

# ACTG 53: FINANCIAL STATEMENT ANALYSIS

## Foothill College Course Outline of Record

Heading	Value
<b>Units:</b>	5
<b>Hours:</b>	5 lecture per week (60 total per quarter)
<b>Prerequisite:</b>	ACTG 1B or 1BH.
<b>Advisory:</b>	ACTG 51A; demonstrated proficiency in English by placement via multiple measures OR through an equivalent placement process OR completion of ESLL 125 & ESLL 249; Elementary Algebra or equivalent.
<b>Degree &amp; Credit Status:</b>	Degree-Applicable Credit Course
<b>Foothill GE:</b>	Non-GE
<b>Transferable:</b>	CSU
<b>Grade Type:</b>	Letter Grade (Request for Pass/No Pass)
<b>Repeatability:</b>	Not Repeatable

## Student Learning Outcomes

- Explain financial statement analysis terminology, concepts, principles, and frameworks.
- Perform related calculations and demonstrate the ability to use methods and /or procedures to solve financial statement analysis problems.

## Description

The student will develop a set of core skills essential to financial statement analysis. It will cover strategic ratio analysis, cash flow analysis, forecasting, proforma financial statements, and firm valuation using discounted cash flow and residual income techniques. The course emphasizes the practical application of the material using a combination of lecture and hands-on examples.

## Course Objectives

The student will be able to:

- Explain business analysis and its relation to financial statement analysis.
- Identify and discuss different types of business analysis.
- Explain business activities and their relation to financial statements.
- Describe the purpose of each financial statement and linkages between them.
- Identify the relevant analysis information beyond financial statements.
- Analyze and interpret financial statements as foundation for more detailed analysis.
- Apply basic financial statement analysis techniques.
- Describe basic valuation models.

## Course Content

- Recognize the information needs of investors and creditors
  1. Explain the objectives of financial reporting

2. Identify the qualitative characteristics of accounting information
3. Describe the basic assumptions of accounting
4. Define generally accepted accounting principles
5. Differentiate the cash basis of accounting from the accrual basis of accounting
  - B. Explain the basic financial statements: the balance sheet, income statement, and statement of cash flows
  - C. Explain what the annual report is and read and understand its components, including the financial statements, footnotes, review of operations, auditor's report, and supplementary schedules
    1. Recognize what management's discussion and analysis (MD&A) involves
    2. Explain how the Sarbanes-Oxley 404 reporting differs from traditional reporting
  - D. Explain what financial statement analysis is and why it is important
    1. Compare horizontal analysis and vertical analysis
    2. List the basic components of ratio analysis
    3. Distinguish between trend analysis, industry comparison, and benchmarking
  - E. Calculate a comprehensive set of financial ratios and interpret them
    1. Explain the limitations of ratio analysis
    2. Define working capital
    3. Compute and interpret liquidity ratios
    4. Compute and interpret activity ratios
  - F. Define operating cycle and cash conversion cycle
  - G. Define liquidity and activity and explain how they relate to each other
  - H. Describe the LIFO reserve and explain its importance for comparing results of different companies
    - I. Define solvency
    - J. List capital structure ratios and explain what they measure
      1. Measure operating leverage and financial leverage and distinguish between them
    - K. Describe various ratios related to profitability
      1. Explain what is ROI
      2. Identify the basic components of the Du Pont formula and to explain how it can be used for profit improvement
      3. Compute ROE and interpret how it relates to ROI
      4. Describe how financial leverage affects the stockholders' return
      5. Differentiate between two different capital structures—simple and complex
      6. Compute earnings per share in a simple capital structure
      7. Compute earnings per share in a complex capital structure
    - L. List market test ratios and calculate them
      1. Form an overall evaluation on a company's financial performance
    - M. Describe the purpose of the statement of cash flows
      1. Identify the major classifications of cash flows
      2. Prepare and analyze the statement of cash flows
      3. Differentiate between net income and net cash flows from operating activities
      4. Distinguish between cash flow coverage (or adequacy) ratios and cash flow performance measures

## Lab Content

Not applicable.

## Special Facilities and/or Equipment

A. When offered on/off campus: Classroom and laboratory with internet connectivity, including access to a World Wide Web server and web browsers (Internet Explorer, Firefox, or other browser compatible with ETUDES course management system), as well as access to business

application software (word-processor, spreadsheet, presentation), such as MS Office.

B. When taught via Foothill Global Access on the internet: Students must have currently existing email accounts/email address and ongoing access to computers with email software, web browsing capability, and access to the World Wide Web. Learners must also have access to business application software (word-processor, spreadsheet, presentation), such as MS Office.

## Method(s) of Evaluation

- A. Quizzes and Exam(s)
- B. Problem-solving Assignments
- C. Computerized Assignments
- D. Student Discussions/Class Participation
- E. Research Activities (online and/or traditional)
- F. Team Project/Paper

## Method(s) of Instruction

- A. Lecture
- B. Discussion
- C. Cooperative learning and problem-solving exercises
- D. Self-paced/independent study
- E. Electronic discussions/chat
- F. Problem-solving demonstrations
- G. Collaborative team project

## Representative Text(s) and Other Materials

Subramanyam and Wild (SW). Financial Statement Analysis. 11th ed. New York: McGraw-Hill/Irwin, 2014.

When course is taught online: Additional information, notes, handouts, and/or other relevant course material will be delivered by email and on the World Wide Web, and discussion may be delivered in chat rooms or moderated bulletin boards/listservs.

## Types and/or Examples of Required Reading, Writing, and Outside of Class Assignments

- A. Reading of corporate annual reports
- B. Reading and written analysis of Financial Accounting Standards Board Statements (FASB) and other Generally Accepted Accounting Principles (GAAP) literature (e.g., the FASB codification)
- C. Reading of internet articles and writing on accounting topics or accounting-related current events and/or careers (e.g., journal of accountancy)

## Discipline(s)

Accounting, Business