

Department:	Accounting	Degree	Master of Science in Accounting (MSA)
Course Name:	Financial Statement Analysis	Course No.:	ACCT 611
Prerequisite:		Credit Hours:	3

Brief Description:

This course will develop your ability to think critically about the information in financial statements, your proficiency with technical tools for analyzing and valuing companies, and communication of your analysis. Students will be exposed to general tools of financial analysis, theoretical concepts, and practical valuation issues. So, the primary focus is on analyzing financial statements with the goals of (1) assessing current performance, (2) forecasting future performance, and (3) estimating the fundamental value of the firm.

Course Objectives:

After completing this course, the student will be able to:

1. Read, interpret and use financial information and financial ratios in making investment and lending decisions.
2. Identify and analysis weak and strong areas in financial statements to evaluate a company's financial performance and position.
3. link financial accounting with stock market.
4. Use a financial model to forecast financial statements and to estimate the fair value of a business.
5. Demonstrate effective communication in speech.

Course Topics:

- Business Strategy Analysis
- Accounting Analysis
- Financial Analysis
- Prospective Analysis.

Text Book:

- **Financial Statement Analysis and Security Valuation**, 5th edition, by Stephen Penman. The book is available from online merchants. The Accounting Clinics found on the publisher's website are highly recommended as a refresher. **Publisher's Website:** http://highered.mcgraw-hill.com/sites/0078025311/student_view0
- **Analysis of Equity Investments: Valuation** John D. Stowe, Thomas R. Robinson, Jerald E. Pinto, Dennis W. McLeavey, 2002

Additional References:

- Wahlen, James M.; Baginski, Stephen P.; Bradshaw, Mark. (2011). Financial Reporting, Financial Statements Analysis and Valuation: A Strategic Perspective. 7th Edition.
- Palepu K, Healy P and Bernard V, Business Analysis and Valuation Using Financial Statements, South-Western, 3rd Edition, 2004.
- Financial Statement Analysis & Valuation 4th edition, by Easton, McAnally, Sommers and Zhang (Cambridge Business Publishers).
- Financial Statement Analysis, by K R Subramanyam John J Wild. 11th edition
- Financial reporting for Banks and Insurance companies.
- Valuation: Measuring and Managing the value of companies 6th McKinsey & Company Tim Koller, Marc Goedhart, David Wessels
- Investment Valuation 3rd Aswath Damodaran
- **Any other sources that will be determined by the instructor.**

Matrix of Measurement and Assessment Tools and Learning Objectives

			Objectives					
			Knowledge		Critical thinking		communication	
Assessment tools	Grade	Week Time period)	Objective No.	Grade	Objective No.	Grade	Objective No.	Grade
Midterm Exam	25	10 th	1+2	25				
Assignments	10	During the semester	1+2	10				
Project	20	End of the semester			3+4	20		
Project Presentation	5	End of the semester					7	5
Final Exam	40	period of final exams	1+2	40				
Total objectives' grades	100			75		20		5
Percentage allocated	100%			75%		20%		5%

Course Outline			Additional Readings will be determined by the instructor in each class
Week	Hours	Topics	
1	3	Course introduction	
2	3	Chapter 1&2 Introduction to Investing and Valuation & Introduction to the Financial Statements	
3	3	Chapter 3&4 How Financial Statements are Used in Valuation Cash Accounting, Accrual Accounting, and Discounted Cash Flow Valuation	
4	3	Chapter 5&6 Accrual Accounting and Valuation: Pricing Book Values Accrual Accounting and Valuation: Pricing Earnings	
5	3	Chapter 7&8 Valuation and Active Investing Viewing the Business through the Financial Statements	
6	3	Chapter 9&10 The Analysis of the Statement of Shareholders' Equity The Analysis of the Balance Sheet and Income Statement	
7	3	Chapter 11&12 The Analysis of the Cash Flow Statement The Analysis of Profitability	
8	3	Chapter 13&14 The Analysis of Growth and Sustainable Earnings The Value of Operations and the Evaluation of Enterprise Price-to-Book Ratios and Price-Earnings Ratios	
9		Chapter 15&16 Anchoring on the Financial Statements: Simple Forecasting and Simple Valuation Full-Information Forecasting, Valuation, and Business Strategy Analysis	
10	3	Midterm Exam	
11	3	Chapter 17&18 Analysis of the Quality of Financial Statements	
12	3	Chapter 19&20 The Analysis of Equity Risk and Return	
13	3	Presentations	
14	3	Presentations	
15	3		
Final Exam			

Approved by Dept. Chair:
Dr. Ahmad Al-Salman

Date of Approval:
30-9-2019

Extra Information: *(Updated every semester and filled by course instructor)*

Course

Instructor:

Office No:

Extension:

Email:

Office Hours:

Assessment

Your Grades will be based on midterm and final Exams, individual project, and presentation. These items are described below.

