



## DETAILED SYLLABUS

### *Financial Statement Analysis*

#### 1. Information about the study program

1.1 University	Babeş-Bolyai University
1.2 Faculty	Faculty of Economics and Business Administration
1.3 Department	Accounting and Audit
1.4 Field of study	Accounting
1.5 Program level (bachelor or master)	Master
1.6 Study program / Qualification	Accounting and Organizations

#### 2. Information about the subject

2.1 Subject title	EME0624 Financial Statement Analysis						
2.2 Course activities professor	Oprean Victor-Bogdan (econ.ubbcluj.ro+victor.oprean@googlemail.com)						
2.3 Seminar activities professor	Oprean Victor-Bogdan						
2.4 Year of study	II	2.5 Semester	4	2.6 Type of assessment	SE	2.7 Subject regime	EL

#### 3. Total estimated time (teaching hours per semester)

3.1 Number of hours per week	4	out of which: 3.2 course	2	3.3 seminar/laboratory	2
3.4 Total number of hours in the curriculum	36	out of which: 3.5 course	24	3.6 seminar/laboratory	12
Time distribution					Hours
Study based on textbook, course support, references and notes					45
Additional documentation in the library, through specialized databases and field activities					20
Preparing seminars/laboratories, essays, portfolios and reports					40
Tutoring					5
Assessment (examinations)					4
Others activities .....					
3.7 Total hours for individual study	114				
3.8 Total hours per semester	150				
3.9 Number of credits	6				

#### 4. Preconditions (if necessary)

4.1 Curriculum	<ul style="list-style-type: none"> <li>Enrolment in this course is not subjected to completion of other disciplines. However, trying to understand the information being transmitted is inextricably linked to successful completion of subjects such as Basic Accounting and Financial Accounting.</li> <li>It is recommended to be previously undertaken the learning and understanding of fundamental concepts contained in the courses of Enterprises Finance, Public Finance and Basic Business Economics.</li> </ul>
4.2 Skills	<ul style="list-style-type: none"> <li>The understanding of the contents and specific principles and approaches of accounting in general and financial in particular.</li> </ul>

#### 5. Conditions (if necessary)

5.1. For course development	<ul style="list-style-type: none"> <li>• Videoprojector</li> <li>• Attendance at courses/lectures is optional. Course content is based on information materials available to students electronically through the faculty site and/or on paper (upon request), and on references communicated by the teacher accessible via physical or virtual libraries provided by the University. Physical presence in courses require active participation of students in discussions on subjects proposed by the teacher, and the content of these discussions and resulting conclusions are additional matters of examination.</li> <li>• It is allowed and even advisable (if possible) the possession and use during the classes, at teacher's indication, of mobile phones, portable computers, tablets and other devices with Internet connectivity.</li> </ul>
5.2. For seminar / laboratory development	<ul style="list-style-type: none"> <li>• Student's access to databases with journals, information and library access</li> <li>• Attendance at seminars is under University regulations. This implicitly assumes the completion of seminar activities/works/studies etc. outside class hours, when they were started and not yet finished during the previous seminar, and the additional homework given. Their verification will be carried out randomly or exhaustive, influencing the final grade.</li> <li>• Moving between groups in the schedule is done only on written application handed over to the teacher at the first scheduled meeting. The applications will be solved and communicated by the second week and will be made with priority for students enrolled in several specializations of faculty, and secondary depending on the number of available seats (the size of the rooms assigned).</li> <li>• Students will appoint a manager/representative and a deputy to maintain and organize the contact with the teacher to address specific issues that may arise during the course works (e.g. operational transmission of electronic or printed materials, handing the homework to the teacher at his request, information streaming etc.).</li> <li>• At each seminar (every week) students will bring all the materials, home works, seminars, papers etc. of every previous periods (weeks), as the activities will occasionally involve successive iterations, links of current activities with previous findings.</li> </ul>

## 6. Acquired specific competences

Professional competences	<ul style="list-style-type: none"> <li>• Enhance critical thinking and reasoning on data and information provided by the means of financial reporting.</li> <li>• Understand the analytical framework that is the logical structure for financial statement analysis and business valuation based on financial statement information.</li> <li>• Improve the necessary skills required to better read what financial statements conceal instead of reveal.</li> <li>• Understand the context and contents of financial reporting from a financial analyst perspective; enables the analyst to link the economic characteristics and strategies of a firm, its financial statements, the assessments of its current and forecasted profitability and risk, and its market value.</li> <li>• Perform financial analysis and business valuation based on financial statements and other publicly available data sources.</li> <li>• Provide the standard financial analysis and business valuation skills required at any level of the financial market and go beyond the inflexible definitions; embrace a proactive approach of financial analysis casting a skeptical perspective on analyzed information and raising questions that are not on the standard checklist.</li> <li>• Acquire the tools used to analyze a firm's profitability and risk, including financial ratios, common-size financial statements, and percentage change financial statements.</li> <li>• Obtain an overview and practical skills on how to gather data and use spreadsheets for extracting useful information.</li> <li>• Gain the ability to decompose the business cycle and reassemble the information to better assess the risks seen from different perspectives.</li> <li>• Examine and understand the role of financial statement analysis in an efficient capital market.</li> <li>• Get or improve the ability to use financial statement information to forecast the future business activities of a firm and, more importantly, to value a firm.</li> <li>• Apply textbook derived knowledge to the real financial world, enhancing critical thinking and reasoning.</li> </ul>
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Transversal competences	<ul style="list-style-type: none"> <li>• Public data mining, sorting and analyzing; design criteria and/or assessing relevance and quality.</li> <li>• Synthesizing information and understanding the role of technology and modern tools used in information processing and databases management specific to the economic field in general, business in particular.</li> <li>• Communication, teamwork and assuming leadership.</li> <li>• Knowledge, explaining and interpreting ideas, processes, phenomena, states and trends specific to economic activities, and develop reasoned value judgments (mainly at the micro level, but with the development of macroeconomic extrapolation potential in relation to other matters).</li> </ul>
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### 7. Subject objectives (arising from the acquired specific competences)

