

Accounting and Financial Statements

Monsoon 2022

Ashoka University

Instructor: Deepali Singh

Course Description

Introduction to Accounting and Financial Statement Analysis: In this course participants will learn the basics of accounting and financial statement analysis. Most importantly, the key interactions between the income statement, balance sheet and the cash flow statement are covered in detail. Participants will then apply the concepts learned to case companies using published financial statements. We will also learn how to make a basic model in excel. The course uses a series of homework, quizzes and a basic financial model to help learners gain a more comprehensive understanding of essential concepts of accounting. The coursework introduces bookkeeping fundamentals, accrual accounting, cash flow analysis, financial statement analysis and more.

Evaluation

- **20% - Class participation and attendance**
- **20% - Quizzes:** There will be in-class quizzes based on topics covered up to that point.
- **20% - Individual Homework Assignments:** During the class, students will solve several numerical questions in Excel. These questions encompass individual components such as preparation of financial statements, calculation of ratios and cleaning of figures such as EBIT and EBITDA using notes to accounts. Students will gain an understanding of the underlying intuition behind these numbers and be given similar and more advanced questions.
- **20% - Midterm exam:** In-class examination based on concepts covered up to that point.
- **20% - End term Challenger Project:**

Challenger Project: Students will present industry and company analysis (max 10 slides). It should include the following:

1. Industry overview
2. Company profile
3. Key financial ratios which are important for this company.
4. A simple financial model for the case company
5. Benchmarking analysis

Learning Objectives

Sessions	Title	Key Topics
1	Accounting Review	<ul style="list-style-type: none"> • The structure and content of published financial data including annual reports • Accrual accounting • Key links between Income Statement, Balance Sheet and Cash Flow Statements • Make the balance sheet given a series of transactions
2 & 3	The Income Statement	<ul style="list-style-type: none"> • Sales recognition • Fixed and variable costs • Accrual accounting and link between earnings and cash flow • Expenses or assets - key concepts explained • Adjusting earnings for non-recurring items to produce normalized earnings estimates • Significance of non-recurring items such as impairments • EBITDA, EBIT, net income and EPS • Margin calculations

		<ul style="list-style-type: none"> • Calculate the key Income statement numbers for case companies (Nestle, Dabur, Marcio) and benchmark
4	Working Capital and OWC	<ul style="list-style-type: none"> • Inventories, receivables, payables, prepaid items and accruals • Definition of working capital and operating working capital • Operating working capital and the cash cycle • Working capital days calculation • Cash cycle calculation • Calculate working capital, operating working capital, and cash cycle for case companies • Analyse the industry/business factors that lead to differences in cash cycle

5	Fixed Assets	<ul style="list-style-type: none"> • Difference between tangible and intangible assets • Capital expenditure and asset sales • Depreciation, amortization and impairments • Impairment testing • Finding information in the financials • Account analysis - inflows and outflows (B-A-S-E) <p>Calculate and benchmark asset efficiency ratios for case companies</p>
6	Debt and Equity	<ul style="list-style-type: none"> • Debt disclosure in published financial data • Bank debt and bond issues • Net debt • Leases, recent accounting changes, implications and disclosure in financial statements • The difference between authorized, issued, and outstanding shares • Non-controlling interest <p>Calculate coverage and leverage ratios for case companies</p>
7	Cash Flow Statement	<ul style="list-style-type: none"> • Direct and Indirect cash flows • How to construct a cash flow statement
8	ROIC and ROE	<p>The following will be discussed with reference to the case companies:</p> <ul style="list-style-type: none"> • ROE and the drivers of ROE (ROA and Leverage) • Return on Invested Capital (ROIC) - Profitability - Asset Efficiency

		<ul style="list-style-type: none"> • Financial Leverage • Calculate the ROIC for case companies and break it up into its drivers • Case: Harnessing the power of high ROIC
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9, 10 & 11	Accounting for Investments	<p>During this session participants learn the accounting rules to incorporate equity investments in the consolidated accounts and work on several examples by preparing pro forma financials for a variety of cases. Complexities such as noncontrolling interests and equity method investments (associates/affiliates), and their impact on earnings and cash flows are also covered.</p> <p>Key topics:</p> <ul style="list-style-type: none"> • Accounting rules for equity investments • Fair value through profit and loss investments • Available for sale investments • Equity method investments (associates/affiliates) • Proportional consolidation • Full consolidation • Noncontrolling interest <ul style="list-style-type: none"> • Consolidation of balance sheet and income statement • Impact of an M&A transaction on earnings • Goodwill calculations • Goodwill impairment test
12 & 13	Making a Basic Three Statement Model	<p>Participants begin with basic keyboard drills and shortcuts, and then rapidly progress to efficient formula construction and basic modeling and checking techniques. Although simple, the sample company contains the basic parts common to all projection models. Participants complete a basic projection model and stress test their assumptions.</p>

About the Faculty

Deepali holds an MBA with Honors from the Wharton School, University of Pennsylvania. She has taught corporate finance (accounting, modeling, valuation, M&A etc.) at several leading banks and financial services firms across the globe. Prior to her teaching role, she worked in the Investment Banking Division of Credit Suisse based in London. She has led analyses and developed models for M&A, leveraged buyouts, equity valuations for telecom and media clients across Europe, Russia, The Middle East and Africa. She has also worked as a credit rating analyst with JP Morgan and Standard and Poor's

STANDARD COURSE POLICIES

Academic Honesty and Plagiarism:

The best learning communities are characterized by a commitment to integrity in academic standards and professional conduct. Students are expected to understand and abide by the campus Code of Academic Integrity. I will be using the Turn-it-in software provided by the university to detect plagiarism. If the software detects plagiarism in your work, you will lose the entire grade component for that assignment and depending on whether this is the first time or a repeat offense, the citation of plagiarism (that includes copying in an examination) will be reported to the Office of Academic Affairs. Please make sure you are well versed with what constitutes plagiarism and how to avoid it. For example, copying verbatim and including the citation in the references is still plagiarism. Similarly, circulating the same essay for different courses is plagiarism. There are no acceptable excuses for failure to maintain academic honesty.

Academic Accommodations:

Students requiring specific academic accommodations should contact me with the appropriate documentation from OAA and/or OLS during the first week of the semester. If you need accommodations, I strongly encourage you to not wait till the week of the assessment/exam. Please reach out to the OLS as soon as possible and we will do our best to support you. I will not be able to offer accommodations if I do not have the required documentation. I will also not be able to support any last-minute requests for extensions, exceptions and/or other accommodations.