

Financial Statement Analysis

Session 1

Introduction

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Why do we need FSA?

- ❖ Is Financial Statement understandable?
- ❖ Why do we need to analyse FS? Does FS not give information, that we have to analyse it?



WHAT RICHER INFORMATION FSA GIVES?

❖ LIQUIDITY

- ❖ The ability to raise cash in the short term to meet its obligation

CASH

OBLIGATION

Course Description

Financial Statement Analysis is a subject which aims to provide the concepts and techniques of financial statement analysis and valuation of securities used by external parties. This course is not simply a ratio analysis or valuation of assets using a discounted-cash flow, as has been learnt in the course of financial management. This course is a combination of accounting and financial management.

Financial Statement Analysis

- Three main ways to analyze financial statements
- Horizontal analysis
 - ▶ Year-to-year comparison
- Vertical analysis
 - ▶ Compare different companies
- Using industry averages
 - ▶ Compare company's performance against the industry averages



Course Description

Financial statement is affected by the method of recognition, measurement and reporting which is governed by accounting standards. Variations in accounting method will greatly affect the financial analysis and investment decisions. Therefore, knowing the accounting techniques and their consequences for the investment decisions become absolutely necessary.

eg. Company A, Asset Rp200.000.000, Liabilities Rp400.000.000
Company B, Asset Rp 400.000.000, Liabilities Rp 400.000.000

Which one has better liquidity if Company A uses historical cost for valuing its asset, while B uses fair value.



Course Objectives

1. Analyze various methods of recognition, measurement, and reporting the items in the financial statements.
2. Understand the consequences of the accounting treatment of investment decisions.
3. Make adjustments to the financial statements to minimize the bias of financial statements.
4. Understand the various techniques of financial forecasting (projection).
5. Understand the various techniques of stock valuation.

Competencies:

After completing this course, student is expected to gain competence in:

1. Identifying problems in various accounting treatments.
2. Calculate the various adjustments that is required in the analysis of financial statements.
3. Understanding the cases of financial statement analysis.
4. Analyze and synthesize the various methods of analysis of financial statements.
5. Apply forecasting techniques and stock valuation.
6. Understanding **the values** underlying FSA practices
7. Making presentations (oral and written).

Learning method used is a combination of:

1. Lecture
2. Discussion
3. Student presentations
4. Assignment

It should be noted that the students shall actively learn, broaden their knowledge and understanding related to accounting and finance. Lecturers only as a facilitator for discussion, presentations, and case analysis.

Students will be assessed based on their performance during the lecture. Course scoring system is determined as follows:

1. Participation (10%)
2. Presentation (15%). Each group consist of 3-4 students and are required to present about the topics. Each group, starting from the 3rd week, must submit a 3-page summary of the topic discussed.
3. Individual assesment (25%). Students are required to complete the home assignments given by lecturer.
4. Middle Semester Test (25%)
5. Final Semester Test (25%)

REFERENCES

a. Primary reference:

Subramanyam, K.R; John J.Wild. 2008. Financial Statement Analysis 10th Edition. McGrawHill (WSB).

b. Secondary reference

Hanafi, Mamduh; Abdul Halim. 2009. Analisis Laporan Keuangan Edisi 4. UPP STIM YKPN. (HAN)

Syllabus

Session	Topic	Sub Topic	Source
1	Introduction	<ul style="list-style-type: none"> • Syllabus Explanation • Arrangement of course 	Academic Guidance Book; Syllabus
2	Overview of Financial Statement Analysis	<ul style="list-style-type: none"> • Business Analysis • Financial Analysis • Financial Statement Analysis – an Introduction 	WSB 1; HAN 1
3	Financial Reporting and Analysis	<ul style="list-style-type: none"> • Financial Reporting Environment • The Concept of Accrual, Income and Fair Value 	WSB 2; HAN 2-3
4	Analyzing Financing Activities	<ul style="list-style-type: none"> • Liabilities • Off-Balance-Sheet Financing • Shareholders' Equity (GROUP 1) 	WSB 3;
5	Analyzing Investing Activities	<ul style="list-style-type: none"> • Current and Long Term Assets • Intangible Assets (GROUP 2) 	WSB 4; DAM 12
6	Analyzing Investing Activities: Special Topics	<ul style="list-style-type: none"> • Equity Investments • Equity Method Accounting • Business Combinations (GROUP 3) 	WSB 5
7	Analyzing Operating Activities	<ul style="list-style-type: none"> • Income Measurement • Revenue Recognition, Deferred Charges and Interest Expense (GROUP 4) 	WSB 6
8	MIDDLE SEMESTER TEST		

Syllabus (cont.)

Session	Topic	Sub Topic	Source
9	Cash Flow Analysis	<ul style="list-style-type: none"> • Statement of Cash Flows • Implication of Cash Flows (GROUP 5) 	WSB 7; HAN 11
10	Return on Invested Capital and Profitability Analysis	<ul style="list-style-type: none"> • The important of Return on Invested Capital • Components of Return on Invested Capital • Analyzing Profitability (GROUP 6) 	WSB 8 & 9; HAN 8 & 9
11	Prospective Analysis	<ul style="list-style-type: none"> • The Projection Process • Application of Prospective Analysis in the Residual Income Valuation Model (GROUP 7) 	WSB 11; HAN 7 & 12
12	Credit Analysis : Part 1	<ul style="list-style-type: none"> • Liquidity and Working Capital • Operating Activity Analysis of Liquidity • Additional Liquidity Measures (GROUP 8) 	WSB 10; HAN 10
13	Credit Analysis : Part 2	<ul style="list-style-type: none"> • Solvency and Capital Structure • Composition of Capital Structure and Solvency • Earning Coverage (GROUP 9) 	WSB 11;
14	Equity Analysis and Valuation	<ul style="list-style-type: none"> • Earnings Persistence • Earnings-Based Valuation • Earnings Power and Forecasting (GROUP 10) 	WSB 12
15	Special Topic	To be Announced	
16	FINAL SEMESTER TEST		