

Course Outline

Department of Accounting and Finance  
School of Business and Economics

**FNCE 3140-3**  
**Financial Statement Analysis (3,0,0)**

**Calendar Description**

Students read complex financial statements of major corporations and analyze their performance using financial ratios and other tools. Emphasis is on the quality of financial reporting and identifying the warning signs of manipulation. Topics include a review of financial statement analysis; profitability analysis, including revenue recognition, discontinued operations, comprehensive income, earnings per share, special items, accounting changes, and earnings management; liquidity analysis, including working capital, cash flow statements, and contingencies; long-term asset analysis, including accounting for long-term investments, consolidations, fixed assets and fair value accounting, intangibles, and goodwill; long-term debt paying ability analysis, including future income taxes, executive compensation, pensions and other post-employment benefits, long-term liabilities, hybrid securities, and hedging using derivatives; and market valuation.

**Educational Objectives/Outcomes**

Upon completing this course, students will be able to:

1. Examine the performance of an organization using different financial statement analysis tools.
2. Analyze a complex corporate income statement and identify any earnings management techniques being used.
3. Analyze the current asset and liabilities section of a complex balance sheet and identify any manipulation techniques being used.
4. Analyze the long-term asset section of a complex balance sheet and identify any manipulation techniques being used.
5. Analyze the long-term liabilities section of a complex balance sheet and identify any manipulation techniques being used.
6. Analyze the financial market performance of a corporation's share capital.

**Prerequisites**

FNCE 2120 (grade of C+ or better) or FNCE 3120 (grade of C+ or better)

**Co-requisites**

## Texts/Materials

Robinson, van Greuning, Henry, Broihahn, International Financial Statement Analysis, CFA Institute Series, 2012.

## Student Evaluation

Midterms	30-50%
Quizzes/homework assignments	0-10%
Student participation	0-10%
Term work	0-30%
Final exam	30-50%

## Course Topics

1. Review of Financial Statement Analysis
  - Financial statement analysis tools
    - Vertical analysis
    - Horizontal analysis
    - Ratio analysis
      - Liquidity
      - Asset management
      - Long-term debt paying ability
      - Profitability including DuPont analysis
      - Market valuation
  - Cash flow statement analysis
2. Profitability Analysis
  - Revenue recognition
  - Discontinue operations
  - Comprehensive income
  - Earnings per share
  - Special items
  - Accounting changes
  - Earnings management
3. Liquidity Analysis
  - Working capital
    - Cash and cash equivalents
    - Temporary investments
    - Accounts receivable
    - Inventory
    - Accounts and notes payable

- Short-term bank financing
  - Cash flow statements
  - Contingencies
  - Balance sheet manipulation
4. Long-term Asset Analysis
- Accounting for long-term investments
  - Consolidations
  - Fixed assets and fair value accounting
  - Leases
    - Lessee perspective
    - Lessor perspective
  - Intangibles
  - Goodwill
  - Balance sheet manipulation
5. Long-term Debt Paying Ability Analysis
- Future income taxes
  - Executive compensation
  - Pensions and other post-employment benefits
  - Long-term liabilities
  - Hybrid securities
  - Hedging using derivatives
  - Currency translations
  - Balance sheet manipulation
6. Market Valuation

**Methods for Prior Learning Assessment and Recognition**

As per TRU policy

**Attendance Requirements – Include if different from TRU Policy**

As per TRU policy

**Special Course Activities – Optional**

**Use of Technology – Optional**