Міністерство освіти і науки України
Львівський національний університет імені Івана Франка

Аналіз міжнародної фінансової звітності

Методичні поради та плани практичних занять
для студентів магістерської освітньої програми
«Міжнародна економіка»

За редакцією І. Грабинської

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ВСТУП

Посилення процесів економічної і зокрема фінансової глобалізації зумовили необхідність формування єдиних підходів до складання фінансової звітності компаній. На сьогодні загальноприйнятими принципами до складання фінансової звітності вважають Міжнародні стандарти фінансової звітності, які розроблені міжнародною організацією бухгалтерів професіоналів - Радою з міжнародних стандартів фінансової звітності, що складається з експертів з різних країн, з відповідним рівнем практичного сучасного досвіду у розробці бухгалтерських стандартів, підготовці, аудиті та використанні фінансової звітності, та навчанні бухгалтерського обліку.

Затверджені стандарти на сьогодні імплементовані на різних рівнях у національні системи бухгалтерського обліку переважної більшості країн світу, а їх дотримання є необхідною умовою виходу компанії на світові фондові біржі. Вивчення дисципліни «Аналіз міжнародної фінансової звітності» сприятиме формуванню та систематизації знань студентів про основні, загальноприйняті у міжнародній практиці правила відображення інформації про фінансові та господарські операції у діяльності компанії, засвоєнню основних елементів та компонентів фінансової звітності компанії, складеної відповідно до принципів Міжнародних стандартів фінансової звітності (МСФЗ), основних методичних підходів до аналізу фінансової звітності компанії, складеної відповідно вимог МСФЗ. Такі знання є необхідні фахівцю з міжнародної економіки для розуміння фінансового стану підприємства та його потенціалу у процесі ухвалення управлінських, інвестиційних, клієнтських та інших бізнес-рішень.

У «Методичних порадах…» до кожної теми курсу окрім плану практичного заняття запропоновано також перелік контрольних запитань і низку тестових завдань. Роздумуючи над тестами і контрольними запитаннями, студент зможе сам оцінити ступінь засвоєння навчального матеріалу. Серед тестів нерідко зустрічаються задачі, які вимагають від студента застосувати не тільки теоретичні знання, а й аналітичні навички. При підготовці тесових завдань, запропонованих у «Методичних рекомендаціях…», використано навчальні матеріали *The Chartered Financial Analyst (CFA) Institute* (США).

Завдання “*Choose a definition for each key term*” дає можливість перевірити знання англомовних термінів, категорій і понять, які застосовують при складанні та аналізі фінансової звітності відповідно до МСФЗ. Окрім цього, до кожної теми запропоновано перелік підручників, посібників, та інтернет-ресурсів, які стануть у нагоді під час вивчення теми.

Результати навчання:

- знати:

основні відмінності у системах фінансової звітності US GAAP, МСФЗ та інших країн світу;

цілі та сфери застосування, базові положення та специфічні облікові принципи міжнародних стандартів фінансової звітності;

- вміти:

- адаптувати міжнародні стандарти і нормативи фінансової звітності у діяльності вітчизняних господарських одиниць;
- аналізувати звітність підприємства, підготовлену відповідно до МСФЗ з позицій потенційного інвестора, постачальника, клієнта, конкурента;
- оцінити ефекти від застосування принципів певного облікового стандарту на фінансові результати і фінансовий стан компанії.

Очікувані результати навчання покликані забезпечити набуття наступних компетентностей, передбачених освітньо-професійною програмою підготовки магістра за спеціальністю 051 «Економіка» (спеціалізація «Міжнародна економіка»):

ЗК2.Здатність до абстрактного мислення, аналізу, синтезу та встановлення взаємозв'язків між явищами та процесами

ФК2.Здатність до професійної комунікації в сфері економіки іноземною мовою

ФК3.Здатність збирати, аналізувати та обробляти статистичні дані, науково-аналітичні матеріали, які необхідні для розв'язання комплексних економічних завдань.

ФК8.Здатність оцінювати можливі ризики, соціально-економічні наслідки управлінських рішень.

ФК9.Здатність застосовувати науковий підхід до формування та обґрунтування ефективних стратегій в економічній діяльності.

ФКС1. Здатність обґрунтовувати перспективні напрями розвитку зовнішньоекономічної діяльності підприємства, застосовувати принципи ціноутворення, позиціювання та реклами у конкурентному середовищі, прогнозувати можливі конфлікти, кризові ситуації у діяльності підприємства у відкритій економіці.

ФКС2. Здатність аналізувати звітність підприємств, підготовлену відповідно до міжнародних стандартів фінансової звітності з позицій потенційного інвестора, постачальника, конкурента; адаптувати міжнародні стандарти фінансової звітності на вітчизняних підприємствах; оцінювати ефекти від застосування принципів міжнародних облікових стандартів на фінансові результати діяльності та фінансовий стан компанії.

Як засвідчив досвід попередніх років, вивчення навчальної дисципліни «Аналіз міжнародної фінансової звітності» забезпечує також додаткові можливості для студентів продовжити навчання за допомогою засобів неформальної освіти задля поглиблення професійних навичок і набуття додаткових компетентностей. Зокрема, програмні результати навчання, передбачені навчальною програмою дисципліни «Аналіз міжнародної фінансової звітності» дають можливість пройти тестові завдання і отримати сертифікати *Corporate Finance Institute (CFI*) за курсами "*Accounting Fundamentals*", "*Reading Financial Statements", "Corporate Finance Fundamentals*" , що включені до програми *CFI Financial Modeling & Valuation Analyst (FMVA).*

CONTENT MODULE 1. THE ESSENCE AND PRINCIPLES OF FINANCIAL REPORTING ACCORDING TO INTERNATIONAL STANDARDS

UNIT 1. FINANCIAL REPORTING AND ANALYSIS: AN INTRODUCTION

Learning objectives

1. The roles of financial reporting and financial statement analysis:
   a. the roles of the key financial statements (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;
   b. the importance of financial statement notes and management's commentary;
   c. the objective of financial statements and the importance of reporting standards in security analysis and valuation;
   d. the role of standard-setting bodies (such as the International Accounting Standards Board and the U.S. Financial Accounting Standards Board, and other regulatory authorities) in establishing and enforcing financial reporting standards.

