Università Bocconi

ACADEMIC YEAR
2008-2009

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS (code 6046)
II SEMESTER

1. Coordinator/Instructor

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3. Course aims

The main educational objective of this course is to develop students' skills in analysing and interpreting financial statements. The course intends to provide students with the different tools to perform a sound and accurate financial statement analysis and to assess the quality of accounting disclosure. At the end of the course students should be able to evaluate the performance and the soundness of business entities.
The course is addressed to students who already have a basic knowledge of accounting concepts and tools. Given the initial different background students are coming from, an overall review of the essentials of financial accounting will be presented at the beginning of the course.
The course will then deepen the different tools of analysis that the financial statement readers may use in order to extract useful information about the company performance, efficiency and risk.
The main accounting valuation issues will be then discussed during the course, focusing on the impact that different valuation choices and accounting standards may have on financial analysis and interpretation.
Finally, an overview of consolidated financial statements will be presented with specific focus on the different methods of consolidation and the relative impact on financial statement analysis.
During the course, some cases will be discussed making reference to real companies and financial statements. This is in order to make students approach real cases and perform analysis on actual companies.

4. Contents

In short, the course addresses the following main issues:

- Financial statements
  1. Balance sheet, Income Statement, Statement of cash flows
  2. Different financial statement formats

- Financial statement analysis
  1. Vertical analysis, horizontal analysis
  2. Ration analysis: solvency, profitability, efficiency
  3. Cash flow statement analysis

- Critical valuation issues in financial statement analysis
  - tangible assets

- Intangible assets
- Leases
- Inventory
- Income taxes
- Employee benefits

- The analysis of consolidated financial statements
  - Definition of group and control
  - Different methods of consolidation
  - Impact on financial statement analysis

5. Teaching material:

Students will be given with all teaching material slides notes in each class, including all the necessary reading material.

For each session, the teaching material will be handed-out by the instructor through the web-learning. Such material includes articles, teaching notes, slides and exercises.

Students who require the comfort of a textbook can refer also to:

- *Global Financial Accounting and Reporting: principles and analysis*
  Peter Walton, Walter Aerts, Thomson

- *Business analysis and valuation using financial statements*
  Krishna G. Palepu, Paul M. Healy , Victor L. Bernard, Thomson

- *The analysis and use of Financial Statements*
  Gerald White, Ashwinpaul Sondhi, Dov Fried, Wiley

6. Detailed outline

Classes will be held from 08,45 to 10,15 according to the following calendar. Most of classes will be held in **ROOM 202**, with few exceptions (to be defined).

Ss. No.	***Date and time***	***Contents***	***References (*)***
1	Feb. 16	Review of financial accounting concepts and tools	Hand-outs. WA, Ch.1, pp. 7-27, Ch. 3, pp.69-75; WS, Ch. 1, pp.2-13
2	Feb. 20	Financial Statements	Hand-outs. WA, Ch.1; WS, Ch. 1, pp.14-20
3	Feb. 23	Balance sheet: structure and different formats	Hand-outs. WS, Ch. 2, pp. 61-65
4	Feb. 27	Income statement: structure and different formats	Hand-outs. WS, Ch. 2, pp. 31-52
5	Mar. 02	Case-discussion	Hand-outs.
6	Mar.06	Financial statement analysis: a framework for interpretation	Hand-outs. WA, Ch. 8, pp. 213-227

