

PGP Elective: Financial Statement Analysis  
Instructors: Shailesh Gandhi, Sobhesh Agarwalla

**No. of Sessions: 15**

**Course Objective**

Accounting and its end product – financial statements – play an extremely important role in the dynamic world economy. The financial statements serve as a foundation for tasks such as credit and security analyses, lending and investment decisions and other decisions that rely on financial data.

This course explores in greater depth selected generally accepted accounting principles and financial reporting. The objective is to give an exposure on formulating and implementing accounting policy, and the use of policy guidance in understanding the financial results better. The focus would be on “substance over form” while understanding the spirit of the policy statements, and the factors affecting the quality of financial numbers. Finally, the course helps the students to develop an intuitive approach to researching, interpreting, and analyzing financial statements.

The course is built upon the building block course “Financial Reporting & Analysis (FRA)” offered in the first term which covers preparation of financial statements, basic understanding of a few accounting policies and ratio analysis.

**Pedagogy**

The pedagogy would primarily involve exercises and case analysis. Each exercise/case would have background reading material related to the situation described in that exercise/case.

**Pre-requisites**

The first term course “Financial Reporting & Analysis” is prerequisite for this course.

**Text Book**

Wild, Subramanyam and Halsey (WSH), *Financial Statement Analysis*, (Tata McGraw-Hill)

**Reference Books**

- (1) Robert N Anthony, David F Hawkins and Kenneth A Merchant (AHM), *Accounting: Text and Cases (12<sup>th</sup> Edition)*
- (2) Mulford & Comiskey, *The Financial Numbers Game*. New York: John Wiley & Sons, Inc., 2002

**Evaluation**

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| • Class Preparation and Participation | 15% |
| • Group Assignments/Project           | 30% |
| • Quizzes                             | 20% |
| • Exam                                | 35% |

The group assignments would include: (a) analysis of cases other than those done in the classroom (2) evaluation of issues in financial reporting using annual reports of the company and analytical tools covered in the course.

### Session Details

Session		Particulars
<b>Introduction</b>		
1	Topic Reading  Case	Overview of financial statement analysis (1) WSH: Chapter 1 (pages 7-35) (2) Consolidated financial statements, ratios and cash flows of a selected company Analysis of consolidated financial statements
<b>Analyzing Operating Activities: Income Statement</b>		
2	Topic Reading  Case	Revisiting Revenue Recognition: Ethical issues (1) Revenue Recognition and Reporting [9-101-050] (Booklet) (2) WSH: Chapter 6 (pages 296-303, 321-324) Biovail Corporation: Revenue Recognition and FOB Sales Accounting (HBS-4011)
3	Topic Reading Case	Revenue Recognition: Income “earned” and “realized” Same as session (2) Bausch and Lomb (A) [9-101-010]
<b>Analyzing Operating Activities: Income taxes</b>		
4,5	Topic  Reading  Case	Deferred Tax, Changes in Basel Norms and impact on accounting standards (1) Accounting for Deferred Taxes [IIMA Note] (Booklet) (2) WSH: Chapter 6 (pages 337-342) (1) Exercises (Booklet) (2) Deferred Tax Assets in Basel III: Lessons from Japan [9-111-076]
<b>Analyzing Investing Activities: Current Assets</b>		
6	Topic Reading  Case	Inventory Accounting and Quality of Earnings (1) WSH: Chapter 5 (pages 202-211) (2) Quality of Earnings Analysis [9-194-050] Rent-Way Inc [9-101-089]
<b>Analyzing Investing Activities: Long-term Assets</b>		
7	Topic  Reading  Case	Issues involved in Asset Reporting – Fair Value vs. Historical Cost vs. Revaluation Reserve approach (1) WSH: Chapter 5 (pages 211-224) (2) Asset Reporting [9-101-014] Land Securities Group [A] (Booklet)
8	Topic  Case	Cost of Development of Intellectual Properties and their Amortization Sietel Inc. [9-100-022]
<b>Analyzing Financing Activities</b>		
9	Topic Reading	Lease Accounting: Substance over Form (1) A Note on Comdisco’s Lease Accounting (only parts I and II)

	Case	(2) WSH: Chapter 3 (pages 120-129) Leasing Decision at Magnet Beauty Products, Inc. [9-111-039]
<b>Analyzing Cash Flow Statement</b>		
10	Topic Reading Case	Acquisition, Intangibles, Cash outflows and Quality of Earnings WSH: Chapter 7 eBay Inc.: Internet Success or Fairy Tale [9-104-049]
<b>Comprehensive Cases (Sessions 11 to 15)</b>		
	Topic Reading Case	Liability Reporting Disclosure Dilemma: Financial Reporting of Contingent and Environmental Liabilities [HBS-A200] Accounting for Liabilities: Lessons from Exxon Valdez [Babson Classic Collection-BAB719]
	Topic Case	Current Financial Performance and Sustainability of Growth Strategies Home Depot
	Topic Case	Comparative Financial Performance, Du Pont ROE, Stock market Performance and Excess Cash Holdings Ahold versus Tesco-Analyzing Performance [9-113-040]

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