2. Consequences of introduction and adoption of IFRS:
   a. the ongoing barriers to developing one universally accepted set of financial reporting standards;
   b. comparison of key concepts of financial reporting standards under IFRS and alternative reporting systems (U.S. GAAP);
   c. discussion of the implications for financial analysis of differing financial reporting systems;
   d. identification of the characteristics of a coherent financial reporting framework and barriers to creating a coherent financial reporting network.

Essay topics

1. An analysis of social factors influencing the adoption of International Financial Reporting Standards.
2. The impact of IFRS adoption on foreign direct investment.

Choose a definition for each key term

THE ESSENCE AND PRINCIPLES OF FINANCIAL REPORTING ACCORDING TO INTERNATIONAL STANDARDS

#	***A term***	***A definition***	#
	1. The statement of comprehensive income	a. are the by-now familiar groupings of assets, liabilities, and owners' equity (for measuring financial position) and income and expenses (for measuring performance).	
	2. Conceptual Framework for Financial Reporting	b. provides an assessment of the financial performance and condition of a company from the perspective of its management.	
	3. IAS (International Accounting Standards)	c. is the set of accounting rules set forth by the FASB that U.S. companies must follow when putting together financial statements.	
	4. Financial statement notes (footnotes)	d. is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources.	
	5. Management's Discussion and Analysis (MD&A)	e. include disclosures that provide further details about the information summarized in the financial statements.	
	6. The elements of financial statements	f. were the first international accounting standards that were issued by the International Accounting Standards Committee (IASC), formed in 1973. The goal then, as it remains today, was to make it easier to compare businesses around the world, increase transparency and trust in financial reporting, and foster global trade and investment.	
	7. US GAAP (Generally Accepted Accounting Principles)	g. sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide	

		useful information for investors, lenders and other creditors.	
	8. The Financial Accounting Standards Board (FASB)	h. are a set of accounting rules for the financial statements of public companies that are intended to make them consistent, transparent, and easily comparable around the world.	
	9. IFRS – (International Financial Reporting Standards)	i. is an independent non-profit organization responsible for establishing accounting and financial reporting standards for companies and non-profit organizations in the United States, following generally accepted accounting principles (GAAP).	
	10. Balance Sheet	j. is the particular combination of debt and equity used by a company to finance its overall operations and growth	
	11. A cash flow statement	k. is a financial statement that summarizes both standard net income and other comprehensive income (OCI).	
	12. Capital structure	l. is a financial statement that reports a company's assets, liabilities, and shareholder equity. It provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders.	

Conceptual questions

1. What information do the financial statement notes provide?
2. What is a financial concept of capital?
3. Describe the steps in the financial statement analysis framework.
4. What is the reason for accruals in preparing financial statements?
5. List the goals of the International Accounting Standards Board (IASB).
6. How does IFRS differ from GAAP?
7. Why is IFRS important?
8. What components does the owners’ equity include?

Multiple choice questions

1. Standard-setting bodies are responsible for:

A. establishing financial reporting standards only.
B. establishing and enforcing standards for financial reporting.
C. enforcing compliance with financial reporting standards only.

2. Which of the following organizations is least likely involved with enforcing compliance with financial reporting standards?
A. Financial Services Authority (FSA).
B. Securities and Exchange Commission (SEC).
C. International Accounting Standards Board (IASB).

3. Dana Cherniak has written an article about international financial reporting standards. In her article she states, “Despite strong support from business groups for a universally accepted set of financial reporting standards, disagreements among the standard-setting bodies and regulatory authorities of various countries remain a barrier to developing one.” Cherniak’s statement is:
A. correct.
B. incorrect, because business groups have not supported a uniform set of financial reporting standards.
C. incorrect, because disagreements among national standard-setting bodies and regulatory agencies have not been a barrier to developing a universal set of standards.

4. Which of the following statements least accurately describes a role of financial statement analysis?
A. Uses the information in financial statements to make economic decisions.
B. Provides reasonable assurance that the financial statements are free of material errors.
C. Evaluates an entity’s financial position and past performance to form opinions about its future ability to earn profits and generate cash flow.

5. A firm’s financial position at a specific point in time is reported in the:
A. balance sheet.
B. income statement.
C. cash flow statement.

6. Information about accounting estimates, assumptions, and methods chosen for reporting is most likely found in:
A. the auditor’s opinion.
B. financial statement notes.
C. Management’s Discussion and Analysis.

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UNIT 2. FINANCIAL REPORTING MECHANICS UNDER IFRS

Learning objectives

1. Description of the International Accounting Standards Board's conceptual framework:
   a. the objective and qualitative characteristics of financial statements;
   b. required reporting elements;
   c. constraints and assumptions in preparing financial statements;
   d. the general requirements for financial statements.

2. The relationship of financial statement elements and accounts, and accounts classification into the financial statement elements (IAS 1, IAS 15, IAS 21, IAS 29):
   a. the accounting equation in its basic and expanded forms;
   b. the process of business transactions recording using an accounting system based on the accounting equations;
   c. explanation of the need for accruals and other adjustments in preparing financial statements;
   d. explanation of the relationships between the income statement, balance sheet, statement of cash flows, and statement of owners' equity.

Essay topics

Discussion of the importance of monitoring developments in financial reporting standards and of evaluating company`s disclosures of significant accounting policies.

Actionable lessons from the Enron scandal.

