

## FINANCIAL STATEMENT ANALYSIS

### COURSE DETAILS

<b>Code</b>	36263
<b>Degree</b>	Degree in Business Administration and Management
<b>Subject</b>	Financial Statement Analysis
<b>Character</b>	Basic
<b>Year</b>	3rd
<b>ECTS</b>	6

### PROFESSOR

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

### SUMMARY

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, complete the knowledge of the accounting cycle with five additional skills:

First, preparing the student to be able to extract and communicate to users, both internal and external, the information contained in Financial Statements, so that they can 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, training the student to apply the tools of analysis acquired to the Annual Statements or Financial Statements of a company, being able to judge the economic and financial situation and trying 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 in debts and payment obligations to be met by the application of the previous money.

Students will 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 as the determination of NOF (Working Capital Requirements) and Working Capital will be used, 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 will be able, through appropriate tools, to determine the profitability of the activity, and also decide if the financial structure, in a business expansion context, has to be funded only with its own funds or when it is beneficial for the company to 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.

All these topics guarantee that students will be able to analyse and interpret the information provided by companies, from an economic and financial approach and from an internal and external analyst point of view.

## **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 analyse 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 analyse 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>PRESENTIAL 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-PRESENTIAL 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 of 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 support material 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

. *Group assignment based on the comparative economical and financial analysis of two competing companies*

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

### 2. Summary exams

. *One global exam in which theoretical and practical content will be apply in a hand-written and/or excel format.*

. *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 global exam to pass the subject. The exam score out of a maximum of 10 points, so the passing grade will be achieved with 5.

**2nd Call:**

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

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 failed, the final mark obtained after applying the prior weighting will be a maximum of 4.5. Thus, if the exam is less than 5 and after applying the weighting the final mark is greater than 4.5, it will remain at that 4.5. If, on the other hand, this grade is less than 4.5, the grade obtained will be maintained.

**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 scores out of a maximum of 10 points, so the passing grade will be achieved with 5.

\*\* Second enrollment of the subject.

## 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.