

# IB396-15 Financial Statement Analysis and Security Valuation

**23/24**

**Department**

Warwick Business School

**Level**

Undergraduate Level 3

**Module leader**

Xing Huan

**Credit value**

15

**Module duration**

10 weeks

**Assessment**

20% coursework, 80% exam

**Study location**

University of Warwick main campus, Coventry

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## Description

### Introductory description

This is an elective module available for WBS and Non-WBS students.

The main objective of the module is to provide students with the tools to analyse firm financial performance from an equity valuation perspective and to carry out a business valuation building on this analysis. A further objective is to encourage students to use the valuation-based framework to analyse the 'quality' of accounting information and to explore empirical studies concerned with testing the value-relevance of financial statement information.

[Module web page](#)

### Module aims

The main objective of the module is to provide students with the tools to analyse firm financial performance from an equity valuation perspective and to carry out a business valuation building on this analysis. A further objective is to encourage students to use the valuation-based framework to analyse the 'quality' of accounting information and to explore empirical studies concerned with testing the value-relevance of financial statement information.

## Outline syllabus

This is an indicative module outline only to give an indication of the sort of topics that may be covered. Actual sessions held may differ.

1. Accounting and cash flow valuation model.
2. Financial analysts' use of financial statements: practice and evidence.
3. Reformulation of financial statements and value-based ratio analysis.
4. Implementation of accounting valuation models.
5. Accounting quality and the value relevance of accounting information.

## Learning outcomes

By the end of the module, students should be able to:

- Understand and apply business valuation models that use accounting numbers.
- Gain an understanding of the importance of ratio analysis to investors and analysts and learn how to apply a value based approach to ratio analysis.
- Develop the ability to prepare a thorough valuation analysis including sensitivity analysis on the key assumptions.
- Understand the factors determining quality of accounting information from an investor perspective and gain a basic understanding of empirical research on value relevance.
- Develop ability to apply and integrate concepts from accounting and finance to the analysis of business plans and company valuation.

## Indicative reading list

Financial Statement Analysis and Security Valuation 5th edition by Stephen H. Penman (2013).

Additional readings:

Healy, P. and Palepu, K. (2003) 'How the Quest for Efficiency Corroded the Market' Harvard Business Review, 81, 7, pp. 76-85

Penman, S. (2003) 'The Quality of Financial Statements: Perspectives from the Recent Stock Market Bubble' Accounting Horizons, 17, Supplement, pp. 77-96

Cascino, S.; Clatworthy, M.; Osma, B.; Gassen, J.; Imam, S. and Jeanjean, T. (2014) 'Who Uses Financial Reports and for What Purposes? Evidence from Capital Providers' Accounting in Europe, 11, 2, pp. 185-209

Barker, R. (2010). 'The operating-financing distinction in financial reporting', Accounting and Business Research, 40 (4) pp. 391-403.

Penman, S. (2014) 'Financial Ratios and Equity Valuation' in Cooper, C.L. (ed.) Wiley Encyclopedia of Management: Accounting Volume Chichester: John Wiley & Sons

Penman, S and Nissim, D. (2001). Ratio analysis and equity valuation: from research to practice. Review of Accounting Studies, March: 109-154.

Fairfield, P and Yohn, T. (2001). Using asset turnover and profit margin to forecast changes in profitability. Review of Accounting Studies 6: 361-375.

Penman, S. (2006) 'Handling Valuation Models' Journal of Applied Corporate Finance, 18, 2, pp. 48-55.

Lee, C. (2003) 'Choosing the Right Valuation Approach' in Larrabee, D.T. and Vodd, J.A (eds),

Valuation Techniques Hoboken, NJ: John Wiley & Sons, pp. 243-58.

Imam, S.; Chan, J. and Shah, Z. (2013) 'Equity Valuation Models and Target Price Accuracy in Europe: Evidence from Equity Reports' International Review of Financial Analysis, 28, pp. 9-19.

Penman, S. (2016). 'Valuation: The State of the Art' Schmalenbach Business Review 17, 1, pp. 3-23.

Cascino, S., Clatworthy, M., Osma, B., Gassen, J. Imam, S. (2021) The usefulness of financial accounting information: Evidence from the field. Forthcoming at the Accounting Review. Available at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3008083](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3008083).

Penman, S. (2009) 'Accounting for intangible assets: there is also an income statement' Abacus, 45, 3, pp. 358-71.

Cornell, B. and Landsman, W.R. (2003) 'Accounting Valuation: Is Earnings Quality an Issue?' Financial Analysts Journal, 59, 6, pp. 20-8.

Dichev, I.; Graham, J.; Harvey, C. R. and Rajgopal, S. (2013) 'The Misrepresentation of Earnings' Financial Analysts Journal, 72, 1, pp. 22-35.

Imam, S. Barker, R, Clubb, C. 2008. 'The use of valuation models by UK investment analysts', European Accounting Review, 17 (3), pp. 503-535.