Choose a definition for each key term

#	*A term*	*A definition*	#
	1. A financial concept of capital	a. is the assumption that an entity will remain in business for the foreseeable future. Conversely, this means the entity will not be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.	
	2. The accrual principle	b. a fundamental concept underlying present-day bookkeeping and accounting, states that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy	

		the accounting equation: Assets=Liabilities + Equity.	
	3. Other comprehensive income	c. are increase in assets or equity from transactions incidental to the firm's day-to-day activities.	
	4. Statement of Changes in Equity	d. is whereby the capital of the entity is linked to the net assets, which is the equity of the entity. When a financial concept of capital is used, a profit is earned only if the financial amount of the net assets at the end of the period is greater than the net assets at the beginning of the period, adjusted of course for any distributions paid to the owners during the period, or any equity capital raised.	
	5. Retained earnings	e. consists of all unrealized gains and losses on assets that are not reflected in the income statement.	
	6. The accounting equation	f. is one where the capital of an entity is regarded as its production capacity, which could be based on its units of output. When it is used, a profit is earned only if the physical production capacity (or operating capability) of the entity at the end of the period is greater than the production capacity at the beginning of the period, adjusted for any distributions paid to the owners during the period, or any equity capital raised.	
	7. The going concern principle	g. it explains the connection between a company's income statement and balance sheet. It includes all transactions not captured in these two financial statements, such as dividend payments, equity withdrawal, accounting policy changes, and corrections of prior period errors.	
	8. Double entry	h. is an accounting concept that requires transactions to be recorded in the time period in which they occur, regardless of when the	

		actual cash flows for the transaction are received.	
	9. Gains	i. the term refers to the historical profits earned by a company minus any dividends it paid in the past.	
	10. A physical concept of capital	j. is a formula that shows the sum of a company's liabilities and shareholders' equity are equal to its total assets (Assets = Liabilities + Equity).	

Conceptual questions

1. Explain the relationship of financial statement elements and accounts and classify accounts into the financial statement elements.
2. What does the term provision mean in accounting? What is the difference between provision and reserve under IFRS?
3. Explain the accounting equation in its expanded forms.
4. What equation is reflected in the income statement?
5. Explain the process of recording business transactions using an accounting system based on the accounting equation.
6. What is the purpose of accrual entries in financial statements?
7. In what way are the results of the accounting process used in security analysis?
8. Are the retained earnings a type of equity?

Multiple choice questions

1. The accounting equation is least accurately stated as:
A. owners' equity = liabilities - assets.
B. ending retained earnings = assets – contributed capital – liabilities.
C. assets = liabilities + contributed capital + beginning retained earnings + revenue - expenses - dividends.

2. Annual depreciation and accumulated depreciation are most likely classified as such financial statement elements:

	Depreciation	Accumulated Depreciation
A.	Expenses	Contra liabilities
B.	Expenses	Contra assets
C.	Liabilities	Contra assets

3. If a firm raises \$10 million by issuing new common stock, which of its financial statements will reflect the transaction?
A. Income statement and statement of owners' equity.
B. Balance sheet, income statement and cash flow statement.

C. Balance sheet, income statement and statement of owners' equity.

4. Which of the following statements least accurately describes a role of financial statement analysis?
A. Use the information in financial statements to make economic decisions.
B. Provide reasonable assurance that the financial statements are free of material errors.
C. Evaluate an entity's financial position and past performance to form opinions about its future ability to earn profits and generate cash flow.

5. Which of these steps is least likely to be a part of the financial statement analysis framework?
A. State the purpose and context of the analysis.
B. Determine whether the company's securities are suitable for the client.
C. Adjust the financial statement data and compare the company to its industry peers.

6. An electrician repaired the light fixtures in a retail shop on October 24 and sent the bill to the shop on November 3. If both the electrician and the shop prepare financial statements under the accrual method on October 31, how will they each record this transaction?

	Electrician	Retail shop
A.	Accrued revenue	Accrued expense;
B.	Accrued revenue	Prepaid expense;
C.	Unearned revenue	Accrued expense.

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CONTENT MODULE 2.
KEY FINANCIAL STATEMENT ACCORDING TO INTERNATIONAL STANDARDS

UNIT 3 BALANCE SHEET

Learning objectives

1. The elements of the balance sheet: IFRS 1, IAS 2, IAS 38, IAS 16, IAS 27:
   a. assets, tangible assets, and intangible assets;
   b. distinguishing between current and noncurrent assets;
   c. liabilities. Current and noncurrent liabilities;
   d. equity.

2. The accounting treatments for marketable and nonmarketable financial instruments IAS 35, IAS 39:
   a. held-to-maturity securities;
   b. trading securities;
   c. available-for-sale securities.

3. Components of owners' equity IAS 27, IAS 28:
   a. contributed capital;
   b. noncontrolling (minority) interest;
   c. retained earnings;
   d. treasury stock;
   e. accumulated other comprehensive income.

4. Alternative formats of balance sheet presentation IFRS 1, IAS 2:
   a. an account format;
   b. a report format;
   c. description of uses and limitations of the balance sheet in financial analysis.

Essay topics

Collapse of the US newspaper industry: goodwill, leverage and bankruptcy.

How to calculate the working capital and why is the working capital analysis of Microsoft important.

Choose a definition for each key term

#	*A term*	*A definition*	#

	1. Amortization	a. is any money that a company owes to outside parties, from bills it has to pay to suppliers to interest on bonds issued to creditors to rent, utilities and salaries.	
	2. Held-to-maturity securities	is an accounting technique used to periodically lower the book value of a loan or an intangible asset over a set period of time.	
	3. The balance sheet	is a debt or equity investment that investors purchase with the intent of selling within a short period of time, usually less than one year.	
	4. Accounts receivable (AR)	refers to any goods available for sale, valued at the lower of the cost or market price.	
	5. Prepaid expenses	include non-physical (but still valuable) assets such as intellectual property and goodwill. These assets are generally only listed on the balance sheet if they are acquired, rather than developed in-house	
	6. A liability	is a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit.	
	7. Inventory	refer to money that customers owe the company.	
	8. An asset	is a financial statement that reports a company's assets, liabilities, and shareholder equity at a specific point in time.	
	9. Intangible assets	represent the value that has already been paid for, such as insurance, advertising contracts, or rent.	
	10. Dividends payable	is the stock a company has repurchased. It can be sold at a later date to raise cash or reserved to repel a hostile takeover.	
	11. Hostile takeover	is dividends that have been authorized for payment but have not yet been issued.	
	12. Goodwill	A is a measure of value used in accounting in which the value of an asset on the balance	

