

Subject Code	AF5114
Subject Title	Financial Statement Analysis
Credit Value	3
Level	5
Normal Duration	One Semester
Pre-requisite / Co-requisite/ Exclusion	Pre-requisite: Completion of 5 core subjects
Role and Purposes	This subject builds on students' understanding of fundamental accounting concepts and techniques for analysing the financial statements in supporting business decisions. It contributes to the achievement of PgDPA / MPA Programme Outcomes by enabling students to develop additional expertise in critically evaluate the financial statements to support business decisions (Programme Outcome 5). This course aims to help students to consolidate and integrate concepts from accounting, business strategy, finance and other related disciplines in effectively analysing a set of financial statements of a firm as part of decision making process useful in a variety of business contexts, such as equity analysis and credit analysis to support investment decision and lending decision.
Subject Learning Outcomes	Upon completion of the subject, students will be able to: <ul style="list-style-type: none"> a. develop the ability to critically review and evaluate the information in financial statements; b. assess the quality of such information for making various business decisions; and c. apply techniques to process and analyse information from financial statements as part of the decision making process in certain business context such as equity analysis and credit analysis.

<p>Subject Synopsis/ Indicative Syllabus</p>	<p>A Framework for Business Analysis Introduction & overview of framework for Financial Statement Analysis. Specialised analysis tools.</p> <p>Business Strategy Analysis Business Environment analysis. Actual and potential competition. Sources of competitive advantages. Achieving and sustaining competitive advantages. Corporate strategy analysis, sources of value creation.</p> <p>Accounting Analysis Quality of accounting information. Accounting analysis and earnings management. Potential red flags. Analyzing financing activities, investing activities and operating activities.</p> <p>Financial Analysis Cash flow analysis, Profitability Analysis, Comparative Analysis, Common-sized financial statements, Ratio Analysis.</p> <p>Prospective Analysis Forecasting – process of projecting the Income Statement, Balance Sheet and the Statement of Cash Flow. Performing sensitivity analysis and scenarios.</p> <p>Business Applications Credit Analysis, Analysis of liquidity and solvency. What-if analysis for evaluating changes in company policies.</p> <p>Equity Analysis. Analysis of earnings persistence. Valuation: accounting-based valuation techniques.</p>
<p>Teaching/Learning Methodology</p>	<p>This course will adopt a “hands-on” approach to the study of financial statements. Weekly class discussions on exercises and problems will be used to help students to apply the theoretical knowledge to practical situations.</p> <p>To maximize learning, students are required to read the assigned textbook chapter(s), prepare solutions to exercises and problems before seminar. It normally requires 6 additional hours each week for preparation.</p>

Assessment Methods in Alignment with Intended Learning Outcomes

Assessment components include class discussion and interactions, individual assignment of case study, group project presentation & report and final examination. These components require students to demonstrate their understanding and knowledge on application of the additional expertise developed in critically evaluate the financial statements to support business decisions (Programme Outcome 5).

Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)					
		a	b	c			
Class participation	5%	√	√	√			
Individual case study	15%	√	√	√			
Group Project	30%	√	√	√			
Final examination	50%	√	√	√			
Total	100%						

Explanation of the appropriateness of the assessment methods in assessing the intended learning outcomes:

Class participation – Students have to prepare answers for the weekly individual assignments which test their understanding of the key concepts. Students are selected by random to present their solutions.

Individual case study – Each student is required to submit a case assignment from a range of selected topics. The objective is to test students’ abilities to apply subject knowledge to a practical situation.

Group project – Students are required to apply techniques to process and analyze information from financial statements of a listed company as part of the decision making in certain business context such as credit analysis and equity analysis.

Final examination – 3 hours closed book examination with compulsory questions covering all the intended learning outcomes.

Note: To pass this subject, students are required to obtain Grade D or above in BOTH the Continuous Assessment and Examination components. In addition, the specific requirements on individual assessment components discussed above could be adjusted based on the pedagogical needs of subject lecturers.

Student Study Effort Expected	Class contact:	
	<ul style="list-style-type: none"> ▪ 13 weeks of three-hour seminar 	39 Hrs.
	Other student study effort:	
	<ul style="list-style-type: none"> ▪ Class preparations, reading subject materials/textbook, assignments and group discussions 	78 Hrs.
	Total student study effort	117 Hrs.
Reading List and References	<p><u>Textbook</u> K. R. Subramanyam, <i>Financial Statement Analysis</i>, Eleventh edition, Mc Graw Hill.</p> <p><u>Reference</u> Palepu, K. G., V.L. Bernard, P.M. Healy and E. Peek, <i>Business Analysis and Valuation, IFRS Edition Text and Cases</i>, latest edition, South-Western/International Thomson.</p> <p>Penman S. H., <i>Financial Statement Analysis and Security Valuation</i>, latest edition, Irwin/McGraw Hill.</p> <p>White, G.I., Sondhi, A.C., and Fried, D., <i>The Analysis and Use of Financial Statements</i>, latest edition, John Wiley & Sons, Inc.</p>	