

**Business A750/F717/V701  
Financial Statement Analysis  
Fall 2018 Course Outline**

**Accounting and Financial Management Services Area  
&  
Finance and Business Economics Area  
DeGroote School of Business  
McMaster University**

**COURSE OBJECTIVE**

The course is designed to provide you with advanced conceptual background and analytical tools necessary to evaluate financial statements issued by publicly held enterprises. The course is meant to complement related studies in accounting, finance, economics, business policy, and statistical analysis. It focuses on understanding the uses and the limitation of both the financial statements and the traditional and non-traditional methods used in analyzing them. We will discuss the financial statements, the accounting disclosure rules, the differential effects of alternative accounting principals, and the interpretation of financial information. Student's motivation and skill development will be enhanced by using problems and cases for actual companies. You will ultimately be better able to make judgements about the cash flows, earnings quality, hidden assets and liabilities, and the overall performance of the enterprise.

**INSTRUCTOR AND CONTACT INFORMATION**

**Section 1: Thursday 19:00-22:00**

**Class Location: RJC/TBA**

**Eric Bentzen-Bilkvist**

Instructor

[erich@petmas.ca](mailto:erich@petmas.ca)

Office: RJC/TBA

Office Hours: To be arranged

Tel: (905) 522-6555

**COURSE ELEMENTS**

Credit Value:	3	Leadership:	Yes	IT skills:	Yes	Global view:	Yes
Avenue:	Yes	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Participation:	Yes	Innovation:	Yes	Group work:	Yes	Oral skills:	Yes
Evidence-based:	Yes	Experiential:	No	Final Exam:	No	Guest speaker(s):	No

## COURSE DESCRIPTION

This course will look at the Accounting Policies which can effect the profit activity of a corporation.

### **Prerequisite:**

It is assumed that all students have a basic knowledge of accounting principles comparable to the materials covered in A611/12 (Financial Accounting). If you do not, you should catch up as quickly as possible.

## LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- Play the role of the main decision-maker(s) while taking all stakeholders into account;
- Formulate a strategic plan while considering the organization's capabilities and environmental context;
- Identify the important opportunities and challenges facing a business and setting out a course of action for dealing with them;
- Detail an action plan that is operationally specific.

## REQUIRED COURSE MATERIALS AND READINGS

*FINANCIAL REPORTING AND STATEMENT ANALYSIS: A STRATEGIC PERSPECTIVE*, 8<sup>th</sup> edition, Wahlen, Baginski, Bradshaw; South-Western (Nelson). ISBN: 13:978-1-285-19090-7

## EVALUATION

### ***Group hand-in cases and presentation:***

The cases are used to reinforce, integrate and supplement the course material, and to provide practice in its application. A total of 5 cases will be analyzed throughout the semester. Each case will be assigned to groups: one group will be responsible for presenting the case and the other groups will critique the analysis of the presenting group. The presenting group will have 25 minutes to present the highlights of its solution to the case and the other groups will have 10 minutes critique. At the end of the class, all groups will hand in their written analysis. The maximum length of a hand-in case will not exceed 8 pages of double-spaced **typed** text (inclusive of exhibits and figures).

Groups will be formed on a volunteer basis with 5-7 (tentative) students in each group. Each group is required to submit a list with the names and student numbers for all the group's members.

### ***Term project***

The project involves in-depth analysis of a firm's financial statements for the purpose of doing a valuation of the company. Each group must select the firm they wish to analyse. It must be a publicly-traded American (i.e., U.S.) firm in the **manufacturing or merchandising** sectors. You may select any company. You should get the latest financial statements and/or, the most recent 10-K form, any 10-Q forms since the last annual report, and the most recent proxy statement. Annual reports can be found easily on line by googling the company direct or via <http://www.cedar.com>. In order for the analysis to be meaningful, you will need at least 5 years of data. The F/S must be handed in along with the term report.

The analysis should include, among other things an industry summary, a SWOT or Porter 5 type analysis, Common size F/S, calculation of risk, solvency, efficiency and profitability ratios to support an analysis of the company in its industry. The paper should include comparison to either 2 direct competitor and /or the industry averages for your chosen company. The chosen company F/S need to be normalized (with qualitative support for the normalized entries) and then forecasted out for the purposed of a full valuation.

. The project is due on the last day of class and must be accompanied by copies of the latest annual report used in the analysis. The expected length is 20-24 **double-spaced typed** pages (including appendices). The project will be presented in class.

### ***Group evaluation***

Your individual mark for group work will be based on a combination of:

- the mark assigned to the group's hand-in cases and term project;
- your contribution to the group work as evaluated by your peers and yourself. You will be given the opportunity to make your **confidential** peer evaluation in writing.

### ***Participation***

You are expected to be prepared for each class by reading the assigned material and be a willing participant in discussions.

