



Grado en Administración y Dirección de Empresas 27320 - Financial statements analysis

Course 2015 - 2016

Curso: 3, Semestre: 1, Créditos: 6.0

Basic information

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Recommendations to attend this course

Given that this is a compulsory subject taught in the third year, there are no formal prerequisites for taking this course except those necessary for enrolment in the Degree in Business Administration (ADEi). Nevertheless, it would be advisable to have acquired the knowledge and skills studied in Financial Accounting I and Financial Accounting II, taught in the first year of the degree, and the knowledge and skills studied in Financial Statements, taught in the second year of the degree

Additionally, the student is advised to attend the scheduled theoretical and practical classes and to carry out the proposed cases, tasks and autonomous work.

Course Schedule and Deadlines

Activities and deadlines will be announced through the Online Teaching Platform (ADD) at the beginning of the term. Dates of the final exams are provided in the Faculty web site and/or in the Online Teaching Platform (ADD).

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Learning outcomes that define this course

The student, in order to pass the course, will have to show her/his competence in the following skills:

- 1:** To be able to apply the more commonly used tools and techniques for the analysis of financial statements.
- 2:** To be able to interpret and understand the information of financial statements with the aim of evaluating the financial and economic situation of companies.
- 3:** To be able to carry out a financial and economic analysis of a company from the perspective of the different economic agents involved.
- 4:** To be able to use the results of the analysis of financial statements and other financial and non-financial information to define business actions and to evaluate the economic health of a company.
- 5:** To be able to make decisions regarding a company, considering the different points of view of the economic agents that use financial information.
- 6:** To be able to detect window-dressing behaviour in the information disclosed in companies' financial statements.
- 7:** To be able to apply company valuation techniques for listed and non-listed companies.

Introduction

Brief presentation of the course

Competences

General aims of the course

The expected results of the course respond to the following general aims

The aim of the course is that the students will learn to analyze and interpret business financial information. They will also learn to define business actions and to make economic decisions about a company, considering the results of the analysis and the differing economic agents.

To achieve these aims, the course involves the study of the different tools and techniques for the analysis of financial information as well as its application in practice. It also requires the detection of problems in the quality of the financial information that may affect the evaluation of the financial and economic situation.

Context/Importance of the course for the master degree

Financial Statements Analysis is a compulsory subject of 6 credits that is taught in the first semester of the third year of the Degree in Business Administration. The main aim of the course is the analysis of financial information, primarily financial statements. The students of this degree have completed two six-month accounting courses (Financial Accounting I and II) in the first year and one six-month accounting course (Financial Statements) in the second year. Thus, when the students start Financial Statements Analysis, they know and dominate accounting technique and the recognition and valuation criteria contained in the Spanish regulation. They know the process of the elaboration and disclosure of the financial statements to comply with the Spanish regulation

In this context, Financial Statement Analysis considers the points of view all the users of business financial information (investors, creditors, debtors, workers, the management,...). The objective of this approach is that the students should gain the ability to make decisions about the financial and economic situation of a business irrespective of their position (manager, investor, financial analyst..)

After completing the course, the student will be competent in the following skills:

1:

Specific competences

- To assess the situation and to predict the evolution of companies and organizations in order to make decisions.
- To understand and to apply professional criteria with scientific rigour in solving economic, business and organizational problems.

2:

Cross-sectional competences

- Ability to solve problems
- Ability to analyze and summarize.
- Ability to make decisions

Relevance of the skills acquired in the course

The learning outcomes of the course Financial Statements Analysis are relevant because

- They allow the use of financial information from the various points of view of those who use the information for decision-making, as opposed to those who prepare the information. This allows a different and complementary vision to previous accounting subjects.
- They show the importance of accounting information in the economic and finance world
- They enable the student to use the most commonly used tools and techniques of the professional financial analyst.
- They bring the student closer to the work of the financial analyst

All the above is particularly important because most graduates will carry out their professional activity in areas where they will be obliged to analyze financial statements, using the tools and techniques explained in this course.

