

ADVANCED FINANCIAL STATEMENTS ANALYSIS

3 ECTS

TERM 3

ELECTIVE COURSE

Professor

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Introduction

Financial statements analysis deals with the public information that companies produce about their financial and economic activities. This information is intended to help investors make their capital allocation decisions. Hence, it is heavily regulated and (mostly) homogenized, to guarantee both reliability and comparability. In this course we will present (review) the basics of financial statements analysis, and then analyze some relatively advanced topics related to comparability and to the financial statements as reliable depictions of the situation of a company. Furthermore, the course will spend some time on the specificities of the banking sector: the structure of the financial statements of a bank is very different from that of a "typical" industrial firm. We will try to flesh out the main differences and to review the topics of highest importance for a correct analysis of a bank's financial information.

Overview and objectives

The objective of the course is to introduce some advanced topics in the analysis of the financial statements of a (public) company. In particular, by the end of the course the student is expected to be able to:

- Understand the valuation implications of financial information

- Examine critically how differences in IFRS vs US GAAP affect the international comparability of financial information.
- Analyze the reliability of the financial statements by detecting instances of manipulation (of earnings and of other relevant accounting numbers).
- Understand the peculiar structure of the financial statements of a company in the financial sector (mainly, a bank).

Textbooks and references

Two reference textbooks can be useful for the course:

- (1) Penman, Stephen H. (P). Financial Statement Analysis and Security Valuation (5e). McGraw-Hill International.
- (2) Subramanyam, K.R., Wild, John (SW). Financial Statement Analysis (10e). McGraw-Hill International.

Slides provided by the professor.

Course outline

Session outline (approx.)

Session	Title	Deliverable
1	Introduction to the course: The rules of the game. A review of financial statements analysis (I)	
2	A review of financial statements analysis (II)	
3	A review of financial statements analysis (III) The link between FSA and valuation	Case ABC – before the beginning of the class
4	IFRS: The main issues	
5	IFRS vs US GAAP	Case Leases – before the beginning of the class
6	The growing discontent with the financial statements	
7	The manipulation of the financial statements (I)	Case ESGreporting – before the beginning of the class
8	The manipulation of the financial statements (II)	
9	FSA in banking (I): The main issues	

10	FSA in banking (II): The expected credit loss model and valuation of financial assets	
	Group project – Analysis of banks’ earnings management	Group project – Sunday of the week after finishing the course, 11:59 pm.

Methodology and required activities

The class activities will consist of 10 two-hour sessions. Each session will generally contain a lecture which covers the main topics of interest and a class discussion of an example or case of special interest (specific cases to be announced).

Evaluation will consist of three elements. (1) Students are supposed to turn in three short assignments on three cases, the content of which will be subsequently discussed in class. Directions and a set of guiding questions will be provided for each case in the assignment document. The case assignments can be done individually or in groups of 2-3 people (not more than three people will be allowed). (2) Students are expected to attend the classes, and participate actively in the in-class discussion of topics, and of the cases (both assignments and cases presented by the professor). (3) A final group project (in groups of 3-5 people) will be due two weeks after the sessions on earnings management (sessions 7-8). Specific directions on the group project will be provided in the assignment document, after sessions 7-8 have been completed.

Evaluation

Evaluation will be based on the short paper write-ups (50%, distributed as 10%-20%-20%), class attendance and participation (20%), and the final group project (30%).

Competencies

- Capacity of utilization of the theoretical instruments to analyze situations of coherent form.
- Ability to use the appropriate (statistical and numerical) techniques.
- Ability to identify and successfully search for the data necessary for the analysis, either grossly or in the form of more elaborate databases.
- Ability to make independent judgments and defend them dialectically.
- Ability to write formal reports.

- Acquire a solid knowledge base for the study of quantitative issues.
- Ability to recognize and know how to use the principles of econometrics and statistics.
- Ability to work with microeconomic analysis tools and their empirical and theoretical applications.

Learning outcomes

- Students should get an overview of economic and financial theory.
- Students must be able to recognize theories and present arguments with precise examples.
- Students will have the ability to understand how markets work and explain their weaknesses.
- Students will acquire the technical tools that will allow them to perform the advanced analytics required in the second module as econometric methods.
- Students will know what the appropriate inference for each situation is.

Professor's Biography

Prof. Gómez Biscarri holds an M.A. in Economics and a Ph.D. in Business Economics from UCLA. He is Serra Húnter Associate Professor at Universitat Pompeu Fabra and affiliated professor of the Barcelona School of Economics and the Barcelona School of Management. His current research focuses on time series econometrics, on the impact of accounting on the banking sector, specifically on earnings management behavior and on the effect of new accounting regulations on bank's strategies. His work has been published in journals such as the *Journal of Econometrics*, the *Review of Accounting Studies* or the *Journal of Development Economics*.