

Financial Statement Analysis: 3 Days

Delegate Profile: This course is targeted at delegates who are new to finance and seeking to learn how to read and interpret financial information presented in annual reports and accounts, both from an equity and credit perspective.

Key Learning Outcomes

- Delegates will learn how to read and interpret the income statement, balance sheet and cash flow, and understand how the three statements integrate with each other
- They will learn key financial ratios which analysts use to evaluate profitability, financial position, credit risk and cash flow generation
- Finally, they will learn how accounts may be manipulated to present more or less favorable results, through leasing, provisioning, capitalization and depreciation, revenue recognition and stock valuation

Pre-requisite Knowledge: No prior knowledge of financial statements is assumed.

Our Approach: In this course we facilitate the learning process through a combination of:

- Presentation of core knowledge and concepts using power point slides
- Press articles and real life case studies, demonstrating how analysts evaluate corporate accounts in practice and how accounts have been manipulated by finance directors
- Short 'single worksheet' excel exercises to enable delegates to calculate financial ratios and analyze financial performance and position
- Regular summaries, to remind delegates of the key points of each session
- End of Day quizzes, to confirm the achievement of the learning outcomes
- One page course summary, as a take away and reminder of the key learning points

Each delegate should be provided with a laptop, which is pre-loaded with some exercises in excel format. (Note: the course may be delivered in either Excel 2003 or 2007, however, all delegates should use the same version of excel in the training room.)

Training Fees: £7,500 plus VAT (£2,500 per training day). This covers all research, design and delivery of the training by James Gilpin, for up to 20 delegates.

Expenses: All incremental travel and accommodation expenses will be charged separately, however, we will work hard to ensure all costs are kept to a minimum. With regard to materials, JGFT can provide 2 options:

- JGFT can arrange for all materials to be professionally printed and couriered to the training centre for which we would recharge the cost (for 20 delegates approximately £200 - £300)
- All materials will be sent electronically to the client with instructions to print internally (at no additional cost)

With regard to excel exercises, JGFT can provide all these materials electronically, which must be loaded onto delegate laptops in advance of the course.

Day One

Session 1

Financial Statement Overview

- Roles and Responsibilities: The Company, Directors, Auditors, Shareholders and Lenders
- Stewardship and Decision-making information
- Financial Performance, Financial Position and Cash Generation
- Accounting Principles: prudence, accruals, consistency, materiality and going concern
- Definitions and examples of Assets and Liabilities
- The concept of double-entry: revenue/receivables; inventory/cost of sales; inventory/payables; operating expenses/cash
- Financing: Debt vs. Equity

Session 2

Income Statement Analysis

- Revenue recognition: Cash vs. Accrual Accounting
- Price vs. volume drivers
- Fixed vs. variable costs
- Operating Profit: EBIT vs. EBITDA
- Operating leverage
- Interest Expense
- Financial leverage
- Taxation
- Dividends and Retained Earnings
- Earnings per Share

Session 3

Balance Sheet Analysis

- The Accounting Equation: Net Assets = Shareholders' Funds; Capital Employed = Capital Provided
- Fixed Assets: Additions and Disposals
- Depreciation estimates: Straight line vs. reducing balance methods and estimating useful economic lives
- Investments
- Working Capital: Inventory, Trade Receivables and Trade Payables
- Prepayments vs. Accruals
- Corporation Tax
- Provisions
- Debt
- Share Capital and movement in Shareholders Funds
- Goodwill and Intangibles

Day Two

Session 1

Cash Flow Analysis

- Building a Cash Flow Statement
- Cash Flow from Operating vs. Investing vs. Financing Activities
- Indirect vs. Direct Method: Bottom Up vs. Top Down
- Reconciling Cash and Cash Equivalents
- Movement in Net Debt

Session 2

Measures of Profitability and Efficiency

- Profit Margins
- Return on Capital Employed and Return on Equity
- Dupont Analysis: profit margins, asset turnover and leverage

Session 3

Measures of Liquidity

- Cash Conversion Cycle
- Debt, Stock and Creditor days
- Positive vs. Negative working capital position
- Current, Quick and Cash Ratio
- Borrowing Facilities
- Refinancing Risk and Access to Capital
- Headroom and peak borrowing requirements

Session 4

Valuation Metrics

- Equity vs. Enterprise Value
- Income Statement Multiples
- Balance Sheet Multiples
- Dividend Yield
- Payout vs. Retention Ratio
- Gordon Growth Model of dividend growth

Day Three

Session 1

Assessing Credit Quality, Financial Covenants and Debt Capacity

- Debt / Equity and Debt / Capital Ratios
- Debt / EBITDA Ratios
- Debt Service Coverage and Interest Coverage Ratios
- Cash Flow Profile: stability vs. cyclical
- The Role of Rating Agencies

Session 2

Company vs. Group Accounts

- Consolidating subsidiaries into group accounts
- Acquisition accounting, goodwill measurement and impairment testing
- Full vs. Partial Goodwill
- Minority Interest

Session 3

Accounting Issues

- Leases: Operating vs. Finance Leases
- Capitalising and Depreciating Fixed Assets
- Inventory valuation
- Exceptional Items
- Revenue recognition

Session 4

Contents of Annual Report and Accounts

- Chairman's Statement
- CEO review
- Finance Director review
- Directors Report
- Corporate Governance and Remuneration
- Other Reports: Environmental, Diversity & Inclusion, Ethics etc.
- Audit Report and Accounts
- Five Year Summary