

STUDY SESSION

6

Financial Reporting and Analysis (1)

This study session introduces the principal information sources used to evaluate a company's financial performance. Primary financial statements (income statement, balance sheet, cash flow statement, and statement of changes in equity) in addition to notes to these statements and management reporting are examined. A general framework for conducting financial statement analysis is provided. The session also includes a description of the roles played by financial reporting standard-setting bodies and regulatory authorities.

READING ASSIGNMENTS

Reading 21	Financial Statement Analysis: An Introduction by Elaine Henry, PhD, CFA, and Thomas R. Robinson, PhD, CFA
Reading 22	Financial Reporting Standards by Elaine Henry, PhD, CFA, Jan Hendrik van Greuning, DCom, CFA, and Thomas R. Robinson, PhD, CFA

LEARNING OUTCOMES

READING 21. FINANCIAL STATEMENT ANALYSIS: AN INTRODUCTION

The candidate should be able to:

- 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;

Note: Changes in accounting standards as well as new rulings and/or pronouncements issued after the publication of the readings on financial reporting and analysis may cause some of the information in these readings to become dated. Candidates are *not* responsible for anything that occurs after the readings were published. In addition, candidates are expected to be familiar with the analytical frameworks contained in the readings, as well as the implications of alternative accounting methods for financial analysis and valuation discussed in the readings. Candidates are also responsible for the content of accounting standards, but not for the actual reference numbers. Finally, candidates should be aware that certain ratios may be defined and calculated differently. When alternative ratio definitions exist and no specific definition is given, candidates should use the ratio definitions emphasized in the readings.

- 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.

READING 22. FINANCIAL REPORTING STANDARDS

The candidate should be able to:

- a** describe the objective of financial statements and the importance of financial reporting standards in security analysis and valuation;
- b** describe roles and desirable attributes of financial reporting standard-setting bodies and regulatory authorities in establishing and enforcing reporting standards, and describe the role of the International Organization of Securities Commissions;
- c** describe the status of global convergence of accounting standards and ongoing barriers to developing one universally accepted set of financial reporting standards;
- d** describe the International Accounting Standards Board's conceptual framework, including the objective and qualitative characteristics of financial statements, required reporting elements, and constraints and assumptions in preparing financial statements;
- e** describe general requirements for financial statements under International Financial Reporting Standards (IFRS);
- f** compare key concepts of financial reporting standards under IFRS and US generally accepted accounting principles (US GAAP) reporting systems;
- g** identify characteristics of a coherent financial reporting framework and the barriers to creating such a framework;
- h** describe implications for financial analysis of differing financial reporting systems and the importance of monitoring developments in financial reporting standards;
- i** analyze company disclosures of significant accounting policies.