



APPLIES TO ACADEMIC YEAR 2006/2007

## EXC 2509 Financial Statements and Valuation

### Program

Bachelor in Business Administration - (3. year)

### Responsible for the course

Sverre Dyrnes

### Department

Financial Economics

### Term

According to study plan

### ECTS Credits

6

The main focus in this course is use of financial statements in decision-making. There are two classes of decision makers that in particular are using financial statements – investors and creditors. Investors need to undertake valuations in order to form an opinion about the company's intrinsic value, which is key to buy and sell decisions. Creditors need financial statement analysis in order to assess the company's credit rating.

The collapse of Enron and Andersen. The bankruptcy of WorldCom. Accounting irregularities at Qwest, Ahold and Parmalat. These events have brought to our attention more than ever the significance of accounting quality. This course provides also a framework for analysis of accounting quality.

### Objective

The objective of this course is to provide the student with an understanding of (i) the importance of accounting quality; (ii) the different models for valuations of companies and (iii) the techniques for credit analysis. During this course the student will develop his/her skills necessary to make own valuations and credit analysis through extensive casework.

### Prerequisites

Compulsory courses in accounting and finance

### Compulsory literature

#### Books:

Soffer, Leonard C. and Robin J. Soffer. 2003. Financial statement analysis: a valuation approach. Upper Saddle River, NJ: Prentice Hall.

#### Other:

Selected articles and/or chapters from books. Further information regarding the final list of compulsory literature will be given in class and on the course homepage/Blackboard

### Recommended literature

#### Books:

Benninga, Simon Z. and Oded H. Sarig. 1997. Corporate finance: a valuation approach. New York: McGraw-Hill

Koller, Tim, Marc Goedhart, David Wessels. 2005. Valuation: measuring and managing the value of companies. 4th ed.. Hoboken, N.J.: Wiley

Penman, Stephen H.. 2004. Financial statement analysis and security valuation. 2nd ed.. Boston, Mass.: McGraw-Hill/Irwin

### Course outline

The course is divided into five integrated parts:

#### 1. Business Analysis

Business analysis is an important starting point for the analysis of financial statements. Business analysis allows the identification of the firm's profit drivers and key risks.

#### 2. Quality-of-Accounting Analysis

The purpose of quality-of-accounting analysis is to evaluate the degree to which a firm's accounting captures its underlying business reality.

### 3. Financial Statement Analysis/Credit Analysis

The information you will find in the financial statements forms the basis of almost every valuation and credit analysis. In this part we will entail your understanding of how to read and interpret financial statements and notes. Our primary emphasis is on how to calculate and interpret key financial ratios and on the use of cash flow statements as an analytical tool.

### 4. Forecasting

We will use Excel to build simple models for expected future income, cash flow and financial position. These models will be used in part 5.

### 5. Valuation

We will work with different models for valuation in order to create a better understanding of their advantages and limits.

### **Computer-based tools**

Internet and worksheets, Blackboard/homepage

### **Course structure**

There are 36 contact hours and the course will start with lectures to create a basic understanding of how to interpret accounting information and how to use basic valuation models. At the start of the course the students will be allocated to teams consisting of 2-3 students. During the course the teams will be required to work with and to present case solutions.

### **Evaluation**

The course grade will be based on the following activities and weights:

30 % is based on individual and/or group class work (in the form of a mix of some/all of the following: hand

in of case write ups, projects, and/or homeworks; presentations of case write ups, projects, and/or homeworks; class participation; in class midterm exam and/or quizzes), and

70% is based on a individual written final term paper.

Specific information regarding any aspect of student evaluation will be provided in class. It is the student's responsibility to obtain this information. Please note that whilst attendance is not compulsory, it is the student's responsibility to obtain any information provided in class that is not included on the course homepage/Blackboard or mandatory literature. Homepages and/or Blackboard are not designed for the purpose of students who choose not to attend class.

### **Evaluation code(s)**

EXC 25091 - Process evaluation, counts 100% to obtain final grade in EXC 2509 Financial Statements and Valuation, 6 credits

### **Aids at the examination**

Financial calculator (e.g. HP 17B), Bilingual Dictionary

### **Makeup exam**

A re-sit is held in at the next scheduled exam in the course. Students who are taking new exam must take the course all over including all parts of evaluation.