		sheet is recorded at its original cost when acquired by the company.	
	13. Treasury stock	.refers to the acquisition of one company by another corporation against the wishes of the former.	
	14. Deferred tax liability	is a debt or equity security purchased with the intent of selling before it reaches maturity or holding it for a long period should it not have a maturity date.	
	15. A held-for-trading security	is the money attributable to the owners of a business or its shareholders. It is also known as net assets since it is equivalent to the total assets of a company minus its liabilities or the debt it owes to non-shareholders.	
	16. Shareholder equity	is the amount of taxes that accrued but will not be paid for another year.	
	17. An available-for-sale security	are purchased to be owned until maturity.	
	18. Working capital	is an increase in the value of an asset, such as a stock position or a commodity like gold, that has yet to be sold for cash.	
	19. An unrealized gain	is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year.	
	20. The current ratio	is the amount at which an asset can be bought or sold, or a liability can be incurred or settled, between knowledgeable, willing parties in an arm's-length transaction	
	21. Fair value	also known as net working capital (NWC), is the difference between a company's current assets—such as cash, accounts receivable/customers' unpaid bills, and inventories of raw materials and finished goods—and its current liabilities, such as accounts payable and debts. It's a commonly used measurement to gauge the short-term health of an organization	

	22. A historical cost	is an intangible asset that is associated with the purchase of one company by another. Specifically, goodwill is the portion of the purchase price that is higher than the sum of the net fair value of all of the assets purchased in the acquisition and the liabilities assumed in the process.	
	23. The debt-to-equity (D/E) ratio	is used to evaluate a company's financial leverage and is calculated by dividing a company's total liabilities by its shareholder equity.	

Conceptual questions

1. What presentation format of assets and liabilities in the balance sheet (current/noncurrent based or liquidity based) does the IFRS require?
2. Explain the measurement bases of the research and development cost according to the IFRS.
3. Suppose that the firm has a controlling interest in a subsidiary that is not 100% owned. How does the parent company report this interest in its consolidated balance sheet?
4. What is an identifiable intangible asset? Should the company amortize these assets?
5. Compare current and noncurrent liabilities.
6. Explain how assets and liabilities arise from the accrual process.
7. Describe accounting treatments for marketable and nonmarketable financial instruments held as assets.

Multiple choice questions

1. Which of the following is most likely an essential characteristic of an asset?
   - A. An asset is tangible.
   - B. An asset is obtained at a cost.
   - C. An asset provides future benefits.

2. Which of the following would most likely result in a current liability?
   - A. Possible warranty claims.
   - B. Future operating lease payments.
   - C. Estimated income taxes for the current year.

3. Which of the following inventory valuation methods do the accounting standard-setting bodies require?
   - A. Lower of cost or net realizable value.

B. Weighted average cost.
C. First-in, first-out.

4. At the beginning of the year, Parent Company purchased all 500,000 shares of Sub Incorporated for $15 per share. Just before the acquisition date, Sub's balance sheet reported net assets of $6 million. Parent determined the fair value of Sub's property and equipment was $1 million higher than reported by Sub. What amount of goodwill should Parent report as a result of its acquisition of Sub?
A. $0.
B. $500,000.
C. $1,500,000

5. At the beginning of the year, Company P purchased 1,000 shares of Company S for $80 per share. During the year, Company S paid a dividend of $4 per share. At the end of the year, Company S's share price was $75. What amount should Company P report on its balance sheet at year-end if the investment in Company S is considered a trading security, and what amount should be reported if the investment is considered available-for-sale?

A.	Trading	Available-for-Sale
B.	$75,000	$75,000
C.	$75,000	$80,000
D.	$80,000	$80,000

6. Miller Corporation has 160,000 shares of common stock authorized. There are 92,000 shares issued and 84,000 shares outstanding. How many shares of treasury stock does Miller own?
A. 8,000.
B. 68,000.
C. 76,000.

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UNIT 4. INCOME STATEMENT

Learning objectives

1. Understanding income statement:
   a. the components of the income statement;
   b. the alternative presentation formats of that statement (multistep format, single step format);
   c. describing and calculating comprehensive income.

2. The general principles of revenue recognition IAS1, IFRS1:
   a. the accrual accounting;
   b. the specific revenue recognition applications (including accounting for long-term contracts, installment sales, gross and net reporting of revenue);
   c. the implications of revenue recognition principles for financial analysis.

3. The general principles of expense recognition IAS 18:
   a. the matching principle;
   b. specific expense recognition applications (including depreciation of long-term assets and inventory methods) IAS 2, IAS16;
   c. the implications of expense recognition principles for financial analysis IAS 36, IAS 38;
   d. the appropriate method of depreciating long-term assets, accounting for inventory or amortizing intangibles according to the IFRS
   e. distinguishing between the operating and nonoperating components of the income statement.

4. The components of company's earnings per share and their calculation (IAS 33):
   a. a simple and complex capital structure;
   b. differentiation between dilutive and antidilutive securities;
   c. the implications of dilutive and antidilutive securities for the earnings per share calculation;
   d. basic and diluted earnings per share.

Essay topics

What impact could inventory have on your company's profitability?

How Renault manages its accounting R&D: the asset/expense financial analysis problem.

Choose a definition for each key term

#	A term	A definition	#

	1. A convertible security	a. is the number of shares outstanding during the year, weighted by the portion of the year they were outstanding.	
	2. The weighted average number of common shares	b. is a calculation used to gauge the quality of a company's earnings per share (EPS) if all convertible securities were exercised.	
	3. The basic EPS	c. assumes that the hypothetical funds received by the company from the exercise of the options would be used to purchase shares of the company's common stock in the market at the average market price.	
	4. Diluted EPS	d. is an investment that can be changed from its initial form into another form. The most common types of convertible securities are convertible bonds and convertible preferred shares, which can be converted into common stock.	
	5. Earnings per share (EPS)	e. contains only common stock, nonconvertible debt, and nonconvertible preferred stock.	
	6. The completed-contract method	f. occurs when a firm finances a sale and payments are expected to be received over an extended period.	
	7. Comprehensive income	g. contains potentially dilutive securities such as	