Evaluation

Assessment tasks

The student will prove that he/she has achieved the expected learning results by means of the

following assessment tasks:

1:

For the **JUNE EXAM**, two evaluation systems are available:

A) CONTINUOUS ASSESSMENT

The student must take two individual writing exams and participate in a group task during the semester:

- **FIRST WRITTEN EXAM:** this will deal with the contents of lessons 1 to 4 of the syllabus and will be taken after lesson 4 has been concluded. It will consist of theoretical and practical questions.
- **SECOND WRITTEN EXAM:** this will deal with the contents of lessons 5 to 9 of the syllabus, and will be taken after lesson 9 has been concluded. It will consist of theoretical and practical questions.
- **GROUP TASK:** consisting of the economic and financial analysis of a company. The students will have to apply the knowledge acquired in the weekly theoretical and practical classes to the financial statements of a real company. Periodically, the students will have to report on their progress on the dates assigned for P6-type practices and present a comprehensive report at the end of the semester.

To participate in the continuous assessment, the student must give in and discuss in class a minimum of 70% of the proposed activities.

B) GLOBAL ASSESSMENT SYSTEM:

The student who does not choose the continuous assessment system, does not pass the subject in the continuous assessment system, or wants to improve his/her mark, will be entitled to sit the global exam, the best mark obtained prevailing in all cases. The global exam consists of a written exam

The **WRITTEN EXAM** will be taken on the dates fixed by the faculty in the calendar of exams. It will consist of theoretical questions and practical cases. The theoretical questions can be closed questions (multiple-choice questions) or open-ended questions, and the student must prove that he/she has assimilated and understood the basic concepts of this course. The practical cases will be similar to those solved in the practical sessions of the course

The students who have carried out the **GROUP TASK** for the continuous evaluations and who choose the **GLOBAL ASSESSMENT SYSTEM** will not have to answer the questions related to the contents that are evaluated in the **GROUP TASK** in the exam.

2:

In the **SEPTEMBER EXAM**, the assessment will be carried out following the **GLOBAL ASSESSMENT SYSTEM**. If the students carried out the group task during the semester, it will also be taken into account for the assessment of the September exam.

Assessment criteria

A) CONTINUOUS ASSESSMENT

The final mark will be calculated using the following weights for each component of the assessment:

- **FIRST WRITTEN EXAM:** 20%
- **SECOND WRITTEN EXAM:** 45%
- **GROUP TASK:** 35%

In each written exam and in the group task, the students should get a minimum mark of 4 out of 10. In order to pass the subject, the final mark should be equal to or greater than 5 out of 10.

B) GLOBAL ASSESSMENT

For students that do not carry out the group task, the mark will be the mark obtained in the written exam. To pass the

subject, the written exam mark should be equal to or greater than 5 out of 10.

For students that carry out the group task, the final mark will be calculated using the following weights of each component of the assessment:

- WRITTEN EXAM: 65%
- GROUP TASK: 35%

The written exam and the group task require a minimum mark of 4 out of 10. To pass the subject, the final mark should be equal to or greater than 5 out of 10. If the resulting mark obtained by the student using the weights above is less than the mark obtained in the written exam, the final mark of the course will be the latter.

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Activities and resources

Course methodology

The learning process that has been designed for this course is based on the following activities:

The learning process designed for the course Financial Statements Analysis comprises 6 ECTS credits and distributes 150 student working hours into 60 class hours (theoretical and practical), 8 P6-type practices hours and 82 autonomous work hours.

The 60 class hours of theoretical and practical sessions consist of 30 participative lectures and 30 practical hours solving problems and practical cases. The class time of the course is organized as follows:

- *Participative lectures:*

These will involve the description and explanation of basic concepts referring to the course, in particular, dealing with the analysis of financial statements. In these lectures, the participation of students will be essential to discuss the main concepts analyzed in each session.

The participative lectures will last 2 hours and will include a revision of the most important concepts and the explanation of new concepts.

Students will have the recommended bibliography for each lesson at their disposal and they are expected to read it carefully before attending the corresponding lecture.

- *Practical classes:*

Every week, besides the participative lecture, the students will attend a practical class to solve cases.

There will be two types of problems and cases. Some of them will be designed to consolidate and to help to understand the most important issues explained in the participative classes. Others will deal with real business information, working with the annual reports of companies to elaborate the financial, economic and stock analysis of the companies. Some problems and cases will be done individually but there will be other cases that will be solved by groups of 2-3 people using the methodology of cooperative learning.

Additionally, some practical classes will be used to present the GROUP TASK and to discuss it, with the aim of obtaining criticisms to improve the final content of the report.

The P6-type practices will be carried out in different weeks during the semester. In these practices, the students will report on their progress in the group task. Questions and doubts that arise when analyzing the accounting reporting of a real company will also be solved.

