

**STATE UNIVERSITY OF NEW YORK  
COLLEGE OF TECHNOLOGY  
CANTON, NEW YORK**



**COURSE OUTLINE**

**BSAD 365 – FINANCIAL STATEMENT ANALYSIS**

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Updated By: Christa Kelson**

**SCHOOL OF BUSINESS & LIBERAL ARTS  
BUSINESS DEPARTMENT  
MAY 2015**

- A. **TITLE:** Financial Statement Analysis
- B. **COURSE NUMBER:** BSAD 365
- C. **CREDIT HOURS:** 3
- D. **WRITING INTENSIVE COURSE:** No
- E. **COURSE LENGTH:** 15 weeks
- F. **SEMESTER(S) OFFERED:** Fall/Spring
- G. **HOURS OF LECTURE, LABORATORY, RECITATION, TUTORIAL, ACTIVITY:**  
3 lecture hours per week
- H. **CATALOG DESCRIPTION:** This course explores both the underlying theory and practical applications of financial reporting and analysis. Students will expand their existing knowledge of financial statement preparation developed from their accounting coursework extending their critical thinking acumen into forecasting and various valuation models. Within this course an emphasis of the importance of using financial statements as a source of information to evaluate historical and future economic performance is the overarching learning objective. Discussion of the convergence of Generally Accepted Accounting Principles and International Financial Reporting Standards will occur when appropriate.
- I. **PRE-REQUISITES/CO-REQUISITES:**  
Pre-requisite(s): ACCT 102 or ACCT 104, MATH 141, and junior level standing, or permission of instructor.
- J. **GOALS (STUDENT LEARNING OUTCOMES):**  
By the end of this course, the student will be able to:

<b><i>Course Objective</i></b>	<b><i>Institutional SLO</i></b>
<b>a. Examine the techniques and limitations of using cross-sectional and time series analysis in predicting corporate performance</b>	<b>1. Communication 2. Crit. Thinking 3. Prof. Competence</b>
<b>b. Recognize the legal, global, and ethical issues affecting financial reporting</b>	<b>2. Crit. Thinking 3. Prof. Competence 4. Inter-Intra Personal</b>
<b>c. Discuss the benefits and limitations of using ratios in financial analysis</b>	<b>1. Communication 3. Prof. Competence</b>
<b>d. Explain the challenges encountered when comparing financial data from multinational companies</b>	<b>2. Crit. Thinking 3. Prof. Competence</b>
<b>e. Prepare and utilize reporting adjustments that facilitate the analysis of financial statements on a comparable basis</b>	<b>2. Crit. Thinking 3. Prof. Competence</b>
<b>f. Develop pro forma financial statements</b>	<b>1. Communication 2. Crit. Thinking 3. Prof. Competence</b>

**K. TEXTS:** The following is a short list of textbooks that are most likely to be used in this course. Instructors may assign one of these and/or include other texts.

1. Stickney, C. P., Brown, P., Wahlen, J. M., Baginski, S. P., & Bradshaw, M. (2010). *Financial reporting, financial statement analysis and valuation*. (7 ed.). Independence, KY: Cengage.
2. Fridson, M. S., & Alvarez, F. (2011). *Financial statement analysis, a practitioner's guide*. (4 ed.). Hoboken, NJ: Wiley.
3. Gibson, C. H. (2012). *Financial reporting and analysis*. (13 ed.). Independence, KY: Cengage.
4. Palepu, K. G., & Healy, P. M. (2012). *Business analysis & valuation, using financial statements: Texts & cases*. (5 ed.). Independence, KY: Cengage.

**L. REFERENCES:** As determined by instructor.

**M. EQUIPMENT:** technology enhanced classroom

**N. GRADING METHOD:** A-F

**O. MEASUREMENT CRITERIA/METHODS:**

- Exams
- Quizzes
- Projects
- Oral Presentation
- Written Reports

**P. DETAILED COURSE OUTLINE:**

I. Overview of Financial Statement Analysis

- A. Legal Structures
- B. Types of Financial Statements
- C. Focus of Financial Analysis
- D. Analysis Tools
  1. Comparative Financial Statement Analysis
  2. Common-Size Financial Statement Analysis
  3. Ratio Analysis
  4. Cash Flow Analysis
  5. Valuation
  6. Value Chain Analysis
  7. Porter's Five Forces Classification Framework
- E. Technical vs. Interpretive Analysis

