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Financial Reporting and Analysis
Kaplan Schweser, 2020 CFA Program Exam Prep, 283 pp.

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The book under review focuses on the science of accounting and financial reporting applied by the organizations to equip the reader with analytical skills so he/she be able to perform financial analysis on the financial reports of the organization. This book is written as per the syllabus guidelines provided by the Chartered Financial Analyst Institute (CFAI) for their level 1 examination by Kaplan Publisher.

Chapter one starts with the basics of financial reporting mechanics that how the accounting works and operates with the term of bookkeeping and its science such as the debit and credit methodology. It teaches the concepts from the analyst perspective instead of an accountant that gives it a dimension for the reader enabling his/her analytical skills. It introduces the reader with accrual concepts of accounting and its potential of being manipulated by the organization's management towards misreporting of financials to satisfy and make their shareholders happy to increase investments and their bonuses.

Chapter two further opens the science behind the accounting rules and laws and shift its focus towards the major accounting standards used such the IFRS (International Financial Reporting Standards) and the US GAAP (Generally Accepted Accounting Principles). It provides an understanding of how these standards work and drafted along with the functions of their underlying bodies clarifying by creating a distinction between the regulatory body and an accounting standard body. Thought the book could have further added more knowledge on the standards book and how an analyst can make them useful in their analysis. There was also a potential for adding up more and explaining more accounting standards than just International Accounting Standard (IAS-1). Moreover, a discussion on how standards keep on updating and the older ones become obsolete would have equipped the reader further.

The authors moves towards the application of accounting standards applied on the financial statements from Chapter 3 to 5. It opens up the understanding of different financial statements that include the Income Statement, Balance sheet, Cashflow Statement, Statement of changes in equity and the statement of comprehensive incomes. Chapter 3 starts with the understanding of the income statement as it is the fundamental benchmark of assessing the financial performance for any organization. It explains the basics of preparing the income statement and how the cross-sectional analysis and horizontal analysis can be implemented by an analyst. It draws the reader's attention on the application of common sizing and then analyzing or comparing two organizations with each other rather than just focusing on the absolute values as it does not incorporate the organization size difference. As it is a larger company will be having great absolute values of Profits than a small company but not necessarily higher margins too than the other one. It further highlights the updated revenue

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recognition accounting standard on how the revenue is recorded which in different situations such as long-term contracts, as an agent or credit sales.

Though, there was a potential to further add up examples on the recording of revenue and highlighting more details and more scenarios or situations where revenue may have been recorded differently. This may have given the reader more knowledge and equipped him/her with more knowledge to deal with different real-world situations. It further dissects the Earnings per share (EPS) in every detail. EPS is widely used by investors and analyst to examine any organization performance. The reader surely gets fully equipped with the explanation of EPS as such that just based on the knowledge of the book, he/she can understand this ratio of any real-world organization right away.

Chapter four further dissects the balance sheets accounting related to Tangible and intangible assets as well as financial instruments. It does help the reader understand by the format and its style of writing connecting the accounting concepts with the items in the balance sheet. Thought, few accounting items could have been discussed in more detail such as the preparation of balance sheet and its questions or how in detail do we account for certain assets such as trade receivables. So that even if the reader does not have a strong accounting background yet he/she will be able to comprehend more.

Then in chapter five author moves towards the crucial financial statement for measuring the liquidity of the organization namely Statement of cash flows. The author does great justice with the easy explanation of such a complicated cash flow statement. It clears the concepts of the reader and misconceptions on this crucial statement and how can we use this statement to measure the liquidity of the organization and identifying the timings of future cash flows. This book realized us about the importance of this statement in financial analysis and how different ratios computed by using details of this statement in our financial analysis. To elaborate my point let open up an analysis provided by the author in the book, such as if the current cash outflow in the investing activities is very high then one can forecast that new assets will increase cash inflow from operating activities and a decrease in the cash outflow in the investing activities.

Then the author shifts its focus towards applying financial information in the financial analysis and measuring the overall financial performance of the organization in chapter six. It introduces us to graphical analysis focusing on how the graphs can be used to present the financial data in a meaning full manner. It further focuses on the ratio analysis and its importance and limitation along with its application. It drives our attention to new terms like cross-sectional analysis and common sizing of the organizations while comparing a large-scale business with a small scale one.

In the later half of the book involving chapter seven onwards to chapter ten, the author moves the reader's attention towards the accounting standards that are applied in the measurement and accounting of income statement and balance sheet items. It goes into the details of the application of standards involved in the inventory, Fixed assets, intangibles, impairments, valuations, write-downs, write-ups, etc. It liberates the reader with the application of standards of both the IFRS and US GAAP used among the majority and the difference amongst them and what adjustments need to be made by the analyst to make financial statements made in two different standards comparable. Though, the author could have introduced more details about accounting standards that how they are governed along with their rules and laws. This could have helped the reader understand the science behind the understanding of an accounting standard, their definition and how to comprehend any future standard that comes to their knowledge later on.

The most prominent and important standards discussed include the revaluation model of property, plant and equipment, finance leases working and their accounting year by year. Furthermore, standards related to noncurrent liabilities such as bonds and even complex matter like post-employment liabilities such defined pension plans.

As the author starts to conclude this book with chapter eleven and twelve, it focuses on the most important and a completely new learning tool for a reader to assess to quality of the financial reports. Usually concluding topics are not much of importance but here the author makes sure that the last reading remains in the mind of the reader where he can apply the entire knowledge he/she learnt from the entire book along with it the author also open up to a new dimension of financial reporting and earnings quality.

It enables the reader to develop analytical skills by providing cases and examples where the accounting standard has been fully followed yet the quality of earnings or the reports remains weak. It links the earning quality of any organization with its sustainability that is generated by the good performance by its management that includes good revenue generation or cost-cutting measures rather due to external such recording heavy gains due to favorable currency movements or by tax savings through tax breaks offered by the government. Such external factors shall not last for a long time and making earnings unsustainable unless their inner performance is improving and giving support to its financial statement.