		options, warrants, or convertible securities.	
	8. A complex capital structure	h. tells investors how much of a firm's net income was allotted to each share of common stock. Basic EPS = (Net income - preferred dividends) ÷ weighted average of common shares outstanding during the period.	
	9. An installment sale	i. is calculated as a company's profit divided by the outstanding shares of its common stock.	
	10. A simple capital structure	j. is used when the outcome of a project cannot be reliably measured or the project is short-term. Accordingly, revenue, expense, and profit are recognized only when the contract is complete.	
	11. The percentage-of-completion method	k. is the income received by a company from its sales of goods or the provision of services. In accounting, the terms “sales” and “revenue” can be, and often are, used interchangeably to mean the same thing.	
	12. Gains and Losses	l. is a method used to account for inventory that records the most recently produced items as sold first.	
	13. Cost of goods sold (COGS)	m. are expenses, that include all general and administrative expenses. It includes nearly all business	

		costs not directly attributable to making a product or performing a service. It includes the costs of managing the company and the expenses of delivering its products or services.	
	14. FIFO	n. also referred to as operating profit or Earnings Before Interest & Taxes (EBIT), is the amount of revenue left after deducting the operational direct and indirect costs from sales revenue. It can also be computed using gross income less depreciation, amortization, and operating expenses not directly attributable to the production of goods.	
	15. Selling, general and administrative (SG&A)	o. means, that revenue, expense, and therefore profit, are recognized as the work is performed. It is measured by the total cost incurred to date divided by the total expected cost of the project.	
	16. Operating income	p. is an accounting concept that dictates that companies report expenses at the same time as the revenues they are related to. Revenues and expenses are matched on the income statement for a period of time	
	17. Period cost	q. uses a weighted average to determine the amount that goes into COGS and inventory.	

		This method divides the cost of goods available for sale by the number of units available for sale.	
	18. Matching principle	r. is an asset-management and valuation method in which assets produced or acquired first are sold, used, or disposed of first.	
	19. The Weighted Average Cost (WAC) method of inventory valuation	s. costs that are not tied to or related to the production of a product. Examples include selling, general and administrative (SG&A) expenses, marketing expenses, CEO salary, and rent expense relating to a corporate office.	
	20. Net sales	t. result from incidental transactions outside the firm's primary business activities.	
	21. LIFO	u. is the profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. It can be calculated by subtracting the cost of goods sold (COGS) from revenue (sales).	
	22. Sales revenue	v. refers to the direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good.	

	23. Gross profit	w. is the sum of a company's gross sales minus its returns, allowances, and discounts.	
	24. The treasury stock method	x. is a measure that includes the change in equity [net assets] of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.	

Conceptual questions

1. What method of revenue recognition should the company use, if the firm cannot reliably measure the outcome under International Financial Reporting Standards (IFRS)?
2. In what case is an accelerated depreciation method more appropriate for matching the expenses to revenues?
3. Compare dilutive effects of convertible preferred stock and convertible bonds exercising.
4. What is period cost?
5. What revenue recognition issue became particularly important with the emergence of e-commerce?
6. Identify the major types of items, included in “total comprehensive income”.
7. Does the company reflect unrealized holding gains and losses for available-for-sale securities in its income statement?

Multiple choice questions

1. For a nonfinancial firm, are depreciation expense and interest expense included or excluded from operating expenses in the income statement?

	Depreciation expense	Interest expense
A.	Included	Included
B.	Included	Excluded
C.	Excluded	Included.

2. Which of the following is least likely a condition necessary for revenue recognition?
   - A. Cash has been collected.
   - B. The goods have been delivered.

C. The price has been determined.

3. An analyst gathered the following information about a company:
100,000 common shares outstanding from the beginning of the year.
Earnings of $125,000.
1,000, 7%, $1,000 par bonds convertible into 25 –shares each, outstanding as of the beginning of the year.
The tax rate is 40%.
The company's diluted EPS is closest to:
A. $1.22.
B. $1.25.
C. $1.34.

4. Which of the following transactions affects owners' equity but does not affect net income?
A. Foreign currency translation gain.
B. Repaying the face amount on a bond issued at par.
C. Dividends received from available-for-sale securities.

5. The Bill Corporation had 100,000 shares of common stock outstanding at the beginning of the year. Hall issued 30,000 shares of common stock on May 1. On July 1, the company issued a 10% stock dividend. On September 1, Bill issued 1,000, 10% bonds, each convertible into 21 shares of common stock. What is the weighted average number of shares to be used in computing basic and diluted EPS, assuming the convertible bonds are dilutive?

	Average shares, basic	Average shares, dilutive
A.	132,000	139,000
B.	132,000	146,000
C.	139,000	146,000

6. AAA has a contract to build a building for $100,000 with an estimated time to completion of three years. A reliable cost estimate for the project is $60,000. In the first year of the project, AAA incurred costs totaling $24,000. How much profit should AAA report at the end of the first year under the percentage-of-completion method and the completed-contract method?

	Percentage-of-completion	Completed contract
A.	$16,000	$0
B.	$16,000	$40,000
C.	$40,000	$0.

7. Which principle requires that cost of goods sold be recognized in the same period in which the sale of the related inventory is recorded?

A. Going concern.

B. Certainty.

C. Matching.

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UNIT 5. CASH FLOW STATEMENT

Learning objectives

1. Classification items of cash flow statement:
   a. cash flows from operating, investing, and financing activities;
   b. reporting noncash investing and financing activities in financial statement;
   c. key differences in cash flow statements prepared under IFRS and U.S. GAAP.

2. The direct and indirect methods of presenting cash flow statement:
   a. the difference between the direct and indirect methods of presenting cash from operating activities;
   b. the arguments in favor of each;
   c. the steps in the preparation of direct cash flow statements;
   d. the steps in the preparation of indirect cash flow statements;
   e. the process of converting a cash flow statement from the indirect to the direct method of presentation.

3. Analyzing and interpretating a cash flow statement:
   a. common-size cash flow statement;
   b. calculation and interpretation of free cash flow to the firm;
   c. calculation and interpretation of free cash flow to equity;
   d. other cash flow ratios: cash flow-to-revenue, cash return-on-assets, cash return-on-equity, cash-in-income, cash flow-per share.

4. Measuring earning quality
   a. cash flow and accrual components of earning;
   b. balance sheet approach to measuring earnings quality;
   c. cash flow statement approach to measuring earnings quality.