7.1 Subject's general objective	Provide a strategic perspective from a business analyst point of view, on financial reporting, financial statement analysis and business valuation.
7.2 Specific objectives	Understand the role and place of the financial statements; provide exposure to tools of financial analysis, theoretical concepts, and practical valuation issues; familiarize with using businesses' financial statements to draw an understanding of their performance and provide a basis for making reasonable valuation estimates; know current trends in the development of financial statements normalization; understand the meaning and parameters of financial information quality; compute, understand and explain the financial ratios; analyze short and long-term profitability and risk; forecast financial statements; apply different models based on financial information to assess the value of a company.

### 8. Contents

8.1 Course	Teaching methods	Observations
Recap of the financial reporting features: brief history, IFRS's and the General Framework, parameters of the information quality, users of financial accounting information, Corporate Governance and information asymmetry, components of the financial statements, limits and challenges of the financial reporting.	Teaching is interactive, using visual aids (via projector). The topics are discussed with relation to each module objectives, with emphasis on the keywords. Examples are used and solved in a collaborative environment (in which the teacher assumes the role of mediator), on alternative possibilities in opened situations.  Expressing ideas and digressions on alternative topics is encouraged, to correlate various theoretical aspects of analysis towards synthesis.	The theoretical study of different content elements is recommended to be done linearly for the first part which includes strict reference to the annual financial statements (where the focus will be on basic elements like structure, accuracy of reporting data, quality, limits and flaws of the current reporting environment etc.).  For the second part is encouraged the nonlinear, correlated study, to observe aspects of the various common fundamental elements in terms of interpreting data and critical examination meant to provide information, and to delineate factors which distinguish different approaches.
Overview of the financial statement analysis and valuation: analysis proceedings; recognition and business valuation; assets and liabilities recognition, and income valuation; cash flow statement understanding and interpretation.		
Profitability and risk analysis: overview, types of analysis and viewpoints of profits, financial statement ratios for profitability assessment, risk analysis, short and long-term analysis, credit and bankruptcy risk analysis, financial reporting manipulation risk.		
Business cycle analysis: financing (equity, debt and leases), investing (long-term operating assets, securities and foreign currency translations) and operating activities (revenue and expense recognition (accomplishments and efforts), income taxes, retirement benefits, derivative instruments.		
Forecasting financial statements: introduction, preparing financial statements forecasts, a seven-step forecasting procedure, shortcut approaches to forecasting, projected financial statements analysis, sensitivity analysis.		
Business valuation: introduction and overview of valuation models, risk-adjusted expected rates of return and dividends valuation approach, cash-flow-based valuation approaches, earnings-based valuation approaches, market-based valuation approaches		

