

TEACHING FINANCIAL STATEMENT ANALYSIS: A DISCUSSION ON PEDAGOGY

Dr. Myint Thein*

บทคัดย่อ

บทความนี้เป็นบทความที่ 3 ในชุดของบทความเกี่ยวกับ “การวิพากษ์วิธีการสอน” โดยผู้เขียนคนเดียวกันที่ตีพิมพ์ในวารสาร ABAC Journal บทความนี้อธิบายการกระตุ้นแรงจูงใจในการเรียนและการพัฒนาทัศนคติในการวิเคราะห์ตลอดจนทักษะในการวิเคราะห์ห้วงการของนักศึกษา บทความนี้เสนอวิธีนัยในการบรรยายและเน้นการเรียนรู้โดยการลงมือทำ โดยเฉพาะอย่างยิ่งโดยการทำงานเป็นกลุ่ม บทความนี้ยังระบุวิธีการเลือกโครงการประจำภาคการศึกษาที่เกี่ยวข้องกับการวิเคราะห์งบการเงินและการกำกับโครงการ ในตอนท้ายบทความนี้เสนอแนะกระบวนการเรียนการสอนในการวิเคราะห์งบการเงินด้วย

Abstract

This article is the third in the series of articles on “Discussion on Pedagogy” by the same author in ABAC Journal. The article discusses stimulating motivation to learn the subject and, developing analytical attitude and critical skill among students. It suggests an approach in lecturing and a focus on learning by doing especially by group works. The article also specifies how to choose the term project for financial statement analysis and discusses the way to monitor the term projects. Finally, it recommends the synchronization of teaching learning process of financial statement analysis.

INTRODUCTION

Financial statement analysis is the subject usually taught to students taking finance

major as well as accounting major. The nature of this subject has its own characteristics that specific approaches to teaching the subject are worthy of discussion.

*Asst. Prof. Dr. Myint Thein holds a Ph.D. in Public Administration from the National Institute of Development Administration (NIDA). He has been teaching accounting subjects in ABAC School of Management as well as in the Graduate School of Business, Assumption University since 1989. He is also a Fellow of The Chartered Institute of Management Accountants, U.K.

PROSPECTS AND INCENTIVES

To make the subject interesting and motivating to students, a teacher should start with a question about their future career after graduating. The writer's experience with senior students is that majority of them do not have plan or ambition after graduating since their immediate goal is just to become graduates. (It may probably be in the context of an Asian country.) These students usually do not have knowledge about outside career and profession especially when a particular school/faculty has no or a little relationship with business or industry. An instructor needs to explain about at least three choices they can choose to be: an accountant, an auditor or a financial analyst. Although an accounting graduate can become an accountant or an assistant accountant immediately, they should be informed that they need to follow professional training and sit examination to become a qualified auditor or a financial analyst. As the subject of financial statement analysis is a foundation for a financial analyst, the students need to be informed about taking training and experience along with sitting Chartered Financial Analyst (CFA) examination to become a qualified financial analyst which is immediately recognized and which could bring lucrative salary as professional compensation.

The CFA qualification is an internationally recognized qualification widely accepted in many countries. According to Sriwipa Siripunyawit in her article in the Bangkok Post, a CFA charter holder in junior position can earn between 70,000 and 80,000 baht (about US\$ 2,333-2,666 at exchange rate of US\$ 1 = baht 30) a month in Thailand reaching up to 150,000 baht (about

US\$ 5,000) after promotion in subsequent years. They have opportunities in financial and banking sectors or investor relationship in corporate financial departments. In neighboring countries like Singapore and Malaysia, the compensation would be higher. In this way, students should be motivated in learning financial statement analysis.

DEVELOPING ANALYTICAL ATTITUDE AND CRITICAL SKILL

To facilitate in learning the financial statement analysis subject effectively, students need to develop their analytical attitude and critical skill which should be the main focus of an instructor in teaching this subject. The students need to be differentiated among the roles of an accountant, an auditor and a financial analyst. To study main accounting topics, their learning should focus on principles, processes, steps and accounting standards because the ultimate responsibility of an accountant is to present the financial statements in compliance with accounting standards as well as to present a true and fair view. The accountants (preparers of financial statements) have some flexibility within the standards that must be exercised in line with management's assumptions and estimates. Although an accountant is a professional, the preparation of financial statements is in one way or another not free from influence by top management through their assumptions and estimates. Thus, a financial analyst needs to dig in to the notes to the financial statements which include principles followed, methods used, assumptions and estimates made, and details disclosed, so as to ascertain reliability and relevancy

of those statements to suit their particular analysis objective.