Essay topics

1. Measuring earnings quality: cash flow statement approach.
2. What is Amazon free cash flow for 2010 to 2022?
3. The earnings management issue of WorldCom.

Choose a definition for each key term

#	***A term***	***A definition***	#
	1. Cash and cash equivalents	a. consists of the inflows and outflows of cash resulting from the acquisition or disposal of	

		long-term assets and certain investments.	
	2. Common size analysis	b. cash shows each cash inflow and outflow related to a company's cash receipts and disbursements. In other words, the direct method eliminates any impact of accruals and shows only cash receipts and cash payments.	
	3. Free cash flow to the firm (FCFF)	c. refers to the line item on the balance sheet that reports the value of a company's assets that are cash or can be converted into cash immediately.	
	4. The indirect method cash flow statement presentation	d. displays each line item of your financial statement as a percentage of a base figure: each inflow of cash can be expressed as a percentage of total cash inflows, and each outflow of cash can be expressed as a percentage of total cash outflows.	
	5. Cash flow from operating activities (CFO)	e. shows how cash flow from operations can be obtained from reported net income as the result of a series of adjustments for transactions that affect net income but are not cash transactions.	
	6. The direct method flow statement presentation	f. is the cash available to all investors, both equity owners and debt holders.	

	7. Free cash flow to equity (FCFE)	g. measures the amount of operating cash flow generated for each dollar of revenue.	
	8. Cash flow from financing activities (CFF)	h. sometimes referred to as “cash flow from operations” or “operating cash flow,” consists of the inflows and outflows of cash resulting from transactions that affect a firm’s net income.	
	9. Cash flow from investing activities (CFI)	i. consists of the inflows and outflows of cash resulting from transactions affecting a firm’s capital structure.	
	10. The interest coverage ratio	j. is the cash flow that would be available for distribution to common shareholders.	
	11. The cash flow-to-revenue ratio	k. measures the return of operating cash flow attributed to all providers of capital.	
	12. Cash flow per share	l. measures the return of operating cash flow attributed to shareholders.	
	13. The cash return-on-assets ratio	m. measures the firm’s ability to meet its interest obligations.	
	14. The cash return-on-equity ratio	n. is a variation of basic earnings per share measured by using CFO instead of net income.	
	15. Net operating assets	o. measures the firm’s ability to make dividend	

		payments from operating cash flow.	
	16. Mean reversion	p. means measuring accruals by subtracting cash flow from operating activities (CFO) and cash flow from investing activities (CFI) from reported earnings.	
	17. Earning quality	q. means measuring accruals as the change in net operating assets over period.	
	18. The investing and financing ratio	r. is the difference between the revenue-generating assets and the liabilities directly related to the company's operations.	
	19. Balance sheet approach to measuring earnings quality	s. refers to the persistent and sustainability of a firm`s earnings.	
	20. The dividend payment ratio	t. measures the firm's ability to purchase assets, satisfy debts, and pay dividends.	
	21. Cash flow statement approach to measuring earnings quality	u. or reversion to the mean, is a theory used in finance that suggests that asset price volatility and historical returns eventually will revert to the long-run mean or average level of the entire dataset.	

Conceptual questions

1. Compare cash flows from operating, investing, and financing activities.

2. What are the differences in requirements to cash flow statements preparation under International Financial Reporting Standards (IFRS) and the U.S. generally accepted accounting principles (U.S. GAAP)?
3. Describe how the cash flow statement is linked to the income statement and the balance sheet.
4. Explain why rising companies` net income accompanied by its falling cash flow can be interpret as a "red flag".
5. In what way can the cash flow statement be converted to common-size format?
6. Explain the statement "Positive operating cash flow can also be generated by decreasing noncash working capital".
7. What is a measure of cash available for discretionary purposes?
8. What ratio measures the firm's ability to make dividend payments from operating cash flow?
9. When (under which conditions) could the analyst claim that earnings are of high quality?
10. How does the accruals component of earning affect the speed of mean reversion?
11. What are the benefits from the decomposition of earning into a cash flow and an accrual component?
12. Although the two approaches (balance sheet and statement of cash flows) are conceptually equivalent, they will not generate the exact same numbers. What are the conceptual reasons for these differences?

Multiple choice questions

1. Under IFRS, interest expense would be classified as:
   A. either operating cash flow or financing cash flow.
   B. operating cash flow only.
   C. financing cash flow only.

2. Under U.S. GAAP, dividends received from investments would be classified as:
   A. operating cash flow.
   B. investing cash flow
   C. financing cash flow.

3. Which of the following would be least likely to cause a change in investing cash flow?
   A. The sale of a division of the company.
   B. The purchase of new machinery.
   C. An increase in depreciation expense.

4. Using the following information, what is the firm's cash flow from operations?

Net income	$120
Decrease in account receivable	$20
Depreciation	$25
Increase in inventory	$10
Increase accounts payable	$7
Decrease in wages payable	$5
Increase in deferred tax liabilities	$15
Profit from the sale of land	$2

A. $158.
B. $170.
C. $174.

5. Issuing bonds would be classified as:
A. investing cash flow.
B. financing cash flow.
C. no cash flow impact.

6. The write-off of obsolete equipment would be classified as:
A. operating cash flow.
B. investing cash flow.
C. no cash flow impact.

7. Mactin, Inc. had the following transactions during 2020:
Purchased new fixed assets for $75,000.
Converted $70,000 worth of preferred shares to common shares.
Received cash dividends of $12,000. Paid cash dividends of $21,000.
Repaid mortgage principal of $17,000.
Assuming Mactin follows U.S. GAAP, which of the following amounts represents Mactin's cash flows from investing and cash flows from financing in 20X7, respectively?

	Cash flows from investing	Cash flows from financing
A.	($5000)	($21000);
B.	($75000)	($21000);
C.	($75000)	($38000).

8. In preparing a common-size cash flow statement, each cash flow is expressed as a percentage of:
A. total assets.
B. total revenues.
C. the change in cash.

