

**Indian Institute of Management Udaipur  
Post Graduate Programme in Management  
Financial Statement Analysis**

**Batch** 2015-17

**Credits** 2

**Instructor** Prof. Rajendra D. Patel

**Term** IV

**Sessions** 10

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### **Course Objective**

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

This course is designed to prepare students to interpret and analyze financial statements for the above tasks. It explores in greater depth selected generally accepted accounting principles and financial reporting from the perspective of users of financial statement viz. managers and investors. It is designed to equip such users to understand the factors affecting the quality of financial numbers and to answer the question: Do the numbers make sense? Finally, the course helps the students to develop a more efficient and effective approach to researching, interpreting, and analyzing financial statements.

The course is built upon the basic course on accounting 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, 10<sup>th</sup> Edition)

### **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 | 25% |
| • Group Assignments/Project           | 30% |
| • Exam                                | 45% |

The group assignments would include analysis of cases other than those done in the classroom. The group project would involve evaluation of 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 WSH: Chapter 1 (pages 28-46) Joan Holtz(A) - AHM CASE 5.3 Page 135
<b>Analyzing Operating Activities: Income Statement</b>		
2	Topic Reading Case	Revisiting Revenue Recognition (1) Revenue Recognition and Reporting [9-101-050] (Booklet) (2) WSH: Chapter 6 (pages 328-332, 350-355) Biovail Corporation: Revenue Recognition and FOB Sales Accounting (HBS-4011)
<b>Analyzing Operating Activities: Deferred Revenue and Expense write-offs</b>		
3	Topic Reading Case	Software Development Expenses WSH: Chapter 6 (pages 355-359) Microsoft's Financial Reporting Strategy [9-100-027]
<b>Analyzing Investing Activities: Current Assets</b>		
4	Topic Reading Case	Inventory Accounting and Quality of Earnings (1) WSH: Chapter 5 (pages 228-237) (2) Quality of Earnings Analysis [9-194-050] Rent-Way Inc [9-101-089]
<b>Analyzing Operating Activities : Income Tax</b>		
5	Topic Reading Case	Deferred Tax (1) Accounting for Deferred Tax [IIMA Note F&A0474TEC] (Booklet) (2) WSH :Chapter 6 (page 366-373) Exercises on Deferred Tax Accounting (Booklet)
<b>Analyzing Financing Activities</b>		
6	Topic Reading Case	Lease Accounting (1) A Note on Comdisco's Lease Accounting (only parts I and II)(HBS 9-196-122) Booklet (2) WSH: Chapter 3 (pages 142-152) Leasing Decision at Magnet Beauty Products, Inc. [9-111-039]
<b>Comprehensive Cases</b>		
7	Topic Reading Case	Credit Analysis and Profitability Analysis (1) WSH: Chapter 10 (2) WSH: Chapter 8 The Home Depot, Inc. [9-188-148]
8	Topic Reading Case	Financial Distress and Investment Financing Decisions WSH: Chapter 7 Williams, 2002 HBS (9-203-068)
9-10	Topic Reading	Financial Review –Annual Reports AHM: Chapters 11 Adani Ports/Power – Annual report ( TO BE DISTRIBUTED )