Moreover, an analyst needs to review the independent auditor's report which usually is a clean (unqualified) one but a financial analyst must bear in mind that the primary task of audit report is to certify the fair presentation and standards compliance of the financial statements for a particular period. The main qualities of financial statements are verifiability and objectivity so as to provide information to all parties interested in a particular enterprise for a particular period. On the other side, the task of financial analysis is subjective to a particular purpose, for example, to determine the long-run profitability or to establish the value of an enterprise. Besides, an analyst's scope of work goes beyond one particular year, thus going back number of years in the past with estimates for a certain future period. Even in each particular year, an analysis needs to weed out extraordinary gains and losses as well as non-recurring items.

Thus, the attitude in studying financial statement analysis should include not only in-depth review for a particular year but also determination of overall trend. Hence, a learner needs to view figures skeptically, and to dig up these figures in a year or over a period of years. It does not necessarily mean that financial statements are incorrect, but an analyst should be able to refine the data that would be useful for a particular purpose. To develop that kind of attitude, an instructor needs to introduce analytical practice and critical thinking in the class-room. According to Reinstein and Bayou (1997) critical thinking is the process involving the activities like evaluating complex systems

and information, detecting, advising and recommending appropriate courses of action.

The easiest way for analytical and critical practice is to put any financial statement on the screen and let the students voice any interesting point they observe or any interpretation they can make or any conclusion they reach. (Here, it is assumed that those students taking financial statement analysis have already covered a number of accounting and finance subjects because most of them are accounting major or finance major students.) At the beginning, the students are usually at a loss to start, thereby necessitating frequent encouragements by the instructor to break the ice. Sometimes, the instructor should give a hint or mention a point as an example. It is a kind of brainstorming in the class-room whereby every response by the students should be appreciated, analyzed and clarified by the instructor. In any class-room, there are always one or two brilliant students who can suggest unexpected findings. In some instances, the instructor should invite alternative answer as a challenge to an earlier answer. Moreover, the instructor should insist this kind of practice to be implemented in their group meetings to do assignments and project paper. Through this practice, an instructor can explain unfamiliar terms in the statement, and also related topics that would be studied in the course.

In the process of analysis, the students should be warned that a conclusion from one statement needs to be confirmed by another statement or additional information. For example, a conclusion from balance sheet figures should be confirmed with the figures in the income statement or statement of cash flows because these statements are

linked in the accounting process. After developing their analytical attitude and skill, the main task of introducing knowledge is through lecturing.

AN APPROACH IN LECTURING

Nowadays, lecturing is much easier by the use of publisher's power point presentation with the aid of multi-media installation in modern class-rooms. In addition, distribution of slide-handouts would assist students to follow the lecture. However, both instructor and students should not rely too much on power point slides. An instructor needs to explain certain terms and concepts mentioned in the power point, but from time to time interrupt by asking questions to students to assure their understanding and check their attention. Since power point presentation is merely an introduction of a chapter, it should be followed by illustration of an exercise and/or a problem in the text book. Hence, students are required to bring the text book into the class. Even when illustrating a problem, it is advisable to ask the students to do minor calculations, and to come out for showing some calculations on the board. An instructor should always remember that he/she is a facilitator for the students to learn actively.

An alternative to lecturing is to assign the students to study ahead each topic in a chapter, and force them to present in the class. If individual presentation is too hard for students, students in pairs or in groups could do the presentation comfortably. However, this kind of learning/teaching process seems impractical if the students are shy, afraid or lacking self-confidence. It

leads to trial and error learning which is usually wasteful of students' time but it gradually builds up students' self-learning ability that will carry to life-long learning in future. Yet, it does not mean throwing a child in to the water to be able to swim. Of course, instructor needs to encourage, give hints, supplement and summarize their presentation. Moreover, those presenters should be credited with praise and some points in their semester grading. This kind of presentation is linked to learning by doing.

LEARNING BY DOING

After gaining concept of any topic, the most effective way is learning by doing which is especially applicable to a professional discipline such as medical, engineering and accounting. It is also a kind of self-learning which should be developed in the mindsets of students resulting in self-reliance as well as self-discipline. Giving assignments to students is a way to develop learning by doing that should not be taken only as a mean of testing them and determining their grade. It can develop self-learning effectively if a case or a problem needs innovative answers or necessitates to search for more information elsewhere outside the textbook.