9. Figure 1. Selected balance sheet and cash flow data

$ in millions	***2020***	***2019***	***2018***
Balance sheet			
Total assets	80,261	71,264	71,903
Cash and marketable securities	(6,647)	(8,033)	(12,176)
Operating assets	73,614	63,231	59,527
Total liabilities	42,297	34,270	37,555
Long-term debt	(4,290)	(4,866)	(5,794)
Short-term debt	(17,179)	(10,846)	(13,189)
Operating liabilities	20,828	18,558	18,572
Net operating assets[1]	52,786	44,673	41,155
Balance sheet accruals	8,113	3,518	6,541
Cash flow statement			
Net income	7,967	6,894	6,023
Operating cash flow	(9,407)	(8,173)	(7,144)
Investing cash flow	11,027	7,364	3,261
Cash flow accruals	9,587	6,085	2,140

[1] NOA totaled $34, 614 at the end of 2017

10. Calculate the balance sheet accruals ratios, using figure 1 selected balance sheet and cash flow data:

	2019	2018
A.	8,2%	17,3%
B.	14,2%	5,6%
C.	16,6%	19,7%

11. Calculate cash flow statement accruals ratios, using figure 1 selected balance sheet and cash flow data:

	2019	2018
A.	8,2%	17,3%;
B.	14,2%	5,6%;
C.	16,6%	19,7%.

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CONTENT MODULE 3.
INTERNATIONAL FINANCIAL REPORTING AND ANALYSIS

UNIT 6. FINANCIAL ANALYSIS TECHNIQUES

Learning objectives

1. Tools and techniques used in financial analysis, their uses and limitations:
   a. the various techniques of common-size analysis and interpretation of the results of such analysis. Vertical and horizontal common-size balance-sheet and income statement;
   b. usage of regression analysis in forecasting;
   c. evaluation and comparison of companies using charts in financial analysis;
   d. limitations of ratio analysis.

2. Classification, calculation, and interpretation of activity, liquidity, solvency, profitability, and valuation ratios:
   a. activity ratios (inventory turnover, receivables turnover, and total assets turnover, payables turnover, number of days of payables, fixed asset turnover, working capital turnover);
   b. liquidity ratios (current ratio, quick ratio, cash ratio, defensive interval, cash conversion cycle);
   c. solvency ratios (long-term debt-to-equity, debt-to-assets, total debt ratio, financial leverage);
   d. profitability ratios (gross profit margin, net profit margin, operating profit margin, pretax margin, return on assets (ROA), return on equity (ROE);
   e. decomposition of return on equity: Dupont system of analysis.

Essay topics

1. How does the financial statement analysis help business grow?
2. Understanding how R&D costs affect ratio analysis (under US GAAP and IFRS).
3. What are the biggest financial risks that companies face?

Choose a definition for each key term

#	*A term*	*A definition*	

	1. Activity ratios	a. (sales per share, earnings per share, and price to cash flow per share) are used in comparing the relative valuation of companies.	
	2. Leverage ratios	b. is a leverage ratio that displays the total amount of debt for a business in relation to its stockholder equity.	
	3. Valuation ratios	c. include several ratios also referred to asset utilization or turnover ratios (e.g., inventory turnover, receivables turnover, and total assets turnover). They often give indications of how well a firm utilizes various assets such as inventory and fixed assets.	
	4. The acid-test ratio	d. provide information on how well the company generates operating profits and net profits from its sales.	
	5. The operating profit margin	e. are financial ratios that specify the level of debt incurred by a business relative to other accounting heads on its balance sheet.	
	6. The debt-to-equity ratio	f. allows the analyst to evaluate firm performance over time (time-series), as well as compare performance across firms, industries, or sectors (cross-sectional).	
	7. Solvency ratios	g. refer to the ability to pay cash expenses in the short term as they come due	
	8. Profitability ratios	h. commonly known as the quick ratio, uses a firm's balance sheet data as an indicator of whether it has sufficient short-term assets to cover its short-term liabilities.	
	9. Liquidity ratios	i. give the analyst information on the firm’s financial leverage and ability to meet its longer-term obligations.	
	10. The return on total capital (ROTC)	j. is an approach that uses basic algebra to break down ROE into a function of different ratios, so an analyst can see the impact of leverage, profit margins, and turnover on shareholder returns.	

	11. Vertical common-size analysis	k. is used in financial statement analysis to compare historical data, such as ratios, or line items, over a number of accounting periods.		
	12. Horizontal analysis	l. is the ratio of operating profit (gross profit less selling, general, and administrative expenses) to sales.		
	13. The DuPont system of analysis	m. is the ratio of net income before interest and taxes to total capital.		
	14. Basic DuPont equation	n. ROE = $\frac{\text{net income}}{\text{sales}} \frac{\text{sales}}{\text{assets}} \frac{\text{assets}}{\text{equity}}$		
	15. Extended DuPont equation	o. ROE=$\frac{\text{net income}}{\text{EBT}} \frac{\text{EBT}}{\text{EBIT}} \frac{\text{EBIT}}{\text{revenue}} \frac{\text{revenue}}{\text{total assets}} \frac{\text{total assets}}{\text{equity}}$		

Conceptual questions

1. Describe the limitations of financial ratios in conducting analysis.
2. What do profitability ratios examine?
3. Explain how the increase in interest expense as a portion of EBIT will influence ROE.
4. What can you say about the financial risk faced by the company, if the meanings of solvency ratios increase?
5. Could common-size analysis provide information about a firm's business strategy?
6. Does a measure of working capital turnover depend on outstanding payables, inventory and receivables?
7. What is the difference between measure of return on common equity and measure of return on equity for analysts?

Multiple choice questions

1. Which of the following is least likely a limitation of financial ratios?
   A. Data on comparable firms are difficult to acquire.
   B. Determining the target or comparison value for a ratio requires judgment.
   C. Different accounting treatments require the analyst to adjust the data before comparing ratios.

2. BBB, Inc.'s purchases during the year were \$100,000. The balance sheet shows an average accounts payable balance of \$12,000. BBB's payables payment period is closest to:

A. 37 days.
B. 44 days.
C. 52 days.

3. BBB, Inc. has a gross profit of $45,000 on sales of $150,000. The balance sheet shows average total assets of $75,000 with an average inventory balance of $15,000. BBB's total asset turnover and inventory turnover are closest to:

	Turnover Asset turnover	Inventory turnover
A.	7.00 times	2.00 times
B.	2.00 times	7.00 times
C.	0.50 times	0.33 times

4. A company's quick ratio is 1.2. If inventory were purchased for cash, the:

A. numerator would decrease more than the denominator, resulting in a lower quick ratio.
B. denominator would decrease more than the numerator, resulting in a higher current ratio.
C. numerator and denominator would decrease proportionally, leaving the current ratio unchanged.