References:		
1. Fridson, M.S. and Alvarez, F., <i>Financial Statement Analysis: A Practitioner's Guide</i> , 4 <sup>th</sup> edition, Wiley, 2011, ISBN-10: 0470635606; ISBN-13: 978-0470635605 2. Stolowy, H. and Lebas, M. J., <i>Financial Accounting and Reporting: A Global Perspective</i> , 2nd edition, Cengage Learning EMEA, 2006, ISBN-10: 1844802507; ISBN-13: 978-1844802500 3. Wahlen, J.M., Baginski, S.P. and Bradshaw, M., <i>Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective</i> , 7 <sup>th</sup> edition, Cengage Learning, 2010, ISBN-10: 0324789416; ISBN-13: 978-0324789416		
8.2 Seminar/laboratory	Teaching methods	Observations
Preparing a project/project company (one, on a time series analysis instead of a more-companies cross-sectional analysis) where concepts and analysis tools will be applied: selecting companies, understanding industry economics and company strategy, creating data spreadsheets.	Applications, case studies and problem solving are provided by the teacher according to the objectives pursued, but students' input is encouraged opening the possibility for essays and/or short papers (extra-credit up to maximum 10% of the total).	The practical issues, applications, case studies and the concepts discussed, referred to or needed to or better understanding the lectures are resumed in a more practical, interactive and student-oriented manner at seminars.
Identification of company strategy. Assess the effect of industry economics on balance sheet and the effect of business strategy on common-size income statement. Analyzing the effect of industry characteristics on financial statement relationships.		
Introduction of the integrative case. Problems and cases on the effect of valuation methods used for nonmonetary asset on balance sheet and income statement. Cases for understanding of the deferred taxes and their effect on financial statement components.		
Cases on interpreting and understanding the statement of cash flows. Preparation of cash flows statements from balance sheets and income statements.		
Common-size analysis, EPS interpretation, calculating basic and diluted EPS, calculating ROA, ROCE and components, relating ROA and ROCE, analyzing and interpreting operating profitability and ratios. Calculating and interpreting risk ratios, and risk and bankruptcy prediction ratios in different given scenarios/settings. Identifying financial statement irregularities.		
Measuring financial activities, description of directional effect of common equity transactions and debt/convertible financing. Analyzing the effect of capitalizing operating leases on balance sheet ratios (for comparability reasons).		
Capitalization versus expensing decision, earnings management and depreciation measurement, analyzing disclosures regarding fixed assets and asset impairments, translating the financial statements of a foreign subsidiary, identifying the functional currency.		
Operating activities-related problems and cases (recognition and measuring income for various types of businesses, interpreting financial statement disclosures relating to income recognition, interpreting derivatives disclosures, interpreting income tax disclosures).		
Apply a seven-step procedure for developing financial statement forecasts. Develop realistic expectations on assumptions regarding future operating, investing, and financing activities, including future growth rates in sales, cost behavior of various expenses, levels of investments in various working capital and fixed assets, the financial capital structure of the firm, and dividend payouts. Study the sensitivity of the financial statements to the assumptions made and to the impact of different assumptions.		
Estimate risk-adjusted expected rates of return on equity capital, WACC used to discount future payoffs to present value, understand the dividends valuation approach and its conceptual and practical strengths and weaknesses, develop practical valuation techniques to deal with issues involved in estimating a firm value, apply the dividends valuation techniques to estimate firm value using the present value of future dividends.		
Apply practical techniques to deal with issues involved in estimating firm value using the present value of expected future free cash flows. Measure free cash flows (FCF) for all debt and equity capital stakeholders as well as for common equity shareholders (and when each measure is appropriate). Apply the technics to estimate firm value using the present value of future FCF for both common equity shareholders and for all debt and equity capital stakeholders.		
Evaluate the conceptual and practical strengths and weaknesses of earnings-based valuation using the residual income valuation method. Understand the value relevance of earnings versus dividends versus cash flows based valuation. Apply the residual income valuation method by valuing the common shareholders' equity. Identify potential causes of errors if the residual income, FCF, and dividend valuations do not determine identical value estimates.		

Apply a version of residual income valuation model to compute the value-to-book VB ratio and understand how to make investment decisions by comparing the VB to market-to-book MB ratio. Understand how to use market-based valuation multiples and how to compute and use the firm's value-earnings ratio, VE (and how to incorporate growth into the VE ratio to compute the value-earnings-growth ratio). Analyze the impact of different factors on market multiples. Market multiples and reverse-engineering share prices.

References:

cases, problems, discussions from: Wahlen, J.M., Baginski, S.P. and Bradshaw, M., *Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective*, 7<sup>th</sup> edition, Cengage Learning, 2010, ISBN-10: 0324789416; ISBN-13: 978-0324789416

**9. Corroboration / validation of the subject's content in relation to the expectations coming from representatives of the epistemic community, of the professional associations and of the representative employers in the program's field.**

The contents of the Financial Statement Analysis and the knowledge implied after completion give a perspective from a financial analyst point of view. This opens and/or complements a very broad perspective for application at almost any level of economic endeavor. Financial statement analysis provides essential skills in a wide variety of occupations like corporate finance, consulting, commercial lending, lending money/banking credit analysis, private equity, investment management, or hedge funds.

**10. Assessment (examination)**

Type of activity	10.1 Assessment criteria	10.2 Assessment methods	10.3 Weight in the final grade
10.4 Course	Grading from 1 to 10.	Written examination, one closed book test on the date listed (by the end of the semester) in the exam schedule.	60%
10.5 Seminar/laboratory	Grading from 1 to 10. Class participation is based on the contribution of each student to the class. This requires meaningful contributions to discussions and consistent attendance.	Homework and projects are proposed by the teacher. A maximum 20% extra points can be obtained by engaging in optional assignments.  Interventions in the proposed applications, answer questions, etc., development of own initiative.	40%
<b>10.6 Minimum performance standard</b>			
Presence is mandatory at the final exam and score at least 5 of the maximum of 10 points, with activity noted during the semester. A minimum grade of five is required for each subject in the final exam regardless of the interim results. <ul style="list-style-type: none"> <li>• It is necessary to obtain a minimum grade of 5 (five) in order to pass this subject;</li> <li>• The grades being granted are between 1 (one) and 10 (ten);</li> <li>• Students must approach each element (question, problem) within the exam sheet for at least 50% of the content.</li> <li>• The exam is written and takes approximately 120 minutes;</li> </ul>			