



## Course Outline

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Accounting and Finance  
School of Business & Economics

FNCE 3140 - **3.00** - Academic

Financial Statement Analysis

## Rationale

GET analysis has identified that this course meets the Critical Thinking & Investigation ILO criteria. See attached foci tool and notes under Educational Objectives/Outcomes.

## Calendar Description

Students learn to read the complex financial statements of a major corporation and how to examine its performance using a variety of financial ratios and other assessment tools. Emphasis is placed on the quality of financial reporting and identifying the warning signs of financial manipulation. Topics include an overview of financial reporting; review of financial statement analysis techniques; complex income statements; complex cash flow statements; complex statements of financial position focusing on current assets and liabilities, long-term assets, income taxes, post-employment and share-based compensation, intercorporate investments; and multinational operations.

## Credits/Hours

**Course Has Variable Hours:** No

**Credits:** 3.00

**Lecture Hours:** 3.00

**Seminar Hours:** 0

**Lab Hours:** 0

**Other Hours:** 0

*Clarify:*

**Total Hours:** 3.00

**Delivery Methods:** (Face to Face)

**Impact on Courses/Programs/Departments:** No change

**Repeat Types:** A - Once for credit (default)

**Grading Methods:** (S - Academic, Career Tech, UPrep)

## Educational Objectives/Outcomes

1. Identify the different sources of information available to assess a corporation's operational and financial performance.
2. Analyze information provided in a corporate annual report, particularly the financial statements and notes, and other corporate disclosures.

3. Critique the quality of a corporation's financial statements.
4. Recommend changes to a corporation's financial statements to address financial reporting quality issues.
5. Assess the performance of a corporation from a liquidity, asset management, solvency, and profitability perspective.
6. This course meets the Critical Thinking and Investigation criteria. See attached foci tool demonstrating the match.

## Prerequisites

FNCE 2120-Financial Management  
 FNCE 2120-Financial Management or  
 equivalent with a minimum C+

## Co-Requisites

## Recommended Requisites

## Exclusion Requisites

BBUS 3140-Financial Statement Analysis

## Texts/Materials

### Other

1. **Required** International Reporting Standards (IFRS) and other open source materials.

## Student Evaluation

The Course grade is based on the following course evaluations.

**Tests/quizzes 20-30%**

**Case studies/research projects/assignments 30%**

**Final exam 40-50%**

**Students must pass the final exam to pass the course.**

## Course Topics

1. Overview of Financial Reporting
  - Format of an annual report
  - Auditor's report
  - Canadian financial accounting standards
  - Other sources of financial information
  - Limitations of financial reporting
  - Efforts to improve financial reporting in the U.S. and Canada
2. Review of Financial Statement Analysis Techniques
  - Ratio analysis
    - o Liquidity
    - o Asset management
    - o Solvency ?
    - o Leverage ?
    - o Coverage
    - o Profitability ? In relation to sales

- ? In relation to investment
  - ? DuPont analysis
    - o Market valuation
      - Common-sized financial statements (vertical analysis)
      - Common-base-year financial statements (horizontal analysis)
        - o Indirect method
        - o Direct method
      - Limitations of financial statement analysis
  - 3. Advanced Profitability Analysis
    - Format of the consolidated income statement
    - Format of the consolidated statement of comprehensive income
    - Discontinued operations
      - Earnings per share
        - o Basic
        - o Diluted
    - Segmented reporting
    - Interim reporting
    - Revenue recognition
      - Earnings quality
        - o How to inflate or “smooth earnings” management
          - o Red flags for earnings management
            - ? Adjusting financial statements
        - o Alternatives to accounting income
  - ? Cash-based profitability ratios
    - Advanced profitability analysis checklist
4. Advanced Liquidity Analysis
  - Determining the optimal current ratio and “window dressing”
  - Cash-based liquidity ratios
  - Cash and cash equivalents
  - Short-term investments in financial assets
  - Accounts and notes receivable
  - Inventories
  - Prepaid expenses and deferred charges
  - Accounts payable
  - Short-term borrowing and maturity matching
  - Provisions
  - Contingent assets and liabilities
    - Other accounting transactions
      - o Related party transactions
      - o Changes in accounting policy
      - o Changes in accounting estimates
      - o Accounting errors
      - o Estimation uncertainty
      - o Events after the reporting period
5. Advanced Long-term Asset Analysis
  - Long-term investments
    - o Associate and joint ventures (equity method)
  - o Control (consolidation)
    - Property, plant, and equipment
      - Cost model and revaluation model
      - Asset impairment and reversals
      - Exploration and evaluation of mineral resources
      - Capitalization of borrowing costs
      - Goodwill
      - Intangibles
      - Research and development
      - Capitalizing operating and financial leases
      - Advanced long-term asset analysis checklist
6. Advanced Long-term Debt Paying Ability Analysis
  - Income taxes
    - o Permanent and temporary differences
  - o Current and deferred income taxes
  - o Financial statement disclosure
    - o Change in tax rates
    - o Loss carry backs and carry

- forwards      o Reassessment of deferred income
- tax assets    • Post-employment benefit
- obligations      o Defined benefit plan      o
- Defined contribution plan
  - Financial liabilities
  - Classification as debt or equity    • Derivatives and hedge accounting      o Fair value hedge      o Cash flow hedge
  - Long-term, share-based compensation
    - o Stock grants      o Stock options
    - o Stock appreciation rights
  - Cash-based long-term debt paying ability ratios
  - Long-term debt paying ability checklist
- 7. Multinational Operations Analysis
  - Foreign currency transactions and currency gains and losses      o Translation of foreign currency financial statements      o Determination of the functional currency      o Translation methods mechanics
  - ? Current rate method
  - ? Temporal method
    - o Monetary and non-monetary assets and balance sheet exposures      o Hyperinflationary economies    • Analysis of multinational operations

## **Methods for Prior Learning Assessment and Recognition**

As per TRU Policy

### **Last Action Taken**

Implement by Submission Preview Subcommittee Chair Shelley Church

Current Date: 28-Oct-20