II. Asset and Liability Valuation

- A. Assets
  1. Historical Value
    - a. Acquisition Cost
    - b. Adjusted Acquisition Cost
    - c. Present Value of Cash Flows Using Historical Interest Rates

- 2. Current Value
      - a. Current Replacement Cost
      - b. Net Realizable Value
      - c. Present Value of Cash Flows Using Current Interest Rates
    - B. GAAP Valuations
    - C. Depreciation
      - a. Assigning an Asset Life
      - b. Methods of Depreciation
    - D. Asset Impairment
    - E. Intangible Assets
- III. Income and Expense Recognition
  - A. Differences Between Date of Occurrence and Date of Realization
  - B. The Effect of Revenue and Expense Transactions on Income Taxes
    - 1. Prepayment of Taxes
    - 2. Deferred Tax Liabilities
  - C. Criteria When Long Term Contractors Are Used
  - D. Criteria When Cash Collectability Is Uncertain
  - E. Inventory Cost Flow Assumptions
    - 1. FIFO
    - 2. LIFO
    - 3. Weighted Average
- IV. Income vs. Cash Flows
  - A. Cash Flow Relations
  - B. Cash Flow from Operational Activities
  - C. Cash Flow from Investing Activities
  - D. Cash Flow from Financing Activities
  - E. Preparing a Statement of Cash Flows
- V. Profitability Analysis
  - A. Rate of Return on Assets
  - B. Rate of Return on Common Shareholders' Equity
  - C. Earnings Per Common Share
    - 1. Calculation of EPS
    - 2. Criticisms of EPS
  - D. Interpretation of Financial Statement Ratios
    - 1. Comparison of Current Ratios to Other Periods
    - 2. Comparison of Current Ratios to Other Companies
- VI. Risk Analysis
  - A. Short Term Liquidity Risk
  - B. Long Term Solvency Risk
  - C. Credit Risk
  - D. Bankruptcy Risk
  - E. Market Equity Beta Risk
  - F. Earnings Manipulation Risk
- VII. Liability Recognition and Related Expenses
  - A. Hybrid Securities
  - B. Off Balance Sheet Financing

- C. Leases
  - 1. Operating
  - 2. Capital
- D. Derivative Instruments
  - 1. Reporting and Accounting for Derivatives
  - 2. Required Disclosure(s)
  - 3. Quality of
- E. Pensions
- F. Reserves

VIII. Inter-corporate Investments

- A. Corporate Acquisitions
  - 1. Purchase Method
  - 2. Reserves
  - 3. Disclosure(s)
- B. Investment in Securities
  - 1. Short Term Investment of Excess Cash
  - 2. Long Term Investments
    - a. High Yield Debt Securities
    - b. Voting Control and Consequences of Significant Influence
- C. Research and Development Programs
- D. Commercial Real Estate Leasing
- E. Reinsurance
- F. Passive Investments
- G. Active Investments
- H. Consolidation Methods
  - 1. Equity
  - 2. Proportionate
  - 3. Full
- I. Stock Based Compensation
  - 1. Fair Market Value
  - 2. Required Disclosures

IX. Forecasting

- A. Six Step Forecasting Game Plan
  - 1. Projecting Revenues from Sales
  - 2. Projecting Operating Expenses
  - 3. Projecting Balance Sheet Assets
  - 4. Projecting Liabilities and Shareholders' Equity
  - 5. Projecting Interest Income & Expense, Unusual Items, Income Taxes, and Change in Retained Earnings
  - 6. Projecting Cash Flows

X. Risk Adjusted Rates of Return

- A. Equity
- B. Weighted Average Cost of Capital
- C. Capital Asset Pricing Model (CAPM)

XI. Dividends Valuation Approach

- A. Present Value of Projected Dividends

- XII. Cash Flow Based Valuation
  - A. Risk, Discounts, and Cost of Capital
  - B. Investor Cash Flows
  - C. Internal Cash Flows
  - D. Nominal vs. Real Cash Flows
  - E. Computation of Continuing Value

- XIII. Earnings Based Valuation
  - A. Residual Income
    - 1. Effects of Borrowing on
    - 2. Computation of
    - 3. Discount Rates Related to
    - 4. Finite Horizon Earnings
  - B. Strengths and Weaknesses

**Q. LABORATORY OUTLINE: Not Applicable**