Finally, the 82 hours of the student's autonomous work will consist of 30 reading hours and personal reflection about the contents of the course or the bibliography, 30 hours to complete the group task and 22 hours to do individual exercises,

participating in learning platforms and tutorials.

Outline of the Programme

The programme offered to the students to help them achieve the learning results includes the following activities :

1:

SECTION I.

CHAPTER 1.- BASIC CONCEPTS

In this section, the student will learn the aim of financial statements analysis, the sources of information, and the different approaches and users. The main tools and techniques will also be introduced.

CHAPTER 1: BASIC CONCEPTS

1.1 THE AIM OF FINANCIAL STATEMENTS ANALYSIS

1.2 APPROACHES AND USERS

1.3 INFORMATION FOR THE ANALYSIS

1.4 THE CONTEXT OF THE ANALYSIS

1.5 MAIN TOOLS AND TECHNIQUES FOR THE ANALYSIS

2:

SECTION II.

CHAPTER 2.- SEPARATE FINANCIAL STATEMENTS

CHAPTER 3.- CONSOLIDATED FINANCIAL STATEMENTS

CHAPTER 4.- USEFULNESS AND LIMITATIONS OF THE FINANCIAL INFORMATION FOR THE ANALYSIS

In this section, the student can learn to structure the financial statements for their analysis and to interpret the information disclosed in the statements. We will combine the study of individual and consolidated financial statements.

Additionally, the student can learn the limitations of financial information when evaluating the financial and economic situation of a business.

CHAPTER 2: SEPARATE FINANCIAL STATEMENTS

2.1. THE AUDIT REPORT

2.2. THE BALANCE SHEET

2.3. THE INCOME STATEMENT

2.4. THE NOTES TO THE ANNUAL ACCOUNTS

2.5. THE STATEMENT OF CASH FLOWS

2.6. THE STATEMENT OF CHANGES IN EQUITY

CHAPTER 3: CONSOLIDATED FINANCIAL STATEMENTS

3.1. CONSOLIDATION BASICS

3.2. CONSOLIDATED FINANCIAL STATEMENTS

3.3. SPECIFIC ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

- 3.4. COMPARABILITY PROBLEMS
- 3.5. OPERATING SEGMENTS: PROBLEMS IN THE ECONOMIC ANALYSIS
- 3.6. FOREIGN CURRENCY ACTIVITIES

CHAPTER 4: USEFULNESS AND LIMITATIONS OF THE FINANCIAL INFORMATION FOR THE ANALYSIS

- 4.1. LIMITATIONS OF FINANCIAL INFORMATION
- 4.2. WINDOW DRESSING AFFECTING THE INFORMATION AND ITS QUALITY
- 4.3. CREATIVE ACCOUNTING PRACTICES
- 4.4. SOLUTIONS TO CREATIVE ACCOUNTING

3: SECTION III.

CHAPTER 5.- ANALYSIS OF THE FINANCIAL SITUATION: SHORT TERM

CHAPTER 6.- ANALYSIS OF THE FINANCIAL SITUATION: LONG TERM

CHAPTER 7.- ECONOMIC ANALYSIS OF THE COMPANY

These three chapters include the analysis of the financial situation considering both the short and long terms and the economic situation. With these chapters, the student can learn to evaluate the liquidity, solvency, indebtedness, profitability and productivity of a company and to make decisions from different points of view.

CHAPTER 5: FINANCIAL SITUATION ANALYSIS: SHORT TERM

- 5.1. SCOPE OF THE SHORT-TERM FINANCIAL ANALYSIS
- 5.2. WORKING CAPITAL
- 5.3. FINANCIAL OPERATING CYCLE
- 5.4. NET CASH FLOW AND BASIC FINANCIAL RATIO
- 5.5. WORKING CAPITAL RATIOS
- 5.6. ACUMULATION OF THE WORKING CAPITAL RATION

CHAPTER 6: FINANCIAL SITUATION ANALYSIS: LONG TERM

- 6.1. SCOPE OF THE LONG-TERM FINANCIAL ANALYSIS
- 6.2. RATIOS USED IN THE LONG-TERM ANALYSIS
- 6.3. SELF-FINANCING
- 6.4. RATINGS OF INDEBTEDNESS

CHAPTER 7: ECONOMIC ANALYSIS OF THE COMPANY

- 7.1. PRODUCTIVITY ANALYSIS
- 7.2. BREAK-EVEN POINT
- 7.3. LEVERAGES
- 7.4. PROFITABILITY ANALYSIS

7.5 ECONOMIC RATIOS

4: SECTION IV.