7	Mar.09	Financial statement analysis: objectives and tools. Vertical and horizontal analysis	Hand-outs. WA, Ch. 9, pp. 228-234; WS, Ch.
8	T.b.d.	TUTORIAL	Hand-outs.
9	Mar.13	Ratio analysis. Liquidity, solvency, profitability	Hand-outs. WA, Ch. 9, pp. 234-252; WS, Ch. 4, pp.111-148
10	Mar.16	Ratio analysis. Liquidity, solvency, profitability	Hand-outs. WA, Ch. 9, pp. 234-252; WS, Ch. 4, pp.111-148; PHB, Ch. 5, pp.196-225
11	Mar.20	Cash flow statement analysis	Hand-outs. WA, Ch. 10, pp. 259-281; WS, Ch. 3, pp.75-99; PHB, Ch. 5, pp.196-225
12	T.b.d	TUTORIAL	Hand-outs.
13	Mar.23	Case-discussion	Hand-outs.
14	Apr. 17	Accrual accounting and Revenue recognition	Hand-outs. WA, Ch. 4, pp. 95-120; WS, Ch. 2, pp.28-52;
15	Apr. 20	Tangible assets. Main valuation issues and impacts on financial statement analysis.	Hand-outs. WA, Ch. 5, pp. 128-189; WS, Ch. 8, pp.258-275;
16	Apr. 24	Intangible assets. Main valuation issues and impacts on financial statement analysis.	Hand-outs. WS, Ch. 7, pp.228-244;
17	Apr. 27	Inventories. Main valuation issues and impacts on financial statement analysis.	Hand-outs. WA, Ch. 4, pp. 105-121; WS, Ch. 6, pp.192-196;
18	May 04	Income taxes. Main valuation issues and impacts on financial statement analysis.	Hand-outs. WA, Ch.15, pp. 406, 422; WS, Ch. 9, pp.290-301
19	May 08	TUTORIAL	Hand-outs.
20	May 11	Case-discussion	Hand-outs.
21	May 15	Employee benefits. Main valuation issues and impacts on financial statement analysis	Hand-outs.
22	May 18	Group accounting	Hand-outs.
23	May 22	Group accounting	Hand-outs.
24	May 25	Group accounting	Hand-outs.

7. Assessment criteria

The final assessment will be based on the following criteria:

GROUP ASSIGNMENT	0-3 points
FINAL WRITTEN EXAM	0-28 points

The course is considered to be passed when the student:

- is assigned a minimum mark of 16 on the final written examination, AND
- the final grade (group assignment + final written exam) is equal to or higher than 18.

A final mark of "30 cum laude" will be assigned to students who reach a final grade equal to 31.

Once a student has passed the course, the grade is registered and s/he cannot re-sit the exam.

8. Group assignment

The group assignment is aimed at developing students' understanding of, and practical skills in financial statement analysis. It is also designed to enhance teamwork and analytical skills. Upon successful completion of the project students will have acquired a working knowledge and practical skills in undertaking financial statement analysis.

Groups are composed of **5** students.

Students are required to propose the names of the members composing each group by sending an email to the professor by **February 27, 2009** (please, send just one email for each group!).

If any student has problems in finding a group, s/he must send an email to the Professor (angela.pettinicchio@unibocconi.it) and signal it by **February 25, 2009**.

The Professor will randomly compose groups among all those who have signalled problems in finding a group firstly completing groups made up of less than 5 students.

STUDENTS WHO ARE NOT VOLUNTARILY INCLUDED IN ANY GROUP AND WHO DON'T INFORM THE PROFESSOR ABOUT THEIR INTENTION TO TAKE PART OF A GROUP WILL BE CONSIDERED AS "NON ATTENDING" STUDENTS AND WILL NOT GET ANY POINTS FOR THIS GROUP WORK.

Late enrolment is not allowed.

The Professor will communicate the final composition of all the groups through the b-learning by **March 8, 2009.**

The group work will start on March 11, 2009 and will end on May 29, 2009.

a) Each group will have a "virtual budget" of **250,000 euros**.

b) Students are required to invest on the market buying stocks.

Only stocks traded on Milan Stock Exchange are allowed.

(No Bonds, Derivatives, Government stock or any other investment asset: ONLY STOCKS).

c) Students based on the content of the course and their knowledge (or luckiness!) will decide how to invest their budget. You are free to look at all sources you wish: Financial Reporting, Analyst report, Road Show, Newspapers, etc….to choose your company.

d) You have to communicate your first investment by **March 25, 2009** (using the spreadsheet provided). (You can also keep cash as investment, if you wish).

The **maximum number of companies** composing your portfolio is **8**.

This means that you can invest in Zero companies (all cash) or 8 companies (keeping also cash).

e) It will be allowed to change your portfolio **4 times** over the course. It's up to you when. After for times no more changes will be taken into consideration.

f) The last day for portfolio changes is **May 25th**.

g) Each group by May 29th has to send a memorandum (maximum 5 pages) explaining:

- The way in which they decided to monitor the market over this period;
- The basic reasons for the first investment;
- The reasons for any (eventual) change.

9. Final written exam

The final written exam will consist of:

- exercises
- multiple-choice questions
- short open questions