Chapter 34
Financial Statement Analysis Under IFRS

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ABSTRACT

This chapter provides a clear conceptual discussion on the recent developments in the Financial Statement Analysis (FSA). It presents how IFRSs changed the outlook of the financial reporting and the analysis and explains the key points that should be considered in FSA. Using a case study on the financial reports of Turkcell, a communication and technology company listed both on the New York Stock Exchange (NYSE) and the Borsa Istanbul (BIST), the differences between IFRSs and U.S. GAAP accounting standards in the measurement of overall financial performance and position are documented. Overall findings show that IFRSs change the appearance of financial statements significantly. While IFRS reporting extenuates "the bottom line" it accentuates total assets with higher shareholder equity compared to U.S. GAAP. This chapter might be a practical guide for users, preparers, and regulators to understand the cosmetic impact of IFRSs on financial statements.

INTRODUCTION

Financial statement analysis (FSA) is a fundamental element of business analysis. In a narrow manner, it is defined as the use of analytical tools and techniques on financial statements in order to obtain some estimates and inferences that are relevant in business decisions and analysis (Subramanyam & Wild, 2009, p.3). However this definition is not sufficient enough to describe the main aim of FSA. In today's' global business environment, with the integration of capital markets, FSA becomes more comprehensive. Beside analytical tools and techniques, it requires the general assessment of companies financial reporting process including accounting analysis (evaluation of accounting policies, estimations etc.), internal audit and control procedures, corporate governance structure and the quality of external audit and financial analysis.

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FSA is important for several reasons. By providing information generated on a systematic way, FSA decreases the uncertainty and the need on intuition and guesses for business decisions (Subramanyam & Wild, 2009, p.4). Even though, FSA provides relevant information derived from financial statements, it still requires professional judgment to interpret the results. Thus, the numbers generated from financial statements are not enough, it is also equally essential to be able to understand the story of the numbers tells.

From an internal perspective of the company, FSA provides advantages in evaluating the performance of employees, comparing financial performance of different divisions, preparing financial projections and plans (Titman et al., 2011). Furthermore, internal FSA facilitates monitoring the firm's financial position in light of its competitors. From an external perspective, it provides information to all external users that have a direct economic link to the firm.

Firm valuation is one of the important objectives for many users of financial statements. Reliable forecasts of value aid current and potential shareholders to make buying, selling or holding decisions regarding securities of a firm (Subramanyam & Wild, 2009, p.612). Also, it enables us to determine the share prices for public offerings and evaluate the firm's creditworthiness. Simply, the value and the performance of a firm are mainly reflected by the present value of all expected future cash flows over the relevant time period.

Considering the role of FSA and the impact of accounting treatments on the determination of accounting-based firm-value, any changes in financial reporting and accounting standards will change the nature of FSA.

The transition to International Financial Reporting Standards (IFRSs) is considered as the most important issue of recent years in accounting and finance. It made significant changes in the structure of financial reporting in terms of measurement, initial and subsequent recognitions, classification of assets and liabilities, disclosure of notes related with those items for all financial and non-financial transactions. Previous studies on the impact and the economic consequences of the transition from local GAAP to IFRSs documents that there are significant differences in financial performance and financial situation of firms under different accounting standards sets.

Thus, this chapter aims to document the impact of using IFRSs on financial numbers. A comprehensive financial statement analysis of a large publicly held global company reporting under both IFRSs and U.S. GAAP was conducted in order to refer the differences between two accounting standards sets and FSA in the post-IFRSs era.

The differences in the accounting treatments of IFRSs compared to national accounting standards including U.S. GAAP in the United States changed the nature of FSA. Understanding the potential impact of IFRSs is vital for all stakeholders to use in decision making by evaluating firms' financial performance and position and measuring firms' value.

This chapter will provide a clear conceptual discussion on the recent developments in FSA. It presents how IFRSs change the financial reporting and analysis.

Mainly the chapter will address the following questions;

- Why financial statements analysis is important in today's business environment?
- What is the role of financial statements analysis in valuation?
- What are the recent developments in financial statement analysis?

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