5. Use the following information for RGB, Inc.:
EBIT / revenue = 10%
Tax retention rate = 60%
Revenue / assets =1.8 times
Current ratio = 2 times
EBT / EBIT = 0.9 times
Assets / equity =1.9 times
RGB, Inc.'s return on equity is closest to:

A. 10.5%.
B. 14.0%.
C. 18.5%.

6. When applying the financial analysis framework, which of the following is the best example of output from data processing?

A. A written list of questions to be answered by management;
B. Audited financial statements;
C. Common-size financial statements.

7. Mark Company recently reported EBIT margin 11%, total asset turnover of 1,2; a financial leverage ratio of 1,5; interest burden 70%. Assuming an income tax rate of 35%, Mark's return on equity is closed to:

A. 9%;
B. 10 %;
C. 11 %.

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UNIT 7. EVALUATING INTERNATIONAL FINANCIAL REPORTING QUALITY

Learning objectives

1. Calculation and interpretation of the ratios used in equity analysis, credit analysis, and segment analysis:
   a. valuation ratios used in analysis for investment in common equity decisions (the price-to-earnings (P/E) ratio, the ratio of the current market price of a share of stock divided by the company's earnings per share);
   b. the sustainable growth rate;
   c. evaluation of business risk (coefficient of variation (CV) sales, CV operating income, CV net income, capital adequacy ratio).

2. The role of financial statement analysis in assessing the credit quality of a potential debt investment:
   a. Indicators of a firm's creditworthiness:
   b. operational efficiency;
   c. marginal stability;
   d. leverage.

3. Financial reporting quality:
   a. Incentives that are resulting in a low quality of earnings;
   b. the "fraud triangle";
   c. the risk factors that may lead to fraudulent accounting;
   d. common accounting warning signs and methods for detecting fraudulent accounting.

Essay topics

1. How improving debt to EBITDA ratio can help boost business.
2. Arguments against EBITDA.
3. Top 10 best qualities of an ideal financial statement.

Choose a definition for each key term

#	***A Term***	***A definition***	#
	1. Operational efficiency	a. typically refers to the ratio of some dollar measure of the risk, both operational and financial, of the firm to its equity capital.	
	2. Backtesting	b. is a measurement of leverage, calculated as a company's interest-bearing liabilities	

		minus cash or cash equivalents, divided by its EBITDA.	
	3. The net debt-to-EBITDA ratio	c. is the ratio of a company's retained income to its net income. The retention ratio measures the percentage of a company's profits that are reinvested into the company in some way, rather than being paid out to investors as dividends.	
	4. The sustainable growth rate (SGR)	d. is primarily a metric that measures the efficiency of profit earned as a function of operating costs. It measures the proportion of costs incurred during an economic or financial activity, where lower costs equate with greater efficiency.	
	5. Capital adequacy	e. refers to using a specific set of criteria to screen historical data to determine how portfolios based on those criteria would have performed.	
	6. Retention rate (RR)	f. is the maximum rate of growth that a company or social enterprise can sustain without having to finance growth with additional equity or debt.	

Conceptual questions

1. List the risk factors related to incentives and pressures for fraud.
2. What does the "fraud triangle" consist of?
3. What specific accounting ratios and business characteristics does the credit rating formula consist of?
4. What is stability margin? In what way could this measure be evaluated?
5. What is the most important part of credit rating formula according to Moody's?

Multiple choice questions

1. Which of the following is most likely an example of accounting fraud?
   A. Using aggressive pension assumptions.
   B. Booking revenue from a fictitious customer.

C. Selecting an acceptable depreciation method that misrepresents the economics of the transaction.

2. Accounting fraud risk factors related to attitudes and rationalizations are least likely to include:

A. management has a strained relationship with the current or previous auditor;
B. the firm does not effectively communicate an appropriate set of ethical standards.
C. a high proportion of management's compensation depends on the firm exceeding targets for earnings or the stock price.

3. Which of the following actions is least likely to immediately increase earnings?

A. Selling more inventory than is purchased or produced.
B. Lowering the salvage value of depreciable assets.
C. Holding the accounting period open past year-end.

4. Based on the selected data from a company`s financial statement, what was this company's most likely strategy for improving its operating activity during this period?

	2016	2017	2018	2019
Sales	8,614	9,217	9,862	10,553
COGS	5,304	5,622	6,072	6,679
Purchases	5,257	5,572	6,018	6,620
Inventory	2,525	2,475	2,421	2,362
Accounts receivable	3,491	3,728	3,928	4,352
Account payable	1,913	2,102	2,311	2,539

A. Improve its inventory management.
B. Change its credit and collections policies with its customers.
C. Change the degree to which it uses trade credit from suppliers.

5. Credit analysts are likely to consider a company's credit quality to be improving if the company reduces its:

A. scale and diversification.
B. margin stability.

C. leverage.

6. An analyst who is projecting a company's net income and cash flows is least likely to assume a constant relationship between the company's sales and its:

A. interest expenses.
B. cost of goods sold.
C. noncash working capital.

7. A firm has a dividend payout ratio of 40%, a net profit margin of 10%, an asset turnover of 0.9 times, and a financial leverage multiplier of 1.2 times. The firm's sustainable growth rate is closest to:

A. 4.3%.
B. 6.5%.
C. 8.0%.

8. An analyst who needs to model and forecast a company's earnings for the next three years would be least likely to:

A. assume that key financial ratios will remain unchanged for the forecast period.
B. use common-size financial statements to estimate expenses as a percentage of net income.
C. examine the variability of the predicted outcomes by performing a sensitivity or scenario analysis.

9. Information provided by a low-quality earnings quality most likely pertains to:

A. Low earnings quality decreases company value.
B. High-quality financial reports contain information that is subjective and fabricated.
C. Financial reporting quality can range from high and sustainable to low and unsustainable.

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