### ***Midterm exam***

This will be closed book, short answer and problem oriented exam on all topics covered prior to the exam date. It is likely that part of this exam will involve finding and developing information from an annual report. It is tentatively scheduled for **Thursday, November 22, 2018**. If you cannot take the exam at the scheduled time, you must have a truly excellent excuse.

### ***Important dates in the course***

September 13	Form groups and inform instructor
September 20	Inform instructor of the term project topic (i.e., name of company to be analyzed)
Nov. 22 (tentative)	Midterm examination ( <b>Thursday</b> )
December 6	Project presentations and Term project report is due

Learning in this course results primarily from in-class discussion and participation of comprehensive business cases as well as out-of-class analysis. The balance of the learning results from the lectures on strategic concepts, from related readings, and from researching your presentations, cases, assignments, simulation decisions and projects. All work will be evaluated on an individual basis except in certain cases where group work is expected. In these cases group members will share the same grade adjusted by peer evaluation. Your final grade will be calculated as follows:

### ***Components and Weights***

Class participation	10%
Group's hand-in cases and presentations	25%
Term project	30%
Midterm exam	35%
<b>Total</b>	<b>100%</b>

### ***Conversion***

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

LETTER GRADE	PERCENT	POINTS
A+	90 - 100	12
A	85 - 89	11
A-	80 - 84	10
B+	75 - 79	9
B	70 - 74	8
B-	60 - 69	7
F	00 - 59	0

## **Communication and Feedback**

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Director:

<http://mbastudent.degroote.mcmaster.ca/contact/anonymous/>

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. **Emails regarding course issues should NOT be sent to the Administrative Assistant.**

Instructors should conduct an informal course review with students by Week #4 to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

## **ACADEMIC DISHONESTY**

It is the student's responsibility to understand what constitutes academic dishonesty. Please refer to the University Senate Academic Integrity Policy at the following URL:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicIntegrity.pdf>

This policy describes the responsibilities, procedures, and guidelines for students and faculty should a case of academic dishonesty arise. Academic dishonesty is defined as to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. Please refer to the policy for a list of examples. The policy also provides faculty with procedures to follow in cases of academic dishonesty as well as general guidelines for penalties. For further information related to the policy, please refer to the Office of Academic Integrity at:

<http://www.mcmaster.ca/academicintegrity>

## **MISSED ACADEMIC WORK**

### ***Missed Mid-Term Examinations / Tests / Class Participation***

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the MBA Academic Services Office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor. Documentation explaining such an absence must be provided to the MBA Academic Services Office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide the Petition for Relief for MBA Missed Term Work and the McMaster University Student Health Certificate which can be found on the DeGroot website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate

students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the MBA Academic Services Office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by the MBA Academic Services Office.

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

## **STUDENT ACCESSIBILITY SERVICES**

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for examinations on or before the last date for withdrawal from a course without failure (please refer to official university sessional dates). Students must forward a copy of such SAS accommodation to the instructor immediately upon receipt. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

## **POTENTIAL MODIFICATIONS TO THE COURSE**

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

<b>COURSE SCHEDULE</b>
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WEEK	DATE	TOPIC	READING
1	Sept 13	Organizational Issues & Introduction: Reading Between the Lines  Economic Environment, Accounting Reports, Institutional Framework, and the Financial Accounting Process	Wahlen, Ch. 1
2	Sept 20	Statement of Cash Flows and Cash Flows Analysis	Wahlen, Ch. 3
3	Sept 27	W.T. Grant <b>Case</b> & Free Cash Flows  Income Determination	Wahlen, Ch.8, pp. 632-650
4	Oct 04	Inventory Valuation	Wahlen, Ch. 8, pp. 650-657
5	Oct 11	Champion Spark Plug Company <b>Case</b> ; Long Lived Assets	Wahlen, Ch. 7, pp. 524-549
6	Oct 18	Depreciation at Delta and Pan Am <b>Case</b> ; Income Taxes	Wahlen, Ch. 8, pp. 661-672
7	Oct 25	Common size statement, Ratio Analysis: Assessment of Risk; Assessment of Profitability  Ratio Analysis and Efficient Capital Markets	Wahlen, Ch. 5, Z-Score Models (pp. 383-384)  “Briloff and the Capital Market”
8	Nov 01	International Paper <b>Case</b>  Off balance sheet financing: Leasing & Post-Retirement Benefits	Wahlen, Ch. 9; A guide to Earnings Quality  Wahlen, Ch. 6, pp. 474-493
9	Nov 08	Forecasting / Valuation Models Kroger Company <b>Case</b>	Wahlen, Ch. 10
10	Nov 22	<b>Midterm Exam</b>	
11	Nov 29	Valuation Models Group Presentation	Wahlen, Chs. 11, 12, 13 & 14
12	Dec 06	Group Presentations	