goes through a company.
- Making projections and inferences from accounting and financial data and develop scenarios.

## **COURSE CONTENTS**

### **Chapter 1. Introduction to Financial Statement Analysis.**

- 1.1.- Concept and objectives of Financial Statement Analysis.
- 1.2.- Relationship between Financial Statement Analysis and business assessment: the key variables in the analysis, and the corporate financial management of the company.
- 1.3.- The accounting information and the Financial Statement Analysis.
- 1.4.- The analysis of the quality of accounting information: audit as formal analysis of financial statements.
- 1.5.- General techniques and tools used in Financial Statement Analysis.
- 1.6.- Limitations and considerations for the economic and financial analysis.

### **Chapter 2. Most usual information for economic and financial analysis**

- 2.1.- The structure and information about the Annual Statements in the Spanish legislation and analysis of its components.
  - 2.1.1.- The Balance Sheet.
  - 2.1.2.- The Income Statement.
  - 2.1.3.- The accompanying Notes.
  - 2.1.4.- The Cash-Flow Statement.
  - 2.1.5.- The Statement of Changes in Equity.
- 2.2.- Preparation of financial statements for analysis.
- 2.3.- The levels of "quality" of the outcome: The income statement by margins.
- 2.4.- The analytical Income Statement: determining and importance of the added value.
- 2.5.- The Management Report, the segmented financial statements, intermediate financial statements and the reports of independent appraisers.
- 2.6.- Main Spanish accounting database for economic and financial analysis.
- 2.7.- Limitations of financial statements as instruments of analysis: seasonality.

**Chapter 3. Horizontal and vertical analysis of the Balance Sheet and Income Statement.**

- 3.1.- Vertical percentage.
- 3.2.- Horizontal percentage.
- 3.3.- Index numbers.

**Chapter 4. Analysis and control of the financial situation in the short term.**

- 4.1.- Concept of Working Capital: financial balance.
- 4.2.- Working Capital Requirements (NOF) and its relationship with the Working Capital.
- 4.3.- The average period of maturity or operating cycle.
- 4.4.- Actions to shorten the period of maturity.

**Chapter 5. The Cash-Flow Statement and the Statement of Changes in Equity.**

- 5.1.- The Cash-Flow: meanings.
- 5.2.- Building and interpretation of the Cash-Flow Statement and usefulness for analysis.
- 5.3.- Building and interpretation of the Statement of Changes in Equity.

**Chapter 6. Ratios: Tools for the analysis of liquidity, solvency, profitability and risk.**

- 6.1.- Ratio analysis: definition and considerations.
- 6.2.- Financial ratios: ratios for the analysis of the liquidity and solvency.
- 6.3.- Economic ratios.
  - 6.3.1.- Return on equity.
  - 6.3.2.- Return on assets.
  - 6.3.3.- Analysis and breakdown of economic returns.
  - 6.3.4.- Analysis and breakdown of financial profitability: The Tree of Du Pont.
- 6.4.- Stock market ratios.
- 6.5.- Other analytical models

**Chapter 7. Analysis and control of the Risks in the company: Breakeven Point, Operating and Financial leverages.**

- 7.1.- The Risk in the company: the economic risk and the financial risk.
- 7.2.- The Breakeven Point for one product: graphic representation.
- 7.3.- The particular critical points of the products and the breakeven point of the global profitability.
- 7.4.- Management indexes: the index of commercial efficiency, the rate of absorption of fixed costs, the safety index of variable costs and the safety index of fixed costs.
- 7.5.- Breakeven Point analysis limitations.
- 7.6.- The operating leverage.
- 7.7.- The financial leverage: different situations of financial leverage.

**WORKLOAD**

<b>PRESENIAL ACTIVITIES</b>	<b>HOURS</b>
Theoretical classes to explain the essential contents of the subject.	30.0
Practical classes' attendance, concerning the resolution of case based studies, oral presentations, debates, individual and / or team. It also includes the defense, by the students, certain activities of continuous assessment.	30.0
<b>Total In-Class Activities</b>	<b>60</b>
<b>NON-PRESENIAL ACTIVITIES</b>	
Independent study	50,0
Elaboration of individual assignments	15,0
Elaboration of team assignments	25,0
<b>Total No-Classroom Activities</b>	<b>90</b>
<b>TOTAL</b>	<b>150</b>

**TEACHING METHODOLOGY**

Classes are based on the teaching of lectures with theoretical and practical character, so that, based on the theory explained both from a doctrinal point of view and from its real application in the business world, the resolution several case studies are addressed with guarantees. Student participation will be highly valued, as well as his / her criticism and debate capacity.

