

# Fundamentals of Financial Analysis



**Programme Level:**  
INTRODUCTORY



**Duration:**  
2 DAYS

# Overview

This course will provide participants with the skills to analyse the financial statements of companies to effectively appraise the current position and future prospects of the business. Several annual reports are used to analyse and compare the balance sheets, income statements, cash flow statements and supporting notes of these companies. This is a highly interactive course where case studies and exercises are used to illustrate key learning points, allowing participants to apply the concepts acquired during the course to real-life scenarios.

## Key Learning Outcomes

By the end of this course, participants will be able to:

- Understand the fundamentals of financial statements, including how the statements link and the key accounting principles that govern them
- Analyse the balance sheets of companies and assess their position
- Adjust and consistently analyse the income statements of companies and assess their performance
- Carry out ratio analysis and assess the drivers of performance
- Analyse the cash flow statement of companies and identify the cash flow drivers
- Interpret what the suitable adjustments and analysis indicate about the prospects for a company

## Who Should Attend

Suitable for beginner and intermediate levels for both finance and non-finance professionals.

## Related Courses

- Best Practice Financial Modelling
- Certificate in Financial Modelling
- Corporate Valuation Bootcamp
- Excel for Financial Professionals
- Fundamentals of Corporate Financial Statement Analysis
- Fundamentals of Financial Modelling
- M&A Deal Structuring and Analysis

# Content

## Fundamentals of Financial Statements

Understanding the philosophy and principles underlying financial statements is an excellent way to introduce what financial statements contain, why and how the rules have developed. A little bit of knowledge on this can go a long way to understanding much of the accounting that follows.

- The process, purpose and context of accounting
  - Who/what are the driving forces behind published accounts?
  - Where do the rules come from – US GAAP vs IFRS vs Local GAAP
  - What has tax got to do with anything?
  - Background accounting knowledge for analysts to help understand the basis of financial statements
- The primary financial statements and how they link
  - Balance sheet: showing the position of a company
  - Income statement: showing the performance of a company
  - Cash flow statement: showing the difference between a company's ability to generate and spend cash
- Key accounting principles and terms
  - Accruals concept
  - Going concern
  - The accounting equation
  - Double entry
  - Applying double entry
- The primary financial statements
  - The purpose of financial statements
  - Analysing the three statements: identifying possible ways to initially analyse financial statements
  - Different formats: UK GAAP, IFRS
- **Exercise:** produce a balance sheet and income statements for a confectionary manufacturer reflecting the transactions over the year

## Analysis of the Income Statement

The numbers from the income statement are probably the most widely analysed and so that is a good place to start. In this case study session, we look at the reported figures, define the most used and analyse them before exploring why these numbers may need adjusting if we are to use them to indicate what the future performance is likely to be.

- Analysis of the income statement
  - Capitalisation vs. expense
  - Classification of expenses: cost of sales, operating expenses
  - Revenue recognition
  - Different types of reported profit metric
    - Gross profit, operating profit, net profit, EPS
  - Cleaning up the reported numbers
    - Exceptionals and other one-off items
    - Core vs non-core
  - Profit metrics more indicative of future performance (and why)
    - EBIT, EBITA, EBITDA, underlying net income/EPS
- Ratio analysis
  - Growth rates
  - Margins
  - Interest cover
- **Exercise:** carry out ratio analysis on two listed companies, making comparisons between the two

## Analysis of the Balance Sheet

What are the resources at hand for the business to generate its profit? The morning session will focus on the analysis of the balance sheet, understanding the rules behind what gets recognised, at what value and how that value can fluctuate over time.

- Analysis of the balance sheet
  - Non-current assets
    - Intangibles – what can be recognised
    - Tangibles – carrying values, useful lives and impairments
  - Current assets and working capital
  - Liabilities and provisions

- The capital structure
  - Debt
  - Equity capital and reserves
  - Pensions
  - Non-controlling interests
  - Investments – AFS, JVs and other acronyms; why are they part of the capital structure
- Ratio analysis
  - Net debt, Debt/Equity, Debt/Capital
  - Working capital cycle – Inventory days, Receivable days, Payable days
  - Balance sheet and income statement combined analysis
    - Efficiency of use of resources
      - Return on equity
      - Return on capital
    - Capital structure
      - (Net) debt / EBITDA
- **Exercise:** carry out further ratio analysis on two listed companies, making comparisons between the two

## Use Ratio Analysis to Identify the Company

- **Exercise:** ratio mix and match: Identify the business sectors of several companies given a grid of ratios. Discuss how the decision was made

## Analysis of the Cash Flow Statement

The cash flow statement is, fundamentally, free from any accounting judgement/manipulation and could be used as a trustworthy source for analysis. This session shows how a cash flow statement links in with the other financial statements before discussing the limitations of it as a source for analysis.

- Deriving cash flow using the indirect method
- **Exercise:** produce a cash flow statement reflecting transactions provided
- Analysis of the cash flow statement
  - Definitions of free cash flow and CFADS (cash flow available for debt service)
  - How to analyse the cash flow statement: asset management, operational management, financing strategy
    - EBITDA cash conversion
    - Capex/depreciation
    - Cash-based interest cover

- Cash flow drivers
  - PESTEL
  - Porter's Five Forces
- **Exercise:** carry out further ratio analysis on two listed companies, making comparisons between the two

## Company Appraisal

This case study allows participants to apply the skills learned during the course. Participants will be given a company and are required to prepare an appraisal, based on the annual report and other sources of information. Their analysis should be financial and non-financial, including a summary of the position, performance of the company as well as other analyses.

## About Fitch Learning

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