Guideline	R22 Financial Statement Analysis: An Introduction
Sessions and readings	SS7 Financial Reporting and Analysis: An Introduction R22 Financial Statement Analysis: An Introduction R23 Financial Reporting Mechanics R24 Financial Reporting Standards SS8 FRA: Income Statements, Balance Sheets and Cash Flow Sheets R25 Understanding Income Statements R26 Understanding Balance Sheet R27 Understanding Cash Flow Statement R28 Financial Analysis Techniques SS9 FRA: Inventories, Long-lived Assets, Income Taxes and Non-Current Liabilities R29 Inventories R30 Long-Lived Assets R31 Income Taxes R32 Non-Current (Long-Term Liabilities SS10 FRA: Financial Reporting Quality and Financial Statement Analysis R33 Financial Reporting Quality R34 Financial Statement Analysis: Applications
Topics	a. Describe the roles of financial reporting and financial statement analysis b. Describe the roles of the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows in evaluating a company's performance and financial position. c. Describe the importance of financial statement notes and supplementary information --- including disclosures of accounting policies, methods, and estimates --- and management's commentary. d. Describe the objective of audits of financial statements, the types of audit reports, and the importance of effective internal controls e. Identify and describe information sources that analysts use in financial statement analysis besides annual financial statements and supplementary information. f. Describe the steps in the financial statement analysis framework.
a. describe the roles of financial reporting and financial statement analysis	***Financial reporting:*** refers to the way companies show their financial performance to investors, creditors, and other interested parties by preparing and presenting financial statements. ***Financial statement analysis:*** use the information in a company's financial statements, along with other relevant information, to make economic decisions. -example: whether to invest in company's securities

b. describe the roles of the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows in evaluating a company's performance and financial position

Balance sheet	Income Statement	Cash Flow Statement
Financial position	Financial performance	Changes in cash
Assets=liabilities+ owners' equity	Revenues-Expenses=Net income	Operating cash flows + Investing cash flows + Financing cash flow

Statement of comprehensive income: reports all changes in equity except for shareholder transactions.
The statement of changes in equity: reports the amounts and sources of changes in equity investors' investment in the firm over a period of time.

c. Describe the importance of financial statement notes and supplementary information --- including disclosures of accounting policies, methods, and estimates --- and management's commentary
e. Identify and describe information sources that analysts use in financial statement analysis besides annual financial statements and supplementary information.

Financial statement notes (footnotes)	- Discuss the basis of presentation such as *fiscal period* covered by the statements and the inclusion of consolidated entities. - Provide information about *accounting methods, assumptions, and estimates* used by management - Provide additional information on items such as *business acquisition or disposals, legal actions, employee benefit plans, contingencies and commitments, significant customers, sales to related parties, and segments* of the firm.
Management's discussion and analysis (MD&A)	In this section, management discusses a variety of issues, including the nature of the business, past performance, and future outlook. For publicly held firms in the United States, the SEC requires that MD&A discuss trends and identify significant events and uncertainties that affect the firm's liquidity, capital resources, and results of operations.
Quarterly or semiannual reports	Update the major financial statement and footnotes
Security and Exchange Commission (SEC) filings	-Form 8-K: company file to report events such as acquisitions and disposals of major assets, changes in its management or corporate governance -Form 10-K: annual financial statements -Form 10-Q: quarterly financial statements
Proxy statements	Issued to shareholders when there are matters that require a shareholder vote. Good source of information about the election of board members, compensations, management qualifications, and issuance of stock options
Corporate reports and press releases	Can be found on company's website
Other	Information of economic conditions, industry, competitors

d. Describe the objective of audits of financial

1. Audit is an independent review of an entity's financial statements. The objective of an audit is to enable the auditor to provide an opinion on the **fairness** and **reliability** of the financial statements.

statements, the types of audit reports, and the importance of effective internal controls

The independent ***certified public accounting firm*** employed by the Board of Directors is responsible for seeing that the financial statements conform to the applicable accounting standards.

The **standard auditor's opinion** contains three parts and states that:
1. Whereas the financial statements are prepared by management and are its responsibility, the auditor has performed an independent review.
2. Generally accepted auditing standards were followed, thus providing ***reasonable assurance*** that the financial statements ***contain no material errors***
3. The auditor is satisfied that the statements were prepared ***in accordance with accepted accounting principles*** and that the ***principles chosen and estimates made are reasonable***. The auditor's report must also contain additional explanation when accounting methods have not been used consistently between periods.

Unqualified opinion (clean opinion): statements are free from material omissions and errors
Qualified opinion: statements make any exceptions to the accounting principles
Adverse opinion: statements are not presented fairly or are materially nonconforming with accounting standards
Disclaimer of opinion: auditor unable to express an opinion

2. Internal controls
- processes by which the company ensures that it presents accurate financial statements.
- responsibility of management
- Under GAAP, the auditor must express an opinion on the firms internal control. The auditor can provide this opinion separately or as the fourth element of the standard opinion.

f. Describe the steps in the financial statement analysis framework

Step	***Input***	***Output***
1. Establish the objectives	-Perspective of the analyst (e.g. evaluating a debt/ equity investment or issuing a credit rating) -Needs or concerns communicated by the client or supervisor -Institutional guidelines	-Purpose statement -Specific questions to be answered
2. Collect data	-Financial statements -Communication with management, suppliers, customers, and competitors	-Organized financial information
3. Process data	-Data from Step2	-Adjusted financial statements -common-size statements -Ratios -Forecasts

	4. Analyze data	-Data from Steps 2 and 3	-Results
	5. Develop and communicate conclusions	-Results from analysis -Published report guidelines	-Report answering questions posed in Step 1 -Recommendations
	6. Follow up	-Periodically updated information	-Updated analysis and recommendation