The teacher will make available to students the material support necessary for the proper monitoring of classes.

## EVALUATION CRITERIA

The evaluation of students will be conducted through continuous assessment and summary exams.

### 1. Continuous assessment.

*This part will have a weighting in the final grade of **40%**.*

### 2. Summary exams (hand-written and excel exams of theoretical and practical content).

*This part will have a weighting in the final grade of **60%**.*

Continuous assessment is an **in-class** activity and it is not recoverable and, therefore, the mark obtained during continuous assessment of the subject will be maintained, both in 1st call and 2nd call. The summary exams part itself will be recoverable at the end of the semester.

To pass the subject, an average above 5 must be obtained in the summary exams. The final grade is obtained by weighting the summary exams mark with the continuous assessment, having to be obtained a higher final grade of 5 to pass the subject.

## CLASS ATTENDANCE

Class attendance is compulsory for the appropriate understanding of the course. Absences above 15% of the total number of sessions will imply that the student will not obtain any grade for the continuous evaluation process. Therefore, the final grade will be calculated applying 60% over the exam grades.

### 1st Call:

- **Individual & Teamwork mark (40%):** linked to assistance. It will be obtained from the exercises and assignments completed and / or presented in class at the request of the teacher, linked to subject content.
- **Exams mark (60%):** It will be necessary to pass the exams to pass the subject. The exams score out of a maximum of 10 points, so the passing grade will be achieved with 5
  - Summary exams will consist of one Hand-written examination, at mid-semester and one in Excel at the end, consisting of a battery of several problems for which resolutions will be requested, all with a theoretical and practical approach.
  - Summary exams are compulsory and to overcome each with a 5 out of 10 is compulsory to pass the course.
  - The first exam is eliminatory, so that students who pass the first midterm only will be examined of the issues discussed in the second midterm. Students that pass the first exam cannot repeat this first part to increase the initial mark obtained.
  - Students who fail the first midterm will take the final exam, with all the content of the subject (hand-written and excel).

- *Students that pass the first mid-term exam but fail the second exam or did not take it, have to take all the content (hand-written and excel) of the subject in the second examination session that is planned in July.*
- *In no case it will save the mark of any midterm summary exam approved for the second examination session.*

**2nd Call:**

- **Individual & Teamwork mark:** *the same note than in the first call is kept.*
- **Exams mark:** *it will be possible to take new exams.*

Those students who have failed the subject have the obligation to take the exam in the 2nd call.

For both calls:

The final mark is obtained from the weighted average of the marks of each part of the evaluation, provided that the summary exam has been passed, officially called by EDEM University Centre. In the event that the exam is not passed, the final grade will be obtained from it, not by weighing the marks obtained in continuous assessment.

**SPELLING AND GRAMMAR**

Students must take proper account of correct spelling, punctuation and grammar in their works and examinations. These formal aspects will be taken into account in their evaluation.

**RE-REGISTRATION AFTER FAILING IN SECOND EXAMINATION SESSION \*\***

Those students that do not pass the subject in the 1<sup>st</sup> or 2<sup>nd</sup> call and they are not repeating the academic year, they will need to enroll again and

They will have right a 3<sup>rd</sup> and 4<sup>th</sup> call

The evaluation criteria will be:

- **Continuous assessment mark (20%):** *linked to individual assignments completed and / or presented in class at the request of the teacher.*
- **Exams mark (80%):** *It will be necessary to pass the exam to pass the subject. The exam score out of a maximum of 10 points, so the passing grade will be achieved with 5.*

\*\* Segunda matrícula de la asignatura

## REFERENCES

### Basic

- GARRIDO MIRALLES, P. e IÑIGUEZ SANCHEZ, R. (2012): Análisis de Estados Financieros. Editorial Pirámide.

### Additional

- GONZALEZ PASCUAL, J. (2008): Análisis de la empresa a través de su información económica-financiera. Fundamentos teóricos y aplicaciones. Editorial Pirámide.
- ORIOL, A. (2008): Análisis de Estados Financieros. Fundamentos y aplicaciones. Editorial Gestión 2000.
- CHARLES H. GIBSON (2013) Financial Statement Analysis, International Edition. Cengage Learning.  
PALEPU, K.G., P.M. HEALY, and E. PEEK (2012) Business Analysis and Valuation Using Financial Statements, IFRS Edition, South-Western Cengage Learning.