Imam, S. and Spence, C. (2015) 'Context, not Predictions: A Field Study of Financial Analysts' Accounting, Auditing and Accountability Journal, 29, 2 pp. 226-47.

Spence, C., Aleksanyan, M., Millo, Y., Imam, S., and Abhayawansa, S. (2019). Earning the 'write to speak': sell-side analysts and their struggle to be heard. Contemporary Accounting Research, 36, 4, 2635-2662.

## Subject specific skills

Develop an understanding of how financial statements analysis can be linked to fundamental analysis.

## Transferable skills

Demonstrate oral and written communication skills in relation to the analysis of company financial statement information from a valuation perspective.

Develop and apply modelling and spreadsheet skills to the solution of performance analysis and valuation problems.

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## Study

### Study time

Type	Required
Lectures	10 sessions of 1 hour (13%)
Seminars	9 sessions of 1 hour (12%)
Online learning (independent)	10 sessions of 1 hour (13%)
Private study	48 hours (62%)
Total	77 hours

## Private study description

Private Study.

## Costs

No further costs have been identified for this module.

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## Assessment

You do not need to pass all assessment components to pass the module.

### Assessment group D3

	Weighting	Study time
Individual Assignment (15 CATS)	20%	15 hours
Online Examination Exam	80%	58 hours
~Platforms - AEP		

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- Online examination: No Answerbook required

## Feedback on assessment

Feedback via my.wbs.

[Past exam papers for IB396](#)

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## Availability

## Courses

This module is Optional for:

- UIBA-MN34 Law and Business Four Year (Qualifying Degree)
  - Year 3 of MN34 Law and Business Studies Four Year (Qualifying Degree)
  - Year 4 of MN34 Law and Business Studies Four Year (Qualifying Degree)
- Year 4 of UECA-4 Undergraduate Economics 4 Year Variants
- UPHA-L1CA Undergraduate Economics, Psychology and Philosophy

- Year 3 of L1CA Economics, Psychology and Philosophy
- Year 3 of L1CC Economics, Psychology and Philosophy (Behavioural Economics Pathway)
- Year 3 of L1CD Economics, Psychology and Philosophy (Economics with Philosophy Pathway)
- Year 3 of L1CE Economics, Psychology and Philosophy (Philosophy and Psychology Pathway)
- UPHA-L1CB Undergraduate Economics, Psychology and Philosophy (with Intercalated Year)
  - Year 4 of L1CG Economics, Psychology and Philosophy (Behavioural Economics Pathway) (with Intercalated Year)
  - Year 4 of L1CH Economics, Psychology and Philosophy (Economics with Philosophy Pathway) (with Intercalated Year)
  - Year 4 of L1CJ Economics, Psychology and Philosophy (Philosophy and Psychology Pathway) (with Intercalated Year)
  - Year 4 of L1CB Economics, Psychology and Philosophy (with Intercalated Year)
  - Year 4 of L1CB Economics, Psychology and Philosophy (with Intercalated Year)
- Year 3 of UIBA-MN31 Undergraduate Law and Business Studies
- UIBA-MN32 Undergraduate Law and Business Studies
  - Year 3 of MN32 Law and Business Studies (Four-Year)
  - Year 4 of MN32 Law and Business Studies (Four-Year)
- Year 5 of UIBA-MN37 Undergraduate Law and Business Studies (Qualifying Degree) with Intercalated Year
- UIBA-MN35 Undergraduate Law and Business Studies with Intercalated Year (3+1)
  - Year 3 of MN35 Law and Business Studies with Intercalated Year (3+1)
  - Year 4 of MN35 Law and Business Studies with Intercalated Year (3+1)
- Year 5 of UIBA-MN36 Undergraduate Law and Business Studies with Intercalated Year (4+1)
- USTA-G300 Undergraduate Master of Mathematics, Operational Research, Statistics and Economics
  - Year 3 of G300 Mathematics, Operational Research, Statistics and Economics
  - Year 4 of G300 Mathematics, Operational Research, Statistics and Economics
- Year 3 of UMAA-GL11 Undergraduate Mathematics and Economics
- Year 4 of UECA-GL12 Undergraduate Mathematics and Economics (with Intercalated Year)

This module is Unusual option for:

- UPHA-L1CA Undergraduate Economics, Psychology and Philosophy
  - Year 2 of L1CA Economics, Psychology and Philosophy
  - Year 3 of L1CA Economics, Psychology and Philosophy
- UPHA-V7ML Undergraduate Philosophy, Politics and Economics
  - Year 3 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 3 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 3 of V7ML Philosophy, Politics and Economics (Tripartite)

This module is Option list B for:

- USTA-Y602 Undergraduate Mathematics, Operational Research, Statistics and Economics
  - Year 3 of Y602 Mathematics, Operational Research, Stats, Economics
  - Year 3 of Y602 Mathematics, Operational Research, Stats, Economics

This module is Option list G for:

- UPHA-V7ML Undergraduate Philosophy, Politics and Economics
  - Year 2 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 2 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 2 of V7ML Philosophy, Politics and Economics (Tripartite)