Midterm Exam: This exam will be held during regular class sessions. See the schedule below. Exam will be comprehensive, with an emphasis on recent material.

Final Exam: This exam will be held during the University's final exam week in the regular classroom. This exam will also be comprehensive, with an emphasis on recent material.

Assignments: These assignments can be in the form of professional reports or excel assignments that emphasize the lecture.

Project: The final project consists of a comprehensive analysis and valuation of a publicly-traded firm, which must be completed by yourself. The project will include a historical analysis of the firm, projections of the firm's future performance, and a valuation of the firm's equity. During the last week of class, you will present your project.

Project Presentation: Each student has to present his or her project orally and be able to discuss any point of the project.

Course Project Format

The course project is designed to analyze the financial statements and situation of major corporations and use the material covered in the course. The goal behind the course project is to develop, enhance, and utilize the student's ability to analyze a corporation's financial situation.

The student must choose a company and contact with the professor on a periodic basis regarding the progress of the project and any problems, questions or concerns that may arise.

The course projects must be: typed with a maximum font size of 12, a maximum of 30 pages, double-spaced, have citations when needed, graphs and charts must be in the body of the analysis: Any charts or graphs that take up an entire page will not constitute a typed page, have a cover page with the name of the assigned corporation, date submitted, the professor's name, course name and number, have a one inch margin (top, bottom, right and left) on each page, contain a bibliography page of outside research done and used in the course project, have a blank end page for my comments.

Each student will be graded on their writing, analysis, research, organization of the material, and insights.

The course project must be broken down into the following sections:

- ⇒ **Firm's strong points** = an in-depth financial analysis of the firm's strong points. An analysis of the firm's current and past financial statements for the past five (5) years. The analysis must also state why the corporation enjoys these strong financial points.
- ⇒ **Firm's weak points** = an in-depth financial analysis of the firm's weak points. This section must show the firm's weak points that could affect it in the long and short term. The analysis must state how these weak points came about and how they could be corrected, if possible.
- ⇒ **Conclusion and outlook** = must state the conclusion regarding the firm's current and future financial situation. For example, the conclusion and outlook must state whether the firm is a good candidate for a merger and acquisition, a hostile takeover, if it will enjoy solid future profitability and growth, if it will be an industry leader, or is headed toward financial disaster. Does the student think this firm is a good investment prospect? Given the state of the economy, the industry, and the firm itself, if you were a portfolio manager or analysts, would you recommend this firm and why? What is the student's long, short and medium term recommendations for this firm?

Instructions for the Project

1. Select your Company

Select your company and do not select financial institutions (banks, insurance, or investments. Do not select companies with negative book value of equity. It would be a good idea to select stable, visible companies that are followed by analysts. The Professor needs to approve the companies before you can start working.

2. Collect Information

Obtain the company' financial statements for the last five fiscal years (2012-2016).

4. Valuation:

Use the three methods of valuation: the discounted Cash Flows (DCF) method, discounted Residual Income method, and Multiples method using the price-earnings multiple, price-to-book multiple, and the sales multiple. You may use other industry-specific multiples as the "industry average". Compare the valuation results obtained from these methods.

5. Submit your project

Submit one hard copy. Please write the names of the group members on the cover. Also, submit all your calculations, excel files, tables on a USB (I will return the USB to you after grading).

This is a brief summary of the requirements for your project

- 1- Collect Information = Obtain the company' financial statements for the last five fiscal years (2013-2018). GAAP and reformulated statements should be in Excel format. Also, you should include the Financial Ratio to help you to analyze the current performance of your company and to forecast its position in the future.
- 2- Analysis the Firm's strong points = generally in profitability, liquidity, risk, growth, and efficiency
- 3- Analysis the Firm's weak points = generally in, profitability, liquidity, risk, growth, and efficiency
- 4- Valuation: Use this method of valuation: discounted Residual Income method, and compare the value that you get with the current price.
- 5- Conclusion and outlook
- 6- Submit your project Submit one hard copy and also send me email. Please use the cover format as a cover for your project (I will send you the cover format).

	GAAP statements	Reformulate d statements	Financial Ratio	Firm's strong and weak points	Valuation method	Conclusion	Total
Maximum points	2	3	2	8	4	1	20
Earned points							