In this context, both individual assignments and group assignments are needed. The group assignments could be divided into two kinds: cases from textbook and complete analysis of financial statements of a publicly traded corporation preferably those using IFRS (International Financial Reporting Standards) based on the corporation's most recent annual report.

To go back to individual assignments

first, textbook problems could be normally used but to prevent answering from solution manual or to prevent copying from their classmates, each student should be instructed to change some basic figures of the problem by themselves within a range (For example, + or - 20%). In this way, students are forced to do by themselves but this kind of self-learning can develop their understanding of the subject and their analytical skill. Knowingly, it could become a big burden for an instructor to check calculation of each answer by the assistance of a computer or calculator, especially when the instructor has no tutor to assist checking. Although it takes a lot of time of an instructor, individual students' weakness or brilliance could be evaluated by the instructor. An instructor's properly remarked assignment sheets would definitely help the students to realize their mistakes and weaknesses. For better effects, a tutor, if available, could assist in explaining those remarks. In Australian tertiary institutions, a change in teaching structure has involved with increased emphasis placed on the tutorials as opposed to lectures (Baird and Narayanan, 2010).

Lejk *et al.* (1999) states that group learning is an established pedagogic tool in many universities. Groups must be given a case study or any assignment for which written answers were to be submitted on a specified future date. For the group assignments, students should be instructed to do together especially by fixing regular meeting dates to do the job. They need to be convinced of the advantages of group work being actively contributed by each and every member. The problem with group students is that they want to split the task among them, and finally compile as group work

without checking one another or discussing the work as a whole. This type of arrangement could result in poor quality of their work because for each case or project, interchange of opinions and arguments are needed among group members before arriving at the best solution or conclusion for the group. Moreover, an important quality of a big assignment like a case is consistency of its parts that can be achieved only by doing together. Another possible pitfall of group (team) work is possible infiltration of one or two "free riders" who stay away from other members avoiding participation in most of the work. This could happen when a team is composed of different nationalities with different cultures and personalities. The students should be forewarned to choose their team members (self-selection) carefully only those who are willing to come to meetings and participate.

Although self-selection is attractive to students, it could not guarantee diverse perspectives and abilities within a group (Lejk *et al.*, 1999; Stein and Hurd, 2000, as quoted by Ballantine and Larres, 2007). It may end up with friends choosing friends leading to a lack of discipline within groups (Lejk, *et al.*, 1999). Another alternative recommended by Cuseo (1992) is to be formed by the instructor on the basis of academic achievement, students' learning styles, personality profiles, etc. Again, this type of formation is almost impractical especially at the beginning of a semester when the work should begin.

For the group members, it is not easy to meet regularly or as required if the group is large (say, more than three persons) and members are day students living in different places of a city. Every body's work seems

to be nobody's work. On the other hand, when they split their parts out of the project, the tendency is that they are reluctant to review or check the work of others. Oakley *et al.* (2004) suggests that a group with three or four members should be ideal to achieve sufficient diversity of opinion and experiences whereas groups with five or more members are more difficult to coordinate and may deter some members to express their opinion.

CHOOSING STUDENTS' TERM PROJECTS

The purposes of a term project in financial statement analysis (FSA) are to let the students keep in touch with the most recent financial statements, and to analyze in a comprehensive manner although it may not be highly advanced. Of course, the text books include financial statements and notes to financial statements of their chosen company, but by the time a new edition is published these are about two years out of date due to a certain long process of preparation, editing, printing and distribution. Hence, student teams are asked to download the most recent annual report of multinational companies that are already well known throughout the world. In this way the students have the advantage of studying the latest format and the latest standards. Although the United States multinational corporations following U.S. GAAP (The United States' Generally Accepted Accounting Standards) apply the most up-to-date and advanced methods/standards in a comprehensive manner, nowadays those multinational companies using IFRS (International

Financial Reporting Standards) are preferred for their analysis because there is a strong indication of convergence of accounting standards toward international standards. Moreover, Thailand accounting profession and companies are now starting to adapt IFRS with effect from January 1, 2011 (Charoenthaveesub and Wong-Ariyaporn, 2010).

INSTRUCTOR'S MONITORING OF TERM PROJECTS

Initially, an instruction needs to be handed out to the students for the preparation of the project paper. It should include general requirements, layout and presentation of the paper together with tentative table of contents.