CHAPTER 8.- FINANCIAL ANALYSIS IN THE STOCK MARKET

CHAPTER 9.- COMPANY VALUATION ANALYSIS

This section includes two important parts of financial statements analysis, namely, the stock market analysis and the company valuation.

CHAPTER 8: FINANCIAL ANALYSIS IN THE STOCK MARKET

- 8.1 FINANCIAL THEORY BASIC CONCEPTS
- 8.2 TECHNICAL ANALYSIS
- 8.3 FUNDAMENTAL ANALYSIS IN THE STOCK MARKET
- 8.4 FUDAMENTAL ANALYSIS PROCESS
- 8.5 SECTOR PARTICULARITIES

CHAPTER 9: COMPANY VALUATION ANALYSIS

- 9.1 COMPANY VALUATION METHODS BASED ON ACCOUNTING VALUES.
- 9.2 COMPANY VALUATION METHODS BASED ON ABNORMAL RESULTS
- 9.3 RELATIVE VALUATION METHODS
- 9.4 METHODS BASED ON DISCOUNTED CASH FLOWS
- 9.5 REAL OPTIONS VALUATION METHODS

Course planning

Calendar of actual sessions and presentation of works

The calendar of classes will be published in the web site of the Faculty and/or in the Online Teaching Platform (ADD) and the presentation of works and other activities will be announced by the lecturer and through the appropriate channels.

Bibliographic references of the recommended readings

Facultad de Ciencias Sociales y Humanas

- Esteo Sánchez, Francisco. Análisis de estados financieros : planificación y control : (comentarios y casos prácticos) / por Francisco Esteo Sánchez . 4a. ed. Madrid : Centro de Estudios Financieros, 2003
- González Pascual, Julián. Análisis de la empresa a través de su información económico-financiera / Julián González Pascual . 2a ed Madrid : Pirámide, D.L. 1995
- González Pascual, Julián. Análisis de la empresa a través de su información económico-financiera : aplicaciones prácticas / Julián González Pascual . 4ª ed. Madrid : Pirámide, D.L. 2011
- Jiménez Cardoso, Sergio Manuel. Análisis financiero / Sergio M. Jiménez Cardoso, Manuel García-Ayuso Covarsí, Guillermo J. Sierra Molina . 2ª ed. Madrid : Pirámide, 2002
- Láinez Gadea, José Antonio. Contabilidad creativa / José Antonio Láinez Gadea, Susana Callao Gastón . 1a. ed. Madrid : Civitas, 1999
- Llorente Olier, José Ignacio. Análisis de estados económico-financieros / José Ignacio Llorente Olier ; prólogo, Sotero Amador Fernández . Madrid : Centro de Estudios Financieros, D.L. 2010
- Muñoz Merchante, Ángel. Análisis de estados financieros : teoría y práctica / Ángel Muñoz Merchante . 2ª ed., 1ª reimpr.

Madrid : Ediciones Académicas, 2011

Facultad de Economía y Empresa

- Esteo Sánchez, Francisco. Análisis de estados financieros : planificación y control : (comentarios y casos prácticos) / por Francisco Esteo Sánchez . - 4a. ed. Madrid : Centro de Estudios Financieros, 2003
- Garrido Miralles, Pascual : Análisis de estados contables : elaboración e interpretación de la información financiera / Pascual Garrido Miralles, Raúl Íñiguez Sánchez . - 3ª ed. Madrid : Pirámide, D.L. 2015
- González Pascual, Julián. Análisis de la empresa a través de su información económico-financiera : aplicaciones prácticas / Julián González Pascual . - 4ª ed. Madrid : Pirámide, D.L. 2011
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- Palomares Laguna, Juan. Estados financieros : interpretación y análisis / Juan Palomares, María José Peset . Madrid : Pirámide, D. L. 2015

Facultad de Empresa y Gestión Pública

- Esteo Sánchez, Francisco. Análisis de estados financieros : planificación y control : (comentarios y casos prácticos) / por Francisco Esteo Sánchez . - 4a. ed. Madrid : Centro de Estudios Financieros, 2003
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