As the next step, the students need to download and print out the whole annual report which includes mainly two parts: management report and discussion as the first part, and financial statements together with notes to financial statements and auditor's report as the second part. Management report and discussion are necessary to evaluate the business situation, management strategy, their appraisal of achievements and/or excuses or failure, and arguments for their policies that are reflected in the financial statements. It is the task of the instructor to scan the annual report so that the students could focus important features of particular companies and special activities that they should not overlook.

Normally, the students are required to prepare, analyze and interpret the long-term trends, temporal comparison, common size statements, cash flows and financial ratios.

Moreover, they need to evaluate important aspects such as risk factors, dividend policy, treasury stock transactions, accounting policies, and pension plans etc. At the end, they need to write conclusion and recommendations.

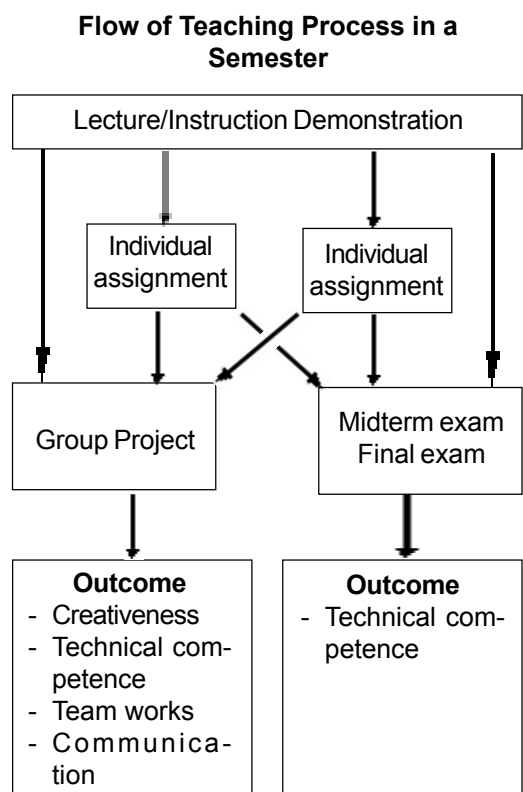
It is the responsibility of an instructor to give guidelines to students so that the students pursue the analysis in a proper and professional way. Thus, the instructor himself becomes an advisor as well as supervisor of the project work. At this point, it is advisable to assign tutors (if any) for that part of supervision since instructor/lecturers used to be fully occupied with class teaching activities and necessary research works at least for day-to-day lessons.

We cannot expect that the first version of the project paper would reach an acceptable stage. There usually are the points overlooked and the figures misinterpreted by the students in spite of the fact that they tried their best and worked together. The advisor (instructor or tutor) should meet them and point out to improve their first version. However, the status of the first version should be noted for consideration in final grading because the revised version could be definitely better partly through the contribution of the advisor.

SYNCHRONIZATION OF TEACHING LEARNING PROCESS

Like any other subjects, an instructor should try to synchronize teaching learning process during a semester. At the beginning, the instructor needs to introduce the basic knowledge of the subject by giving class-room lectures, using power point pre-

sentation, asking questions, inviting answers and illustrating problems. Both individual assignments and group assignments are meant to check the students' absorption status and ability to apply the knowledge. With these experiences, students would be able to tackle the cases and problems in the mid-term examination as well as final examination. Besides, the experience gained through doing group project paper could also assist them in their final examination as well as their practical work when they enter into the business field. The project work will develop students' creativeness, technical competence, team work and communication skill whereas the examinations will test their technical competency and intelligence. Synchronization of these activities is illustrated in the following flow chart of teaching process in a semester.



SUMMARY OF RECOMMENDATIONS

The discussion in this article could be summarized with the following recommendations.

1. At the beginning, the students should be motivated to learn the subject by telling about their future career options and attractiveness of being a financial analyst.

2. Instructors should try to develop analytical attitude and skill by illustrating financial statements in the class room and asking the students' findings, comments and recommendations.

3. Since financial statement analysis is a practical subject, the best way to train the students is by the approach of "learning by doing". The major part of the course work is giving individual as well as group assignments.

4. To provide up-to-date knowledge and experience, group project paper should be assigned to them based on a multinational company's most recent annual report. Since the whole world is converging to IFRS (International Financial Reporting Standards), companies adopting IFRS are preferred for their choice.

5. Instructor's guidelines, advising and supervision would be necessary throughout the project process so that students can acquire practical knowledge in the most effective and efficient way in one semester.

6. Synchronization of above teaching process in a semester is important for developing students' skill and knowledge in this subject.

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